



Nonprofit Financial Management

FINANCIAL PLANNING, PART 2

Name: _____

Organization: _____

Nonprofit Financial Management

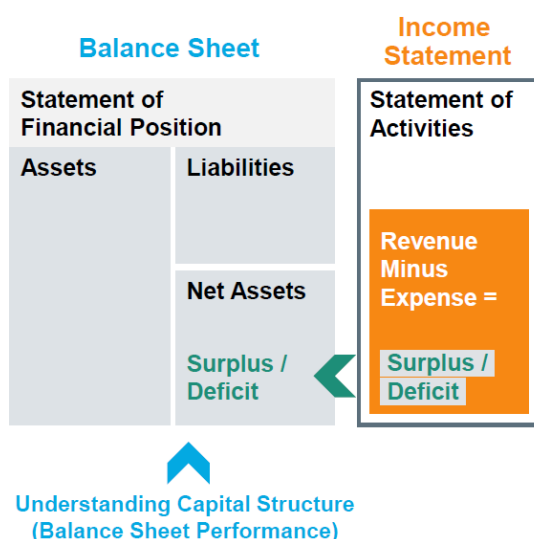
Financial Planning, Part 2

In Part 2 of Financial Planning, you will examine assets, liabilities, and net assets to better understand how each of these can influence key budgeting goals. NFF will review the components of a balance sheet (both audited and unaudited), help you assess the liquidity of your organization, and outline key budget practices for determining your nonprofit's long-term needs.

Learning Goals

- Assess your financial position and risk by examining the balance sheet
- Build understanding about how assets, liabilities and net assets can influence goalsetting for the future
- Introduce key budget practices that include a long-term view of your financial needs

Key Concept: Income Statement vs Balance Sheet



Your organization's **income statement** calculates your **surplus** or **deficit** for a given moment in time (usually one year). You can calculate this by subtracting your **revenue** from your **expenses** for that time period.

In contrast, your **balance sheet** reflects your organization's overall **financial position**. Your financial position is calculated by subtracting your **liabilities** (what you owe) from your **assets** (what you own) and your **net assets** (the cumulative results of your surpluses and deficits).

Key Concept: Unpacking Your Balance Sheet

What financial resources can you access in support of your mission? Do you own more than you owe? Unpacking your balance sheet can help you answer questions like these – and gain a more accurate picture of your organization's financial position.

The graphic below outlines the main elements of a balance sheet, along with key questions you can ask about each section in order to paint a full picture of your organization's financial health.

Balance Sheet Snapshot of one point-in-time	
Assets	Liabilities
<ul style="list-style-type: none"> • 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?) 	<ul style="list-style-type: none"> • Payables (How is cash flow managed?) • Line of Credit, Debt (Do you have a plan to pay debt back?)
	Net Assets
	<ul style="list-style-type: none"> • Net Assets Without Restrictions (Do you own more than you owe? How liquid?) <ul style="list-style-type: none"> ▪ Reserves (Do you have them? Are they suitable to needs?) ▪ Board designations • Net Assets With Restrictions (Do they support core programs?) <ul style="list-style-type: none"> • Purpose or Timing • Endowment

Key Concept: Measuring Financial Adaptability

Liquidity refers to how easy it is to convert an asset into money that can be spent. Cash is a liquid asset because it can be spent immediately; a building is a non-liquid asset, because it must be sold in order to be converted into money that you can spend.

The following formulas can help you calculate how much **cash** you have on hand for day-to-day expenses and **net assets** that form your safety net and your basis for long-term planning.

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

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

Reflection Questions

- How would you describe your capital structure (balance sheet)?

- What are your largest assets and how do they help you in deliver impactful mission activity?

- How do you feel about your current cash position? Do you have what you need to manage your monthly cash needs? Do you have flexible cash reserves that help you to respond and adapt?

- How does your organization respond when cash is scarce? What non-financial resources have you been able to leverage in the absence of cash (e.g., relationships in the community)?

- What are the structural or systemic issues that have impacted your ability to access the resources you need to build a strong capital structure? How has historical disinvestment impacted your ability to manage through crises (e.g., COVID-19), or to be responsive to the needs and desires of your community (e.g., rapid response programming)?

Key Takeaways

- The capital structure (balance sheet) is a snapshot in time of the resources available to support mission delivery today, and a variety of mid- and long-term organizational needs
- Capital structure is connected to business model (income/loss statement) – it is built through annual operating surpluses, or contracts based on the size of operating deficits
- Organizations can plan for, and address capital structure needs through the budgeting process – budgeting for a surplus with intention
- Assets (*resources that have current or future value*) are balanced by liabilities (*what organizations owe to someone else*) plus net assets (*what organizations own*)
- Measures of financial adaptability help us to understand risk tolerance and/or an organization's ability to take advantage of opportunities
- Months of cash is an indication of an organization's ability to manage short-term obligations (e.g., monthly cash flow needs like payroll or rent)
- Months of available net assets is representative of the resources available to help organizations adapt and acts as a safety net

Notes