

Financial Planning – Part 1

Presented to:



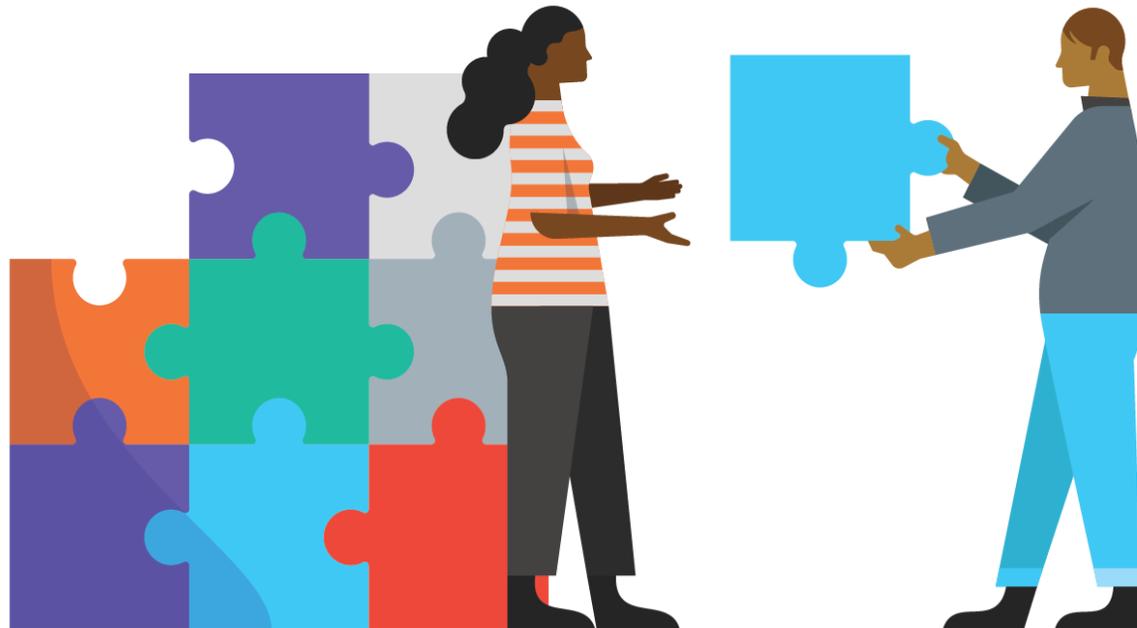
YOUTH CALIFORNIA

Presented by:

Emma Calvert
Mariesa Kubasek
Sarah Stricklin

Nonprofit Finance Fund

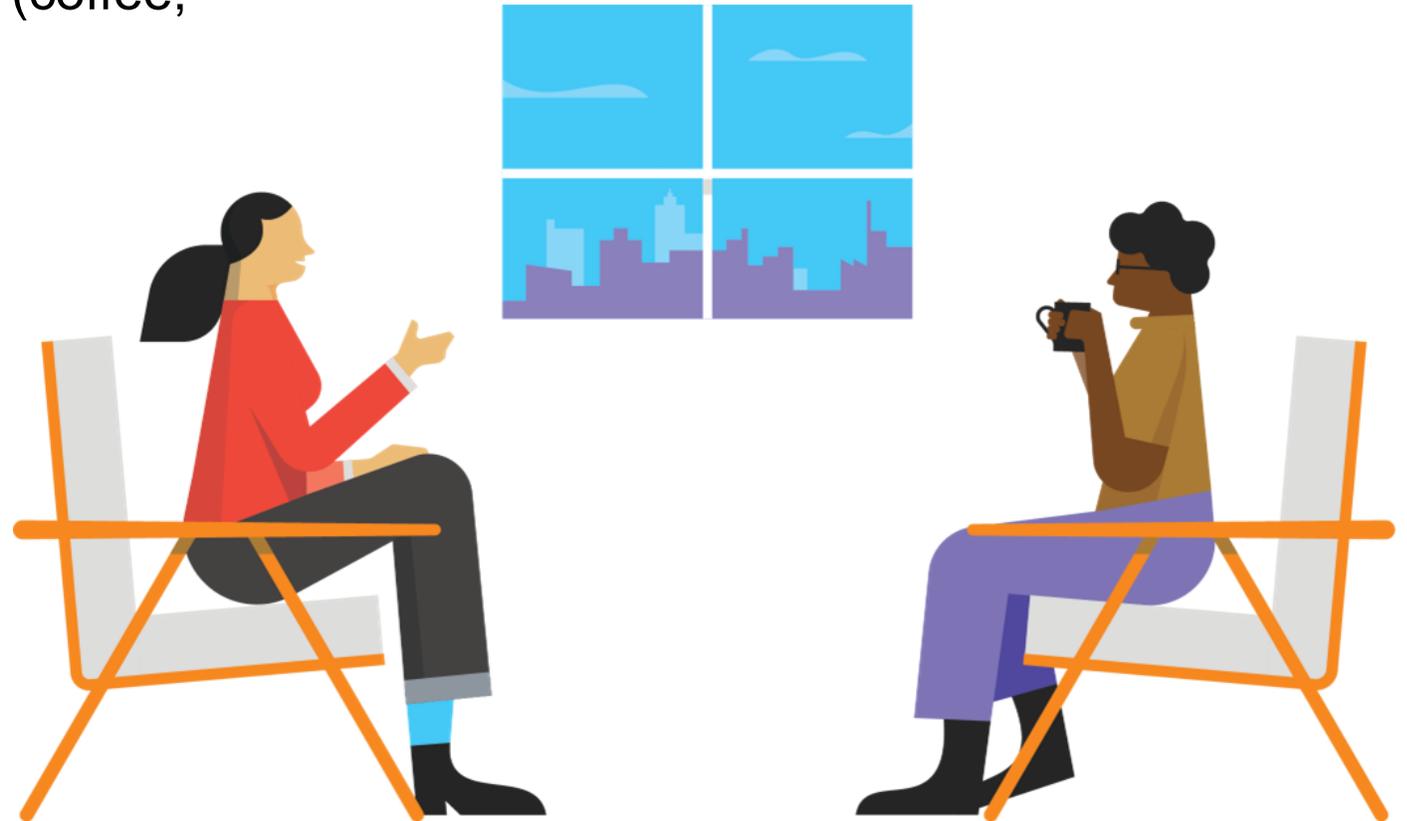
February 20, 2024



This presentation generously made possible by Sierra Health Foundation.

Introductions & Warm-up:

- Name and pronouns
- Organization
- What is your go-to morning beverage (coffee, tea, juice)?



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.

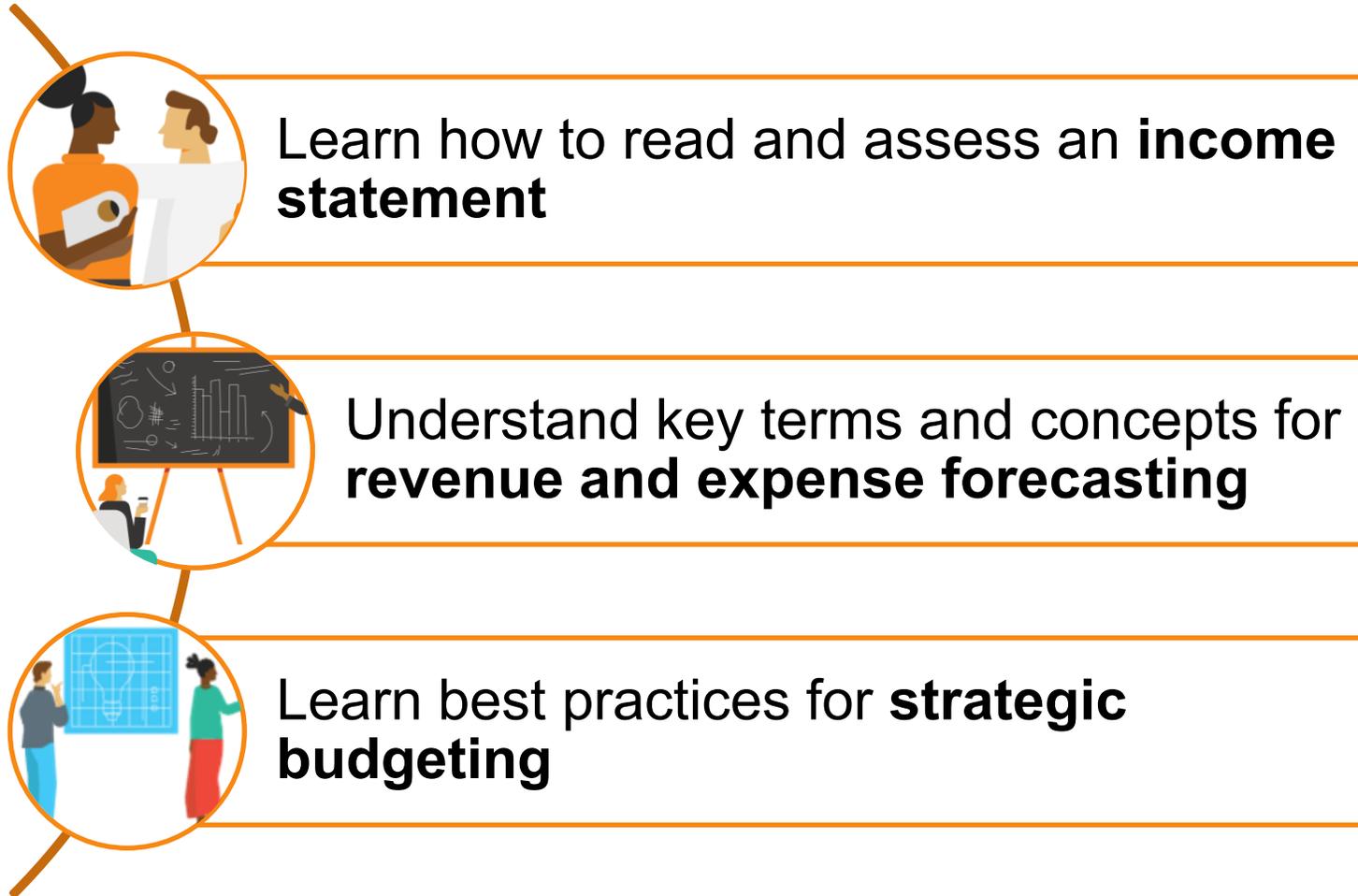
We help mission-driven organizations achieve their communities' aspirations through:

- Financing
- Consulting
- Partnership and knowledge-sharing

We are guided by our Core Values →



Today's Goals



Financial Reports Overview

Mandatory for Most

IRS Form 990

Public document

Shows **financial activity, assets and liabilities**, and governance details of the nonprofit (Profit & Loss and Balance Sheet)

Mandatory For Many

Audits

Audits required for budgets over a certain size

Third party presentation of financial activities and resources

Reviews or compilations optional for smaller orgs

Helpful Management Tools for All

Internal Financial Statements

Budgets

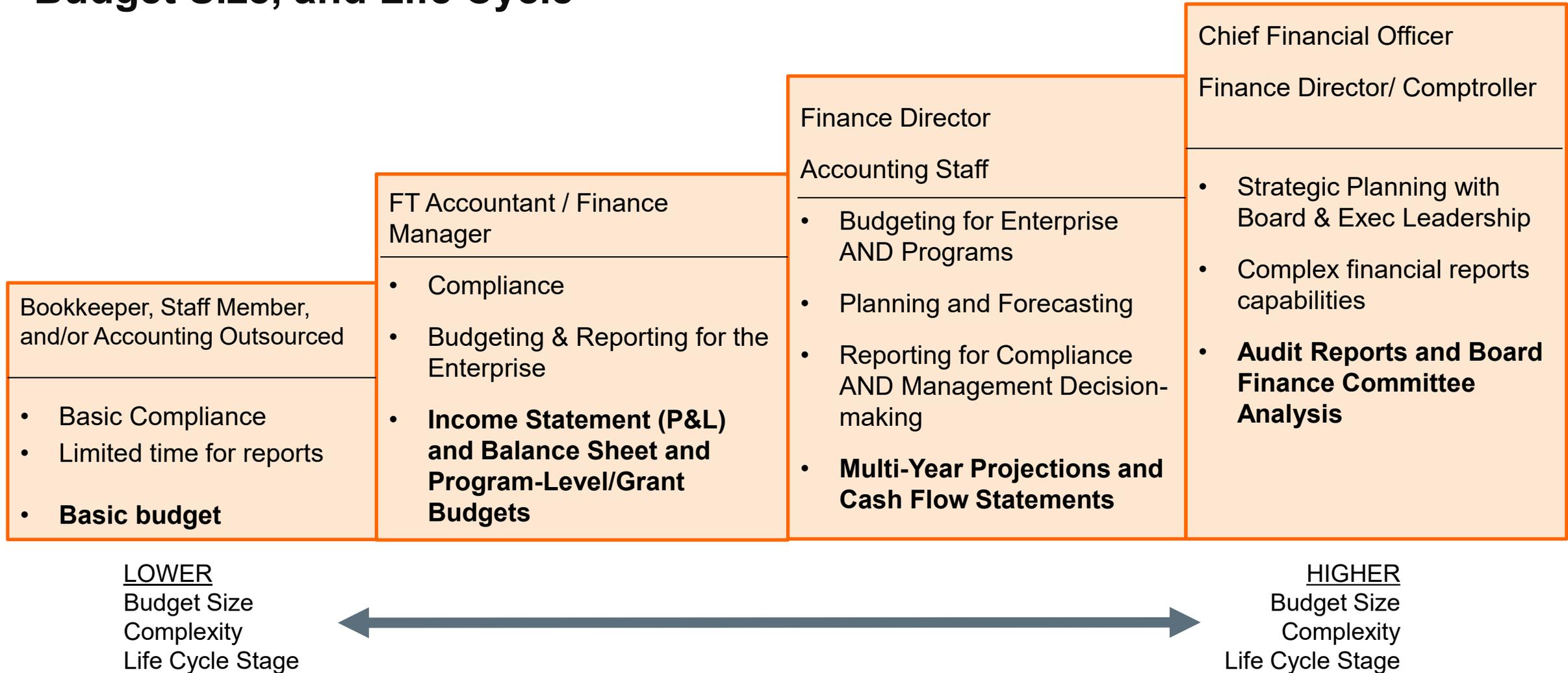
- Organizational
- Programmatic
- Budget vs. Actual

Profit & Loss

Balance Sheet

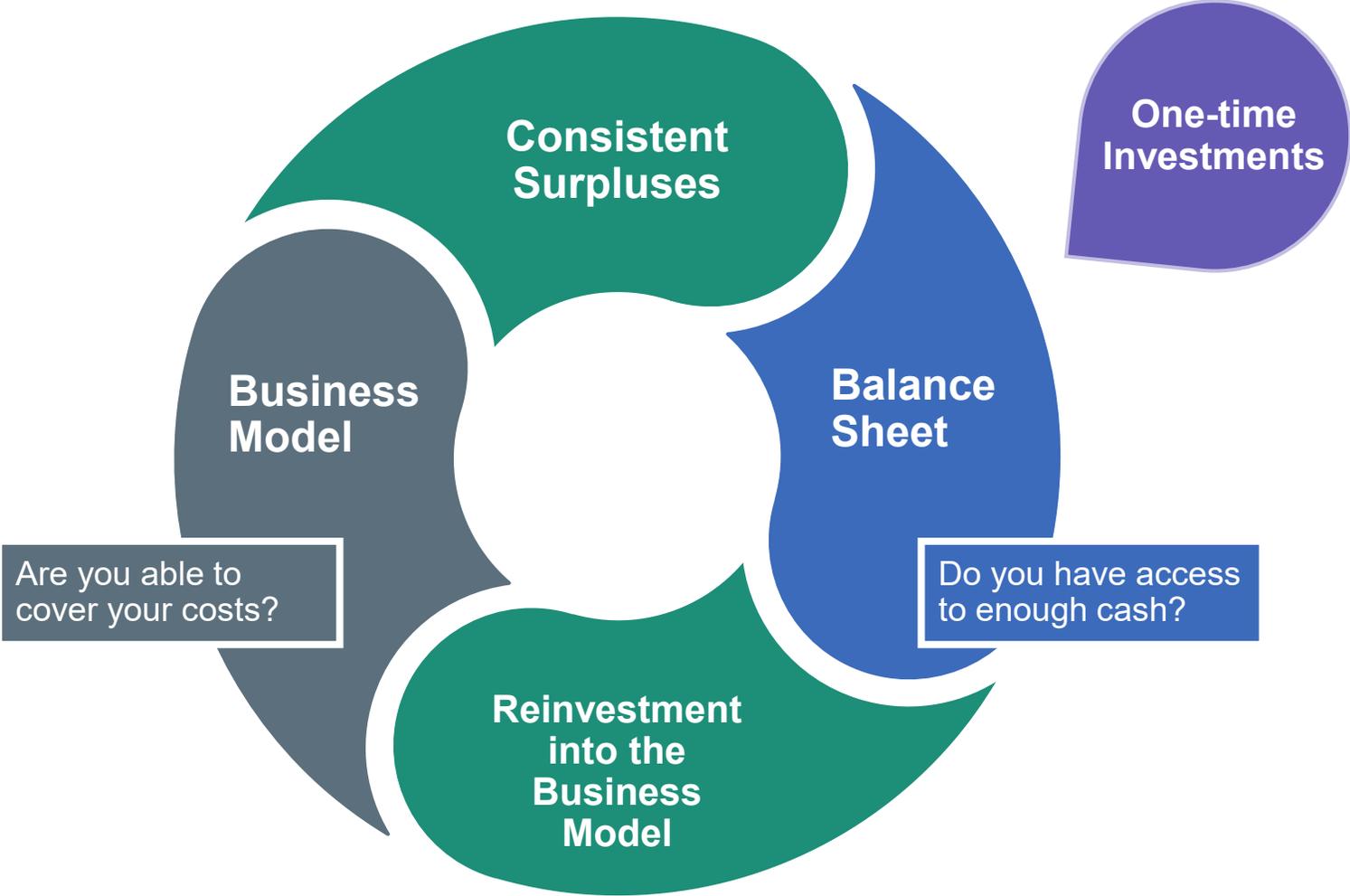
Monthly cash flow projections

Financial Capacity Varies Based on Funding Complexity, Budget Size, and Life Cycle



Note: These are intended to illustrate the spectrum of finance capacity and should not be used as a benchmark.

Surpluses Support Mission Success



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?

How Does your Organization Make Money?

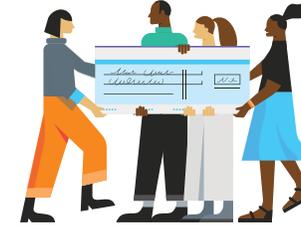
Earned Income



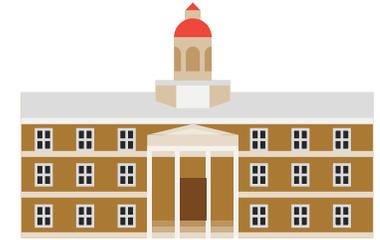
Individual Contributions



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?

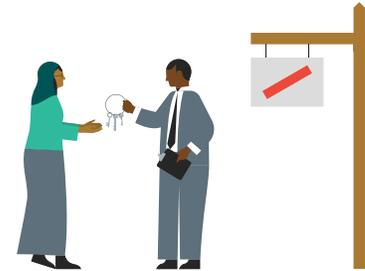
Personnel



Professional Fees



Occupancy



Support



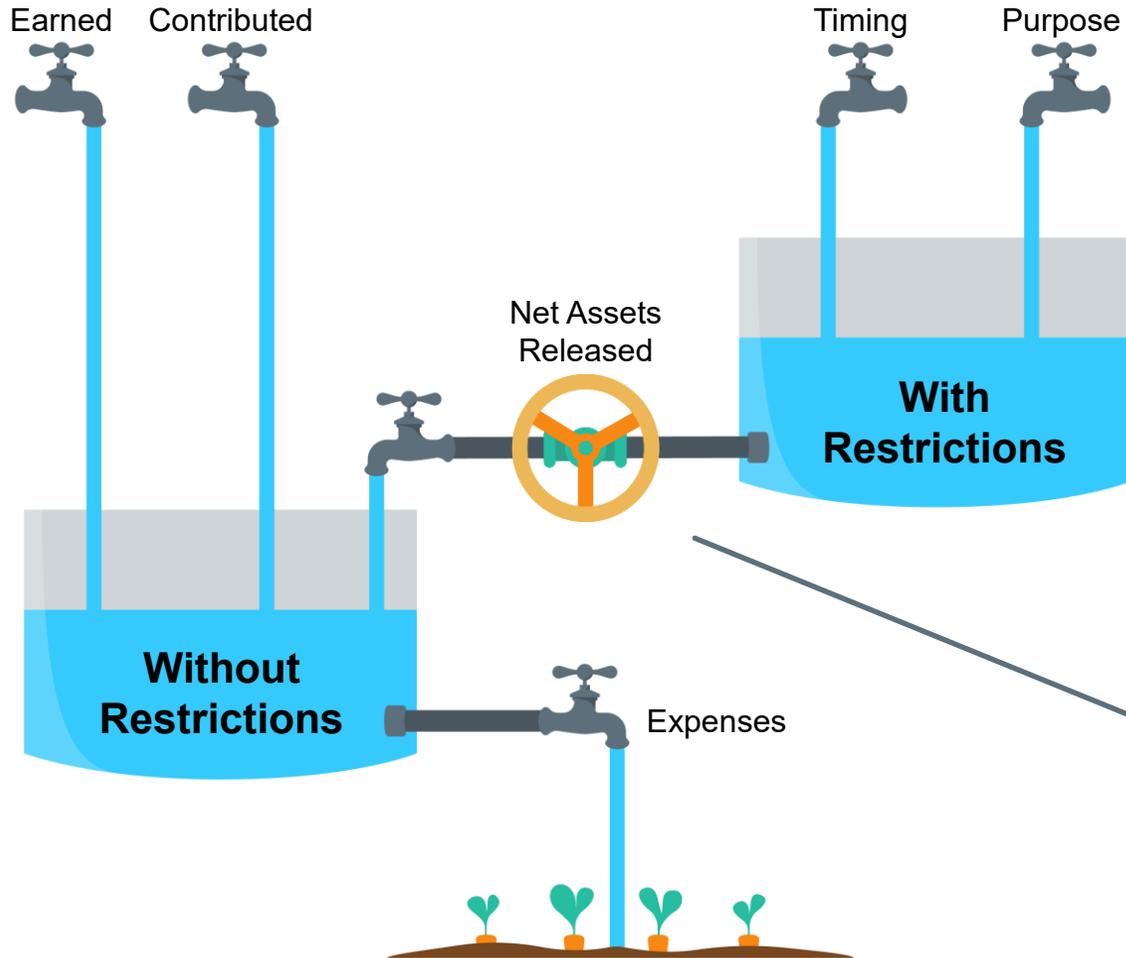
Leaders should understand what financials “levers” they can pull to manage their expenses within the context of their mission and values

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

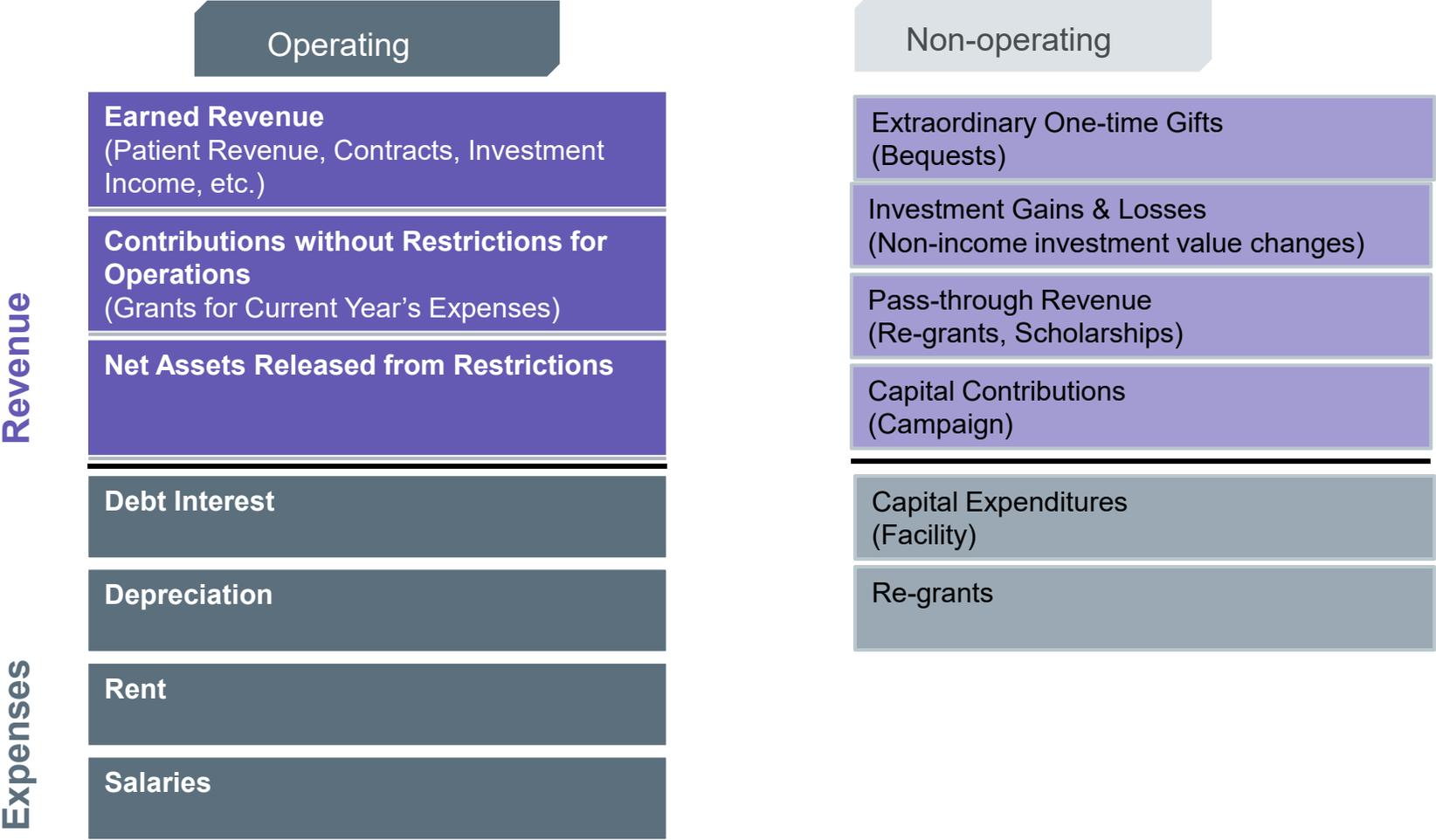
Cutting Through the Complexity!

ABC Organization Statement of Activities

	2024			2023
	Without Restrictions	With Restrictions	Total	Total
Revenue and Support				
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)	--	--
Total revenue and support	\$ 874,679	\$ 100,011	\$ 974,690	\$ 911,876
Expenses				
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
Total expenses	\$ 914,690		\$ 914,690	\$ 889,695
Multiple bottom lines > Surplus / (Deficit)	\$ (40,011)	\$ 100,011	\$ 60,000	\$ 22,181

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

	2024			2023
	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
Non-Operating Revenue				
PPP Loan Forgiveness	50,000		50,000	
Local Covid Response Funding	100,000		100,000	
Non-Operating Expense				
One Time Equipment Purchases	10,679		50,000	
Increase / (decrease) in net assets	\$ 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?

Different Types of Budgets



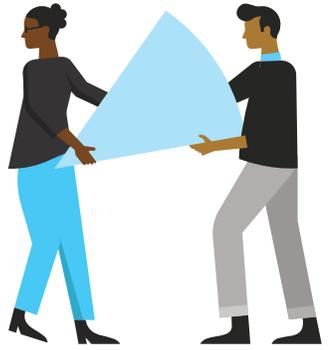
What Informs My Strategic Budget?



Prior year's outcomes



Program and management staff input



Funding and expenses already committed

Overview of the Budget Process



Determining Expenses and Healthy Wishful Thinking

Always start with what you can control

- **Fixed:** do not change based on activity level (e.g., mortgage or rent on year-round facility)
- **Variable:** increase or decrease based on activity level (e.g., office supplies)

In Your Control
Fixed

Subscriptions
Memberships
IT costs (controlled
w/provider choice
and/or negotiation)

Out of Your Control
Fixed

Rent or mortgage
Insurance
Taxes
Interest

In Your Control
Variable

Salaries
Marketing costs
Fundraising costs

Out of Your Control
Variable

Utilities
Supply costs
Meals + Travel

Wish list items may eventually fall in several of these categories, but they start as things you control.

Overview of the Budget Process



Being Realistic and Informed about Funding

1. Start by making list of all possible funding sources.

2. Assess the likelihood of each possible source.

Revenue Potential Questions

How **aligned** are we with what this funder funds?

What types of things have they funded in the **past**?

What do we know about the **amounts** they have granted to others in the past?

What is our **relationship** with them?

3. Rank revenue according to probability.

Probability Levels

90-100%
secured/committed

75-89%
historically reliable/high probability

50-74%
moderate/somewhat likely

25-49%
in design phase or discussion

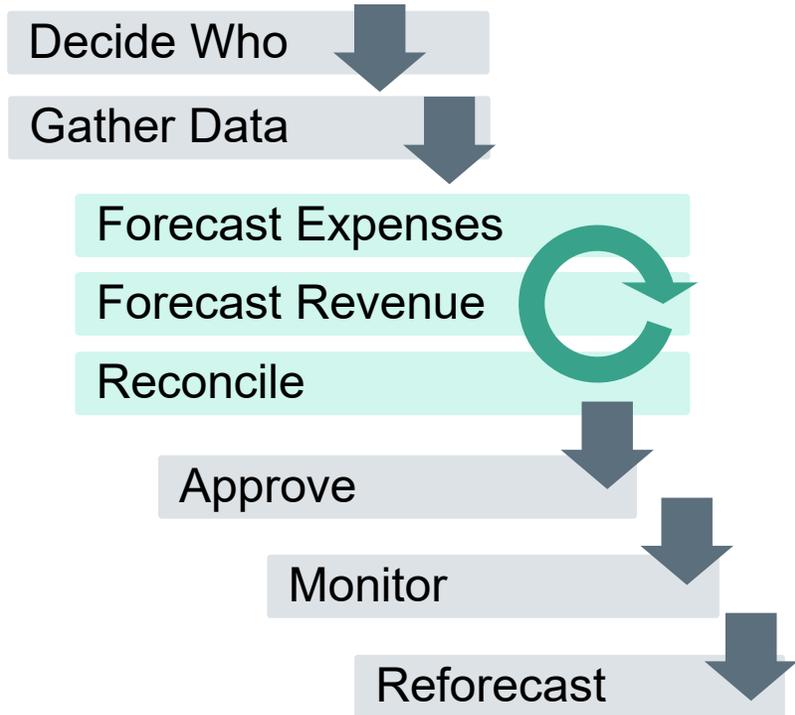
<25%
speculative/new relationship or prospect

Discounting Revenue

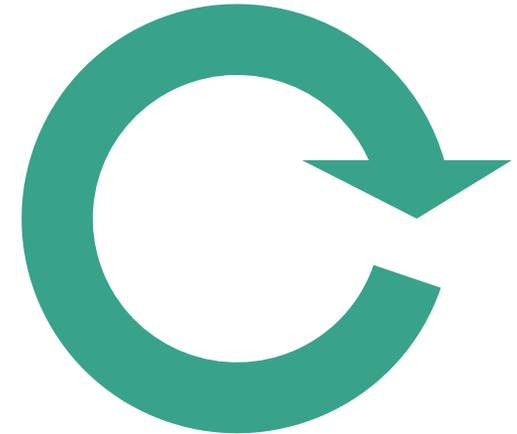
Source	Status	Probability	Grant Amount	Budgeted Discount
Reliable Foundation	Strong alignment, has been reliable in the past, no major concerns	90%	\$20,000	\$18,000
Sometimes Major Donor	Strong alignment, has supported on and off, interested in renewing, hasn't given a timeline	60%	\$1,000	\$600
New Corporation	Engaged, in the learning process, final scope TBD	25%	\$5,000	\$1,250
Governmental	Grants drafted	20%	\$25,000	\$5,000
Prospects	Researching and contacting potential donors	10%	\$5,000	\$500
		TOTAL	\$56,000	\$19,850

Matching Revenue & Expenses

How do you reconcile expense dreams with revenue realities?



- Prioritize expenses and opportunities
 - Wish lists can get long, reality makes those lists short again
- Consider risk
- There will trade-offs



Limitations of Planning for the Future



Limitation

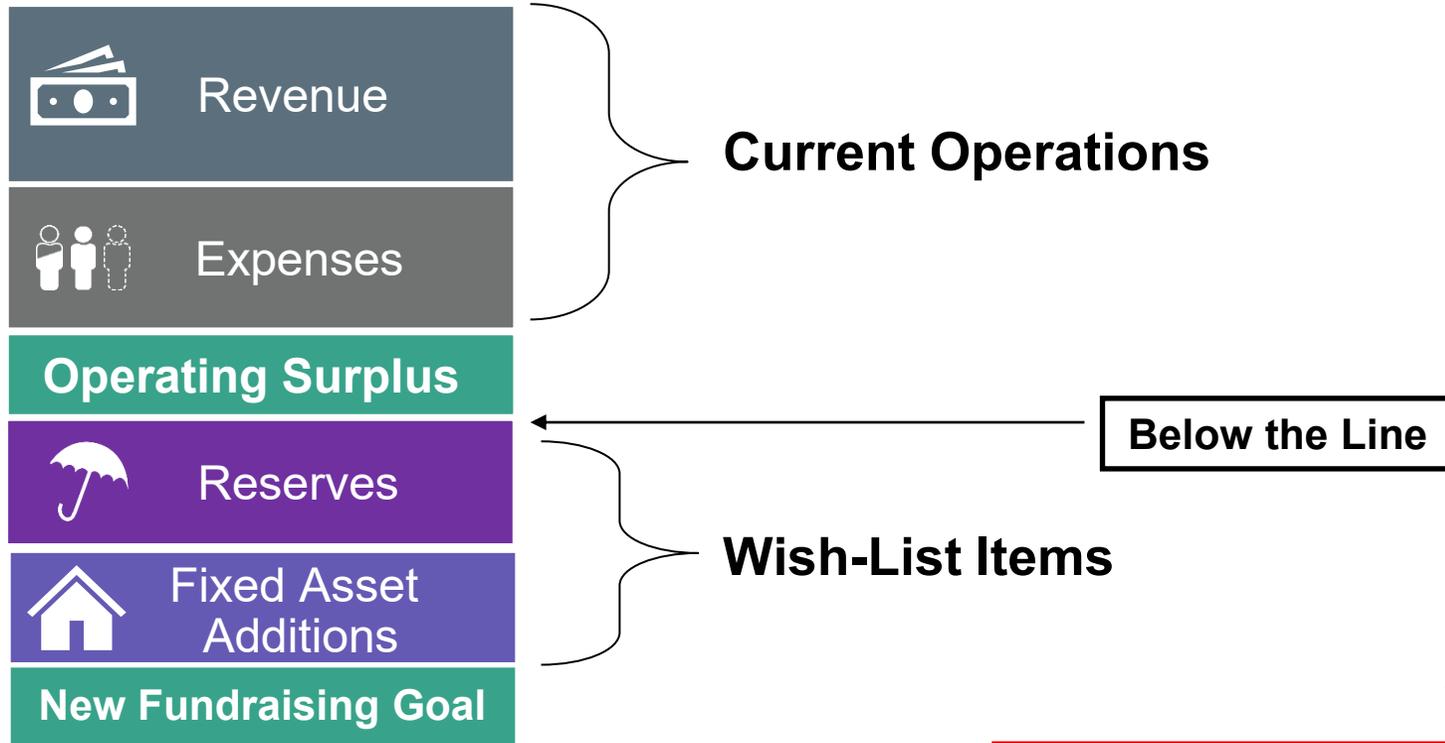
- We don't have perfect information and can't see the future.
- Impossible to be exhaustive.

Response

- Use a system and estimate based on the best information available at the time.
- Make **COPIOUS** notes on your decisions and assumptions.
- Don't let the perfect be the enemy of the good; fill your budget with SWAG (**sophisticated wild-ass guesses**).



Budgeting to Achieve Future Goals (Making Wishes Come True)



Nonprofits can **(should!)** budget for a **surplus** to meet future goals and cover unfunded expenses:

- Build an operating reserve to handle rainy days
- Pay for expansion, exploration, or development
- Other goals, wishes, and dreams

Thank You!

nff.org

Emma Calvert

ecalvert@nff.org

Mariesa Kubasek

mkubasek@nff.org

Sarah Stricklin

sstricklin@nff.org



Appendix

What is the IRS Form 990 and Type of Form Based on Revenue?

What is a 990?

- IRS Form 990 is an informational tax form that most tax-exempt organizations must file annually
- The form gives the IRS an overview of the organization's
 - Mission
 - Activities and programs
 - Governance
 - Financial information

Type of Form Based on Revenue

- 990N: Gross receipts normally \leq \$50,000
- 990EZ or 990: Gross receipts $<$ \$200,000, and Total assets $<$ \$500,000
- 990: Gross receipts \geq \$200,000, or Total assets \geq \$500,000

Source: <https://www.irs.gov/charities-non-profits/form-990-series-which-forms-do-exempt-organizations-file-filing-phase-in>

A Strategic Budget Helps Overcome Common Challenges

Common Budget Challenges

- We get bogged down in details and lose sight of the big picture
- We don't have robust or useful budget discussions
- Funders say budget to breakeven
- Some revenue or expense is unusual or unforeseeable
- It all feels too unpredictable; budgeting is like “doing a liquid puzzle”
- We never use it once we finish

How a Good Budget Can Help

- • Uses logical & clear format(s) to focus on what is important for different audiences
- • Timely processes engage the right people at the right times
- • Shows uses (need) for a surplus
- • Separates operating from non-operating activities
- • Captures assumptions, measures risks, uses revenue probabilities
- • Is easily updated and draws connection between plan and progress

Key Considerations in Strategic Budgeting

Build A Budget That...

Reflects your **strategic goals and priorities**

Sets **realistic** expectations

Accounts for **revenue restrictions**

Considers **surpluses** to support longer-term needs

Account for Uncertainty

Know **what it takes** to reach your goals

Discount revenue based on reliability and predictability

Know Your Options

Identify your **fixed** vs. **variable** expenses and recognize what you **control**

Be clear about the **trade-offs** when considering scenarios

Iterate

Communicate to your team and stakeholders about decisions

Update projections when new information comes in

Make **decisions**, when necessary, in response to change

Compare **budget to actuals** regularly