

# Financial Planning – Part 2



**Presented by**

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# 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 →



## What We Will Accomplish Today:



Understand the different components of the balance sheet



Identify how information from the balance sheet can inform organizational budgeting

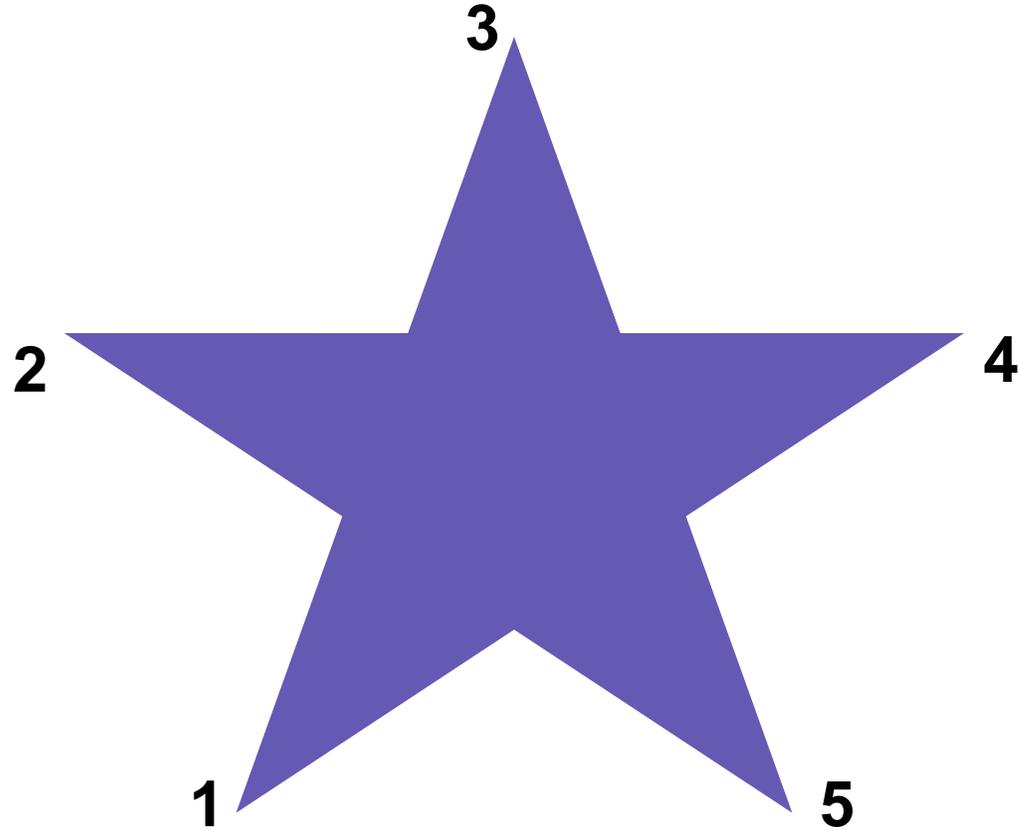


Learn how to calculate and assess an organization's liquidity and availability

# Warm-up

Enter in the chat:

- Name and pronouns
- Organization
- **How would you draw this star?**



# Financial Planning - Part 1 Review

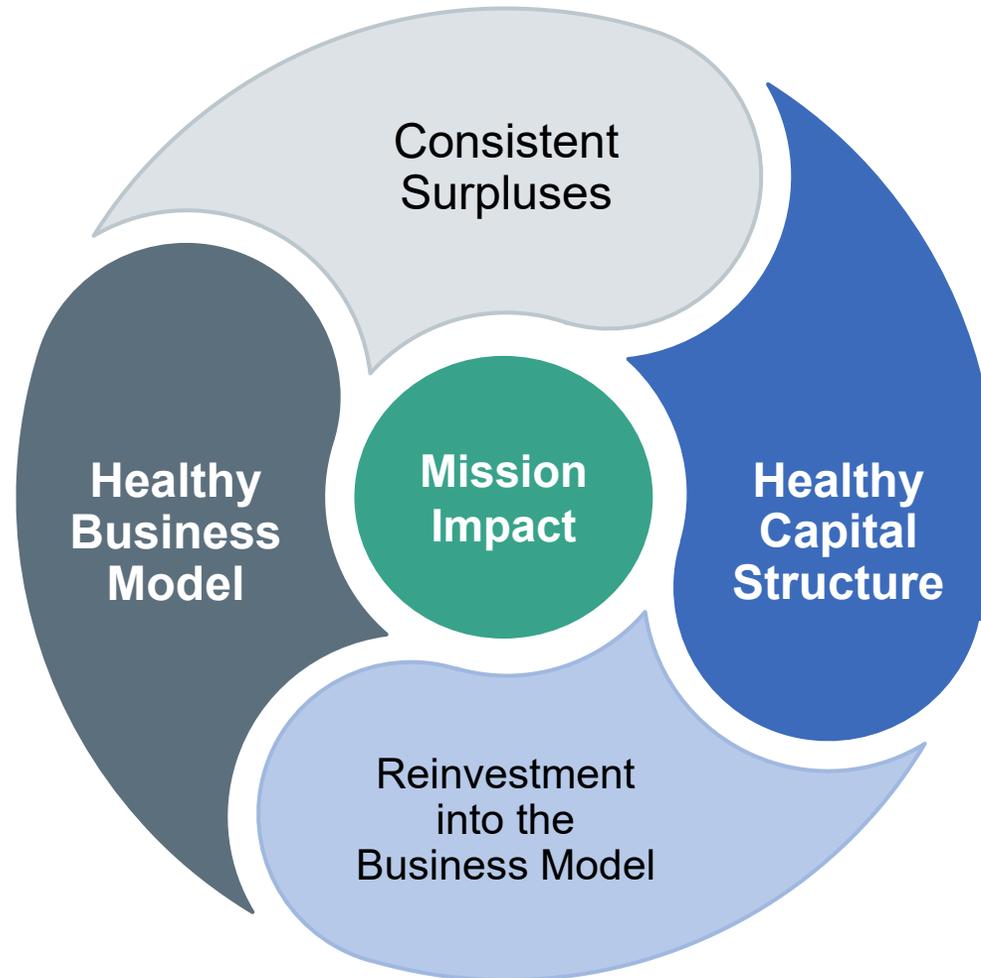


# Two Interconnected Components of Comprehensive Financial Health

## 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***

# Review: How does the Income Statement Reflect Business Model?

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## Income Statement

### Revenue

Earned

Contributed

Private Sources

Government

### Expenses

Personnel

Professional Fees

Occupancy

Support

Interest

### Surplus / Deficit

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#### 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?

# Limitations of Planning for the Future



## Limitation

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

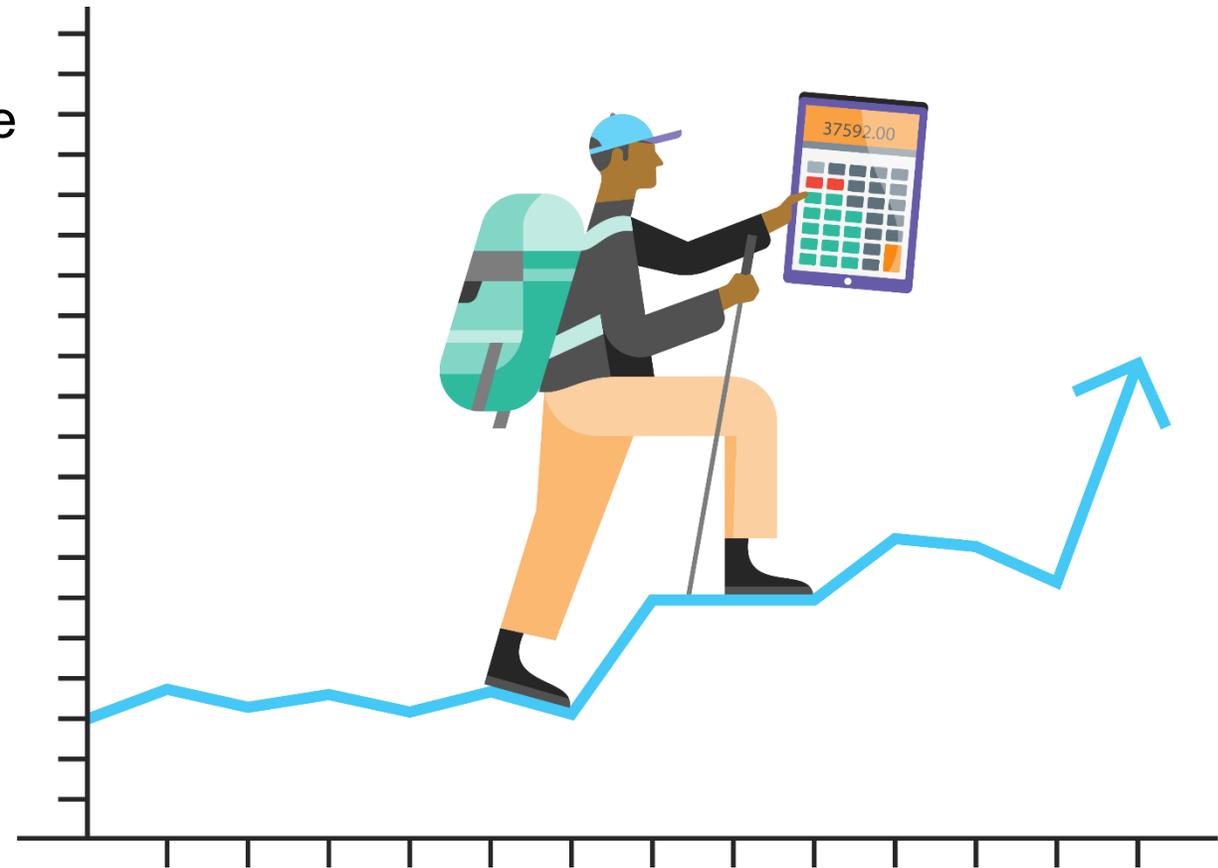
## Response

- 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**).



# Review: Orienting toward True North for the Business Model

- 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 paid fairly and supported in their jobs
- Staff and board don't feel tired and panicked



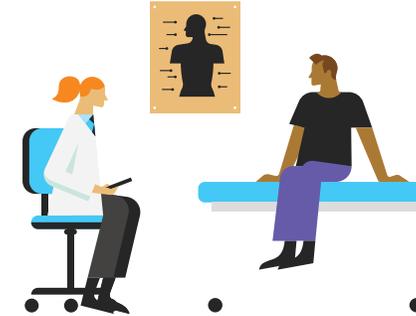
# Capital Structure



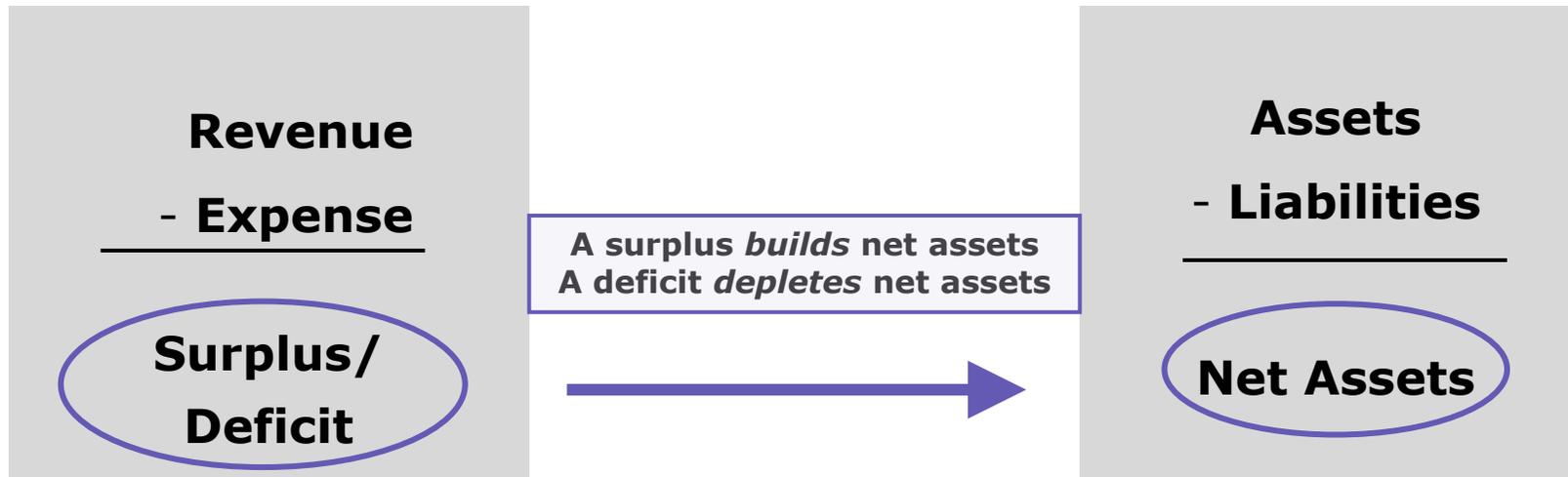
# Business Model and Capital Structure Are Connected



**Business Model**  
**(Income Statement)**  
*Annual results of operations*



**Capital Structure**  
**(Balance Sheet)**  
*Snapshot of overall financial health*



# 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

# Understanding the Capital Structure: What is Owned & Owed?

## Assets – what you own

- Cash
- Receivables
  - Grant award letter received, check is on the way
  - Invoice sent, payment has not yet been received
- Investments
- Property and Equipment (P&E)

## Liabilities – what you owe

- Payables
  - Invoice received but has not yet been paid
- Line of Credit, Debt
- Deferred Revenues
  - Payment received from a client for a transaction that has not yet occurred, or services not yet provided

## Net Assets – what you own outright

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



# Balance Sheet

<b>ABC Organization</b>		
<b>Statement of Financial Position</b>		
	<b>2023</b>	<b>2022</b>
	<b>2022</b>	<b>2021</b>
<b>Assets</b>	<b>Total</b>	<b>Total</b>
Cash and cash equivalents	\$72,150	\$75,325
Accounts receivable	17,027	17,829
Grants and pledges receivable	52,845	68,654
Property & equipment, net	256,041	262,036
<b>Total Assets</b>	<b>\$398,063</b>	<b>\$423,844</b>
<b>Liabilities</b>		
Line of credit	\$60,000	\$58,000
Accounts payable	2,652	8,772
Deferred revenue	5,600	6,240
Mortgage payable	262,750	278,300
<b>Total Liabilities</b>	<b>\$331,002</b>	<b>\$351,312</b>
<b>Net Assets</b>		
Net Assets Without Restrictions	\$4,001	\$8,622
Net Assets With Restrictions	1,365	2,256
<b>Total Net Assets</b>	<b>\$5,366</b>	<b>\$10,878</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$336,368</b>	<b>\$362,190</b>

# Liquidity and Availability



# Liquidity and Availability

## ABC Organization

### Assets

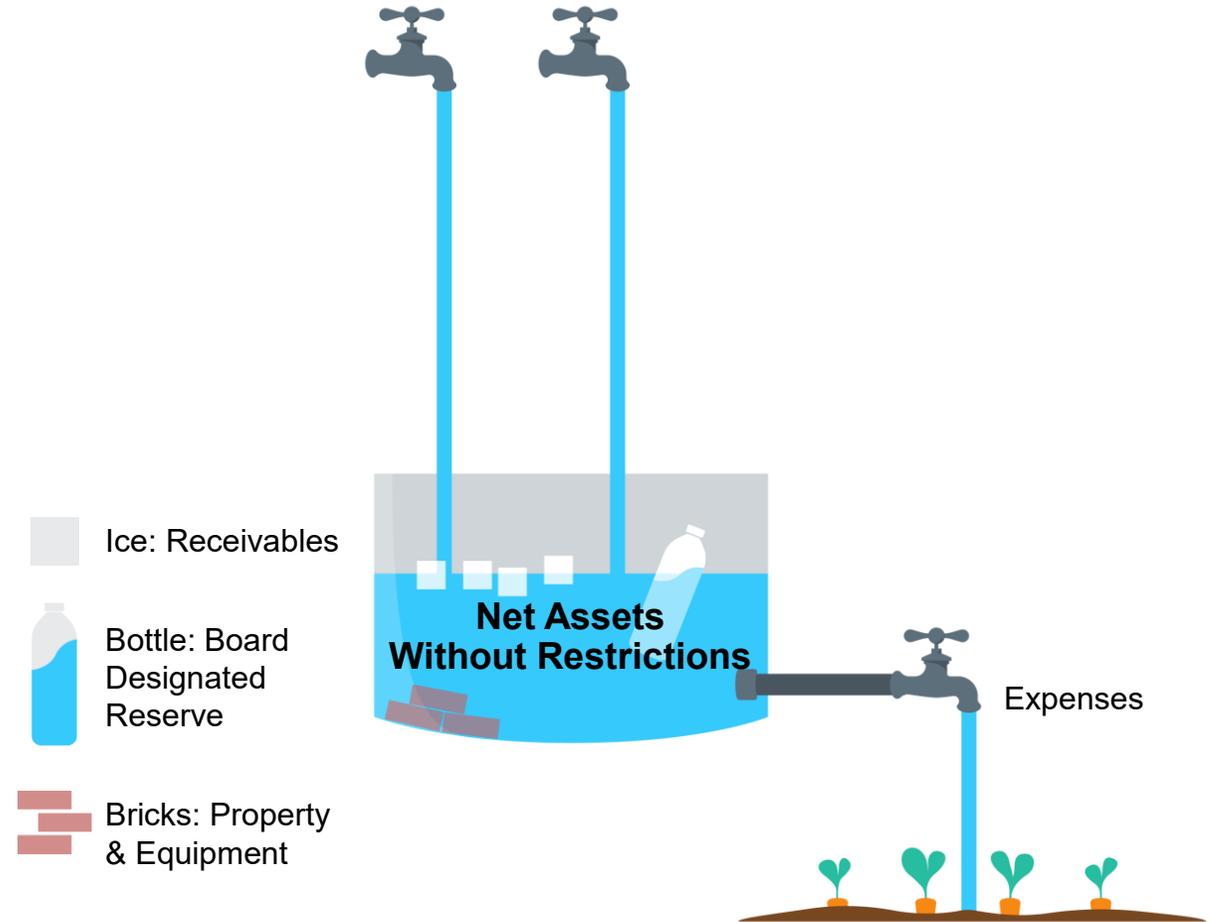
- Cash
- Receivables
- Property and Equipment

### Liabilities

- Line of Credit, Debt
- Payables
- Deferred Revenues

### Net Assets

- Net Assets Without Restrictions
- Net Assets With Restrictions



# 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

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

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## Available Net Assets (ANA): Measuring Available Resources

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

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

# Question: How Much Cash *Should* We Have?

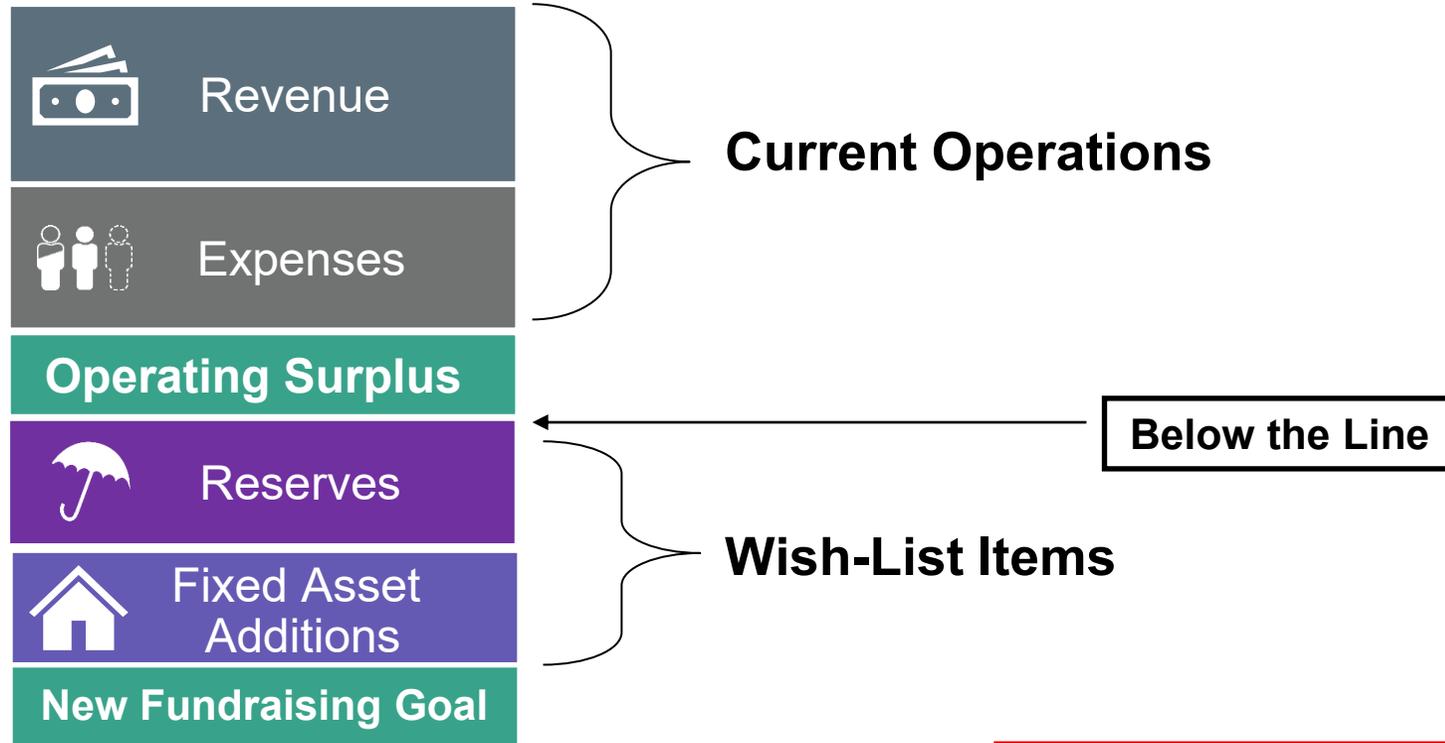
The “right” amount of cash for an organization will depends on cash cycles, but below is how various levels might “feel”:

Months of Expenses	Operating Situation
< 1 month	<b>Cash management is key</b> – Decisions influenced by access to cash, may be delaying paying vendors or even staff, access to lines of credit very helpful, <b>cash flow planning</b> is a crucial tool.
< 3 months	<b>Cash may feel tight at times</b> – May have some periods of low cash, may limit acting on opportunities, lines of credit may be useful at times.
3-6 months	<b>Room to plan</b> – Can do some longer-term thinking, some funds for short-term “rainy days” but building more may support financial security
6+ months	<b>Handles risk</b> – Able to withstand larger financial shocks such as major facility repairs, funding cuts and possibly recessions.

# Budgeting to Build up Balance Sheet Strength



# 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

# Long-Term Planning: Building Balance Sheet Needs into Budget

	<b>Total Expenses</b> Operating, non-operating, and unfunded expenses	Great goals for all organizations
	<b>Working Capital</b> Access to cash for day-to-day needs	
	<b>Reserves</b> Savings, a “rainy day” fund	
	<b>Debt Principal Repayment</b> Mortgage, line of credit, etc.	Further goals for some organizations
	<b>Fixed Asset Additions</b> Money to purchase a new building or computers	
	<b>Change Capital</b> Resources to adapt, grow, and/or expand	

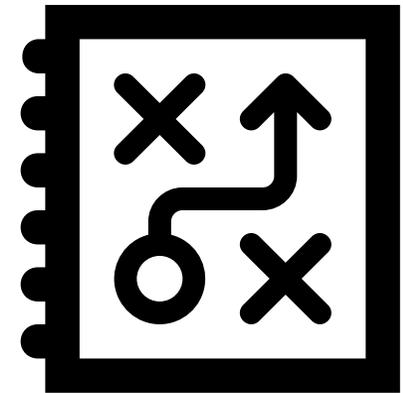
## Why Capital Structure Matters: Financial Capacity

An organization's ability to **managing risk and embrace change** is influenced by the resources it has on hand.

### If an organization has...

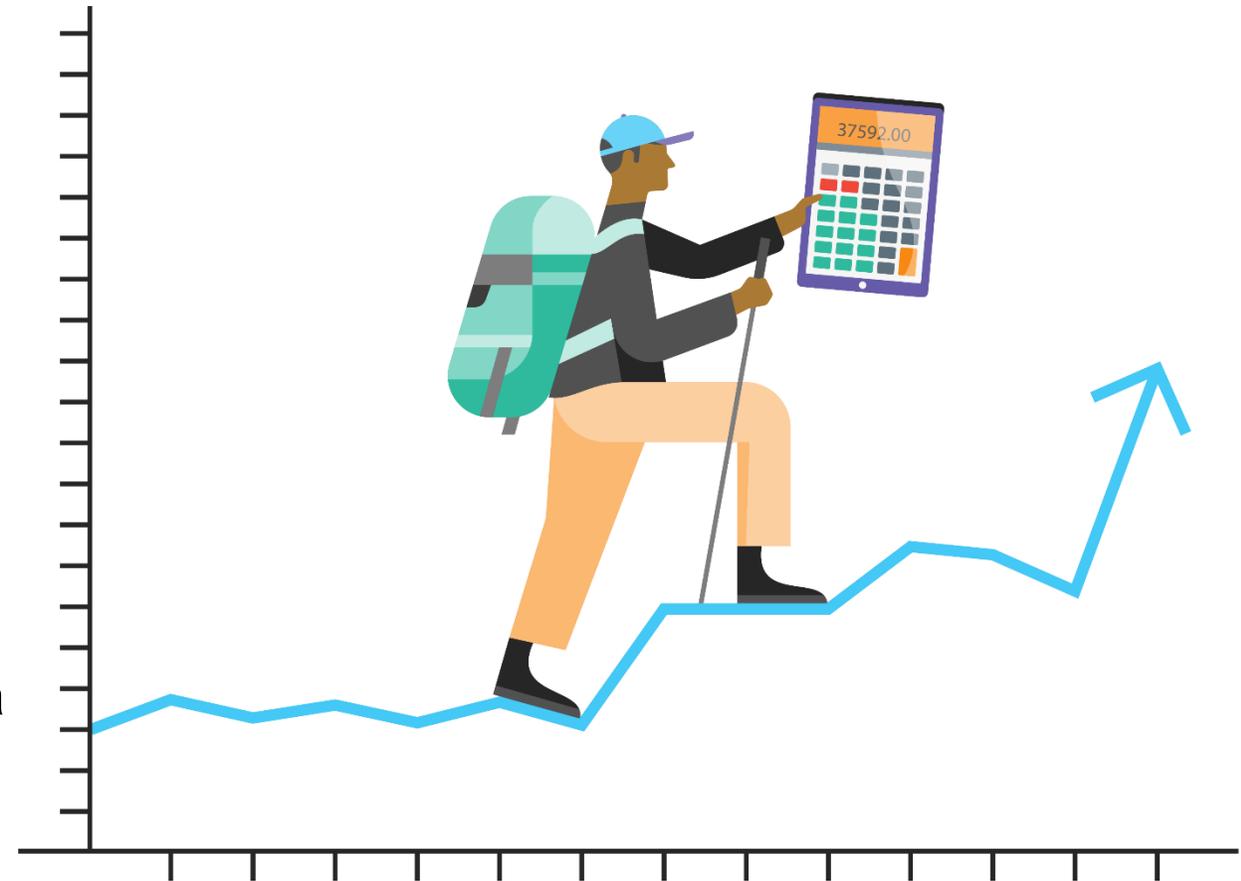
- Plenty of unrestricted cash and receivables
- A fully available line of credit
- Sufficient reserves available to management
- Little to no wear-and-tear of fixed assets
- Reoccurring surpluses

...then it has **high capacity to handle risk or change.**



# Capital Structure: Orienting toward True North

- You can pay bills and manage cash flows with minimal stress
- You're not worried about equipment breaking; you can easily make repairs or replacements
- You've got a plan for any debt
- You're excited by new opportunities, not burdened
- You're protected from the unexpected by a strong safety net and can manage inherent risks



# Q&A



# Thank You!

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# Appendix



# Understanding Financial Health and Performance

## Business Model and Capital Structure

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

# Unpacking Your Balance Sheet: What is Owned & Owed? How Do These Resources Support Your Mission?

## Balance Sheet

### Assets

Does the organization have access to appropriate resources?

- Cash – How sufficient & “liquid?”
- Receivables – How quickly to collect? Are they at risk?
- Investments – How much and how restricted?
- Property and Equipment – How often is maintenance & replacement addressed?

### 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?

# Putting it into Practice: Calculating Months of Cash

## ABC Organization Statement of Activities

	2023
<b>Revenue and Support</b>	<b>Total</b>
Program Fee income	\$139,909
Foundation grants	\$332,849
Individual contributions	\$56,370
Special events	\$67,370
In-kind	\$15,000
Net assets released from restriction	\$0
<b>Total revenue and support</b>	<b>\$611,498</b>
<b>Expenses</b>	
Personnel	\$232,210
Professional fees	\$199,977
Travel and supplies	\$48,562
Occupancy	\$25,860
Bank interest	\$1,275
In-kind	\$15,000
<b>Total expenses</b>	<b>\$522,884</b>
<b>Surplus / (Deficit)</b>	<b>\$88,614</b>

- 1 Calculate monthly expenses estimate:**
- Find total operating expenses
  - Divide by 12 months
- \$522,884 / 12 mo. = \$46,073.66 in monthly expenses**

## ABC Organization Statement of Financial Position

	2023
<b>Assets</b>	<b>Total</b>
Cash and cash equivalents	\$72,150
Accounts receivable	17,027
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<b>Total Net Assets</b>	<b>\$5,366</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$336,368</b>

- 2 Calculate the months of cash estimate:**
- Find cash and cash equivalents
  - Divide by monthly expenses estimate
- \$72,150 / \$46,073.66 = 1.6 months of cash**

# Indicators of Balance Sheet Health and Areas of Inquiry

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## Indicators of Health

- Cash of at least three month's expenses
- Available net assets without restrictions of the same
- Current assets exceed liabilities
- Evidence of ability to manage debt
- Evidence of reinvestment in fixed assets



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## Areas of Inquiry

- Consistent pattern of liabilities (e.g., debt, payables) exceeding total assets, year-to-year
- Constrained liquidity, as measured by months of cash or available net assets
- Organization sold investments or property/equipment to generate cash year-to-year
- A line of credit or other forms of short-term debt are consistently maxed out during the year



# What is Full Cost?

A better way to talk about cost in the nonprofit sector

**Full cost names and claims all the financial resources it takes to run an effective organization for the long haul**

Moving from surviving to thriving:

- Identify your full costs
- Prioritize urgent needs
- Plan for the future
- Communicate your vision

