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

- **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

- Consistent Surpluses
- One-time Investments
- Reinvestment into the Business Model
- Balance Sheet

- Are you able to cover your costs?
- Do you have access to enough cash?
How does the Income Statement Reflect Business Model?

Income Statement

### Revenue
- Earned
- Contributed
  - Private Sources
  - Government

### Expenses
- Personnel
- Professional Fees
- Occupancy
- Support
- Interest

### Surplus / Deficit

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

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

#### 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
**Restrictions Affect the Flow of Money**

**Revenue Without Restrictions**
- Earned
- Contributed

**Revenue With Restrictions**
- Timing
- Purpose

**Net Assets Released**

**Without Restrictions**

**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**

<table>
<thead>
<tr>
<th></th>
<th>2020 Without Restrictions</th>
<th>2020 With Restrictions</th>
<th>Total 2020</th>
<th>2019 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue and Support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Fee income</td>
<td>$ 439,090</td>
<td>$ 439,090</td>
<td>$580,970</td>
<td></td>
</tr>
<tr>
<td>Foundation grants</td>
<td>202,000</td>
<td>110,090</td>
<td>312,090</td>
<td>254,765</td>
</tr>
<tr>
<td>Individual contributions</td>
<td>156,140</td>
<td>156,140</td>
<td>60,515</td>
<td></td>
</tr>
<tr>
<td>Rental income</td>
<td>67,370</td>
<td>67,370</td>
<td>15,626</td>
<td></td>
</tr>
<tr>
<td><strong>Total revenue and support</strong></td>
<td>$ 874,679</td>
<td>$ 100,011</td>
<td>$974,690</td>
<td>$911,876</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2020 Without Restrictions</th>
<th>2020 With Restrictions</th>
<th>Total 2020</th>
<th>2019 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>$ 632,210</td>
<td>$ 632,210</td>
<td>$610,909</td>
<td></td>
</tr>
<tr>
<td>Research &amp; tech support</td>
<td>141,300</td>
<td>141,300</td>
<td>140,900</td>
<td></td>
</tr>
<tr>
<td>Travel and supplies</td>
<td>88,500</td>
<td>88,500</td>
<td>75,154</td>
<td></td>
</tr>
<tr>
<td>Occupancy</td>
<td>35,980</td>
<td>35,980</td>
<td>38,522</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>16,700</td>
<td>16,700</td>
<td>24,210</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$ 914,690</td>
<td>$ 914,690</td>
<td>$889,695</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2020 Without Restrictions</th>
<th>2020 With Restrictions</th>
<th>Total 2020</th>
<th>2019 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Surplus / (Deficit)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ (40,011)</td>
<td>$ 100,011</td>
<td>$ 60,000</td>
<td>$ 22,181</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Operating</th>
<th>Non-operating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Earned Revenue</strong></td>
<td><strong>Debt Interest</strong></td>
</tr>
<tr>
<td><em>(Patient Revenue, Contracts, Investment Income, etc.)</em></td>
<td></td>
</tr>
<tr>
<td><strong>Contributions without Restrictions for Operations</strong></td>
<td><strong>Depreciation</strong></td>
</tr>
<tr>
<td><em>(Grants for Current Year’s Expenses)</em></td>
<td></td>
</tr>
<tr>
<td><strong>Net Assets Released from Restrictions</strong></td>
<td><strong>Rent</strong></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Extraordinary One-time Gifts</strong></td>
<td><strong>Capital Expenditures</strong></td>
</tr>
<tr>
<td><em>(Bequests)</em></td>
<td><em>(Facility)</em></td>
</tr>
<tr>
<td><strong>Investment Gains &amp; Losses</strong></td>
<td><strong>Re-grants</strong></td>
</tr>
<tr>
<td><em>(Non-income investment value changes)</em></td>
<td></td>
</tr>
<tr>
<td><strong>Pass-through Revenue</strong></td>
<td></td>
</tr>
<tr>
<td><em>(Re-grants, Scholarships)</em></td>
<td></td>
</tr>
<tr>
<td><strong>Capital Contributions</strong></td>
<td></td>
</tr>
<tr>
<td><em>(Campaign)</em></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Total Revenue</strong></th>
<th><strong>Total Expenses</strong></th>
</tr>
</thead>
</table>
## Non-Operating “Below The Line”

### ABC Organization

**Statement of Activities**

### Operating Activity

<table>
<thead>
<tr>
<th></th>
<th>2020 Without Restrictions</th>
<th>2020 With Restrictions</th>
<th>2019 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue and Support</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue and support</td>
<td>$824,679</td>
<td>$100,011</td>
<td>$924,690</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total expenses</td>
<td>$914,690</td>
<td>$914,690</td>
<td>$889,695</td>
</tr>
<tr>
<td><strong>Surplus / (Deficit)</strong></td>
<td>$ (90,011)</td>
<td>$100,011</td>
<td>10,000</td>
</tr>
</tbody>
</table>

### Non-Operating Revenue

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPP Loan</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Local Covid Response Funding</td>
<td>100,000</td>
<td>100,000</td>
</tr>
</tbody>
</table>

### Non-Operating Expense

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Time Equipment Purchases</td>
<td>10,679</td>
<td>50,000</td>
</tr>
</tbody>
</table>

### Increase / (decrease) in net assets

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$49,310</td>
<td>$100,011</td>
</tr>
</tbody>
</table>

---

**How well is our year over year business model working?**

**How did this year affect our financial position?**

---

nff.org © 2021 Nonprofit Finance Fund
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?

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)

- Special Events
- Individuals
- Net Assets Released From Restrictions
- Foundations
- Earned Revenue
- Unrestricted operating expenses

2016 2017 2018 2019 2020

Operating revenue with expenses has been increasing over the years, with a particular emphasis on earned revenue and unrestricted operating 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

- **Op in Changing World**
  - Parts 1 + 2
  - April 4
  - April 13
  - April 27

- **Financial Planning**
  - Parts 1 + 2
  - May 4
  - May 11
  - May 18
  - May 25

- **Cash Flow Planning**
  - June 1
  - June 8
  - June 15
  - June 22

- **Understanding Your Mission & Money Mix**
  - May 18

- **Understanding Full Cost**
  - June 1

- **Telling Your Financial Story**
  - June 22

- **Strategic Budgeting & Scenario Planning**
  - May 25

- **Managing Risk & Opportunities**
  - June 8

- **Partnerships & Collaboration**
  - June 15
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!

nff.org
investinresults.org

webinars@nff.org

@nff_news