



# Nonprofit Financial Management

## FINANCIAL PLANNING, PART 1

Name: \_\_\_\_\_

Organization: \_\_\_\_\_

# Nonprofit Financial Management

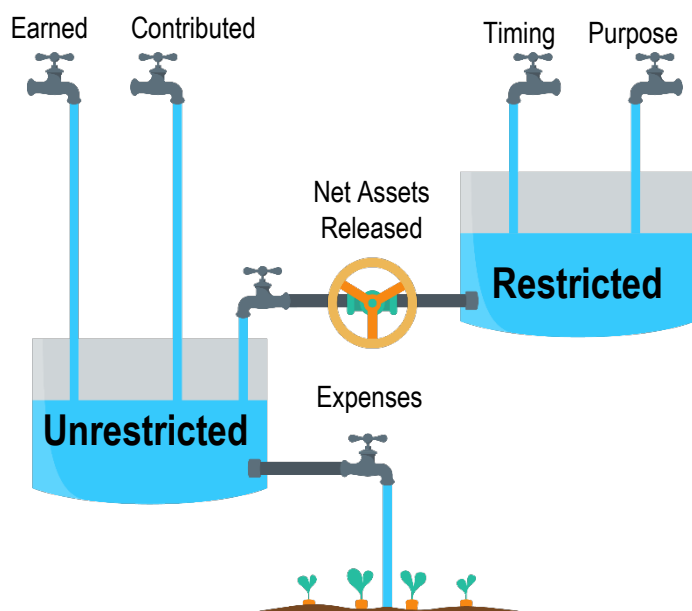
## Financial Planning, Part 1

In order to plan effectively, nonprofit leaders must understand how their organization's past income and expense dynamics influence its present and future finance picture. In this webinar, NFF will cover how to read income and profit/loss statements as well as how to assess an organization's revenue and expense picture. You will learn key terms for forecasting revenue and expenses and best practices for budgeting for restricted revenue and one-time or episodic revenue and expenses.

### Learning Goals

- Learn how to read and interpret income/loss statements
- Connect the dynamics in your income and expense history to your future budgets
- Learn key budget terms for forecasting revenue and expense, budgeting for restricted revenue, and budgeting for one time/episodic revenues and expenses.

### Key Concept: How Restrictions Affect the Flow of Money



Nonprofits gain **unrestricted net assets** from two sources: **earned revenue** (e.g. fees charged to program participants) and **contributed revenue** (unrestricted grant or donation).

Nonprofits gain **restricted net assets** from grants. Restrictions are around **time** (funding becomes unrestricted after X years) or **purpose** (grant must be spent on X program).

**Net assets released from restrictions** refers to restricted funds joining the pool of unrestricted funds when the donor's stipulations have been satisfied. These can then be spent on a nonprofit's general **expenses**.

## Activity: Revenue and Expenses

The way that you balance **revenue** with **expenses** forms your organization's **business model**. This model can be illustrated with an **income statement**, a tool that helps you calculate how much money your organization will earn and spend over the course of a year.

Let's work on a preliminary version of your income statement now. In the table below, list out your major sources of income and the biggest expenses for your organization's most recent year (fiscal or calendar).

Source of Income	Amount

Expense	Amount

## Reflection Questions

- How do you make and spend money? What are the strengths and challenges of your organization's business model?
- How reliable and predictable is your revenue year-over-year? What strategies do you use to manage and monitor revenue with restrictions? Did the pandemic change your revenue stream?

- What are some examples of non-operating revenue received or expenses incurred for your organization currently or in the past?
  
  
  
  
  
  
  
  
  
  
- Are there expenses that are not included in your budget currently that, if incurred, would make your organization a more equitable place for those you serve and/or employ?

## Key Takeaways

- A healthy business model supports your organization's ability to deliver impactful services while building financial health
- Nonprofit leaders should seek to identify organizational operating performance on a without restriction basis when reviewing income/loss statements
  - Each revenue source has its own strengths, risks, and associated costs
  - Leaders should understand what financials "levers" they can pull to manage their expenses within the context of their mission and values
- Non-operating activities (both income and expenses) should be separated from operating activities
- Access to timely, accurate, and transparent financial data helps nonprofit leaders understand and communicate their organizations' needs and priorities

## Notes