Welcome! Below are a few housekeeping items to review before we get started.

If you can’t get the audio through your speakers or by VOIP, try dialing in using your phone.

We have a number of participants on the call, so your phones are muted to ensure the best audio quality for everyone.

To ask a question, you can type it into the questions box (pictured to the right) at any time. Questions will be addressed at designated intervals.

This webinar is being recorded. The slides and full recording will be provided to attendees. An email will follow with further instructions.
NFF Webinar Series
Part 2: Tools for Managing Day to Day & Communicating With Stakeholders

Telling Your Financial Story

Presented by:
Beth Doreian
Manager, Advisory Services
NFF envisions a world where capital and expertise come together to create a more just and vibrant society. We unlock the potential of mission-driven organizations through:

- Tailored investments
- Strategic advice
- Accessible insights
Today’s Goals

- Understand how different audiences and different contexts require different stories
- Learn the three financial stories every leader should know how to tell
- Equip yourself with prompting questions and examples to write your own narrative
What is a Financial Story?

Telling your organization’s story can engage the listener with your mission, highlight your accomplishments, and inspire support.

Telling your financial story allows you to communicate with numbers, describing your organization’s financial situation, how you got there, and your future needs.

Your financial story can...
- Lend credibility to past and present decisions
- Quantify the effect of decisions on your organization
- Adapt to different audiences and purposes

When stakeholders understand your financial story, they can make better decisions to support your organization
Who Needs to Hear Your Financial Story? Why?

**Internal Audiences: Board, Staff**
- Focuses everyone on the important numbers
- Grounds strategic priorities with numbers
- Inspires buy-in during a change process
- Increases confidence in management
- Transforms culture and practice

**External Audiences: Funders, Partners**
- Demonstrates need
- Supports reporting and compliance
- Increases confidence in management
- Creates honest, transparent communication
Poll Question:

How well does your staff know your financial situation?
Why Dialogue is Key
Communicate Early and Often

Engage your staff in conversations about options

- Staff may have some of the most creative ideas and solutions

Bring your alternatives to the Board for decision-making

- Remember your Board has a fiduciary duty to safeguard the organization’s assets

Stay in front of funders—don’t pull back

- Tell your story regularly, emphasizing your commitment to mission
- Be candid about the impact of external and internal change factors on your programs, organization, and strategy
- Communicate your plans to adjust based on those change factors and corresponding funding needs
Common Financial Storytelling Documents

Planning & Management Tools

- Strategic Plan
- Annual Budget
- Interim Financial Statements (Budget vs. Actual, Balance Sheet, Cash Flow)

External Communication

- Grant Proposal & Reports
- Audited Financial Statements
Documents Requiring Your Story: Planning & Management Tools

**Strategic Plan**

- What do we expect our finances to look like over a multi-year timeframe?
- How will our strategies affect our revenue? Our expenses? Our capital structure?
- Does our strategy require any one-time costs?
- How can our capital structure support risk mitigation (e.g., operating reserve that scales with growth, an opportunity/risk fund)?
Annual Budget

- Over the next 12 months, how will we make and spend money in support of mission?
- Have we considered the full cost of our operations beyond operating expenses, including debt payments, additions to fixed assets, increases to working capital and/or reserves?
- How do revenue and expense compare to the prior year(s) in magnitude and distribution? Why are there variances?
- Is any of our budgeted revenue at risk? Have we contemplated multiple revenue scenarios? How are we mitigating this risk?
- How will be manage our expenses to align with revenue? What’s within our control?
Interim Financial Statements
(Budget vs. Actual, Balance Sheet, Cash Flow)

- How does our performance compare with our budget? What are significant variances?
- Does any variance require action, e.g., cutting or increasing expenses?
- How has performance affected our balance sheet? Our cash flow?
- What actions should we take to manage cash flow, e.g., draw on or repay line of credit or reserves, extend payables?
Documents Requiring Your Story: External Reports

Grant Application / Grant Report

- Characterize your financial health and how it has changed over time.
- How do we know you manage your finances well (leadership and staff capacity to manage finances; policies and procedures)?
- Why do you need our funds? How will you use these funds?
- (For reports) How did you spend the funds? Any variances?
Documents Requiring Your Story: 
External Reports

**Annual Audit**

- How do we make and spend money (Statement of Activities) in support of our mission (Note 1)?
- How did our Statement of Activities change over the past two years?
- How does our capital structure support our work (Statement of Position)?
- How did our Statement of Position change over the past two years?
- Do we have reserves? For what purpose? (Statement of Position and Notes)
- How do we think about liquidity (note required in future FASB standards)?
- How do we manage investment funds?
- What comprises our restricted funds? Our debt? (Notes)
- What other information should the reader have to understand our financial situation (Notes)?
Poll Question:

How comfortable do you feel talking about your audit?

- Make the format and notes work to your storytelling advantage
- Consider a 1-2 page narrative to accompany the audit. Make it more digestible by using charts and graphs.
Writing a comprehensive narrative (1-2 pages) that connects past to present to future can be a helpful exercise. Refresh the narrative during your budgeting process.

- Use past financial statements, current budgets, strategic plans, and multi-year projections
- Pull from the narrative to inform external reporting and planning and management documents
- Use the narrative to train new staff and Board
3 Stories You Should Feel Comfortable Telling

1) What’s your **business model**?
   - How do you make and spend money in support of your mission?
   - How does *insert audience* fit into this business model?

2) What **financial trends** can we observe?
   - How are you responding to these trends?
   - What effect are you aiming for?

3) Are we planning for **change / growth**?
   - What resources do we need to make this change happen?
   - How will our business model change?
**Business model**: how an organization makes and spends its money in the service of its mission

*The business model is comprised of*:

- **Revenue** that supports and subsidizes your cost structure
- **Expenses** that reflect the full costs associated with delivering on mission
- **Services**, which includes **mission** and **impact**

*It is influenced by*:

- Vision and strategy
- Market need and demand
- Business drivers
- Lifecycle stage/time horizon
What do we do in service of mission?
To serve our mission of helping parents support their children’s educational success, we conduct research, offer free parent resources, and provide school-based trainings.

How do we pay for it?
We charge fees for our school-based trainings, which cover 100% of the direct costs as well as indirect costs. This earned revenue comprises 50% of our annual revenue.

For the remaining 50%, we raise unrestricted support, which is vital for our research activities and resource library.
- 20% of unrestricted support comes from two semi-annual appeals to individual donors
- 10% comes from an annual gala
- 30% comes from one foundation, who has served as a long-time partner
- 40% comes from 10 foundations with grants ranging $10k-$50k
How do we spend our money?

- 70% of our expenses relates to our 20 employees, who conduct research; create curriculum and other resources; deliver trainings; and provide management, administrative, and fundraising support.
- 15% relates to consultants who provide subject expertise and management of our online resource library
- 10% relates to occupancy
- 5% relates to administrative expense
What are other fiscal needs?

We budget for surpluses that are sufficient to
- Cover debt payments on a loan for leasehold improvements
- Maintain an operating reserve that holds at least 3 months of operating expenses
- Build a technology reserve to save for future large improvements to our online platform
- Maintain an opportunity reserve for program experimentation and unfunded research

Our leadership and Board oversees these three reserves via policies that define purpose, goals, and management.
QUESTION 2:
What Trends Can I Observe?

- **Profitability & Savings:** Were costs covered? Were surpluses sufficient to contribute to the organization’s full costs, such as savings for reserves or investments in fixed assets?

- **Revenue Dynamics:** How does the organization make money? Has revenue composition changed over time? Are revenue streams reliable or at risk?

- **Expense Dynamics:** How does the organization spend money? Are expenses predictable? Is management responsive to operating changes and prepared to make difficult decisions?

- **Health of Balance Sheet:** Are the size, nature and distribution of assets, net assets and liabilities appropriate to support the organization’s business and programs over the long term?

- **Liquidity:** Is there enough cash available to cover current obligations? Is cash restricted or spoken for? Does the organization have reserves available to navigate risk or pursue opportunity?
When Telling Your Story, Boast the Positives. Address the Red Flags.

**Positive Indicators on the Income Statement...**

- Consistent unrestricted operating surpluses
- Revenue is reliable and repeatable
- Surpluses that are sufficient in size to cover full costs:
  - Debt principal payment
  - Depreciation
  - Investment in new fixed assets
  - Contribution to savings / reserves

**Red Flags...**

- Steadily declining operating results or operating deficits over the course of several years, especially if these deficits are large in relation to the organization’s operating budget
- Significant swings in revenue composition from year to year without a compelling explanation from the organization
When Telling Your Story, Boast the Positives. Address the Red Flags.

**Positive Indicators on the Balance Sheet...**

- Evidence of reinvestment in fixed assets
- Evidence of ability to manage debt
- Cash of at least three months expenses
- Unrestricted liquid net assets of the same
- Current assets exceed current liabilities

**Red Flags...**

- Steadily declining or negative unrestricted net assets
- Low or declining liquidity, as measured by months of cash or unrestricted liquid net assets
- Liabilities as an increasing portion of total assets
QUESTION 3: Are We Planning for Change / Growth?

**Business Model**

**Deficits:** Incurred en route to new business model, paid for with change capital

**Goal:** Generate surpluses for current capital needs, future change and resiliency

For more on this subject, attend Webinar 12: “Planning for Growth”
# Case Study: ABC Center Statement of Activities

ABC Center Statement of Activities  
Years ended June 30 ($ in thousands)

<table>
<thead>
<tr>
<th>Unrestricted Operating Activity</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Fees &amp; Tickets</td>
<td>410</td>
<td>533</td>
</tr>
<tr>
<td>Rental Income</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Government Earned</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td><strong>Earned Operating Revenue</strong></td>
<td>450</td>
<td>573</td>
</tr>
<tr>
<td>Contributed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>248</td>
<td>322</td>
</tr>
<tr>
<td>Foundations &amp; Corporations</td>
<td>162</td>
<td>97</td>
</tr>
<tr>
<td>Government Grants</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>Special Events</td>
<td>44</td>
<td>46</td>
</tr>
<tr>
<td>Net Assets Released from Restrictions</td>
<td>152</td>
<td>75</td>
</tr>
<tr>
<td><strong>Contributed Operating Revenue</strong></td>
<td>653</td>
<td>588</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>1,103</td>
<td>1,161</td>
</tr>
</tbody>
</table>

| Operating Expenses              |       |       |
| Personnel                       | 550   | 495   |
| Professional Fees               | 39    | 35    |
| Occupancy                       | 90    | 95    |
| Interest                        | –     | –     |
| Support                         | 490   | 466   |
| **Total Expenses**              | 1,169 | 1,090 |

Surplus/Deficit Before Depreciation  
-66  71

Depreciation Expense  
93  65

Surplus/Deficit After Depreciation  
-159  6

Unrestricted Non-Operating Activities  
Unrestricted Non-Op. Revenue/Expenses (e.g. capital campaign receipts/releases)  
- 597

Change in Unrestricted Net Assets  
-159  603

---

Determine **Revenue** trends

Determine **Expense** trends

Determine true **Operating Surplus / Deficit**

Non-operating revenue segregated and placed below the operating line
ABC Center receives a mix of both earned revenue (mainly ticket sales) and contributed revenue (mainly foundation grants and individuals donations). ABC Center’s largest expenses are personnel (artists and management) and production costs for our performances.

We anticipated a difficult funding environment for 2016, and, in fact, year-over-year foundation support decreased by 45%. In response, we worked to increase earned revenue as well as individual giving.

2015 saw an operating deficit of (6%) of expenses. In 2016, we worked to improve our financial performance by cutting expenses (mainly artist and production costs). As a result, we achieved a 7% surplus in 2016.
Sample Narrative: ABC Center
Statement of Activities Trends

In 2015, we launched a $600K capital campaign to purchase a building that will house our future performances and educational programming. Although the campaign was a success, diverted staff energy and funder support somewhat contributed to our 2015 deficit. We believe that our 2016 funding model--with increased ticket sales and individual donations--is a strong and viable model for our future operations.

Event / Effect / Response
## Case Study: ABC Center
### Statement of Financial Position

($ in thousands)

<table>
<thead>
<tr>
<th></th>
<th>06/30/15</th>
<th>06/30/16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Equivalents</td>
<td>321</td>
<td>173</td>
</tr>
<tr>
<td>Grants &amp; Pledges Receivable</td>
<td>651</td>
<td>55</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>22</td>
<td>41</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>994</strong></td>
<td><strong>269</strong></td>
</tr>
<tr>
<td>Property &amp; Equipment</td>
<td>256</td>
<td>923</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>1,250</strong></td>
<td><strong>1,192</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>127</td>
<td>87</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>127</strong></td>
<td><strong>87</strong></td>
</tr>
<tr>
<td><strong>Long-Term</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-Term Debt</td>
<td>–</td>
<td>70</td>
</tr>
<tr>
<td><strong>Total Long-Term Liabilities</strong></td>
<td>–</td>
<td><strong>70</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>127</strong></td>
<td><strong>157</strong></td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unrestricted</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undesignated</td>
<td>70</td>
<td>76</td>
</tr>
<tr>
<td>Unrestricted - Property &amp; Equipment</td>
<td>256</td>
<td>853</td>
</tr>
<tr>
<td><strong>Total Unrestr. Net Assets</strong></td>
<td><strong>326</strong></td>
<td><strong>929</strong></td>
</tr>
<tr>
<td>Temporarily Restricted Net Assets</td>
<td>797</td>
<td>106</td>
</tr>
<tr>
<td>Permanently Restricted Net Assets</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>1,123</strong></td>
<td><strong>1,035</strong></td>
</tr>
<tr>
<td><strong>Total Liab. &amp; Net Assets</strong></td>
<td><strong>1,250</strong></td>
<td><strong>1,192</strong></td>
</tr>
</tbody>
</table>

### Analysis

- **What questions should their storytelling answer?**
- **What happened between 2015 and 2016?**
- **What changed?**
- **What might this mean?**
In 2016, ABC Center purchased a building to house our future performances and educational programming. From 2015 to 2016, our largest assets changed from mainly cash and grants receivable to property, as we used capital campaign proceeds to purchase the building. We also took on low-interest, long-term debt of $70K to help purchase the property.

In both 2015 and 2016, ABC Center had tight liquidity, with undesignated unrestricted net assets totaling less than one month of operating expenses. ABC Center aims to improve liquidity by building reserves with future surpluses and a targeted funder campaign. This is a key priority of the organization, as we recognize the responsibility and risk of owning property.
Sample Narrative: ABC Center
Long-term Planning

From 2017-19, ABC Center projects modest growth, increasing our operating budget by 5% per year. We expect to maintain a similar funding model as 2016, supporting increased budgets with marginal increases in ticket sales, foundation grants, and individual donations.

In addition to raising operating revenue, the organization budgets for surpluses to make debt payments and build reserves. Specific reserves include an operating reserve that covers 3 months of expenses, a facilities reserve (funded by annual depreciation expense), and a $10K artistic risk reserve.

To reach these goals, in addition to operating support, we seek funders that are willing to invest in the long-term financial health of ABC Center by meeting these critical capital needs.
Key Takeaways

✓ Financial stories are powerful!

✓ When stakeholders understand your financial story, they can make better decisions to support your organization.

✓ Tell your story early and often. Don’t give opportunity for misinterpretation.

✓ Make sure you can answer these 3 questions:
  - What’s my business model?
  - What financial trends can I observe?
  - Are we planning for change / growth?
Take Home Tools / Additional Resources

✓ Guiding Questions for Common Storytelling Documents

✓ Guiding Questions for Comprehensive Financial Narrative

  https://ssir.org/articles/entry/ten_nonprofit_funding_models

✓ “Your Financial Story Explains the Strategic Choices You Make,” by Beth Doreian
2018 National Webinar Series:
Strategic Financial Management Tools

Part 1: Basics of Nonprofit Finance
1: The Big Picture
2: Reading Financial Statements
3: What Every Board Member Should Know About Nonprofit Finance

Part 2: Tools for Managing the Day-to-Day and Stakeholder Communication
4: Budgeting Basics
5: Strategic Budgeting
6: Cash Flow Planning
7: Dashboard Development
8: Telling your Financial Story

Part 3: Tools for Strategic Decision Making
9: Program Economics
10: Untangling Multiple Views of Cost
11: Scenario Planning
12: Planning for Growth
13: Building Long-Term Financial Health to Manage Risk and Leverage Opportunities
14: Partnerships and Collaborations
NFF Would Like to Thank the Following Organizations for Their Partnership
Thank You!
To Stay Connected...

Learn More
nonprofitfinancefund.org

Twitter
twitter.com/nff_news

Facebook
facebook.com/nonprofitfinancefund

Our Blog
philanthropy.com/blogs/money-and-mission

Sign Up
nonprofitfinancefund.org/sign-up

RSS
nonprofitfinancefund.org/news/feed

Get in Touch!
webinars@nff.org