

Webinar

Financial Planning Part 1

Facilitated by

Robert Kagan, Senior Associate
Nonprofit Finance Fund

May 13, 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

We are on a mission to support community-centered organizations led by and serving people of color, helping them access the investment capital and financial knowledge they need to realize their aspirations.



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

NFF Team for Part 1 – Webinar Series (Sessions 1 – 6)



What's This Session All About?

Assessing our past
financial performance

Thinking about our
future

Understanding different
types of revenue and
expenses

Other questions?
What do you want to
get out of this
session?

Learning Goals



Learn how to read and interpret income/loss statements

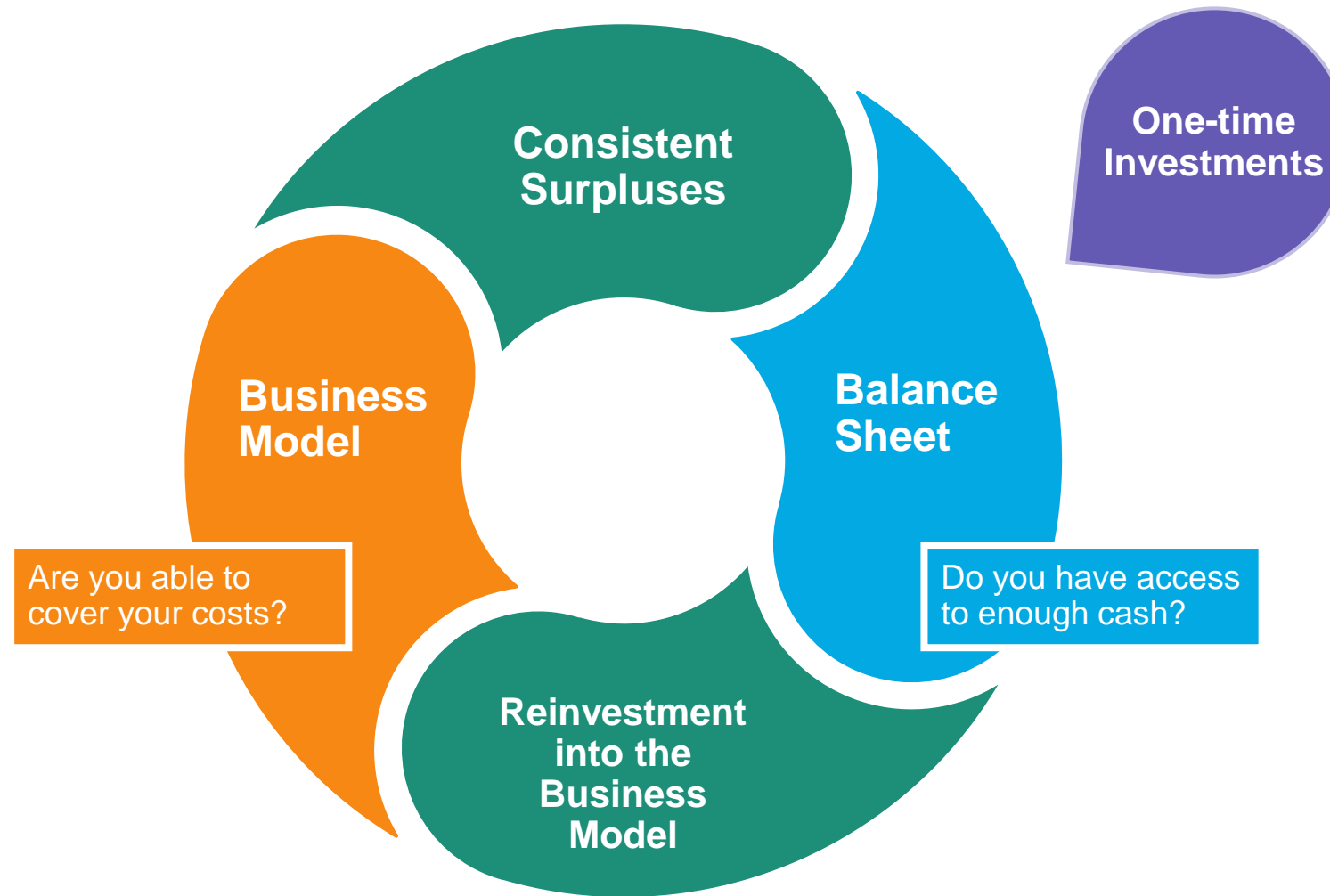


Connect the dynamics in our income and expense history to our future budgets



Learn key budget terms for forecasting revenue and expense, budgeting for restricted revenue, and budgeting for one time/episodic revenues and expenses.

Surpluses Support Mission Success



How does the Income Statement Reflect Business Model?

Income Statement

Revenue

Earned
Contributed
 Private Sources
 Government

Revenue Dynamics

- Where did your money come from?
- Were revenue streams reliable or at risk?
- Was seasonality a factor?

Expenses

Personnel
Professional Fees
Occupancy
Support
Interest

Expense Dynamics

- How did you spend your money?
- Were expenses predictable?
- Was management responsive to operating changes and prepared to make difficult decisions?

Surplus / Deficit

Profitability & Savings

- Were costs covered?
- Were you able to achieve a surplus?

Business Model in a Perfect World

If you have a **magic wand**

- Annual surpluses meet short and long term organizational needs
- Programs reflect and meet the needs of the community (informed by data and outcomes measurement)
- You have enough capacity and the right skills on staff
- Staff are fairly paid and supported in their jobs
- Staff and board don't feel tired and panicked

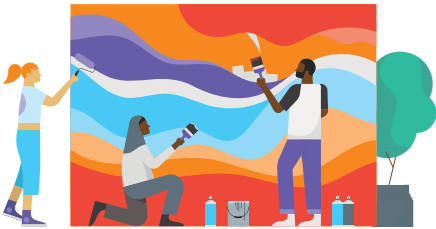


How Does your Organization Make Money?



Poll: What is your top revenue stream?

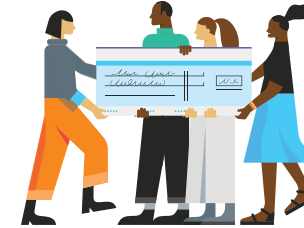
Earned Income



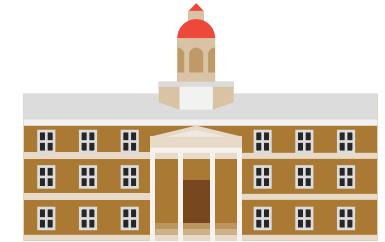
Individual Contributions



Foundations



Government



Each revenue source has its own strengths, risks, and associated costs

Planning for future revenue starts with understanding how our revenue mix has worked or not in the past and how that mix matches our capacity, plan, and expectations for the future



How Does your Organization Spend Money?

Personnel



Professional Fees



Occupancy



Support



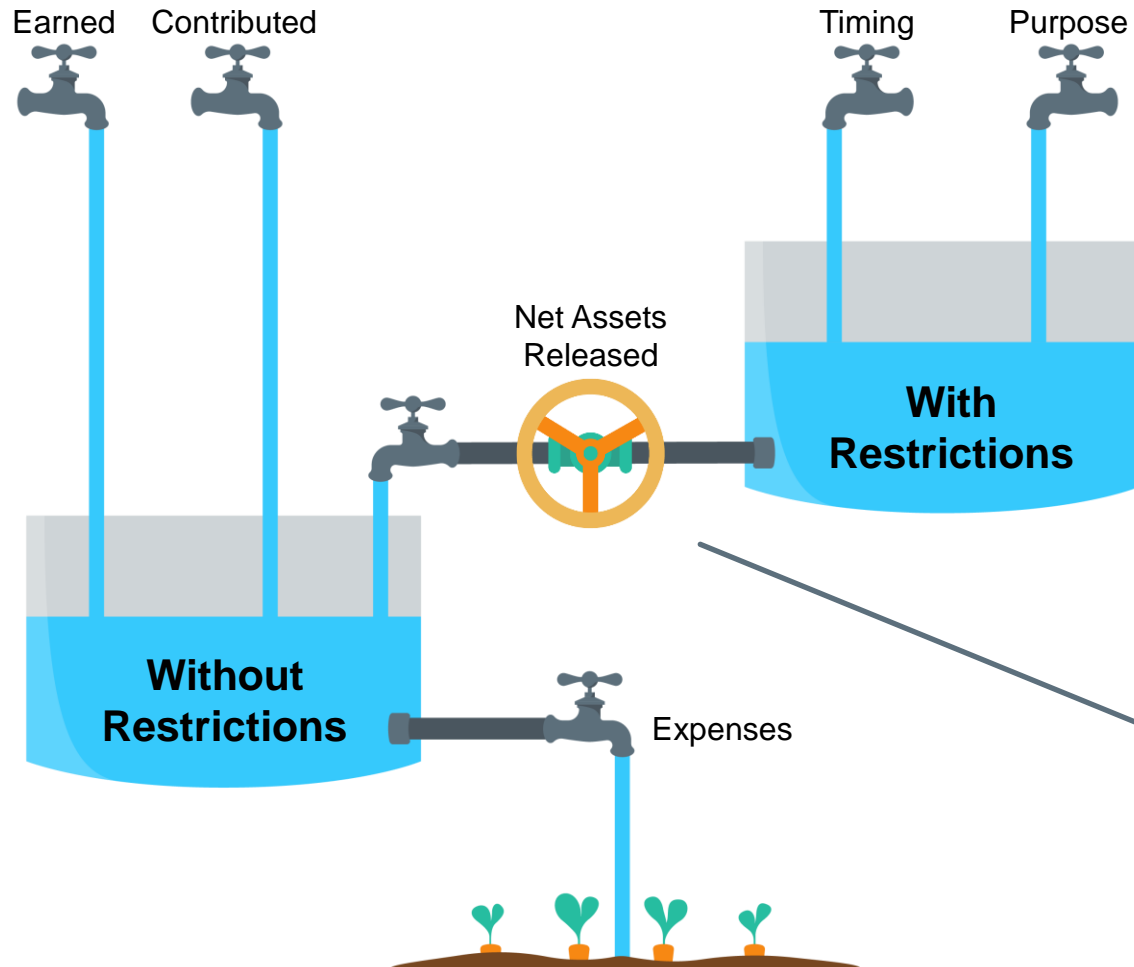
Leaders should understand what financials “levers” they can pull to manage their expenses within the context of their mission and values

Any changes to revenue strategies or expense mixes should consider the interaction between revenue and expense

Restrictions Affect the Flow of Money

Revenue Without Restrictions

Revenue With Restrictions



Net assets released from restrictions refers to the transfer of funds from net assets with donor restrictions to net assets without donor restrictions due to the satisfaction of donor-imposed stipulations with respect to timing or purpose of the contribution.

Income Statement

Cutting Through the Complexity!

ABC Organization

Statement of Activities



POLL: Which surplus/deficit tells us how well this business model is working?

		2020		2019
		Without Restrictions	With Restrictions	Total
Revenue and Support				Total
	Program Fee income	\$ 439,090		\$ 439,090
	Foundation grants	202,000	110,090	312,090
	Individual contributions	156,140		156,140
	Rental income	67,370		67,370
Restrictions met, funds available for use >	Net assets released from restriction	10,079	(10,079)	--
Total revenue and support		\$ 874,679	\$ 100,011	\$ 974,690
Expenses				
	Personnel	\$ 632,210		\$ 632,210
	Research & tech support	141,300		141,300
	Travel and supplies	88,500		88,500
	Occupancy	35,980		35,980
	Interest	16,700		16,700
Total expenses		\$ 914,690		\$ 914,690
Multiple bottom lines >	Surplus / (Deficit)	\$ (40,011)	\$ 100,011	\$ 60,000
				\$ 22,181

Below the Line: Separate Non-Operating and Operating Activity

Budgets should distinguish operating dollars from non-operating dollars, which can be placed “below the line”

Operating Revenue and Expenses: Regular, recurring revenues and expenditures to fund and execute programs and operations.

Non-Operating: Irregular, periodic in nature.

- Capital campaign contributions or expenditures (ex: campaign to buy a building, purchase of expensive equipment you expect to use over many years)
- One time large gifts or bequests
- Capital infusions- funding that “builds” the organization (ex: change capital, reserve funding, debt funding)

Non-operating dollars can obscure the picture of true operating performance if co-mingled with operating revenue or expenses

Additional Nuance: Operating vs. Non-Operating

Regular Operations vs. Extraordinary or Capital Activity

<div> <div> Earned Revenue (Patient Revenue, Contracts, Investment Income, etc.) </div> <div> Contributions without Restrictions for Operations (Grants for Current Year's Expenses) </div> <div> Net Assets Released from Restrictions </div> </div>	Operating	<div> <div>Debt Interest</div> <div>Depreciation</div> <div>Rent</div> <div>Salaries</div> </div>
<div> <div>Extraordinary One-time Gifts (Bequests)</div> <div>Investment Gains & Losses (Non-income investment value changes)</div> <div>Pass-through Revenue (Re-grants, Scholarships)</div> <div>Capital Contributions (Campaign)</div> </div>	Non-operating	<div> <div>Capital Expenditures (Facility)</div> <div>Re-grants</div> </div>
Total Revenue		Total Expenses

Non-Operating “Below The Line”

ABC Organization Statement of Activities

How well is our
year over year
business model
working?

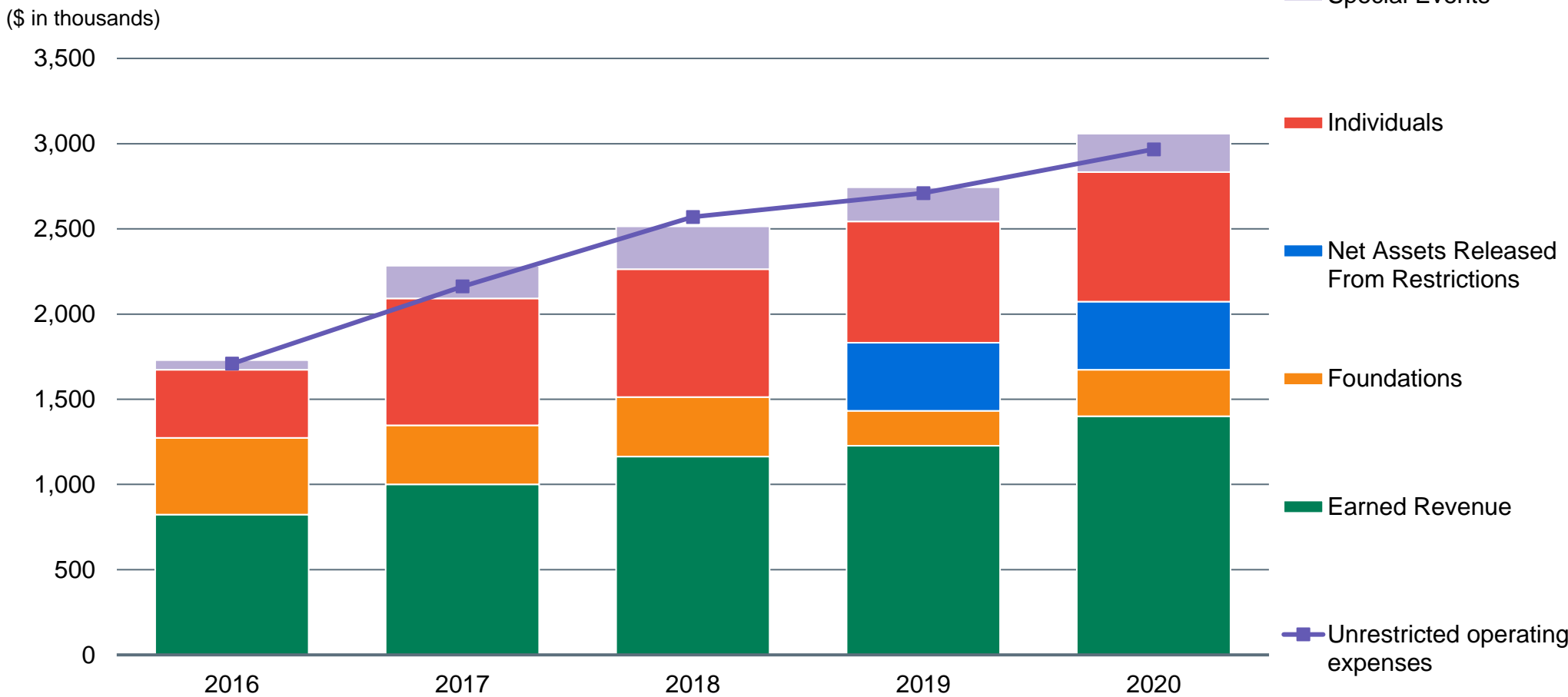
Non-Operating
“Below The
Line”

How did this
year affect our
financial
position?

<i>Operating Activity</i>		2020		2019
	Without Restrictions	With Restrictions	Total	Total
Revenue and Support				
Total revenue and support	\$ 824,679	\$ 100,011	\$ 924,690	\$ 911,876
Expenses				
Total expenses	\$ 914,690		\$ 914,690	\$ 889,695
Surplus / (Deficit)	\$ (90,011)	\$ 100,011	\$ 10,000	\$ 22,181
<i>Non-Operating Revenue</i>				
PPP Loan	50,000		50,000	
Local Covid Response Funding	100,000		100,000	
<i>Non-Operating Expense</i>				
One Time Equipment Purchases	10,679		50,000	
Increase / (decrease) in net assets	\$ 49,310	\$ 100,011	\$ 60,000	\$ 22,181

Visualizing a Changing Revenue Model

Operating Revenue with Expenses

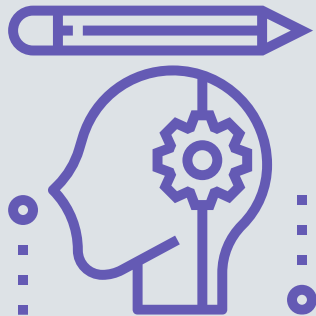


Check-Out

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

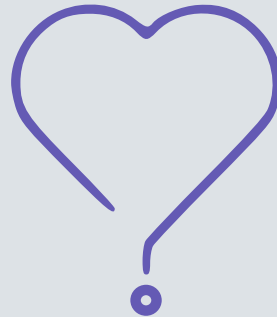
Head

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



Heart

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

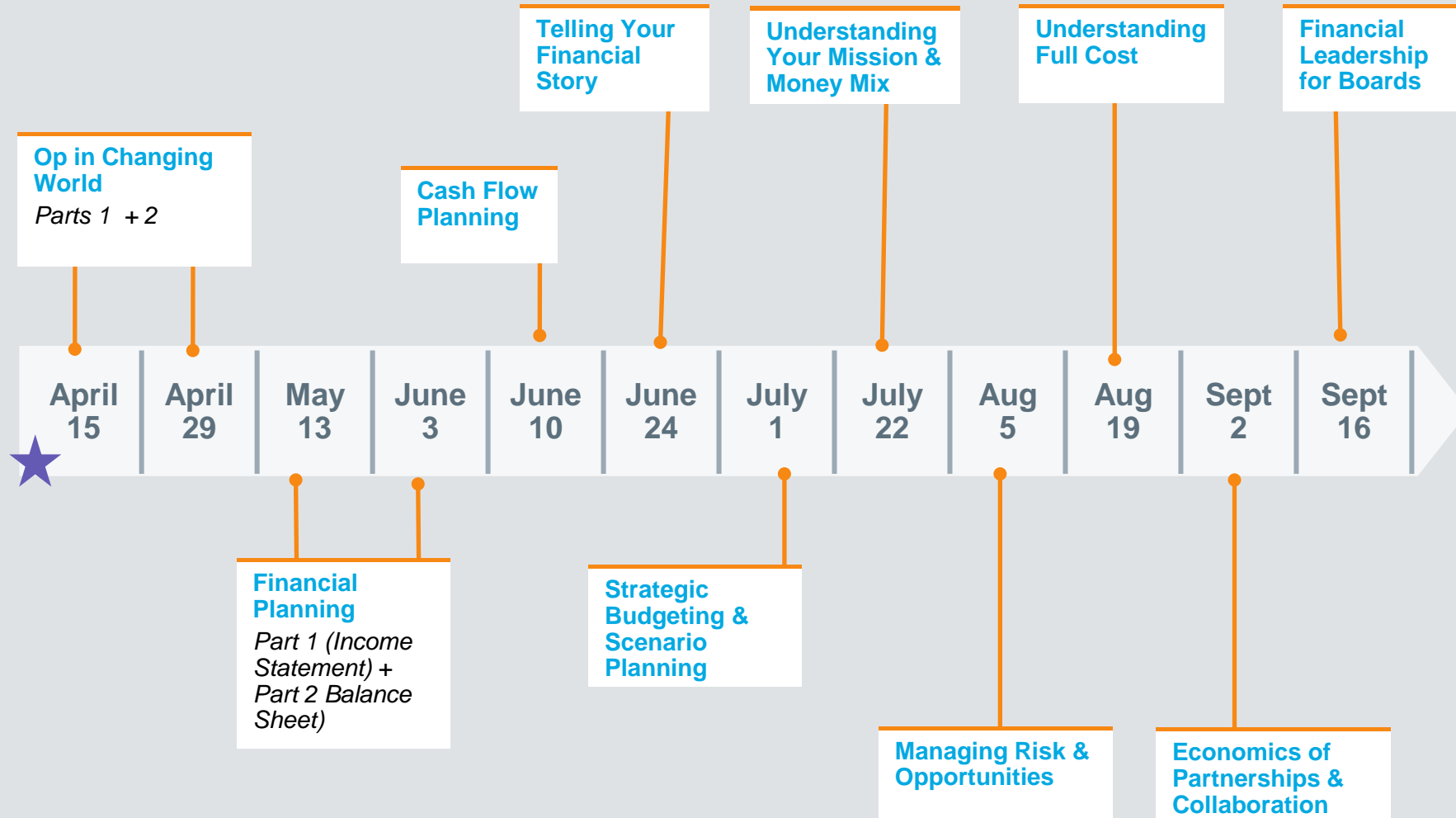


Feet

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



Upcoming Sessions



Up Next

Financial Planning Part 2

June 3, 2021 1 – 2 pm EST

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.



Thank You!

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