Achieving Financial Resilience

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FISCAL STRENGTH FOR NONPROFITS

NETWORK of Jewish Human Service Agencies

What is **nonprofit financial resilience**?

When might a nonprofit be **financially vulnerable**?

Financial Resilience

Financially Resilient Organizations

- Stay focused on the **long-term**
- Continually assess and respond to **current needs**
- Understand and are able to **tell their financial story**

Financial Resilience

RESOURCES

Financial Resilience in Nonprofit Organizations

Statement of Financial Position

What We Own:
- Cash
- Receivables
- Investments
- Property, Plant & Equipment, net

Assets

=

Liabilities

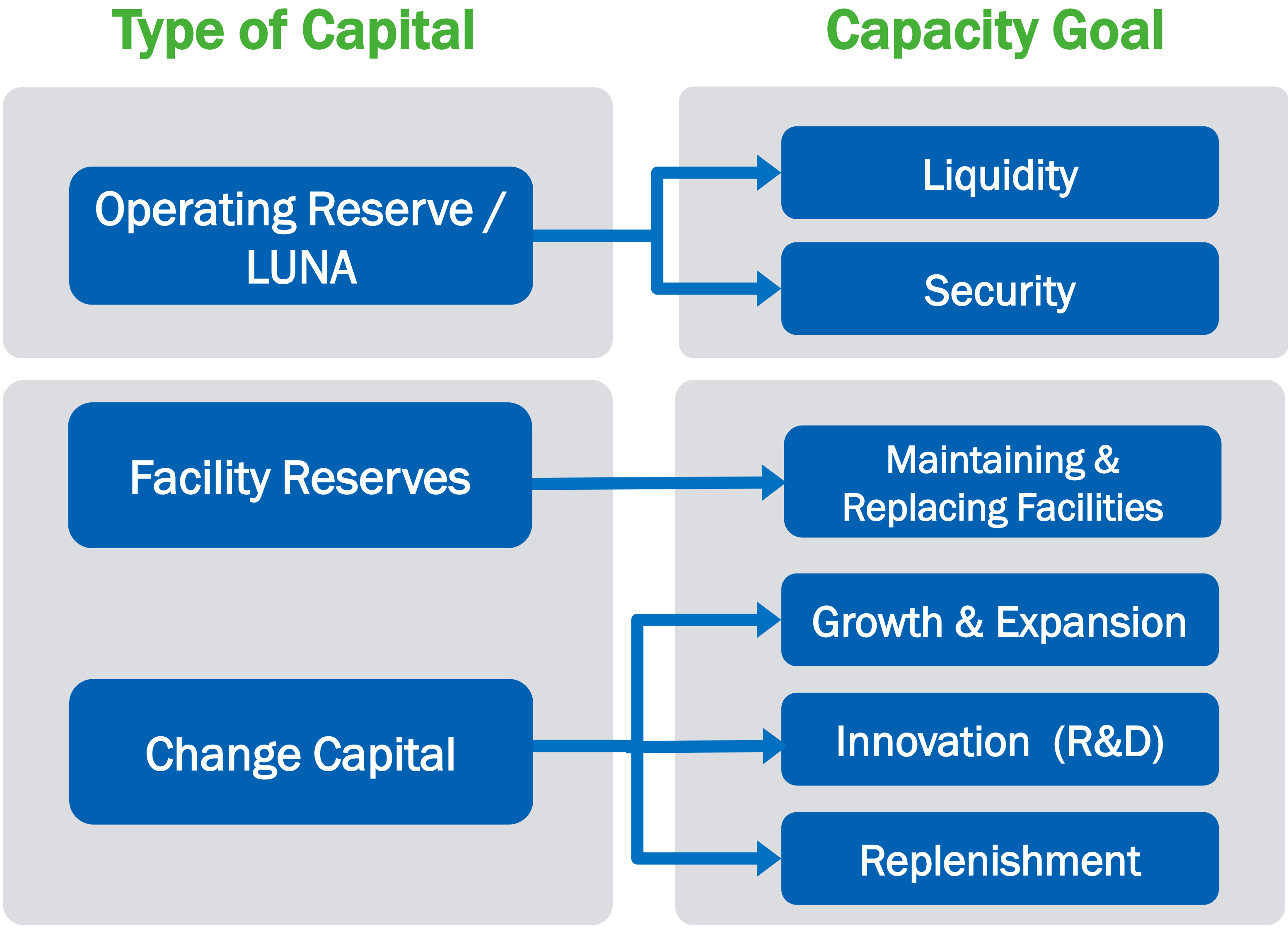
What We Owe:
- Bills due
- Line of Credit
- Deferred Revenue
- Debt (short- and long-term)

+

Net Assets

Our Available Capital
- Unrestricted
  - Fixed Assets
  - Board Designated
  - Other
- Temp. Restricted
- Perm. Restricted

Capital for Change and Security



Capital for Change & Security: LUNA

Unrestricted net worth		Unavailable net worth		Operating reserves
Unrestricted Net Assets	−	Illiquid Net Assets	=	Liquid Unrestricted Net Assets

Months of LUNA

Operating reserves		What is spent on average per month		Months of LUNA
Liquid Unrestricted Net Assets	÷	Average Monthly Operating Expenses	=	Months of LUNA

NONPROFIT ORG, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018 and 2017

ASSETS

	2018	**2017**
Assets:		
Cash	$274,139	$297,389
Pledges and contracts receivable	200,000	210,000
Prepaid expenses	17,000	22,000
Total Current Assets	491,139	529,389
Property and equipment, net of accumulated depreciation $27,505	39,393	64,393
Other Assets - security deposit	12,000	12,000
Total Assets	$542,532	$605,782

LIABILITIES AND NET ASSETS

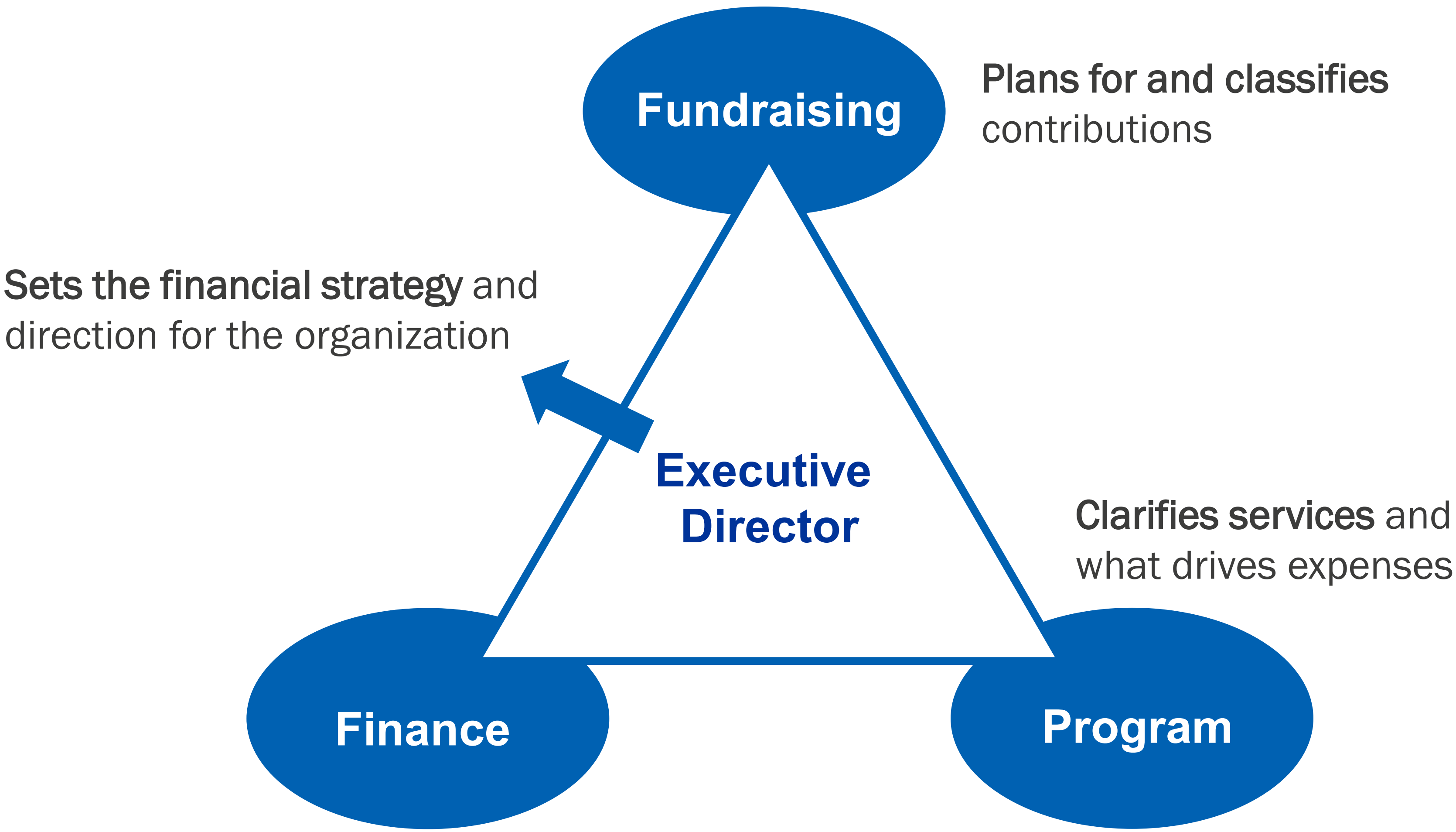
Liabilities:		
Accounts payable and accrued expenses	$ 29,578	$140,054
Advances	51,300	78,500
Current portion of long-term debt	10,500	9,750
Total Current Liabilities	91,378	228,304
Long-term debt	160,744	170,494
Total Liabilities	252,122	398,798
Net Assets:		
Unrestricted	(38,427)	114,417
Temporarily restricted	328,837	92,567
Total Net Assets	290,410	206,984
Total Liabilities and Net Assets	$542,532	$605,782

Resources: Sustainable Business Model

Revenues − Expenses = Surplus/ Deficit

Beginning LUNA + Surplus / (Deficit) = Ending LUNA

Resources: Effective Leadership Team



Provides relevant, timely, and accurate financial data to facilitate decision-making

PRACTICES

Financial Resilience in Nonprofit Organizations

PRACTICES

Practices: Financial Planning

What is Financial Planning?

A process to define how an organization's strategy will be funded

Ideally, this process is:

- Ongoing
- *Team-based*
- Focused on the future but responsive to the present
- Structured to allow for *recalibration* and *course correction*

Levels of Financial Planning

- Strategic Budget
- Capital Budget
- Operating Budget
- Cash Budget
- Program Budget
- Grant Budget

Types of Expenses

Natural and Functional Expenses

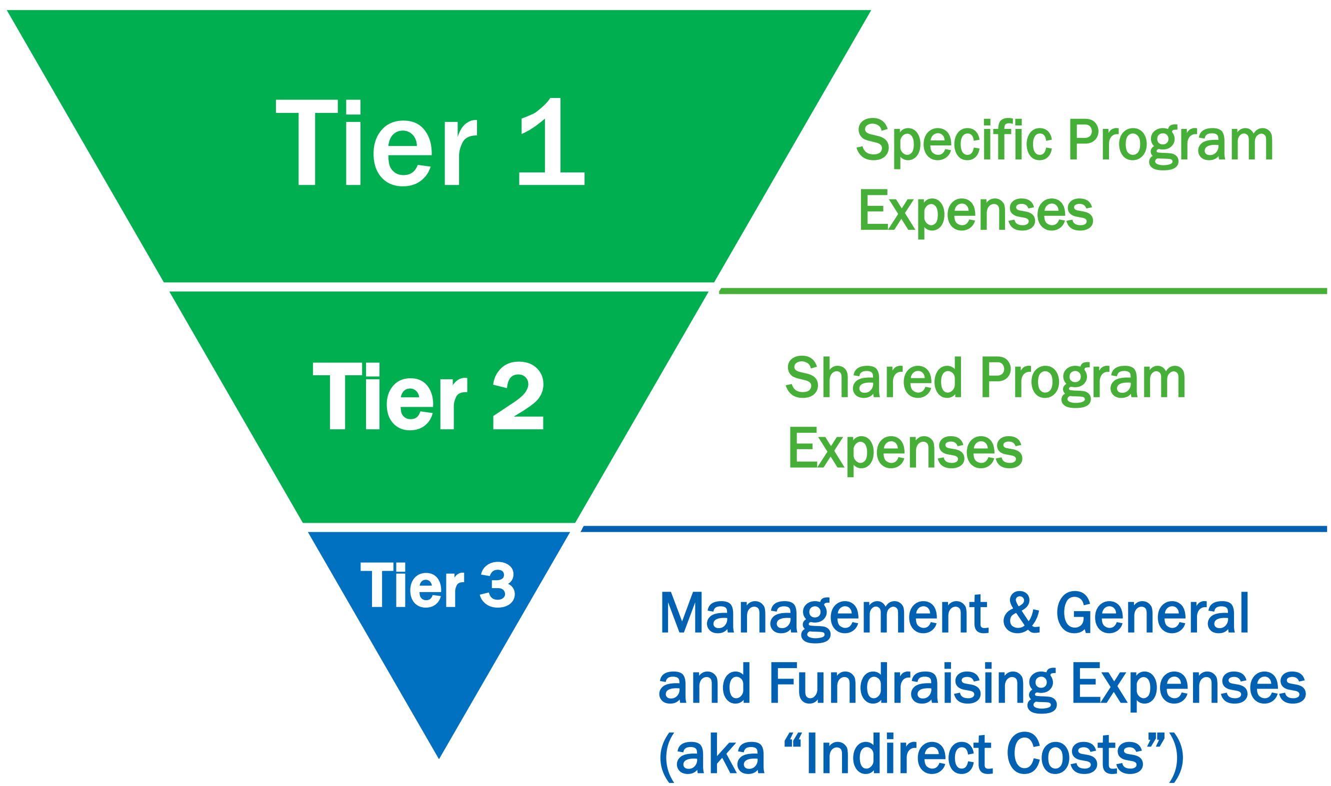
Natural Expenses	Functional Expenses
Expenses classified by the *nature* of the expense: • Salaries • Rent • Utilities • Supplies	Expenses classified by the *type of activity* for which the expense was incurred: • Programs • Management and general • Fundraising

Types of Expenses

Specific Expenses	Shared Expenses
Expenses that can be specifically ***assigned* to one or more program(s) or function(s)**, based on time or money spent directly in each program or function	Expenses that are shared among some or all programs and functions. These expenses **must be *allocated* among functional areas** on the basis of an appropriate methodology
Salaries for program personnel Salaries for fiscal staff Fundraising expenses	Rent & utilities in a common space Office supplies Depreciation

True Cost

Three Tiers of Expenses



Bringing Together Tiers 1, 2, and 3

Tier 3: "Overhead"

Tier 1:Specific Program Expense

Tier 2: Shared Costs Allocated to Programs

	Program A	Program B	M&G	Fundraising	Total
Personnel					
Executive Director	38,900	20,280	18,500	13,320	**91,000**
Program Director	42,000	42,000	-	-	**84,000**
Teacher A	58,000	-	-	-	**58,000**
Teacher B	-	55,000	-	-	**55,000**
P/T Bookkeeper	-	-	15,000	-	**15,000**
P/T Grantwriter	-	-	-	9,000	**9,000**
Fringe	22,980	20,056	8,700	6,664	**58,400**
OTPS					
Classroom supplies	18,200	16,600	-	-	**34,800**
Snacks	4,200	3,000	-	-	**7,200**
Bus rental	3,000	-	-	-	**3,000**
Audit fees	-	-	9,500	-	**9,500**
Conference travel	-	-	800	-	**800**
Event space rental	-	-	-	1,000	**1,000**
Event catering	-	-	-	3,200	**3,200**
Rent	13,011	12,097	3,868	3,024	**32,000**
Utilities	2,440	2,268	725	567	**6,000**
Office supplies	1,952	1,815	580	454	**4,800**
Depreciation	6,262	5,822	1,862	1,455	**15,400**
Total	**210,944**	**178,937**	**59,535**	**38,684**	**488,100**

Costs funded by program grant(s)

Costs funded by indirect rate from program grant(s) or unrestricted revenue

“Indirect Cost Rate”

	Program		Supporting Services	
	Program A	Program B	M&G	Fundraising
Total Expense	210,944	178,937	59,535	38,684
	389,881		98,219	

98,219 ÷ 389,881 = **25%**

Overhead vs. Indirect Cost

Overhead

- Measures supporting services as a % of total costs
- Monitored by watchdog groups
- Focus of national conversation

Indirect Cost

- Looks at supporting services relative to total program costs
- Focus on ensuring you recover what's been invested in supporting services via restricted grants

Strategies for Funding “Tier 3” Costs

1. Raise unrestricted dollars
2. Develop an earned revenue stream that covers the true cost of the associated program
3. Indirect cost recovery (i.e. building an indirect cost rate into requests for restricted program funding)

True Cost The National Conversation

THE OVERHEAD MYTH

MOVING TOWARD AN OVERHEAD SOLUTION

Forefront

Real Talk About Real Costs

Philanthropy CA

Full Cost Project

Real Costs. Real Outcomes.

The Bridgespan Group

Pay-What-It-Takes Philanthropy

Multi-Year Planning

Why create multi-year financial plans?

Facilitates the integration of **operational and strategic** planning

Provides a forum to address significant **long-term issues**

Increases focus on **financial sustainability**

Creates a space for planning around **multi-year grants and programs**

Multi-Year Planning

How do strategic and financial planning interact?

Strategy specifies the set of **actions** required to achieve desired **goals**

Financial planning forces focus on the "how"– e.g. relevant **operational decisions**

Resource requirements **reality-test** the strategic plan, and allow for further **refinement**

Practices: Operations

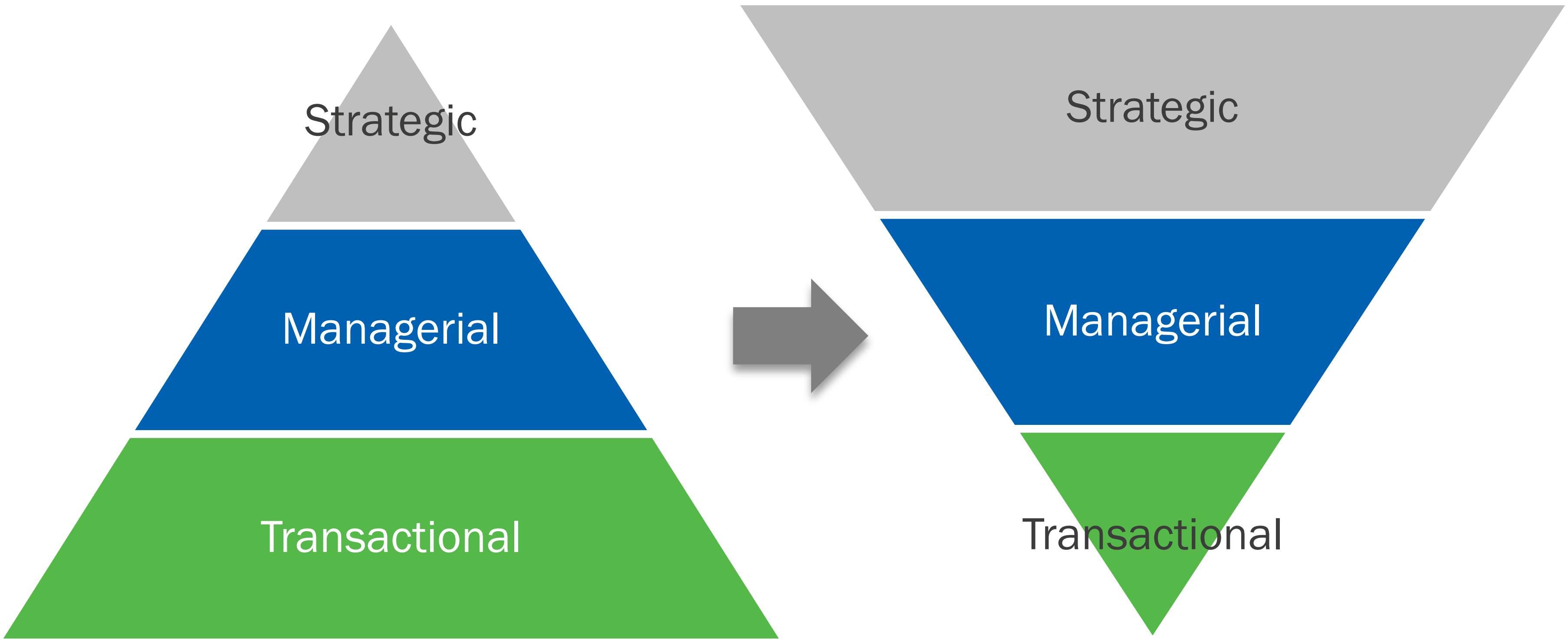
Strategic

Managerial

Transactional

Adapted from Jeanne Bell Peters and Elizabeth Schaffer, *Financial Leadership for Nonprofit Executives: Guiding Your Organization to Long-term Success* © 2005

Practices: Operations



Practices: Performance Management

Who Should Receive Financial Reports?

Monthly	Quarterly
Executive Leadership	**Board of Directors***
• Performance Dashboard • Budget-to-Actual Revenue & Expenses for (a) each program (b) organization-wide • Statement of Activities • Balance Sheet and supporting schedules • Cash Flow Projection • Year-end Forecast	• Management Narrative • Performance Dashboard • Budget-to-Actual Revenue & Expenses for (a) each program (b) organization-wide • Statement of Activities • Balance Sheet and supporting schedules • Cash Flow Projection • Year-end Forecast

**Starting with the Finance Committee*

What Should We Measure?

KPIs can be defined across all areas of your organization

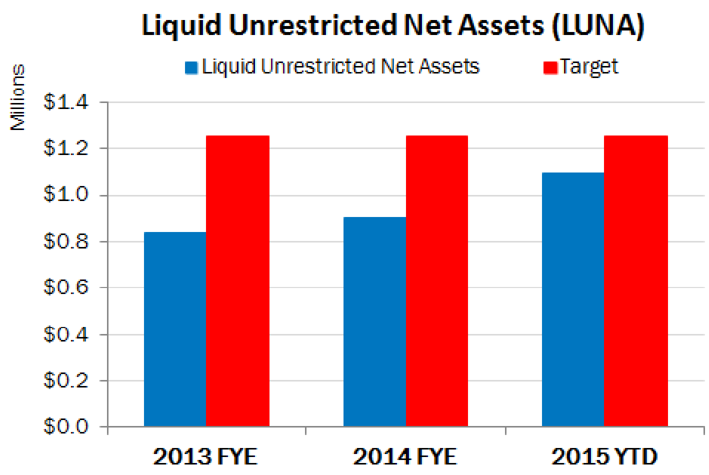
Financial Health	Fundraising & Development	Programs & Service Delivery
Human Capital	Marketing & Communications	Outreach & Advocacy
Information Technology	Risk Management & Governance	Facilities & Capital Projects

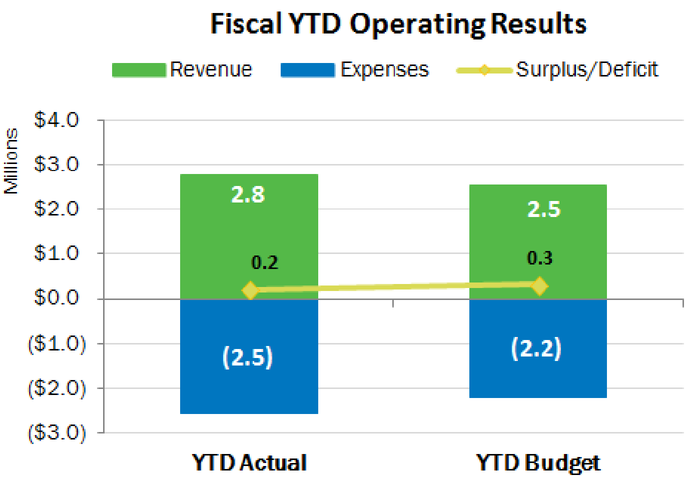
Practices: Performance Management

Reporting Period: June

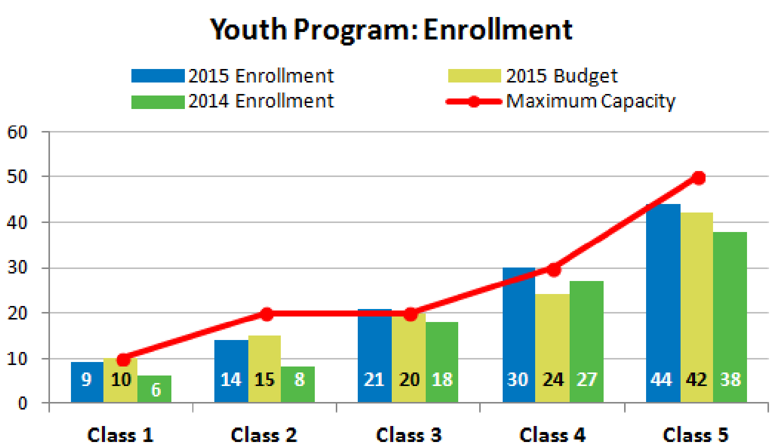
Fiscal Year End: December

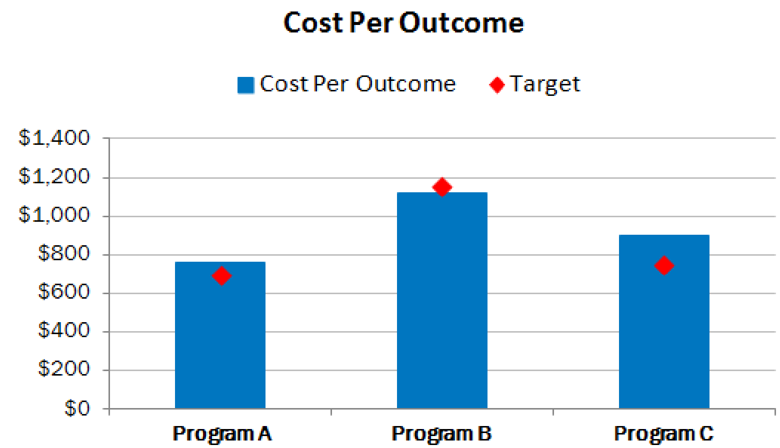
Financial Performance





Program Enrollment & Outcomes





VALUES

Financial Resilience in Nonprofit Organizations

VALUES

Inclusive
Mission-Focused
Continuously Improving
Data-Driven

Financial Resilience in Nonprofit Organizations

Questions?

Resources

The Key to Long Term Financial Health: Liquid Unrestricted Net Assets (LUNA)

Hilda Polanco, New York Nonprofit Press, May 2012

https://fmaonline.net/publications/key-to-long-term-financial-health/

Getting Your Nonprofit Budget Past ‘One Day (or Year) at a Time’

Hilda Polanco, Geraldine R. Dodge Foundation Blog, May 2016

http://blog.grdodge.org/2016/05/03/technical-assistance-getting-your-nonprofit-budget-past-one-day-or-year-at-a-time/

Resources

www.StrongNonprofits.org

In collaboration with the Wallace Foundation, FMA has created a library of tools and resources to help organizations become "fiscally fit"

Four Topic Areas: Planning | Monitoring | Operations | Governance

Free Live Webinar: Guided tour of www.StrongNonprofits.org

January 21, 2020
11AM -12PM PT
2-3PM ET

March 24, 2020
11AM -12PM PT
2-3PM ET

FMA

- Established in 1999 to serve not-for-profit organizations around the country
- Provides customized financial management, accounting, software, organizational development, and other consulting services
- Works directly with organizations or through funder-supported management and technical assistance programs

FMA exists to build a community of individuals with the confidence and skills to lead organizations that change the world

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