
Webinar

Financial Planning Part 2

Facilitated by

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Nonprofit Finance Fund

June 3, 2021
1 pm ET



Acknowledgment of Indigenous Territories



- We invite you to share in the chat the Indigenous Territory you are joining us from:

<https://native-land.ca/>

Nonprofit Finance Fund: Where Money Meets Mission

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**

Guided by our Core Values



The Rising Together Initiative

NFF is partnering with...



Goal: Position community organizations to sustain and adapt your impact

- **Better understand financial dynamics of the current operations as well as growth and change**
- **Identify, prioritize, and quantify financial needs**
- **Build capacity for strengthened financial management, resilience and data informed decision making**

The Rising Together Initiative is funded by Morgan Stanley

Learning Goals

POLL QUESTION



Build understanding about how assets, liabilities and net assets can influence forward-looking goals



Assess your financial position and risk by examining balance sheet components



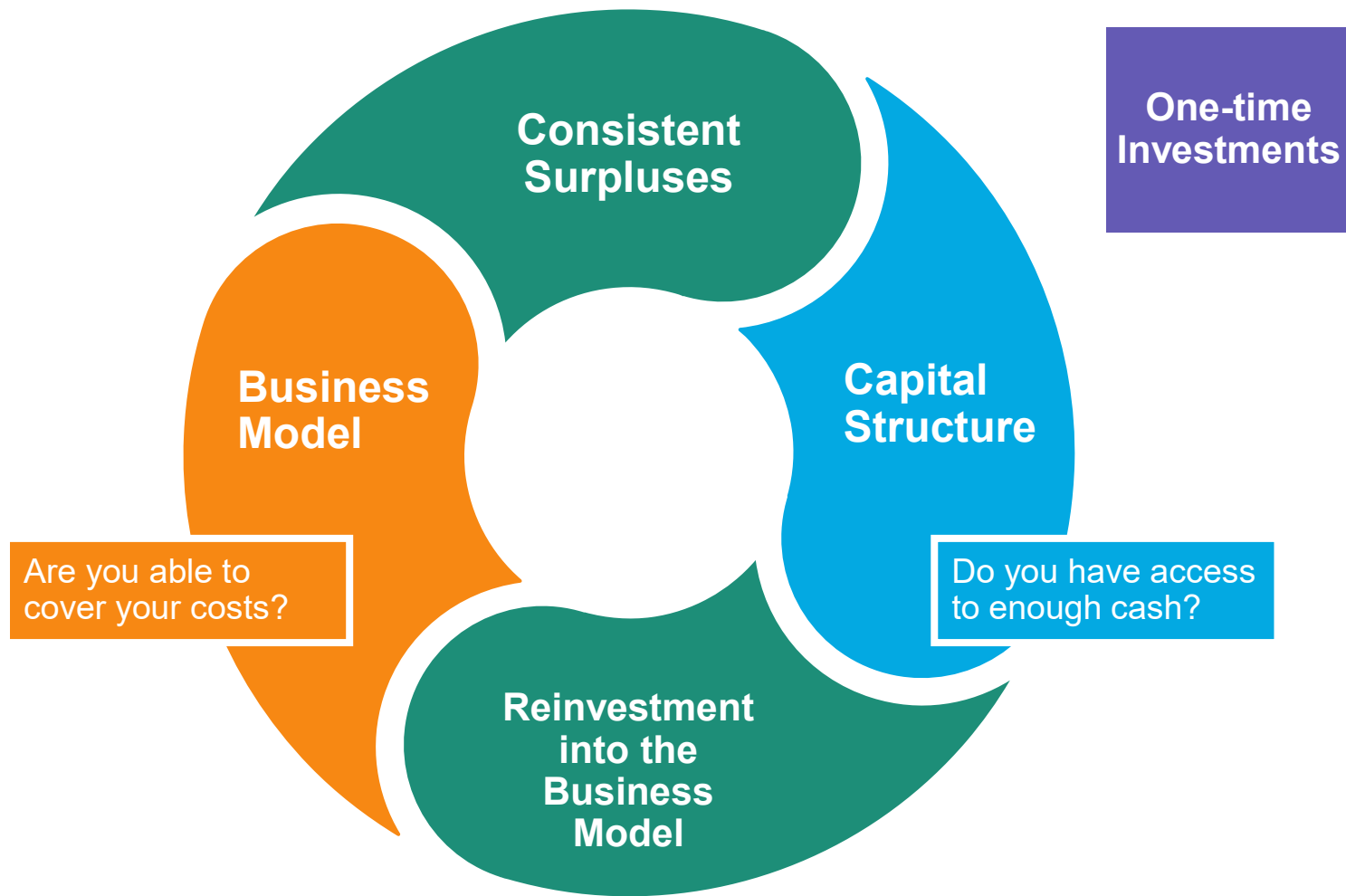
Outline key budget practices for determining your long-term financial needs

Meeting Agreements

Contribute to a meaningful learning experience

- Every experience is valid; we are here as peers to learn from each other
- Invitation to share freely and candidly, and ask questions
- Take care of your needs first

Financial Strength



Part 1 Review: Unpacking the Business Model

Income Statement

12-month fiscal year period

Revenue

Earned

Contributed

Private Sources

Government

Expenses

Personnel

Professional Fees

Occupancy

Support

Interest

Surplus / Deficit

Focus on **unrestricted, operating** activities each year to understand true financial performance

Revenue Dynamics

- How do you make money to support mission?
- How **reliable** and **steady** are revenue streams over time?
- What revenue sources are **flexible**?

Expense Dynamics

- How did you spend money to support mission?
- How **predictable** are expenses? How does management **adjust** expenses to revenue realities?
- What is the **true cost** of running programs and is it captured in financial reports/budgets?

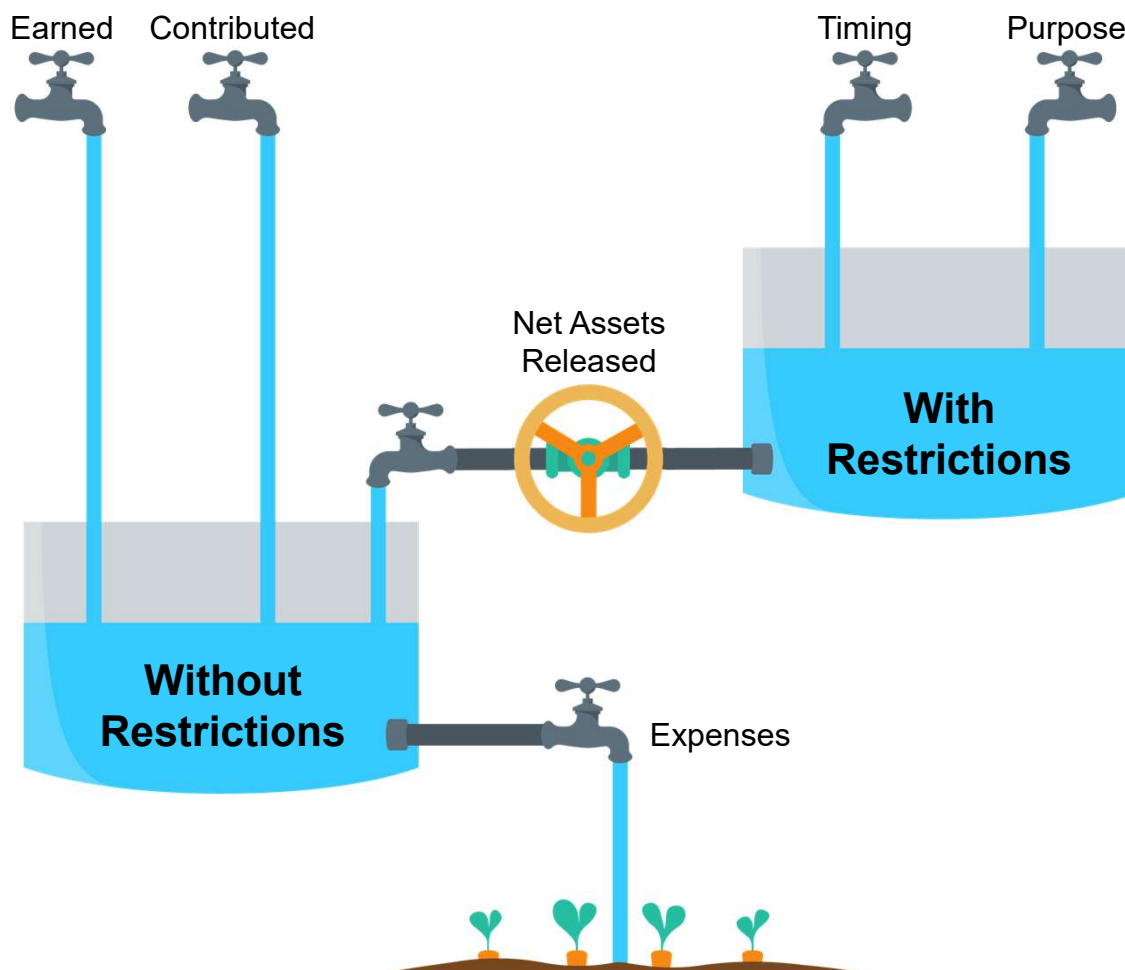
Profitability & Savings

- To what extent does the organization cover its costs? Contribute to savings?
- How consistent are operating results over time?

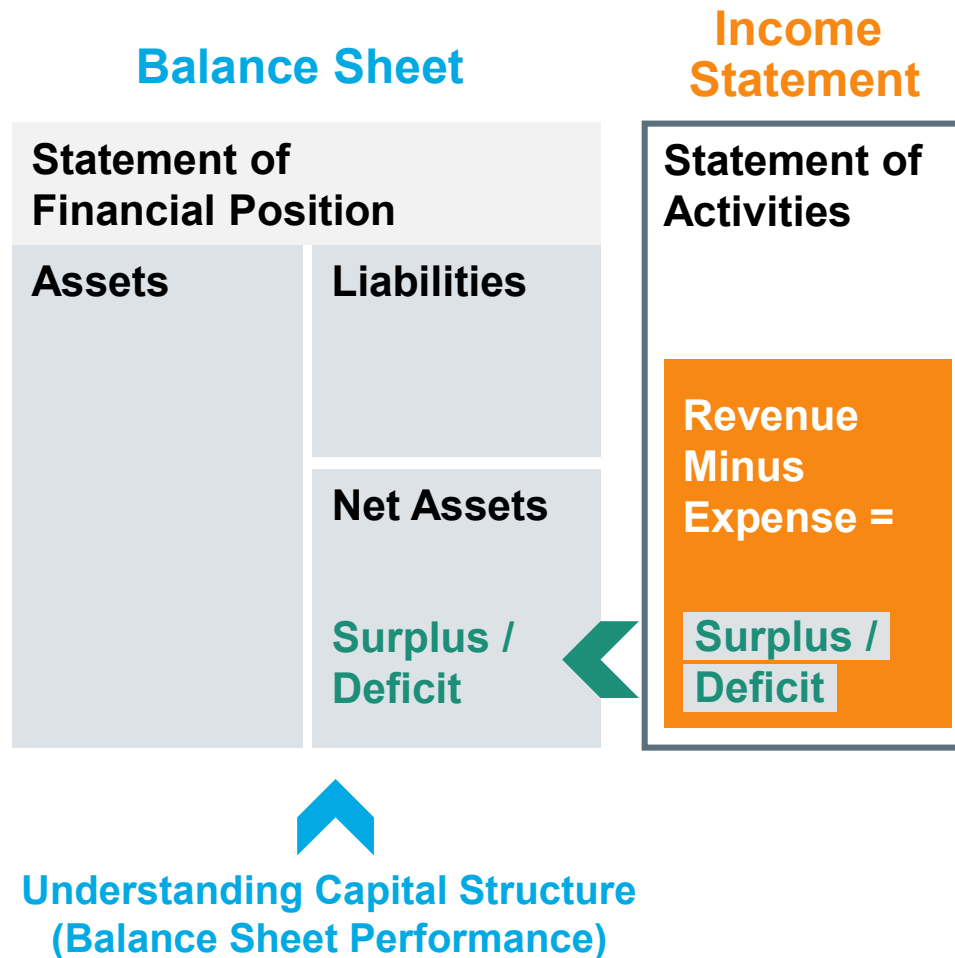
Part 1 Review: Restrictions Affect the Flow of Money

Revenue Without Restrictions

Revenue With Restrictions



Two Main Financial Statements: Balance Sheet and Income Statement



What Does Capital Structure Look Like?

Business Model
Annual results of operations



Capital Structure
Snapshot of overall financial health



- **Capitalization** = alignment of balance sheet resources with short-term & long-term mission and impact goals
- **Balance sheet needs** = items beyond the income statement



Under-Capitalized



Mis-Capitalized



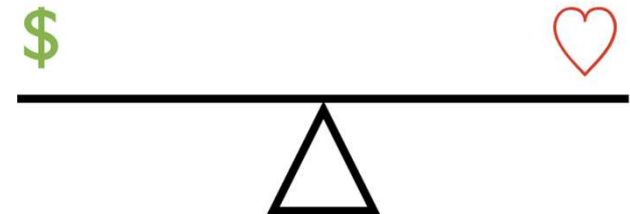
Well-Capitalized

How to Read the Balance Sheet

Assets – Liabilities = Net Assets

Balance Sheet

Statement of Financial Position	
Assets What organizations OWN	Liabilities What organizations OWE
	Net Assets What organizations OWN free and clear



Unpacking Your Balance Sheet:

What is Owned & Owed? How Do Resources Support Your Mission?



Balance Sheet Snapshot of one point-in-time

Assets

- **Cash**
(How Much? How liquid?)
- **Receivables**
(Are they slow to collect? Are they at risk?)
- **Investments**
(How much? Are they restricted?)
- **Property and Equipment (P&E)**
(How do you deal with maintenance issues?)

Liabilities

- **Payables**
(How is cash flow managed?)
- **Line of Credit, Debt**
(Do you have a plan to pay debt back?)

Net Assets

- **Net Assets Without Restrictions**
(Do you own more than you owe? How liquid?)
 - **Reserves**
(Do you have them? Are they suitable to needs?)
 - **Board designations**
- **Net Assets With Restrictions**
(Do they support core programs?)
 - **Purpose or Timing**
 - **Endowment**

Balance Sheet

Balance Sheet

Assets

Liabilities

Net Assets

ABC Organization

Statement of Financial Position

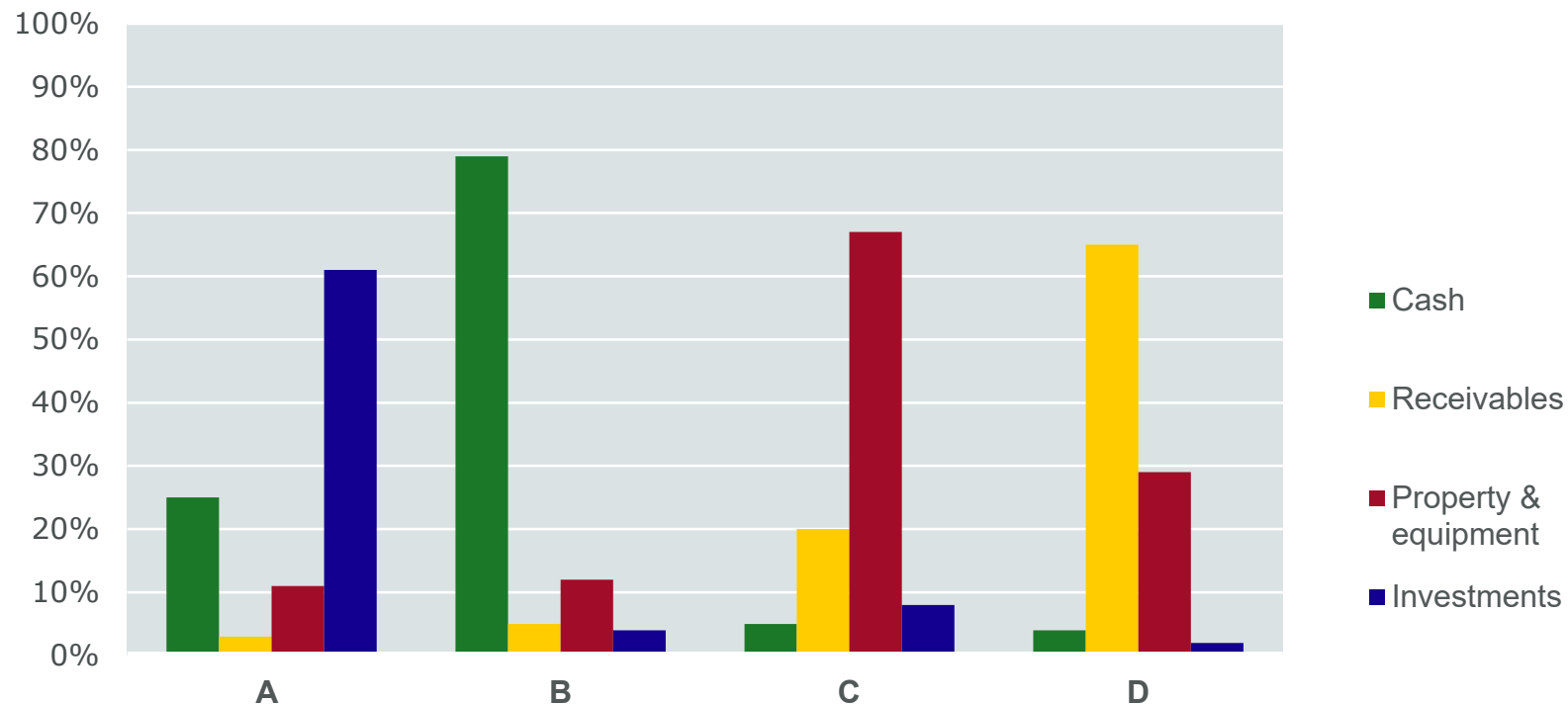
	2018	2017
	Total	Total
Assets		
Cash and cash equivalents	\$ 64,552	\$ 43,671
Accounts receivable	17,027	17,829
Grants and pledges receivable	172,856	148,845
Property & equipment, net	626,041	635,041
Total Assets	\$ 880,476	\$ 845,386
Liabilities		
Line of credit	\$ 60,000	\$ 58,000
Accounts payable	43,652	48,772
Deferred revenue	5,600	6,240
Mortgage payable	302,000	323,150
Total Liabilities	\$ 411,252	\$ 436,162
Net Assets		
Net Assets Without Restrictions	\$ 340,092	\$ 380,103
Net Assets With Restrictions	129,132	29,121
Total Net Assets	\$ 469,224	\$ 409,224
Total Liabilities & Net Assets	\$ 880,476	\$ 845,386

Asset Composition

Strengths, challenges, and their implications

Balance Sheet	
Assets	Liabilities
	Net Assets

Asset Composition by % of Total Assets



What issues or challenges might each organization want to be ready to manage?

How to Analyze the Balance Sheet

Assessing Financial Health

Balance Sheet

Assets

Does the organization have access to appropriate resources?

- Cash – How much? How “liquid?”
- Receivables – How quickly to collect? What is at risk?
- Property and Equipment
- Investments – How much? What is unrestricted/flexible?
- Property and Equipment – How does the organization deal with maintenance issues?

Liabilities

Does the organization owe more than it owns?

- Payables, Debt – How is cash flow managed? How is debt managed?

Net Assets

- Net Assets Without Restrictions – Do we own more than it owes? How liquid?
 - Reserves – Does the organization have them? Are they suitable to their needs?
- Net Assets With Restrictions – Do they support core programs?

Financial Adaptability and Risk Capacity

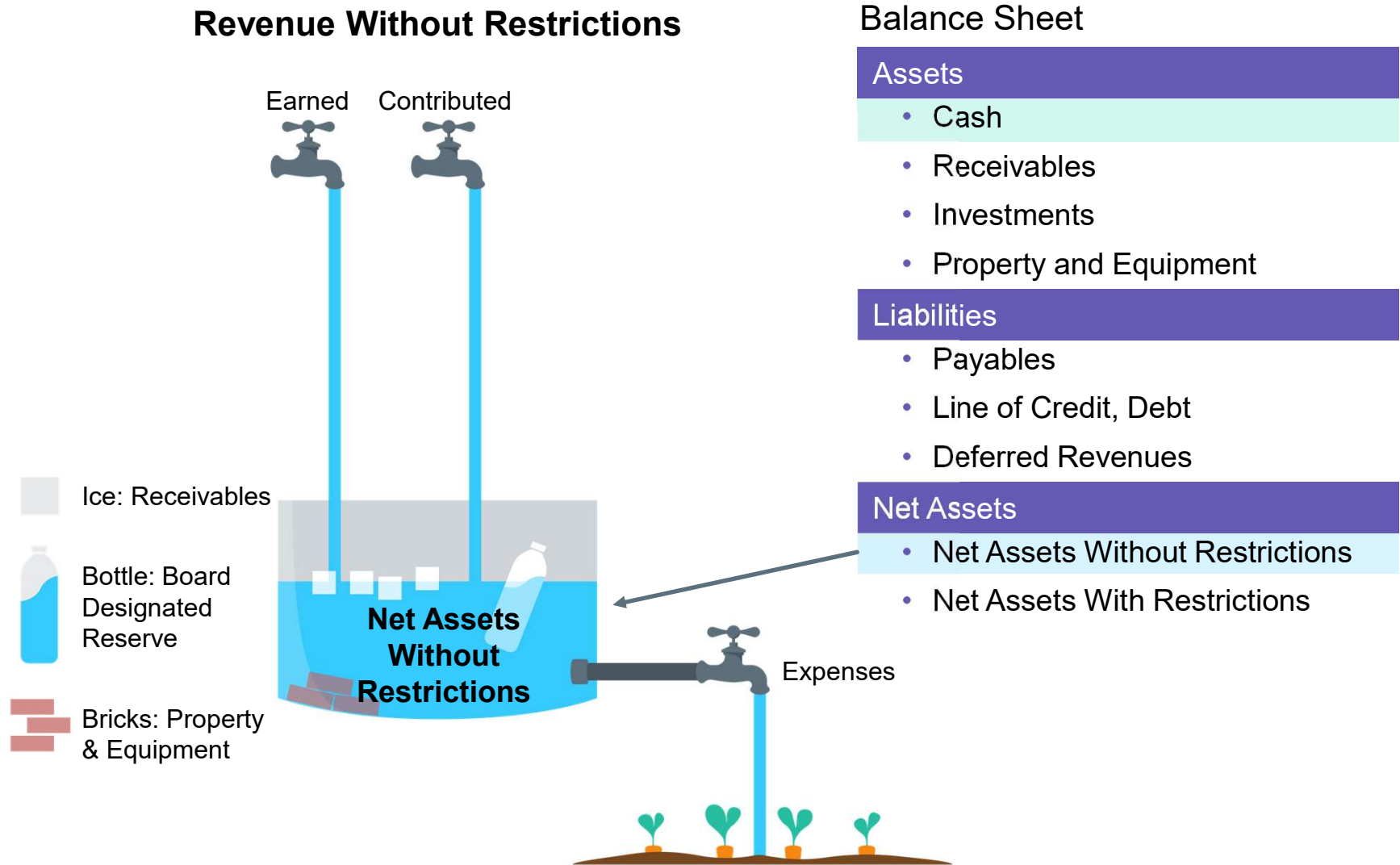
An organization's ability to **adapt and mitigate risk** is influenced by the resources it has on hand.

The following characteristics often indicate an organization's **higher capacity for risk or change**

- Available unrestricted cash and receivables
- Access to available line of credit
- Reserves available to management
- Little (or no wear-and-tear) of fixed assets
- Reoccurring surpluses

Liquidity and **availability** of balance sheet resources can provide insight into risk capacity.

Liquidity and Availability



Measures of Financial Adaptability

Cash: Measuring Liquidity

Ability of an organization to cover short term obligations and day-to-day expenses

$$\text{Months of Cash} = \frac{\text{Total Cash}}{(\text{Total Expenses} / 12)}$$

Available Net Assets: Measuring Available Resources

An organization's safety net; ability to navigate risk and pursue opportunities

$$\text{Months of Available Net Assets (ANA)} = \frac{\text{Total Net Assets Without Restrictions} - \text{P\&E equity}}{(\text{Total Expenses} / 12)}$$

Balance Sheet

ABC Organization

STATEMENT OF FINANCIAL POSITION

	2018	2017
Assets		
Cash and cash equivalents	88,552	53,671
Accounts receivable	7,027	7,829
Grants and pledges receivable	22,856	48,845
Inventory	103,735	103,843
Property & equipment, net	646,041	655,041
Total Assets	868,211	869,229
Liabilities		
Line of credit	60,000	58,000
Accounts payable	86,854	106,795
Mortgage payable	391,009	403,152
Total Liabilities	537,863	567,947
Net Assets		
Without restrictions	251,847	232,703
With restrictions	78,501	68,580
Total Net Assets	330,348	301,282
Total Liabilities & Net Assets	868,211	869,229

Liquidity and Availability for ABC

Average Monthly Expenses (FY18)

Operating Expenses /	\$731,790
12 Months	12
= Average Monthly Expenses	\$60,982

Months of Cash

Total Cash /	\$88,552
Average Monthly Expenses	\$60,982
= Months of Cash	1.5

Months of Available Net Assets

Total Unrestricted Net Assets	\$251,847	
	Net P&E	\$646,041
	- P&E Debt	\$391,009
- Total Equity in P&E	\$255,032	
Total Available Net Assets (ANA)	(\$3,185)	

Months of ANA

Total ANA /	(\$3,185)
Average Monthly Expenses	\$60,982
= Months of ANA	(0.1)

Months of Liquidity: A General Guideline

While the “right” amount of liquidity for an organization depends, below is it might “feel like” at different levels:

Months of Expenses	Operating Situation
< 1 month	Crisis – Scrambling for cash, delaying payment to vendors, overdrawing checking account.
< 3 months	Cash is tight – Relying on line of credit, delaying payment to vendors.
3-6 months	Room to breathe – Can do some long-term thinking. Little room for “rainy days.”
6+ months	Handles risk – Able to withstand increasingly acute shocks such as large facility repairs, funding cuts and possibly recessions.

Positive Indicators and Areas of Inquiry

Balance Sheet

Positive Indicators

- Evidence of reinvestment in fixed assets
- Evidence of ability to manage debt
- Cash of at least three month's expenses
- Available net assets without restrictions of the same
- Current assets exceed liabilities











Areas of Inquiry

- High amount of liabilities (e.g., debt, payables) relative to total assets
- Low or declining liquidity, as measured by months of cash or available net assets
- Organization has sold investments or real estate to generate cash
- A line of credit that is consistently maxed out during the year



Long-Term Aspiration: Build Full Costs into Budget

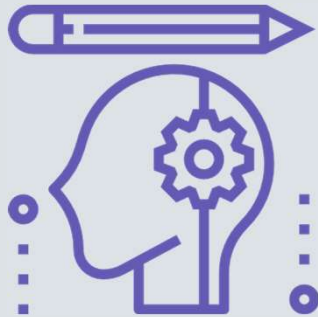
	Total Expenses Operating, non-operating, and unfunded expenses		<i>Always needed by all organizations</i>
	Working Capital Access to cash for day-to-day needs		
	Reserves Savings, a “rainy day” fund		
	Debt Principal Repayment Mortgage, line of credit, etc.		<i>Sometimes needed by some organizations</i>
	Fixed Asset Additions Money to purchase a new building or computers		
	Change Capital Resources to adapt, grow, and/or expand		

Check-Out

Please share via voice or chat your response to any of all of the following questions:

Head

What did you **learn** from today's session?



Heart

How did today's session make you **feel**?



Feet

What **actions** will you take to bring this back to your organization and community?



Up Next

Cash Flow Planning

June 10, 2021, 1 – 2 pm EST

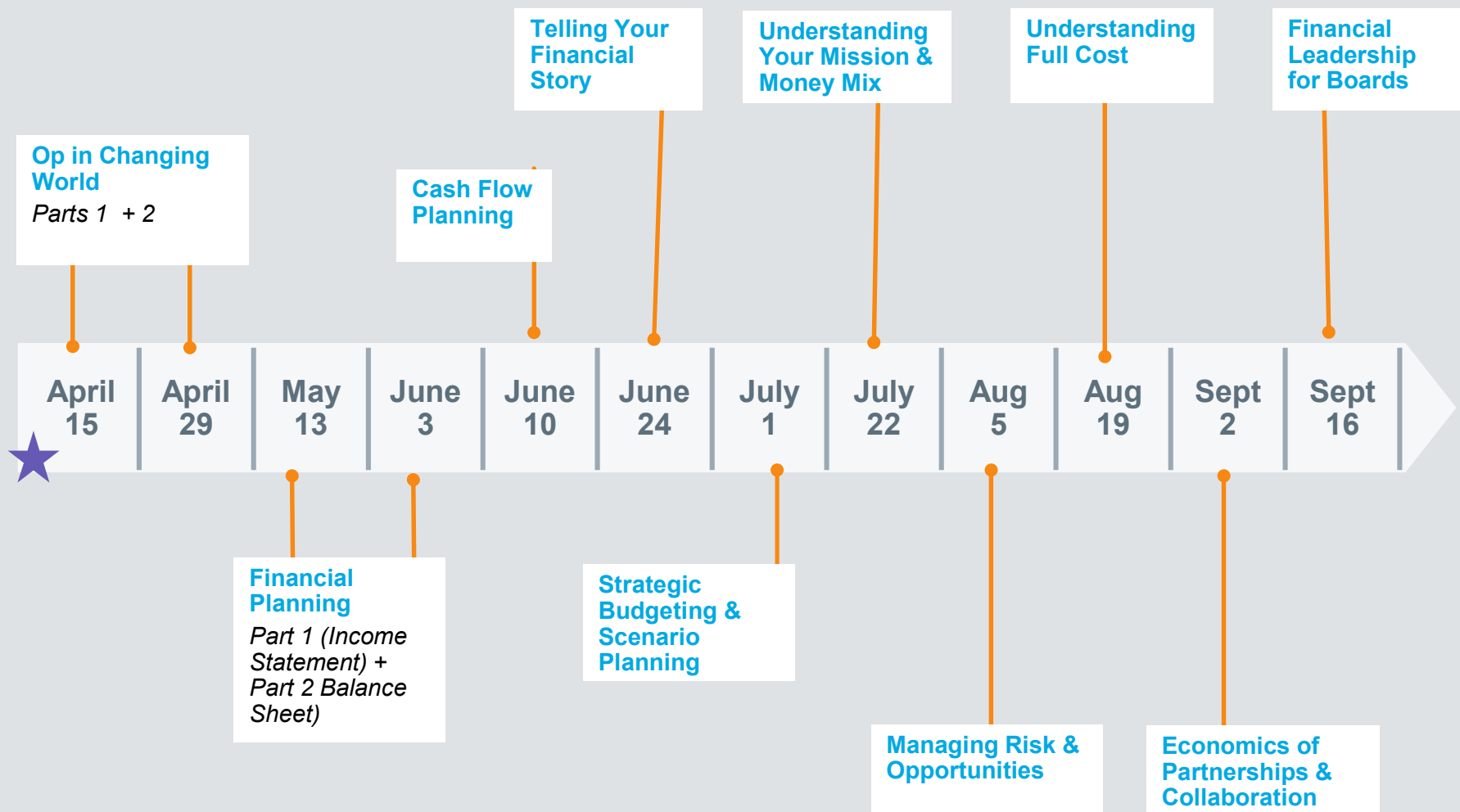
In times of uncertainty, it's especially critical to understand how cash flows in and out of organizations. Unlike a budget – which summarizes revenue and expenses for a block of time – cash flow projections plot total cash received and spent month-by-month or week-by-week. In this session, you will learn how to create a cash flow projection, manage cash flow, avoid common missteps in cash flow planning, differentiate between cash and accrual accounting, and connect cash flow management to credit assessment.

Outcomes: At the end of this session, participants will be able to understand how cash flows in and out of their organization.



**Mariesa
Kubasek**

Upcoming Sessions



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