

Linking Money to Mission: Assessing Nonprofit Financial Health



Presented to:



YOUTH CALIFORNIA

Presented by:

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Nonprofit Finance Fund

January 23, 2024

This presentation generously made possible by Sierra Health Foundation.

Let's Build a More Just and Vibrant Society

About Nonprofit Finance Fund

With over 40 years of lending, consulting, community engagement, and advocacy expertise, Nonprofit Finance Fund (NFF) is a nonprofit and community development financial institution (CDFI) deeply committed to social justice.

We help mission-driven organizations achieve their communities' aspirations through:

- Financing
- Consulting
- Partnership and knowledge-sharing

We are guided by our Core Values →



Today's Goals



Learn the **'rules'** of **nonprofit finance** and some limitations to nonprofit financial health



Learn the basics of **assessing the financial condition** of nonprofit organizations



Know **what** to look for and **why** it is important

Warm Up:

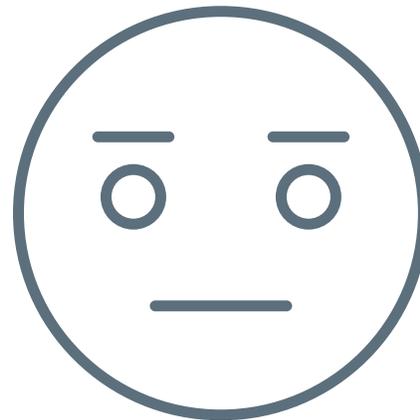
How are you feeling?



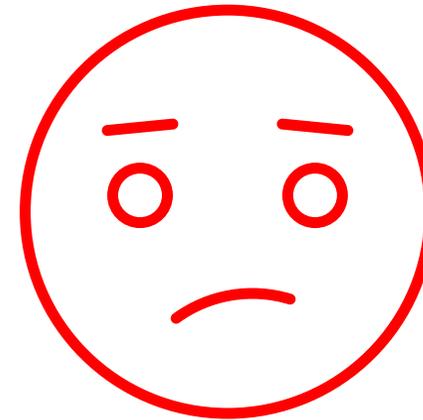
A:
Excited



B:
Good



C:
Neutral



D:
Upset



E:
Dizzy

Warm Up: Somatic

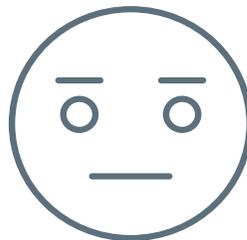
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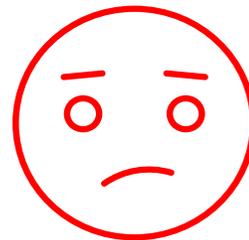
A:
Excited



B:
Good



C:
Neutral



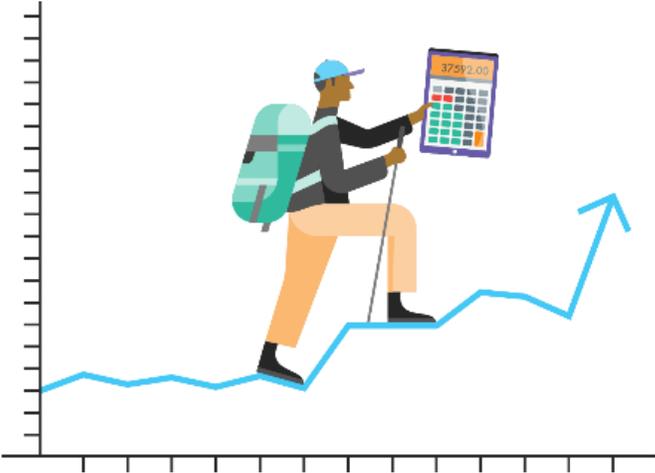
D:
Upset



E:
Dizzy

Warm Up: Somatic

How are you feeling?



BUDGET



A:
Excited



B:
Good



C:
Neutral



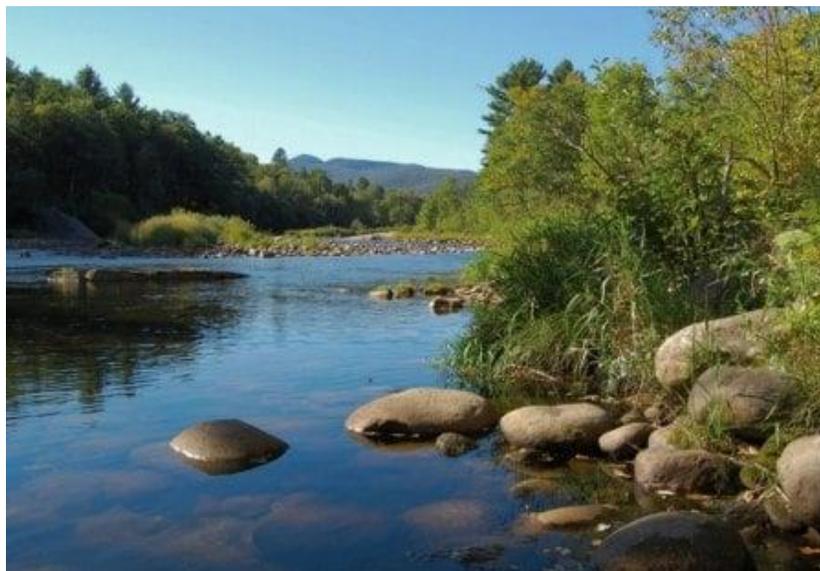
D:
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E:
Dizzy

Warm Up: Somatic

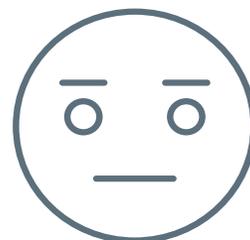
How are you feeling?



A:
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B:
Good



C:
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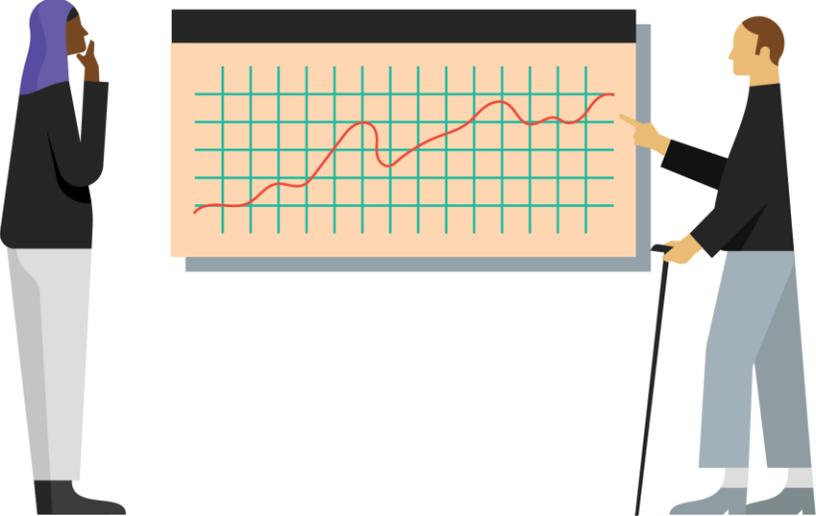
D:
Upset



E:
Dizzy

Warm Up: Somatic

How are you feeling?



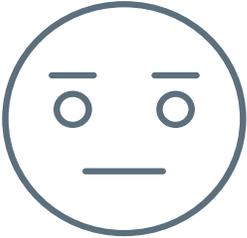
PROFITS



A:
Excited



B:
Good



C:
Neutral



D:
Upset



E:
Dizzy

Warm Up: Somatic

How are you feeling?

The image shows a screenshot of an Excel spreadsheet titled "Example 2 - Excel". The spreadsheet contains a grid of data with columns labeled "Site 1" through "Site 2" and rows labeled with months from "January '19" to "December '21". The data cells contain numerical values. The Excel interface includes the ribbon with tabs for Home, Insert, Page Layout, Formulas, Data, Review, and View. The Home tab is active, showing options for Font, Paragraph, Styles, and Editing. The status bar at the bottom indicates "Average: 47196.00000", "Count: 57", and "Sum: 2771452".



A:
Excited



B:
Good



C:
Neutral



D:
Upset



E:
Dizzy

Warm Up: Somatic

How are you feeling?



REPORTS



A:
Excited



B:
Good



C:
Neutral



D:
Upset



E:
Dizzy

Warm Up: Somatic

How are you feeling?



A:
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B:
Good



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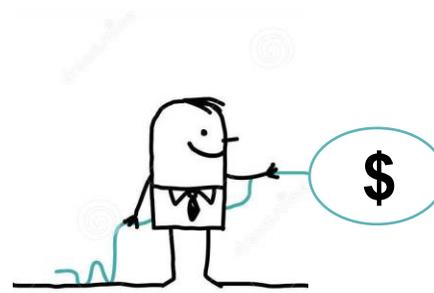


E:
Dizzy

“Rules” of For-Profit Finance

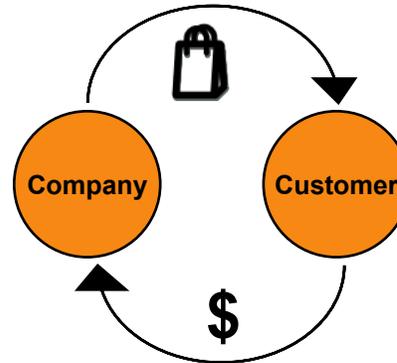
Management in control of pricing

- Management decides both what to charge and how the money is spent



Single-payor system

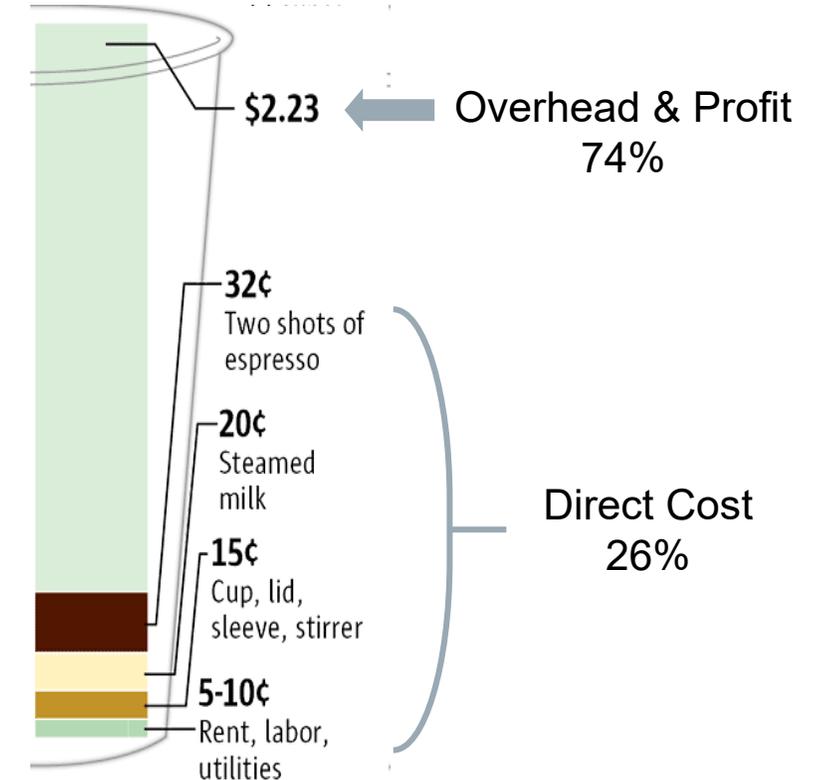
- Customer buys the product



Overhead and profit are expected

- Profits are included in the price
- Seen as **necessary and regular** part of the business

12-Ounce Coffee = \$3.00



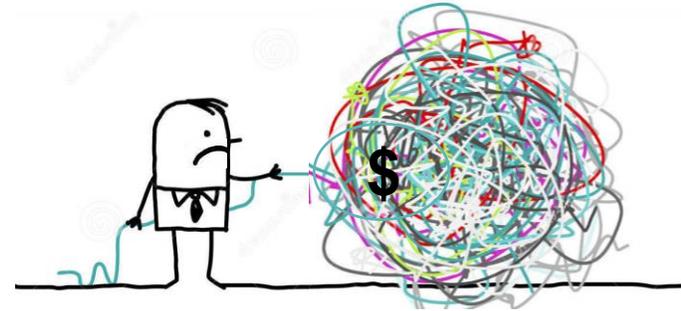
A. RAYMOND/THE SEATTLE TIMES

Source: 2008, Matt Milletto, VP of the American Barista & Coffee School

“Rules” of Nonprofit Finance

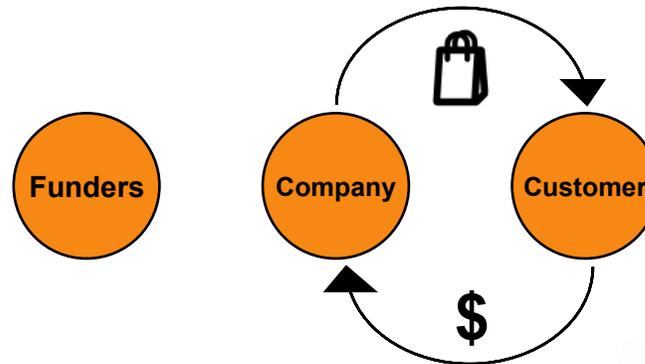
Insufficient and Restricted Funding

- Donations must go to ‘direct services’...
- ...and not to ‘overhead’
- Restrictions complicate finances!



Multi-payor system

- Client often does not pay
- Third parties pay via **subsidies**



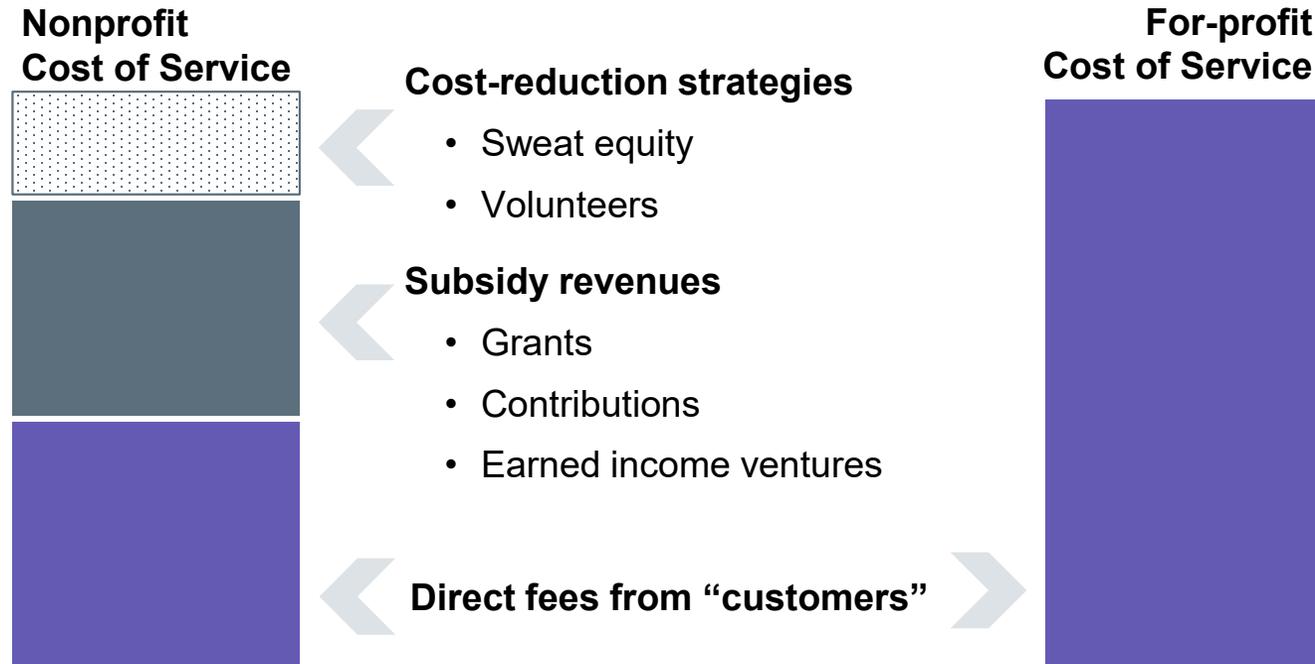
Money-losing business

- We fill social needs with low/no commercial returns (we pick the hardest work!)
- Profits/surpluses are seen as unnecessary and immoral



Nonprofit Business Model Dynamics

Nonprofits must run two businesses: Mission & Subsidy

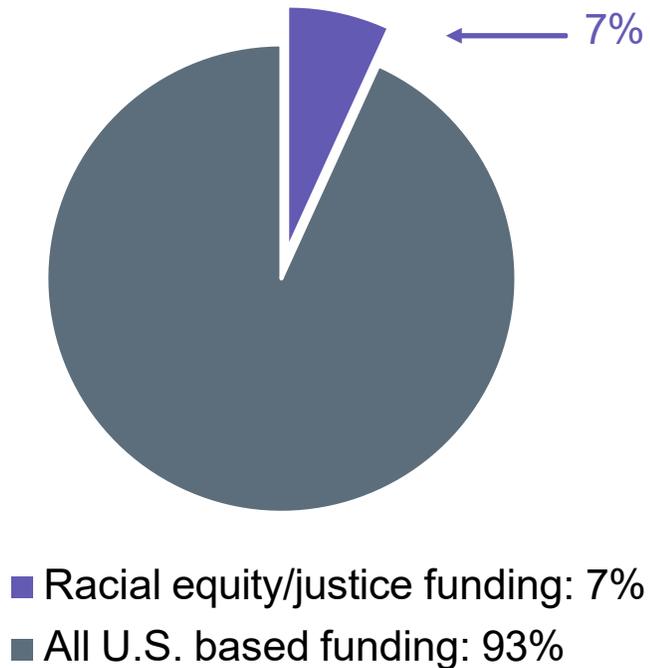


- Subsidy businesses take their own set of capacities to run
- When program growth or change occurs, subsidies must grow in proportion
- Cost reduction strategies can have serious consequences for the mission

Racial Inequity in the Nonprofit Sector

Who controls the money flows in this sector? Who benefits?

\$101 billion U.S. Grants, 2018



<https://racialequity.org>

Percentage of Funding Devoted to Top Subject Areas, 2015-2018

Subject Area	All Foundation Funding	Racial Equity Funding	Racial Justice Funding
Education	30.6%	41.4%	18.2%
Health	23.2%	10.3%	15.6%
Human Rights	13.1%	16.3%	57.1%
Community/ Economic Development	8.4%	20.5%	24.7%
Human Services	4.5%	18.3%	13.0%

Note: Percentages add up to more than 100 percent as the Candid taxonomy allows grants to be coded with more than one subject area.

These harmful myths in the nonprofit sector make our work harder

FALSE! True or False: Serving your community = No profits allowed

- Truth: Surpluses are necessary!
- Tax Status vs. Business Practice



FALSE! True or False: The 'Overhead Ratio' measures an organization's value

- Truth: The **outcomes** an organization achieves measures its value
- Overhead measures investment into the business model



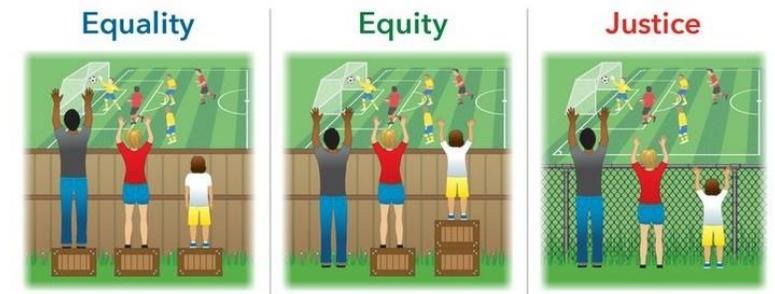
FALSE! True or False: Nonprofits can be self-sufficient

- Truth: Nonprofits always need 3rd party payors
- Mission vs subsidy revenue



FALSE! True or False: We're all on a level playing field

- Truth: Social and racial inequities exist throughout the nonprofit sector
- Equity can't be achieved without constant action



Discussion: Operating in the Nonprofit Context

- What about the “rules” of nonprofit finance resonates?
- Where have you encountered these dynamics in your work?
- What strategies, tools, and/or resources have helped you navigate through or challenge these inequitable dynamics?

Assessing Financial Capital: Understanding the Business Model

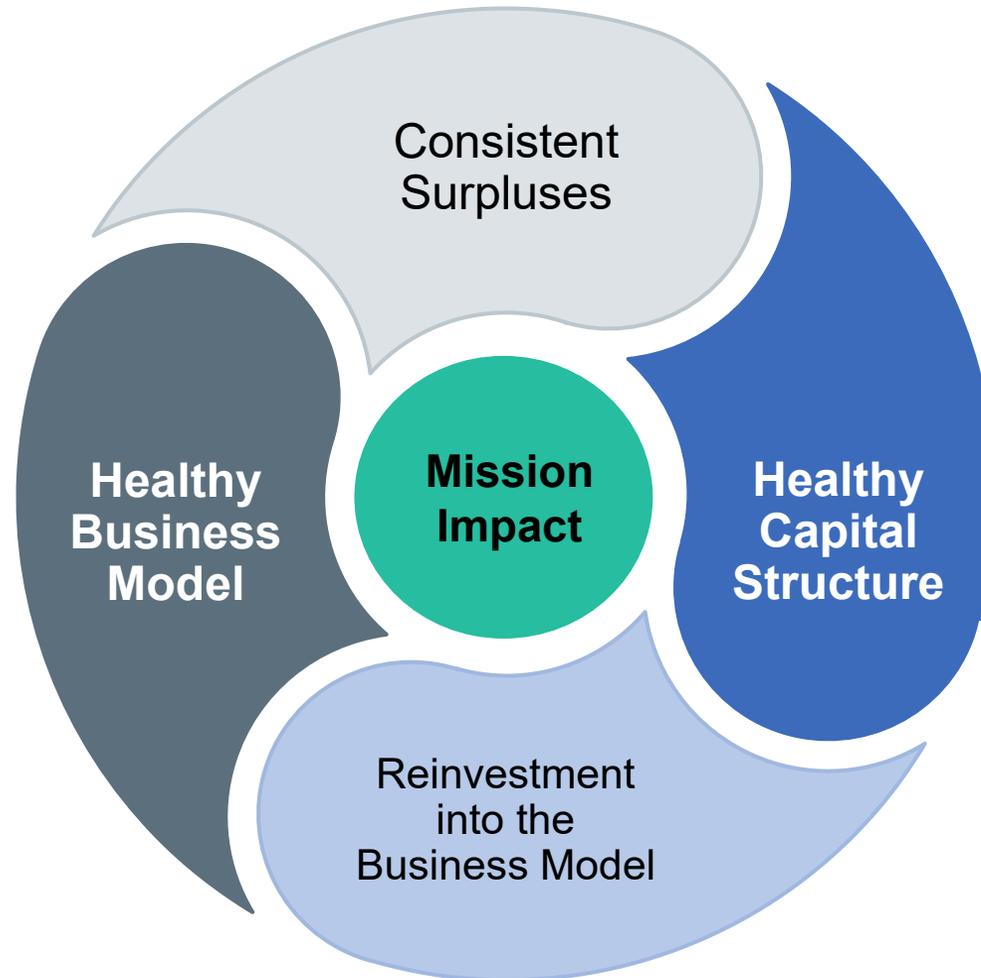


Two Interconnected Components of Comprehensive Financial Health

Business Model

How an organization makes and spends money to serve its mission

*It is annual **operations** reflected on the **income statement***



Capital Structure

The nature, size, and distribution of assets, liabilities, and net assets

*It is **a point in time** reflected on the **balance sheet***

Understanding the Business Model

Income Statement

Operating Revenue

Earned

Contributed

Operating Expenses

Personnel

Contractors & Professional Fees

Occupancy

Support expenses

Operating Surplus / Deficit



Revenue Dynamics

- Where does your money come from?
- How many revenue streams do you need?



Expense Dynamics

- How do you spend your money?
- Do your expenses reflect how you achieve the mission?

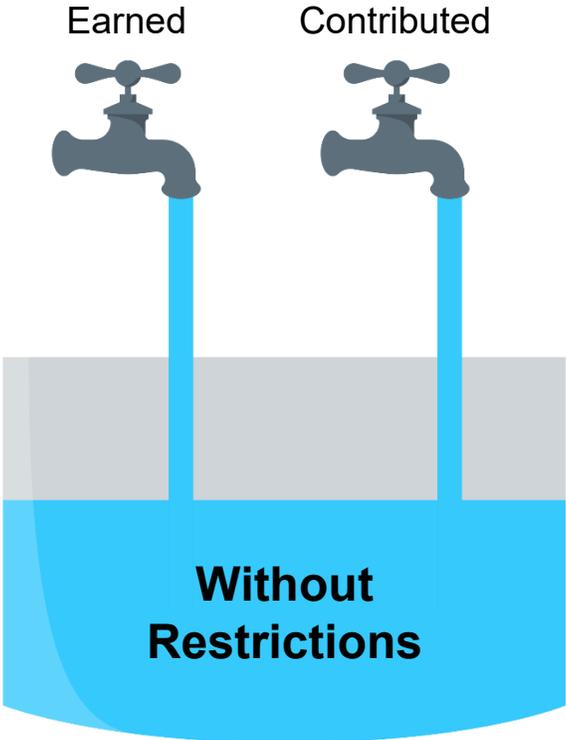


Profitability & Savings

- Are costs covered?
- Do you have enough left over to build savings?

Revenue Flows into Two Buckets

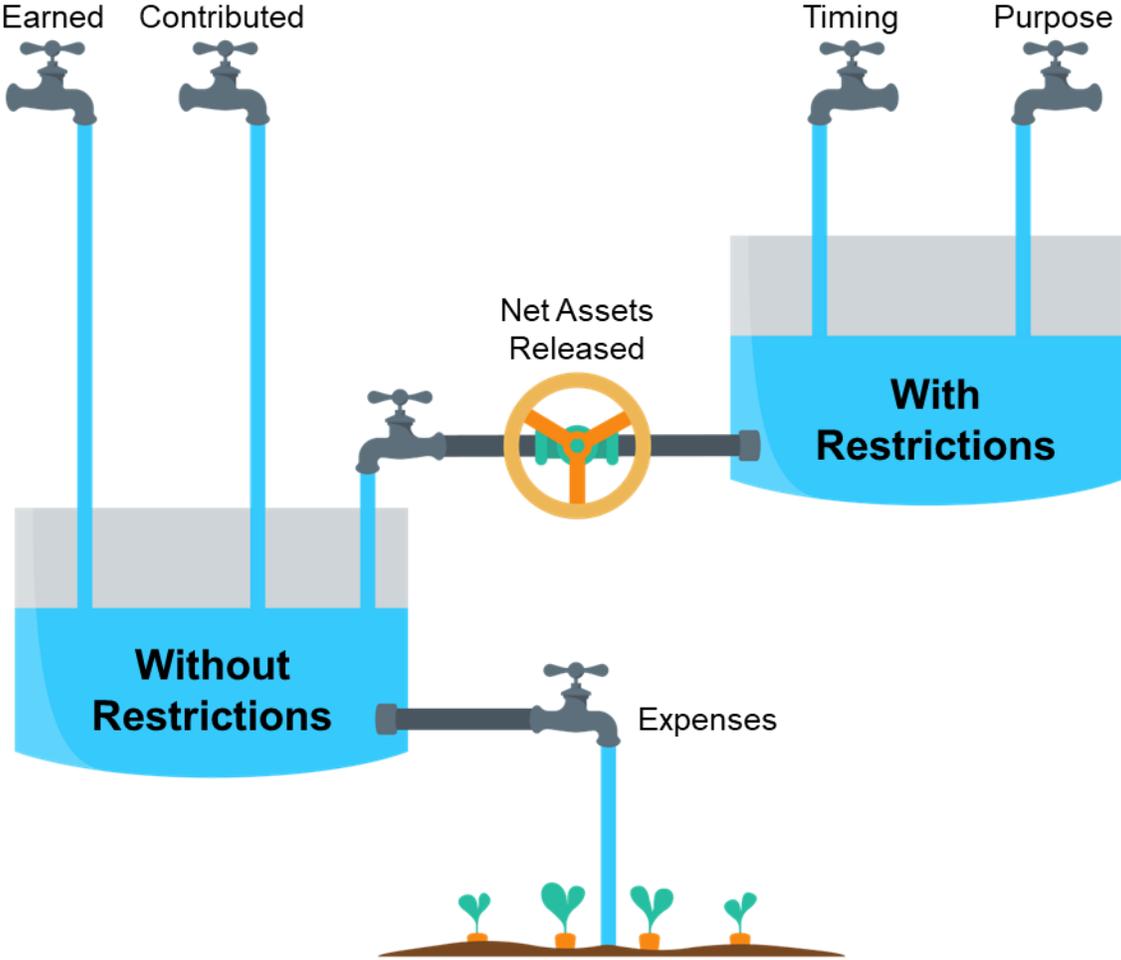
Revenue Without Restrictions



Revenue With Restrictions



Revenue Flows into Two Buckets



Operating vs. Non-Operating Activity

Business Model

Operating Revenue

Earned

Contributed

Operating Expenses

Personnel

Contractors & Professional Fees

Occupancy

Support expenses

Operating Surplus / Deficit

Non-operating section

Restricted revenue

Non-operating expenses

Total Change in Net Assets

Operating activity = all program, administrative, and general activities needed to keep the doors open and programs delivering on mission

Operating revenues: funds available for use in operations w/in a year

- Grants without restrictions, program income
- Restricted grants received in prior years now released for use this year

Operating expenses: expenses for operations

- Staff, occupancy (rent or mortgage), program supplies, consultants, etc.

Operating activities reflect true financial performance.

Non-operating activity: irregular, episodic in nature

- Capital campaign contributions (ex: campaign to buy a new piano)
- One-time, irreplaceable large gifts or bequests
- Gains (losses) on investment sales (sale of a building)

Non-operating dollars can obscure the picture of true operating performance

Takeaways: Business Model Assessment

Key questions for assessing the business model:

How do they make money?

How do they spend money?

What is the bottom line: Are they living within their means?

Focus on:

Revenue Without Restrictions

Operating Performance

Performance over time

Remember that breaking even is never enough

Nonprofits need surpluses to reinvest in the business!

Assessing Financial Capital: Understanding the Capital Structure

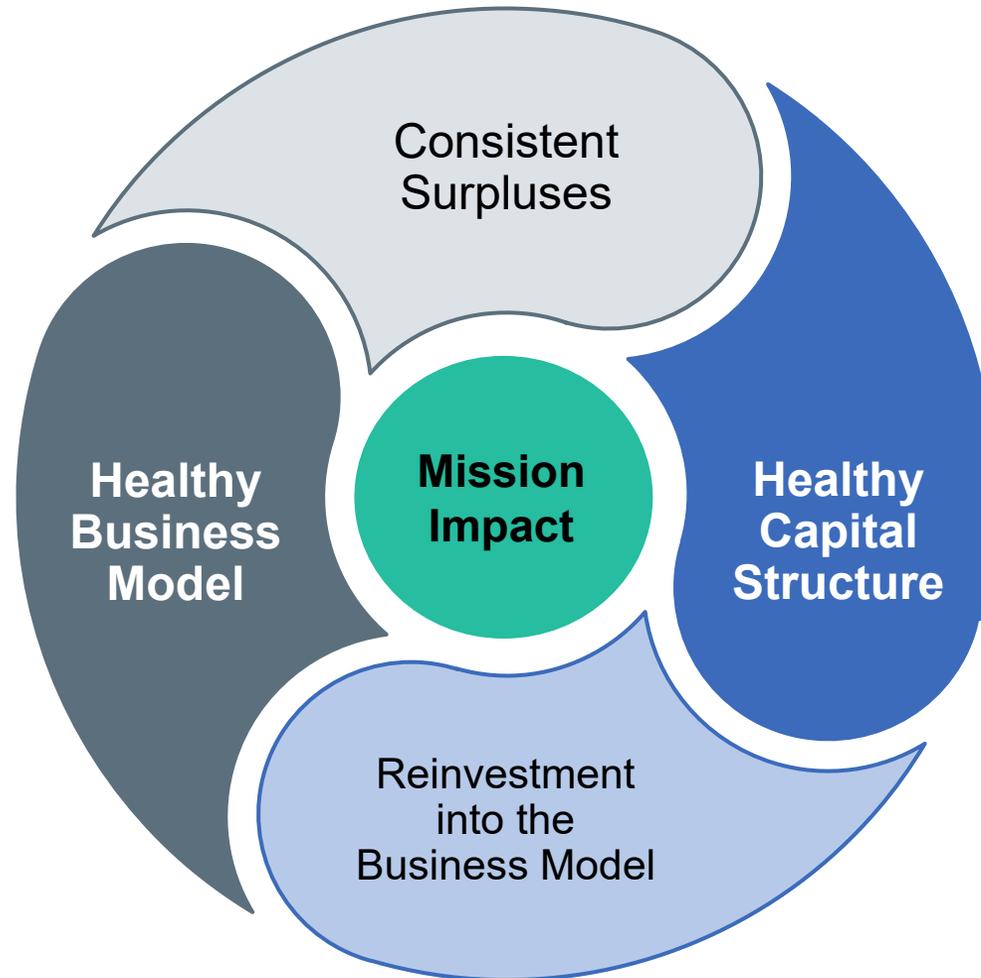


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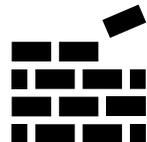
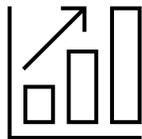
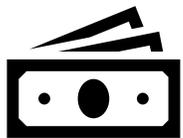
*It is **a point in time** reflected on the **balance sheet***

Understanding the Capital Structure: What is Owned & Owed?



Assets – what you own

- Cash
- Receivables
- Investments
- Property and Equipment (P&E)



Liabilities – what you owe

- Payables
- Line of Credit, Debt
- Deferred Revenues

Net Assets – what you own outright

- Net Assets With Restrictions
 - Purpose or Timing
 - Endowment
- Net Assets Without Restrictions
 - Reserves
 - Board designations

Why the Balance Sheet Matters: Measuring Financial Adaptability & Risk Capacity

Cash: Measuring Liquidity

Indicates ability to cover short term obligations and day-to-day expenses

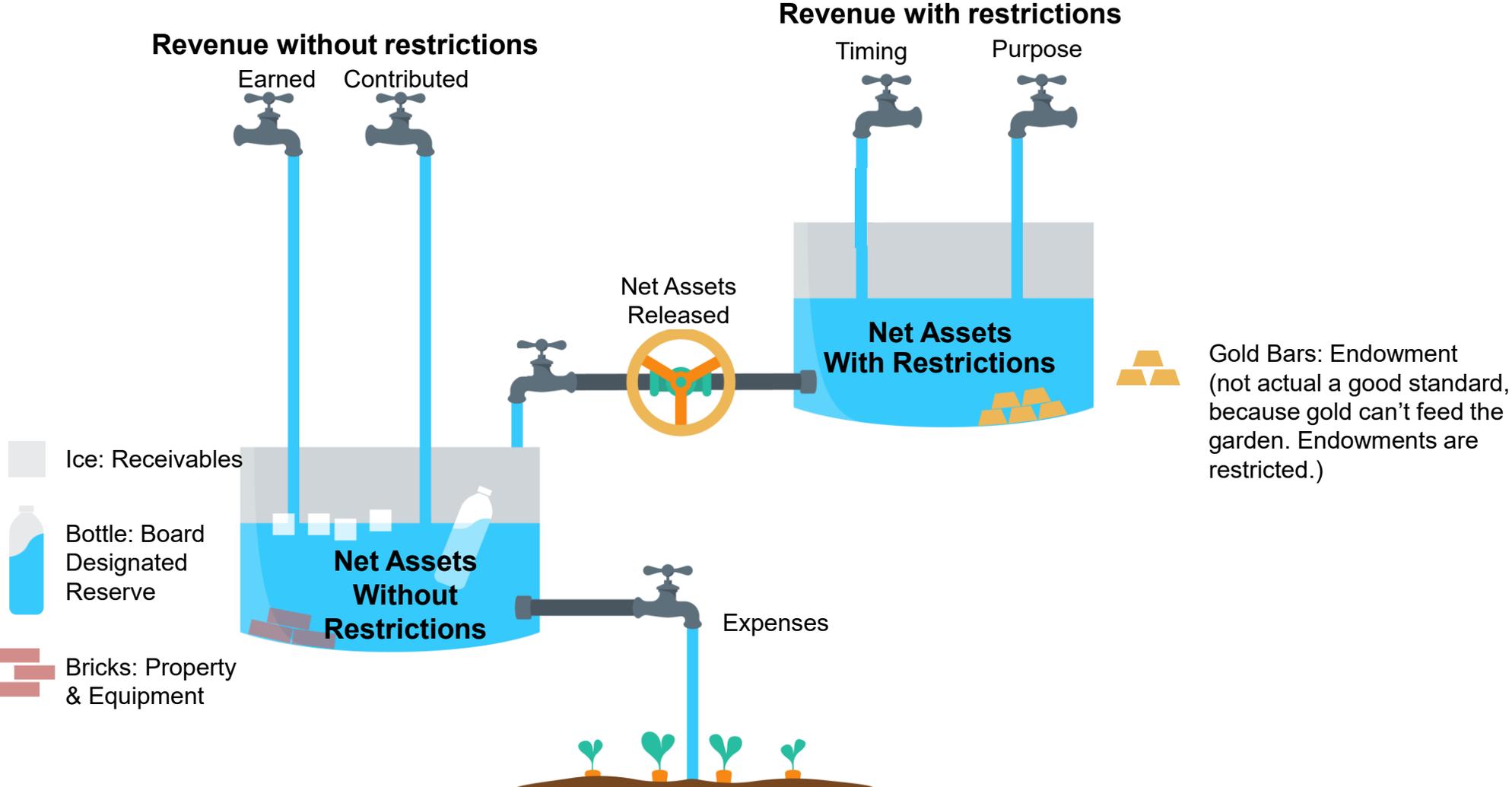
$$\text{Months of Cash} = \frac{\text{Total Cash}}{\text{One month of expenses}}$$

Available Net Assets (ANA): Measuring Available Resources

Indicates true safety net; ability to mitigate risk and pursue opportunities

$$\text{Months of Available Net Assets (ANA)} = \frac{\text{Total Net Assets Without Restrictions} - \text{P\&E equity}}{\text{One month of expenses}}$$

Supporting sustainability means building flexible net assets



Comprehensive Financial Health

Business Model and Capital Structure

Business Model		Capital Structure
How an organization makes and spends money in service of its mission	Definition	The nature, distribution, and magnitude of balance sheet items
The income statement	Reflected On	The balance sheet
Do you have the revenue to meet and exceed expenses?	Guiding Question	Do you have enough of the right types of resources to accomplish your strategy?
Consistent surpluses; impactful programs	Measures of Success	Consistent and innovative programs; can reinvest in business model

Core Concepts and Messages

Nonprofits need profits to reinvest in the organization

- “Nonprofit” = a tax status, not a business model
- Nonprofits must be both **adaptable** (able to meet changing needs) and **stable** (able to do what was promised this year and the next)
- What is the bottom line: Are they living within their means?

A central element of mission success is a **healthy business model** that generates **sufficient surpluses** to **cover the full cost** of producing **positive outcomes** for the community

A **healthy capital structure** with **sufficient available and liquid resources** helps an organization adapt, reinvest in its business, manage risks, and take advantage of opportunities

Understanding the **systemic and structural challenges of the sector** helps nonprofits tell their financial story and advocate their needs

Thank You!

nff.org

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