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Webinar

# Financial Planning Part 1



Facilitated by

Robert Kagan, Senior Associate  
Nonprofit Finance Fund

April 27, 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 society where money and knowledge come together to support just and vibrant communities.**

Help mission-driven organizations achieve their communities' aspirations through

- **Tailored capital**
- **Strategic Advice**
- **Accessible Insights**

Guided by our Core Values →



## What's This Session All About?

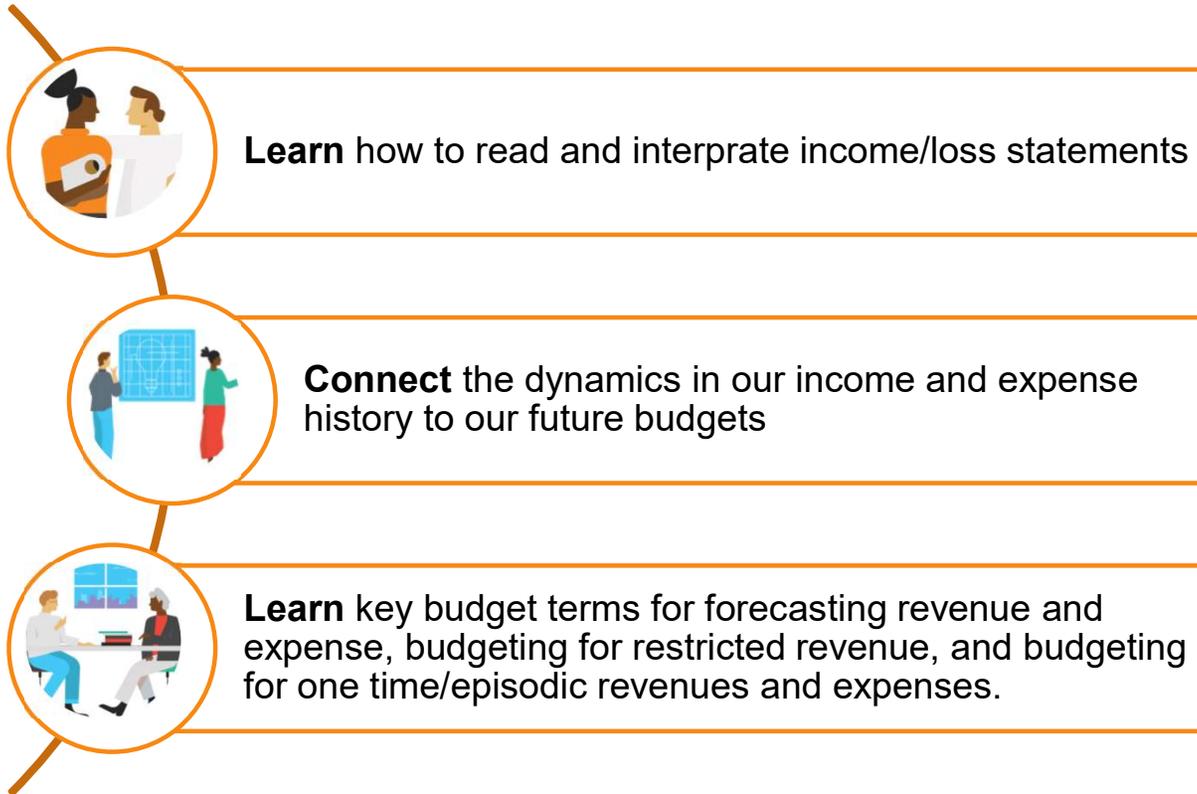
Assessing our past  
financial performance

Thinking about our  
future

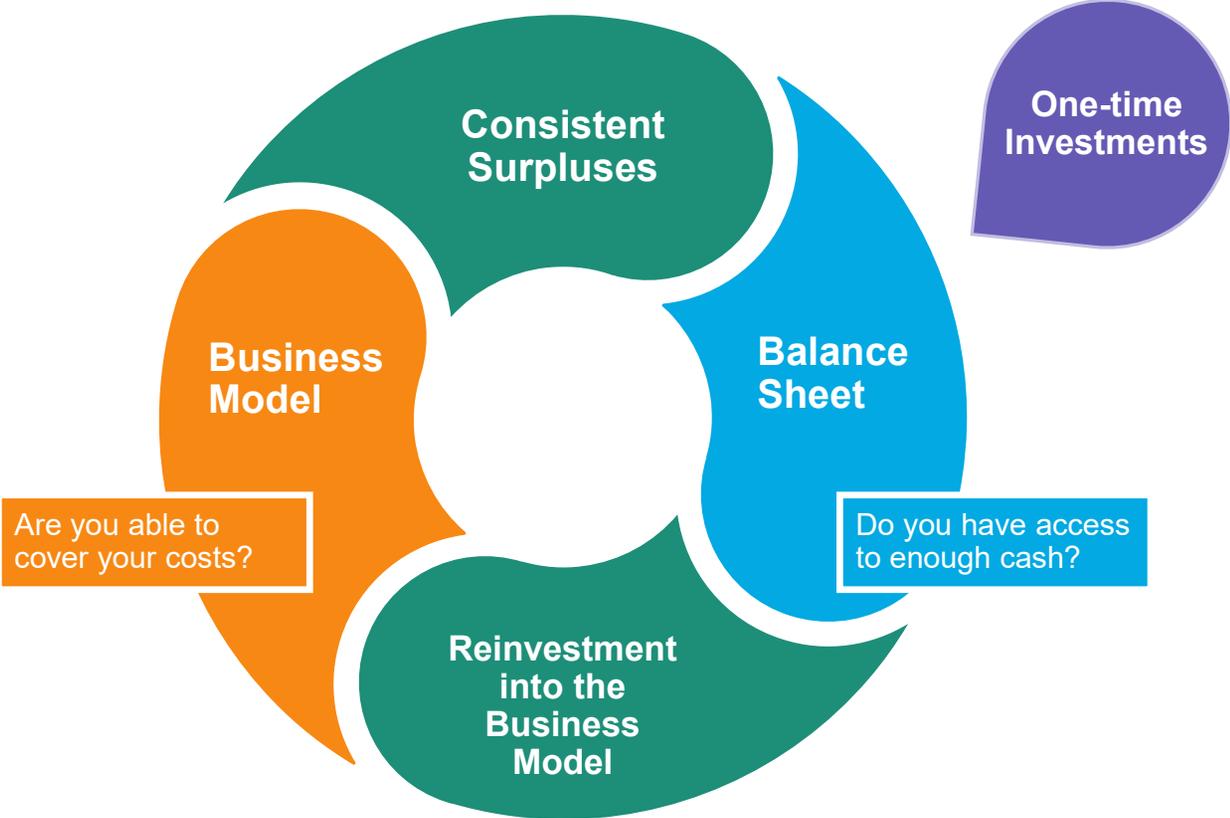
Understanding different  
types of revenue and  
expenses

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

## Learning Goals



# 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?

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## Business Model in a Perfect World

If you have a **magic wand**

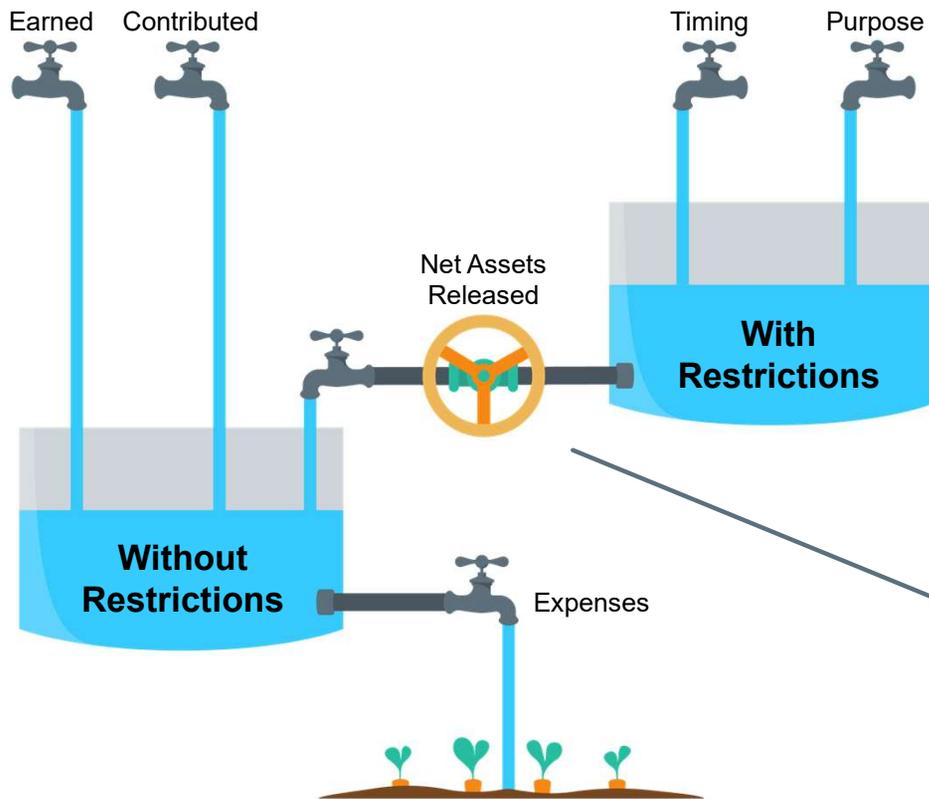
- Annual surpluses meet short and long term organizational needs
- Programs reflect and meet the needs of the community (informed by data and outcomes measurement)
- You have enough capacity and the right skills on staff
- Staff are fairly paid and supported in their jobs
- Staff and board don't feel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



# 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	Total
<b>Revenue and Support</b>					
	Program Fee income	\$ 439,090		\$ 439,090	\$580,970
	Foundation grants	202,000	110,090	312,090	254,765
	Individual contributions	156,140		156,140	60,515
	Rental income	67,370		67,370	15,626
Restrictions met, funds available for use >	Net assets released from restriction	10,079	(10,079)	--	--
<b>Total revenue and support</b>		<b>\$ 874,679</b>	<b>\$ 100,011</b>	<b>\$ 974,690</b>	<b>\$ 911,876</b>
<b>Expenses</b>					
	Personnel	\$ 632,210		\$ 632,210	\$ 610,909
	Research & tech support	141,300		141,300	140,900
	Travel and supplies	88,500		88,500	75,154
	Occupancy	35,980		35,980	38,522
	Interest	16,700		16,700	24,210
<b>Total expenses</b>		<b>\$ 914,690</b>		<b>\$ 914,690</b>	<b>\$ 889,695</b>
Multiple bottom lines >	<b>Surplus / (Deficit)</b>	<b>\$ (40,011)</b>	<b>\$ 100,011</b>	<b>\$ 60,000</b>	<b>\$ 22,181</b>

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## 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.

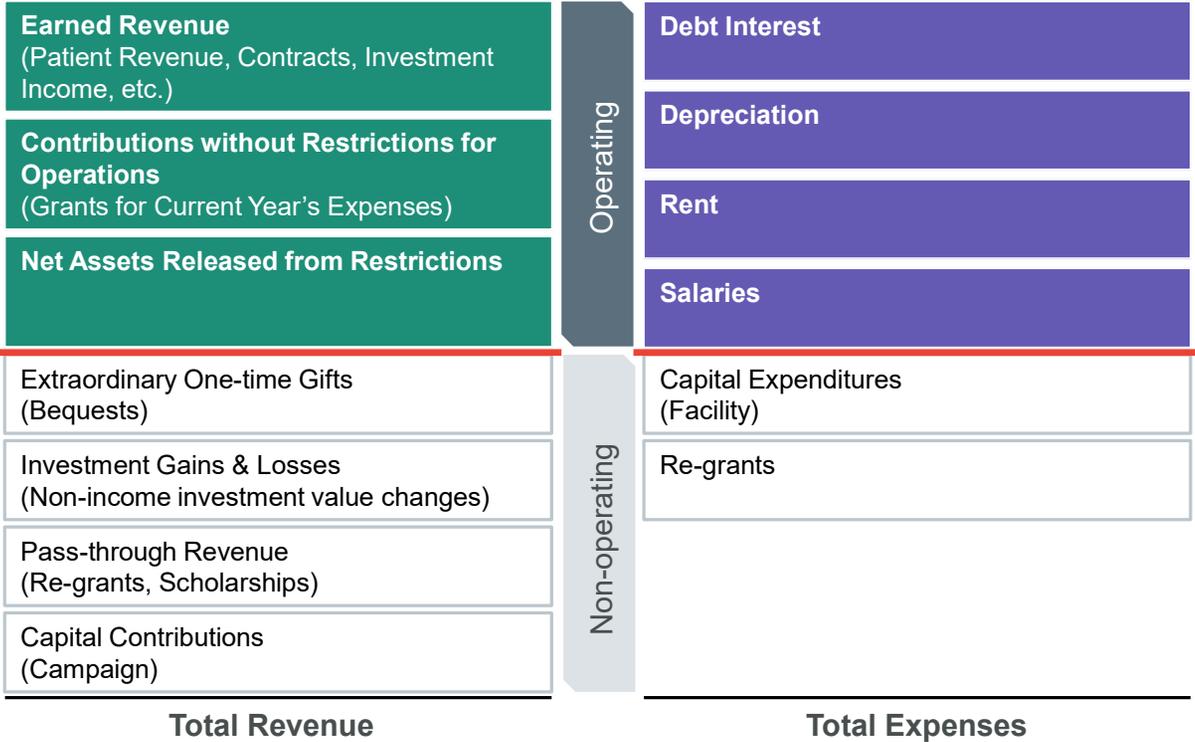
**Non-Operating:** Irregular, periodic in nature.

- 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



# Non-Operating “Below The Line”

## ABC Organization Statement of Activities

### Operating Activity

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

How well is our year over year business model working?

Non-Operating “Below The Line”

How did this year affect our financial position?

# 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



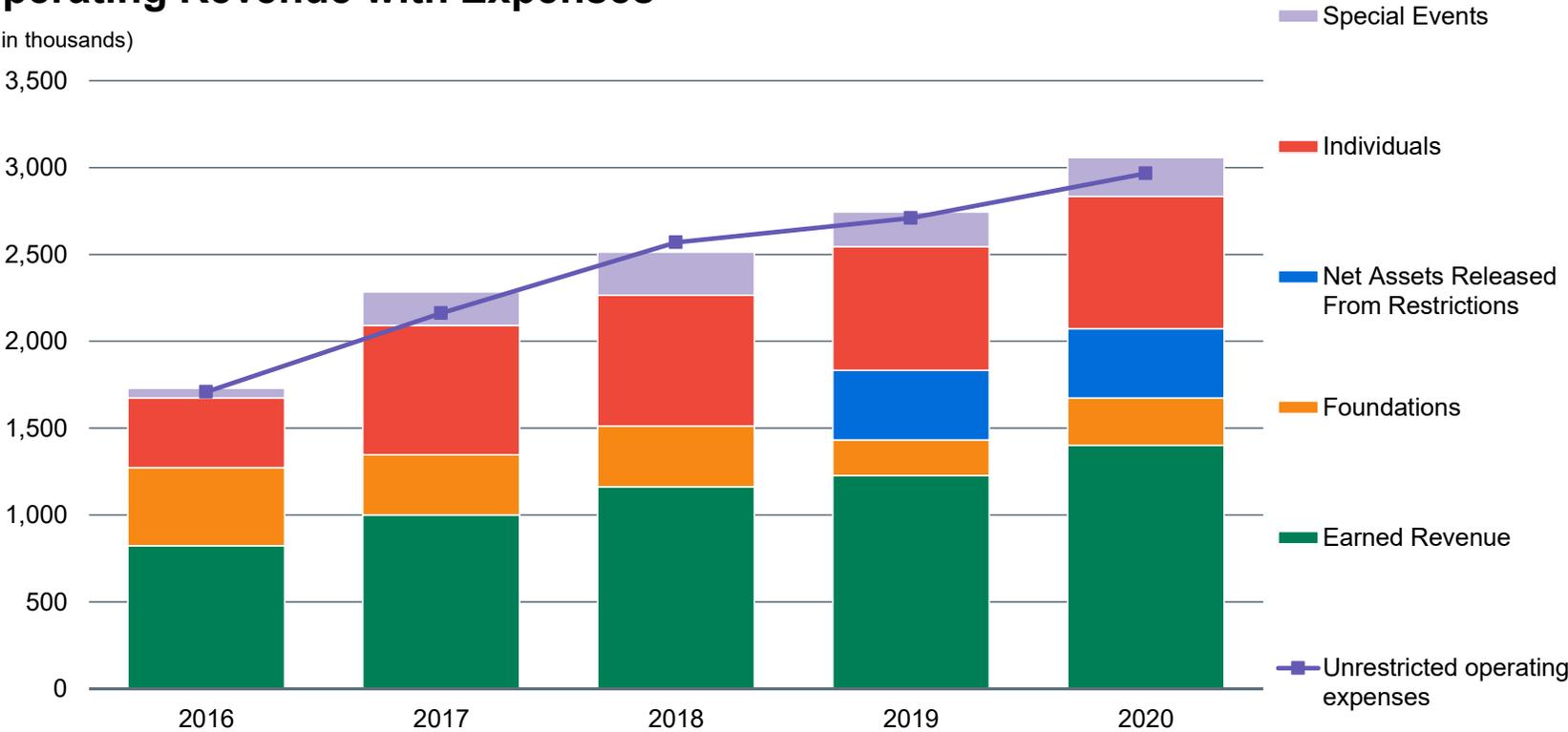
Leaders should understand what financials “levers” they can pull to manage their expenses within the context of their mission and values

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

# Visualizing a Changing Revenue Model

## Operating Revenue with Expenses

(\$ in thousands)



## 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**?

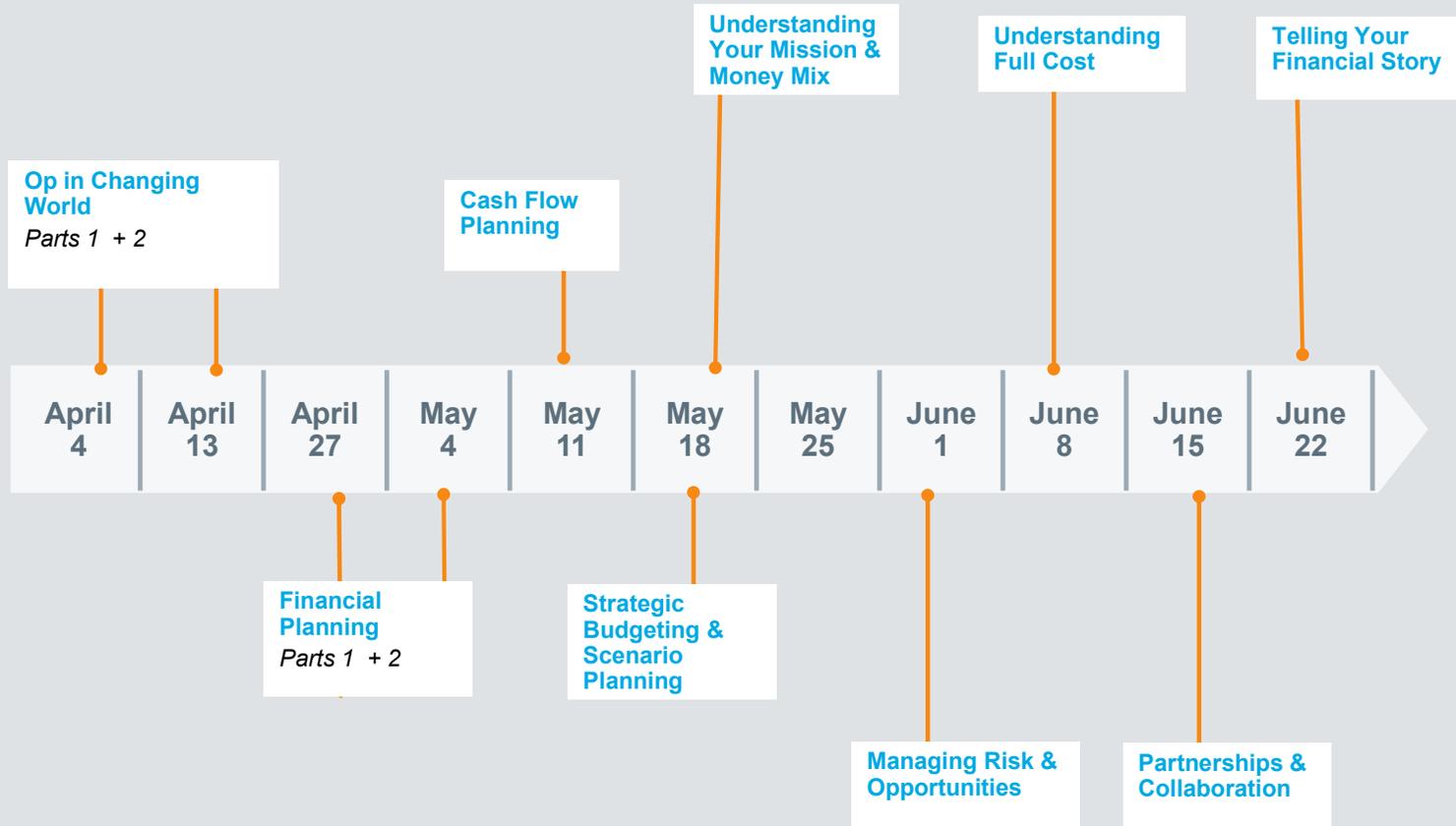


### Feet

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



# Upcoming Sessions



## Up Next

### Financial Planning Part 2

May 4, 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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