Acknowledgment of Indigenous Territories

“Land acknowledgments are a stepping stone to honouring broken treaty relationships.”

• 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

CORE VALUES

- Equity in Action
- Rigor Without Attitude
- Responsiveness
- Generosity of Spirit
- Leading By Doing
- Respon-siveness
- Generosity of Spirit
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Learning Goals

- 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
Financial Strength

- Consistent Surpluses
- Capital Structure
- Reinvestment into the Business Model
- Business Model

One-time Investments

Are you able to cover your costs?

Do you have access to enough cash?
Two Main Financial Statements:
Balance Sheet and Income Statement

**Balance Sheet**

<table>
<thead>
<tr>
<th>Statement of Financial Position</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>Revenue Minus Expense =</td>
</tr>
<tr>
<td>Liabilities</td>
<td>Surplus / Deficit</td>
</tr>
<tr>
<td>Net Assets</td>
<td>Surplus / Deficit</td>
</tr>
<tr>
<td>Surplus / Deficit</td>
<td></td>
</tr>
</tbody>
</table>

Understanding Capital Structure (Balance Sheet Performance)
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**

<table>
<thead>
<tr>
<th>Statement of Financial Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
</tr>
<tr>
<td>What organizations OWN</td>
</tr>
</tbody>
</table>

**Net Assets**
What organizations OWN free and clear

---

Assets - Liabilities = Net Assets

Image: A visual representation of the balance sheet equation with $ and a heart symbol.
Unpacking Your Balance Sheet: What is Owned & Owed?

### Balance Sheet

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cash</td>
<td>• Payables</td>
<td>• Net Assets Without Restrictions</td>
</tr>
<tr>
<td>• Receivables</td>
<td>• Line of Credit, Debt</td>
<td>• Reserves</td>
</tr>
<tr>
<td>• Investments</td>
<td>• Deferred Revenues</td>
<td>• Board designations</td>
</tr>
<tr>
<td>• Property and Equipment (P&amp;E)</td>
<td></td>
<td>• Net Assets With Restrictions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Purpose or Timing</td>
</tr>
</tbody>
</table>
<pre><code>                                                                                 | • Endowment                                    |
</code></pre>

---

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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 – Are they slow to collect? Are they at risk?
- Property and Equipment
- Investments – How much? Are they restricted?
- 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? Is the organization using debt appropriately?

Net Assets
- Net Assets Without Restrictions – Does the organization own more than it owes? How much is liquid?
  - Reserves – Does the organization have them? Are they suitable to their needs?
- Net Assets With Restrictions – Do they support core programs?
EXERCISE: Three Capital Profiles, Similar Business Drivers

Asset Composition by % of Total Assets

Core Driver: Filling Seats or Beds

- School
- Theater
- Residential Social Services
EXERCISE: Three Sectors, Similar Core Drivers

Asset Composition by % of Total Assets

Core Driver: Deploying People

- Workforce Development
- Health
- Dance Company

- Cash
- Receivables
- Property & equipment
- Investments
EXERCISE: Different Asset Composition = Different Priorities

Asset Composition by % of Total Assets

- **Cash**
- **Receivables**
- **Property & equipment**
- **Investments**
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

Revenue Without Restrictions

Earned

Contributed

Net Assets Without Restrictions

Net Assets With Restrictions

Expenses

Ice: Receivables

Bottle: Board Designated Reserve

Bricks: Property & Equipment
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**

<table>
<thead>
<tr>
<th>Assets</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>88,552</td>
<td>53,671</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>7,027</td>
<td>7,629</td>
</tr>
<tr>
<td>Grants and pledges receivable</td>
<td>22,856</td>
<td>48,845</td>
</tr>
<tr>
<td>Inventory</td>
<td>103,735</td>
<td>103,843</td>
</tr>
<tr>
<td>Property &amp; equipment, net</td>
<td>646,041</td>
<td>655,041</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>868,211</strong></td>
<td><strong>869,229</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Line of credit</td>
<td>60,000</td>
<td>58,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>86,854</td>
<td>106,795</td>
</tr>
<tr>
<td>Mortgage payable</td>
<td>391,009</td>
<td>403,152</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>537,863</strong></td>
<td><strong>567,947</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Without restrictions</td>
<td>251,847</td>
<td>232,703</td>
</tr>
<tr>
<td>With restrictions</td>
<td>78,501</td>
<td>68,580</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>330,348</strong></td>
<td><strong>301,282</strong></td>
</tr>
</tbody>
</table>

| Total Liabilities & Net Assets  | 868,211| 869,229|
### Liquidity and Availability for ABC

#### Average Monthly Expenses (FY18)
- Operating Expenses / 12 Months = Average Monthly Expenses
  - Operating Expenses: $731,790
  - 12 Months: 12
  - Average Monthly Expenses: $60,982

#### Months of Cash
- Total Cash / Average Monthly Expenses = 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 - Net P&E - P&E Debt = Total Available Net Assets
  - Total Unrestricted Net Assets: $251,847
  - Net P&E: $646,041
  - P&E Debt: $391,009
  - Total Available Net Assets: $255,032
- Total Available Net Assets / Average Monthly Expenses = Months of Available Net Assets
  - Total Available Net Assets: ($3,185)
  - Average Monthly Expenses: $60,982
  - Months of Available Net Assets: (0.1)

#### Months of ANA
- Total ANA / Average Monthly Expenses = Months of ANA
  - Total ANA: ($3,185)
  - Average Monthly Expenses: $60,982
  - Months of ANA: (0.1)
While the “right” amount of liquidity for an organization depends, below is it might “feel like” at different levels:

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Expenses</strong></td>
<td>Operating, non-operating, and unfunded expenses</td>
</tr>
<tr>
<td><strong>Working Capital</strong></td>
<td>Access to cash for day-to-day needs</td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td>Savings, a “rainy day” fund</td>
</tr>
<tr>
<td><strong>Debt Principal Repayment</strong></td>
<td>Mortgage, line of credit, etc.</td>
</tr>
<tr>
<td><strong>Fixed Asset Additions</strong></td>
<td>Money to purchase a new building or computers</td>
</tr>
<tr>
<td><strong>Change Capital</strong></td>
<td>Resources to adapt, grow, and/or expand</td>
</tr>
</tbody>
</table>

*Always needed by all organizations*

*Sometimes needed by some organizations*
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

May 11, 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.
Thank You!

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