

## Financial Storytelling: What Matters and Why

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# Overview: Nonprofit Finance Fund® (NFF)



NFF, a nonprofit 501(c)(3), 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**, and **accessible insights**.

Since 1980, we've helped funders, nonprofits and other mission-driven organizations connect money to mission. NFF has provided over \$300 million in loans and access to financing via grants, tax credits and capital to support over \$1.4 billion in projects for thousands of organizations.

**NFF:**  
**"...arguably the most influential voice in the ongoing effort to reshape thinking and practice about nonprofit capitalization."**

***-The Nonprofit Times***

- Budget size? (<\$500k, \$500k-\$2 million, >\$2 million)
- Comfort level with finance? (High, Medium, Low)
- What's a current financial challenge your organization is facing?

# Why is a Financial Story Important?

	EXTERNAL	INTERNAL
CONTEXT	<ul style="list-style-type: none"><li>▪ Fundraising</li><li>▪ Reporting</li></ul>	<ul style="list-style-type: none"><li>▪ Changes in leadership, programs, priorities or strategies</li><li>▪ Buy-in to implement internal changes</li></ul>
AUDIENCE	<ul style="list-style-type: none"><li>▪ Institutional Funders</li><li>▪ Individuals</li><li>▪ Lenders</li><li>▪ Strategic Partners</li></ul>	<ul style="list-style-type: none"><li>▪ Board Members/ Committee Members</li><li>▪ Management</li><li>▪ Staff</li><li>▪ Volunteers</li></ul>

*Better information means better support!*

## **The Past**

- How has your organization performed?
- Biggest events or changes (positive or negative) in the past few years? Internal or external?

*Examples: lost major funder, gained new revenue source, bought property, changed leadership*

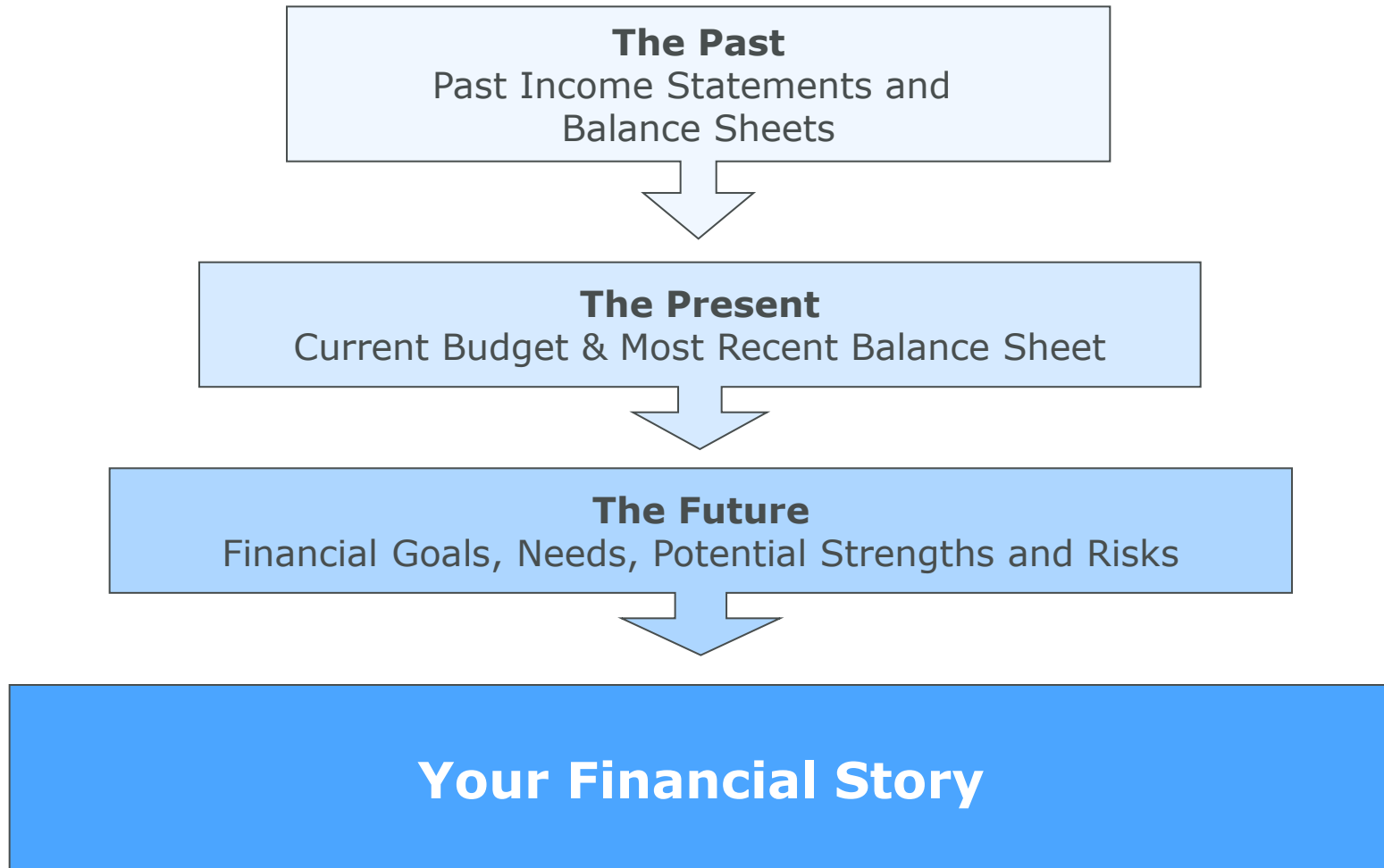
- Effect of events on your financial health? Income statement and balance sheet?

*Examples: revenue/expense increased/decreased, acquired/paid down debt, grew/depleted net assets, grew/depleted cash reserves*

## **The Present & Future**

- What is your current business model?
- How are you addressing past events and trends?
- How will changes affect income statement or balance sheet?
- What resources do you already have to address the past, and what do you still need?
- What are your future needs?

# Tools to Construct Your Financial Story



# Financial Statements and How They Connect

## Income Statement (Statement of Activities)

Revenue (money IN) -  
Expenses (money OUT) =

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Surplus or Deficit

Reflects results of an organization's  
business over a *period* of time

## Balance Sheet (Statement of Position)

Assets (what you OWN) -  
Liabilities (what you OWE) =

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Net Assets

Provides a picture of overall financial  
health at a *snapshot* of time

A surplus *builds*  
net assets;  
A deficit *depletes*  
net assets

# Take Home Guide: Where to Find Past Financial Trends

## Past Income Statements

- **Profitability & Savings:** Were costs covered? Were surpluses sufficient to pay for debt principal payments and facility or equipment purchases? Were surpluses building adequate reserves?
- **Revenue Dynamics:** Where did your money come from? Did revenue composition change? Were revenue streams reliable or at risk?
- **Expense Dynamics:** How did you spend your money? Were expenses predictable? Was management responsive to operating changes and prepared to make difficult decisions?

## Past Balance Sheets

- **Health of Balance Sheet:** Are the size, nature and distribution of assets, net assets and liabilities appropriate to support the organization's business and programs over the long term?
- **Liquidity:** Is there enough cash available to cover current obligations? How quickly can you convert receivables to cash? How liquid are your net assets? Is some cash restricted or spoken for?



# Questions the Income Statement Can Answer

## INCOME STATEMENT

### REVENUE

Earned

*e.g., client fees, ticket sales*

Contributed

*Private Sources  
Government*

### EXPENSES

Personnel

Professional fees

Occupancy

Program Costs

Admin Costs

Other

### Surplus/Deficit

← **Revenue Dynamics:** Where did your money come from? Did revenue composition change? Were revenue streams reliable or at risk?

← **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 build appropriate reserves?

# When Telling Your Story, Boast the Positives. Address the Red Flags.

## Positive Indicators...

- ✓ Consistent unrestricted operating surpluses
- ✓ Revenue is reliable and repeatable
- ✓ Surpluses that are sufficient in size to cover full costs:
  - Debt principal payment
  - Depreciation
  - Investment in new fixed assets
  - Contribution to savings

## Red Flags...

- ✗ Steadily declining operating results or operating deficits over the course of several years, especially if these deficits are large in relation to the organization's operating budget
- ✗ Significant swings in revenue composition from year to year without a compelling explanation from the organization

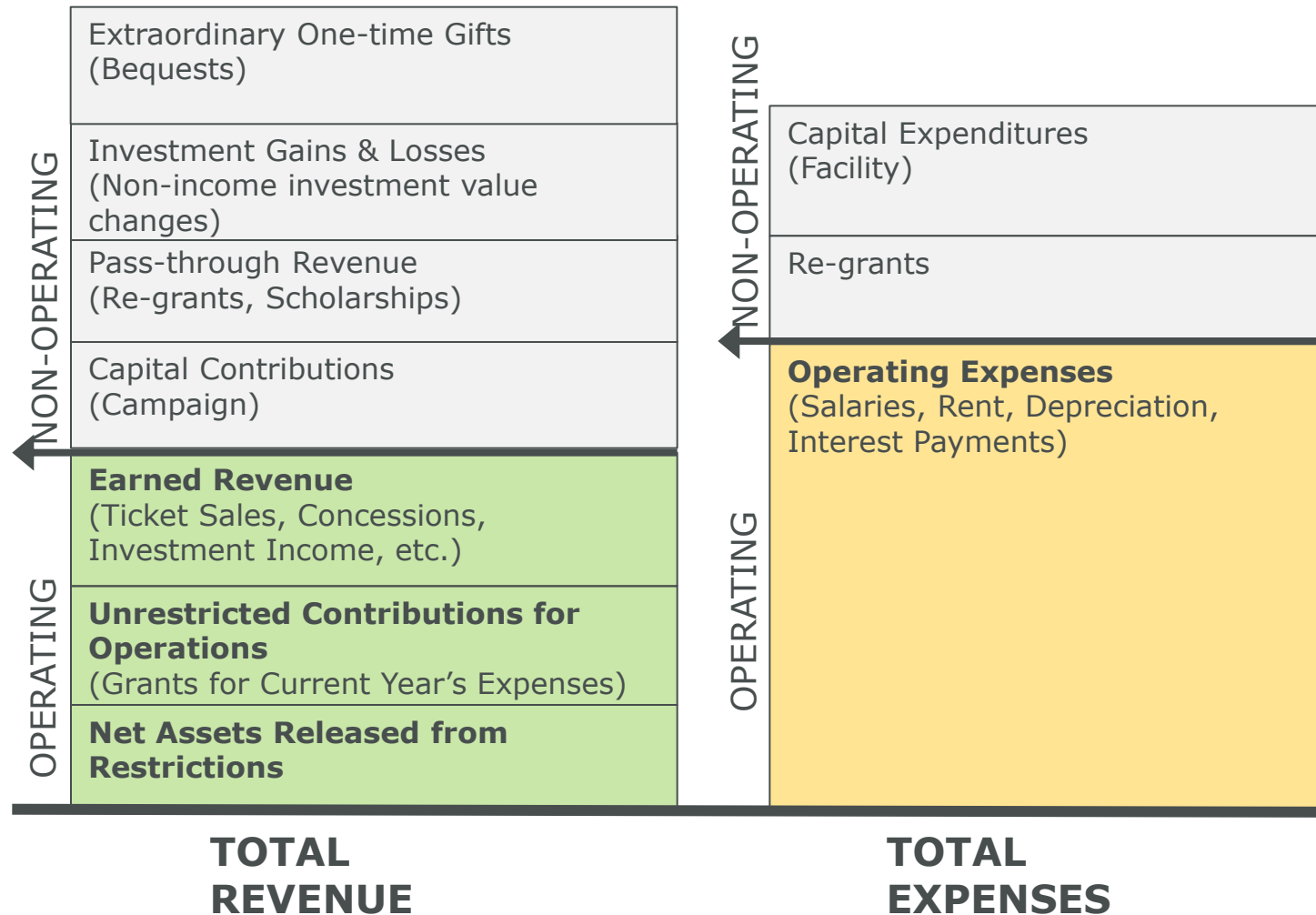
# Key Financial Concept: Unrestricted Operating Activity

When describing year-over-year performance, focus on **unrestricted operating activity**.

Unrestricted operating revenue and expenses reflect your **core business**. In any given year, unrestricted operating revenue is the revenue available to cover expenses for that year.

When communicating past trends and current and future goals, this allows for apples-to-apples comparison.

# Operating vs. non-operating



# Where do you find results (surplus/deficit) of unrestricted operating activity?

## ABC Center Statement of Activities

Year ended June 30, 2014 (\$ in thousands)

	Operating Activity			Total
	Unrestricted	Temp. Restricted	Perm. Restricted	
<b>Operating Revenue</b>				
<b>Earned</b>				
Program Fees & Tickets	533	-	-	533
Rental Income	30	-	-	30
Government Earned	10	-	-	10
<b>Earned Operating Revenue</b>	<b>573</b>	<b>-</b>	<b>-</b>	<b>573</b>
<b>Contributed</b>				
Individual	322	-	-	322
Foundations & Corporations	97	58	-	155
Government	47	-	-	47
Special Events, net	46	-	-	46
Net Assets Released from Restrictions	75	-75	-	-
Contributed Operating Revenue	588	-17	-	571
<b>Total Revenue</b>	<b>1,161</b>	<b>-17</b>	<b>-</b>	<b>1,144</b>
<b>Operating Expenses</b>				
Personnel	495	-	-	495
Professional Fees	35	-	-	35
Occupancy	95	-	-	95
Interest	-	-	-	-
Support	466	-	-	466
<b>Total Expenses</b>	<b>1,090</b>	<b>-</b>	<b>-</b>	<b>1,090</b>
Surplus/Deficit Before Depreciation	71	-	-	71
Depreciation Expense	65	-	-	65
<b>Surplus/Deficit After Depreciation</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>
	<b>Non-Operating Activities</b>			
Unrestricted Non-Op. Revenue/Expenses (e.g. capital campaign receipts/releases)	597	-597	-	-
Net gain (loss) on sale of assets	-	-	-	-
<b>Change in Net Assets</b>	<b>603</b>	<b>-691</b>	<b>-</b>	<b>-88</b>

Determine true  
**Operating**  
Surplus / Deficit

Non-operating revenue  
segregated and placed  
below the operating line

# Case: ABC Center

- What questions should their storytelling answer?
- Where does this organization's money come from?
- How do they spend their money?
- What was the operating bottom line in each year?
- How did revenue and expense change between 2013 and 2014?

## ABC Center Statement of Activities

Years ended June 30 (\$ in thousands)

Unrestricted Operating Activity	2013	2014
<b>Operating Revenue</b>		
<b>Earned</b>		
Program Fees & Tickets	410	533
Rental Income	30	30
Government Earned	10	10
<b>Earned Operating Revenue</b>	<b>450</b>	<b>573</b>
<b>Contributed</b>		
Individual	248	322
Foundations & Corporations	162	97
Government Grants	47	47
Special Events	44	46
Net Assets Released from Restrictions	152	75
<b>Contributed Operating Revenue</b>	<b>653</b>	<b>588</b>
<b>Total Revenue</b>	<b>1,103</b>	<b>1,161</b>
<b>Operating Expenses</b>		
Personnel	550	495
Professional Fees	39	35
Occupancy	90	95
Interest	-	-
Support	490	466
<b>Total Expenses</b>	<b>1,169</b>	<b>1,090</b>
Surplus/Deficit Before Depreciation	-66	71
Depreciation Expense	93	65
<b>Surplus/Deficit After Depreciation</b>	<b>-159</b>	<b>6</b>
<b>Unrestricted Non-Operating Activities</b>		
Unrestricted Non-Op. Revenue/Expenses (e.g. capital campaign receipts/releases)	-	597
<b>Change in Unrestricted Net Assets</b>	<b>-159</b>	<b>603</b>

# Sample Narrative: ABC Center (1 of 2)

ABC Center receives a mix of both earned revenue (mainly ticket sales) and contributed revenue (mainly foundation grants and individuals donations). ABC Center's largest expenses are personnel (artists and management) and production costs for our performances.

↖ ***Business model***

We anticipated a difficult funding environment for 2014, and, in fact, year-over-year foundation support decreased by 45%. In response, we worked to increase earned revenue as well as individual giving.

↖ ***Trend / Effect / Response***

2013 saw an operating deficit of (6%) of expenses. In 2014, we worked to improve our financial performance by cutting expenses (mainly artist and production costs). As a result, we achieved a 7% surplus in 2014.

↖ ***Trend / Response / Effect***

# Sample Narrative: ABC Center (2 of 2)

In 2013, we launched a \$600K capital campaign to purchase a building that will house our future performances and educational programming. Although the campaign was a success, diverted staff energy and funder support somewhat contributed to our 2013 deficit. We believe that our 2014 funding model--with increased ticket sales and individual donations--is a strong and viable model for our future operations.

↖ ***Event / Effect / Response***



# What Can the Statement of Financial Position Reveal?

<b>Assets:</b> <i>What you own</i>	<b>Is the distribution of assets appropriate, given the core business, size, maturity, marketplace?</b> <ul style="list-style-type: none"> <li>■ <b>Cash</b> – How much? How “liquid?”</li> <li>■ <b>Receivables</b> – Are they slow to collect?</li> <li>■ <b>Fixed Assets</b> – Are fixed assets being maintained?</li> </ul>
<b>Liabilities:</b> <i>What you owe</i>	<b>How “leveraged” in relation to assets?</b> <ul style="list-style-type: none"> <li>■ <b>Line of Credit</b> – Is cash flow being managed through a line of credit? Appropriately?</li> <li>■ <b>Debt</b> – Is there a plan for repayment?</li> </ul>
<b>Net Assets:</b> <i>the balance</i>	<b>What is the composition of net assets?</b> <ul style="list-style-type: none"> <li>■ <b>Unrestricted Net Assets</b> – Does the nonprofit own more than it owes? How much is liquid?</li> <li>■ <b>Temporarily Restricted Net Assets</b> – Do they cover the cost of required programs?</li> <li>■ <b>Reserves</b> – Any reserves? Suitable to needs?</li> </ul>

Balance Sheet	
Assets	Liabilities
	Net Assets

# When Telling Your Story, Boast the Positives. Address the Red Flags.

## Positive Indicators...

- ✓ Evidence of reinvestment in fixed assets
- ✓ Evidence of ability to manage debt
- ✓ Cash of at least three months expenses
- ✓ Unrestricted liquid net assets of the same
- ✓ Current assets exceed current liabilities

## Red Flags...

- ✗ Steadily declining or negative unrestricted net assets
- ✗ Low or declining liquidity, as measured by months of cash or unrestricted liquid net assets
- ✗ Liabilities as an increasing portion of total assets

- What questions should their storytelling answer?
- What happened between 2013 and 2014?
- What changed?
- What might this mean?

## ABC Center Statement of Financial Position

(\$ in thousands)

	06/30/13	06/30/14
<b>Assets</b>		
<b>Current</b>		
Cash and Equivalents	321	143
Grants & Pledges Receivable	651	55
Prepaid Expenses	22	41
<b>Total Current Assets</b>	<b>994</b>	<b>239</b>
Property & Equipment	256	923
<b>Total Assets</b>	<b>1,250</b>	<b>1,162</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts Payable	127	57
<b>Total Current Liabilities</b>	<b>127</b>	<b>57</b>
<b>Long-Term</b>		
Long-Term Debt	–	70
<b>Total Long-Term Liabilities</b>	<b>–</b>	<b>70</b>
<b>Total Liabilities</b>	<b>127</b>	<b>127</b>
<b>Net Assets</b>		
<b>Unrestricted</b>		
Undesignated	70	76
Unrestricted - Property & Equipment	256	853
<b>Total Unrestr. Net Assets</b>	<b>326</b>	<b>929</b>
Temporarily Restricted Net Assets	797	106
Permanently Restricted Net Assets	–	–
<b>Total Net Assets</b>	<b>1,123</b>	<b>1,035</b>
<b>Total Liab. &amp; Net Assets</b>	<b>1,250</b>	<b>1,162</b>

In 2014, ABC Center purchased a building to house our future performances and educational programming. From 2013 to 2014, our largest assets changed from mainly cash and grants receivable to property, as we used capital campaign proceeds to purchase the building. We also took on low-interest, long-term debt of \$70K to help purchase the property.

↖ ***Event / Effect***

In both 2013 and 2014, ABC Center had tight liquidity, with undesignated unrestricted net assets totaling less than one month of operating expenses. ABC Center aims to improve liquidity by building reserves with future surpluses and a targeted funder campaign. This is a key priority of the organization, as we recognize the responsibility and risk of owning property.

↖ ***Trend / Response***

## **The Past**

- How has your organization performed?
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**A budget is an organizational plan for a stated period of time, expressed in dollars**

**Budgets help to:**

- Allocate resources
- Provide a road map
- Allow the organization to monitor progress
- Increase focus
- Set and clarify goals

# Take Home Guide: Sound Financial Planning Starts with Good Budgeting

## 1. Uses well-grounded/conservative numbers

- Less revenue than you think you'll get
- More expenses than you think you'll need
- Be consistent

## 2. Knows that total revenue ≠ operating revenue

- Focuses on unrestricted dollars, including \$ to be released from restriction
- Separates operating \$ from amounts received for one-time or unusual items

## 3. Reflects strategic goals and priorities

- Program
- Staffing
- Operating infrastructure
- Future growth or changes

## 4. Reflects risk and anticipates appropriate responses

- Reflects external & internal realities
- Includes contingencies
- Includes Plan B reflecting various scenarios

## 5. Tells us what happened and why

- Variance reports show actual results vs. original plan
- Includes notes

## 6. Adaptable to different audiences

- Executive management
- Program management (staff)
- Funders
- Board

### 6.a. Has backup detail

- Revenue and expenses by line-item
- Fundraising/grant pipeline
- Clearly states assumptions and unknowns

### 6.b. Provides a clear summary overview

- Revenue by each main category
- Expenses by each main category

### 6.c. Formatting is important

- Legible, e.g., font size not too small
- Formatted to direct the reader to key items, e.g., bold the totals and surplus/deficit

## 7. Addresses needs and goals beyond the income statement

- Plans for surpluses of sufficient size to manage risk & pursue opportunity, including:
  - Pay down debt
  - Purchase fixed assets
  - Repair/replace property & equipment
  - Establish/build reserves

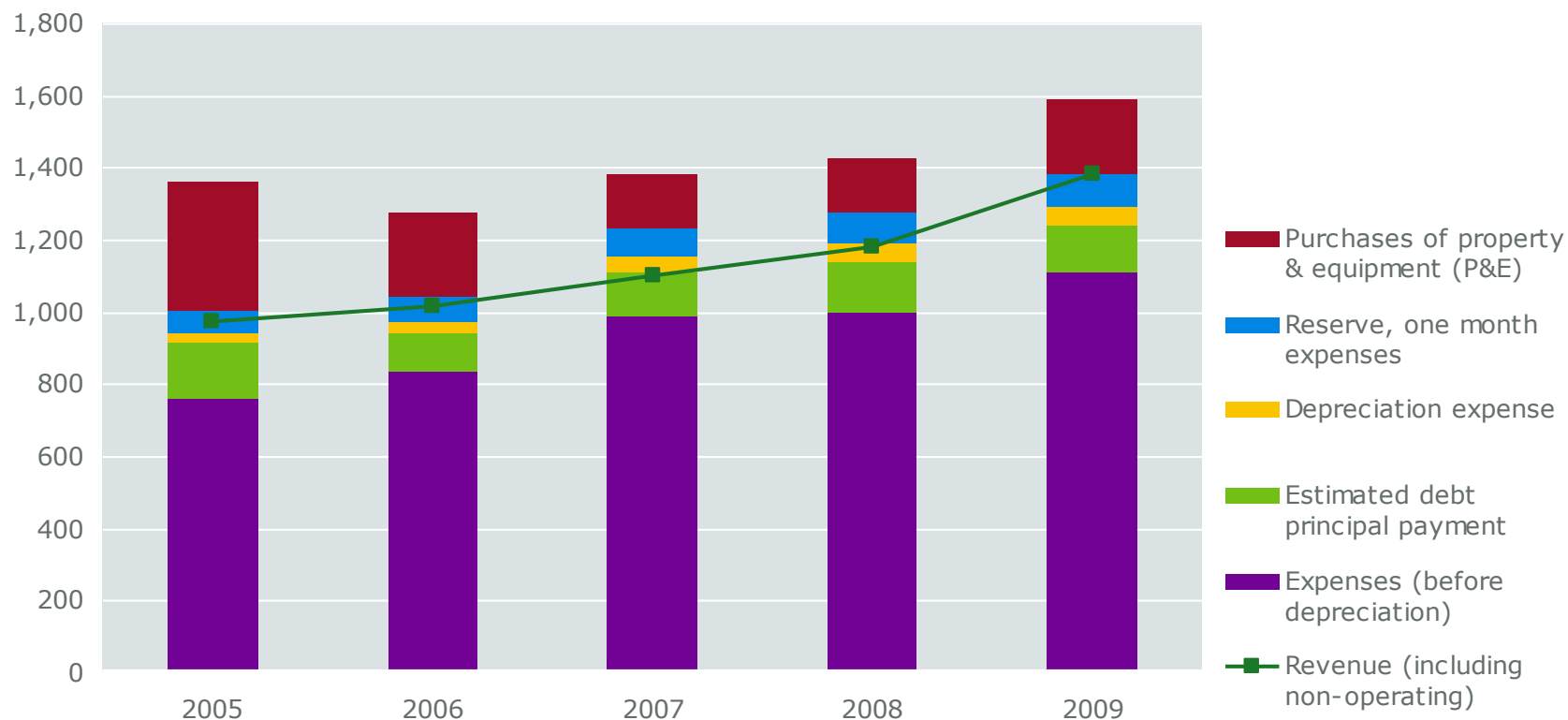
# The Budget Continues the Story

Past Events Examples	Budget Responses
Lost major funder	Cut expenses
Foundation support becoming less viable	Use Board committee and consultants to increase individual donor base
Bought a building	Established a facilities reserve
Consecutive surpluses	Paid down debt, increased operating reserves
Awarded large government contract	Increased personnel, increased working capital reserve to anticipate AR challenges



# Your budget should tell the story of the FULL costs of business.

## Total Cost of All Business Activity (\$ in thousands)



# Future Financial Storytelling Includes both Revenue and Capital Needs

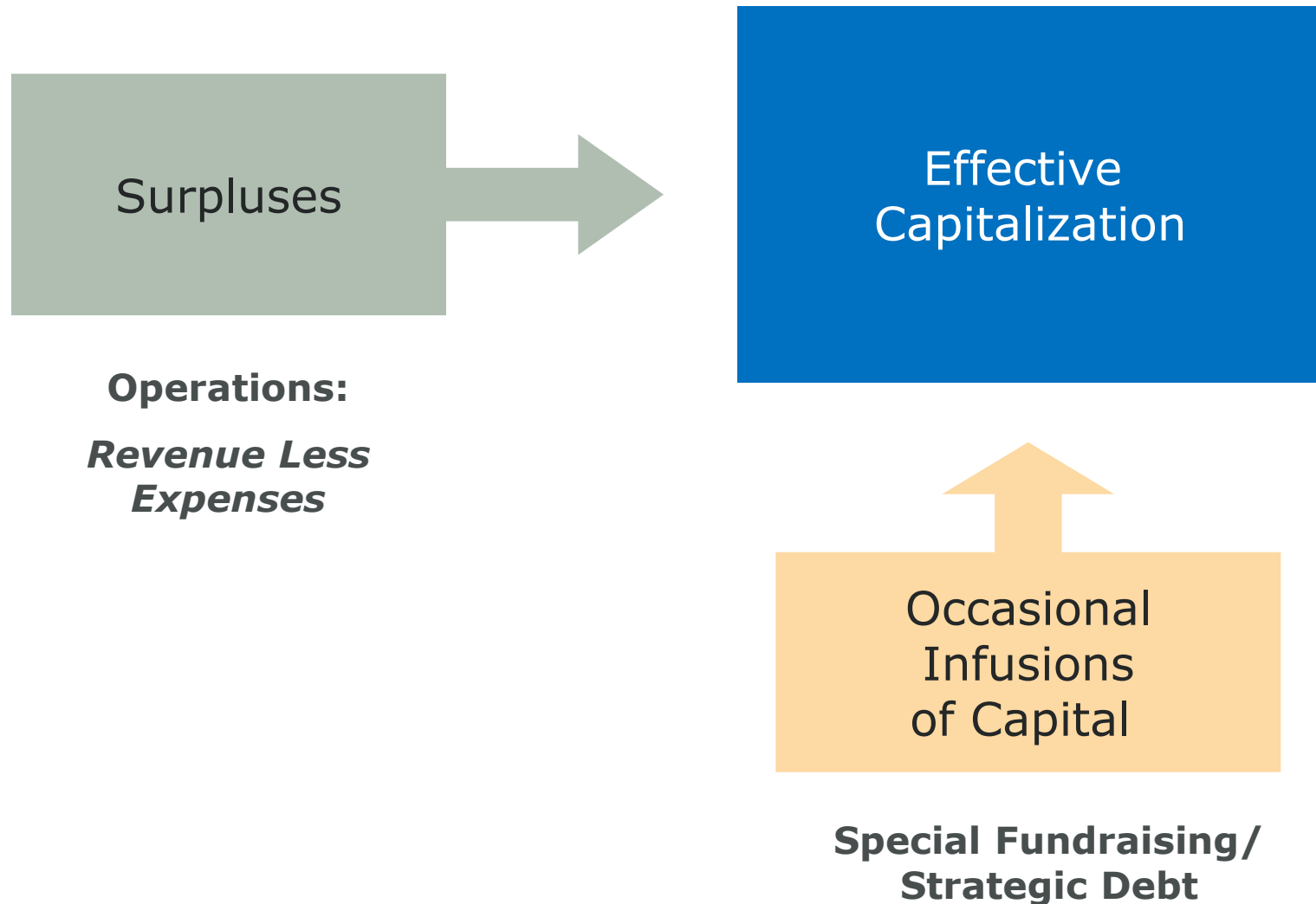
## **Revenue** funds Regular Operations

- Found on the income statement
- Covers annual, full costs of programs & operations
- Pays an organization to do what it does
- *Keeps the lights on!*





## **Capital** is for Liquidity, Adaptability, Durability

- Found on the balance sheet
- Tends to be episodic in nature
- Can be for recovery, expansion, contraction, quality improvements and more
- Pays for changing what an organization is capable of doing
- Has a long-term view
- *Builds reliability of future revenue*

# Where Does Capital Come From?



# Different Kinds of Capital Address Different Needs

NEEDED BY:		Capital Uses	Function	Addresses:
ALL		<b>Working &amp; Operating</b>	Allows the organization to bridge revenue timing gaps	Liquidity
		<b>Risk &amp; Opportunity</b>	Absorbs unforeseen funding losses or unexpected expenses, supports promising options	Adaptability
MANY, PERIODICALLY		<b>Recovery</b>	Allows an organization to address a historical mistake or chronically undercapitalized operations	Durability
		<b>Change</b>	Funds investments in infrastructure and capacity associated with changes in business model, may cover deficits until programs and operations can support themselves	Adaptability, Durability
SOME	 	<b>Facilities &amp; Equipment</b>	Supports acquisitions or upgrades, or used to accumulate reserves to meet future facility and equipment needs	Durability
		<b>Endowment</b>	Provides ongoing funds through investment income	Durability

From 2015-17, ABC Center projects modest growth, increasing our operating budget by 5% per year. We expect to maintain a similar funding model as 2014, supporting increased budgets with marginal increases in ticket sales, foundation grants, and individual donations.

↖ ***Revenue need***

In addition to raising operating revenue, the organization budgets for surpluses to make debt payments and build reserves. Specific reserves include working capital that covers 3 months of operating expenses, a facilities reserve (funded by annual depreciation expense), and a \$10K artistic risk reserve.

↖ ***Capital need***

To reach these goals, in addition to operating support, we seek funders that are willing to invest in the long-term financial health of ABC Center by meeting these critical capital needs.



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Get in  
Touch!



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# APPENDIX: Financial Narrative Example

Since our first year of operations in 2010, our operating revenue increased from \$[\_\_\_] to \$[\_\_\_] in 2013, largely driven by foundation and corporate grants. Expenses also expanded during this period, from \$[\_\_\_] in FY10 to \$[\_\_\_] in FY13. As we grew our programs, ABC has managed our growth conservatively, thus achieving surpluses that will be used to support future growth and establish reserves.

Over the next few years, we plan to continue our growth trajectory and programmatic expansion and increase ABC's operating budget from \$[\_\_\_] to \$[\_\_\_] in YEAR, supported by additional foundation and corporate support. In addition, as guided by its strategic plan, over the next 5 years ABC seeks to further develop 3 areas which include:

- Diversifying revenue streams to include individual giving and earned income ventures;
- Enhancing board effectiveness by expanding the board from 6 to 12 members, and diversifying the board's specific expertise and networks; and
- Expanding programmatic reach into ABC's target neighborhoods and strengthening programmatic capacity through establishing program evaluation and review practices.

ABC's long-term vision is to build an art center that ABC owns and operates, thereby generating a steady stream of revenue as ABC continues to meet its mission. In light of these long-term goals, ABC has proactively incorporated a 'cash reserve' and 'contingency' lines into its operating budget. Doing so has, and will continue to, help the organization cover its full cost of business, build net worth over time, and strengthen ABC's capacity to tolerate unanticipated risks.