Achieving Financial Resilience

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Principal

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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

- Values
- Practices
- Resources

Effective Leadership Team
Planning
Performance Management
Operations
Sustainable Business Model
Capital for Change & Security

Inclusive
Mission-Focused
Continuously Improving
Data-Driven
Financial Resilience in Nonprofit Organizations

[Diagram showing key components: Effective Leadership Team, Sustainable Business Model, Capital for Change & Security, Resources]
Statement of Financial Position

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

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

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

\[
\text{Assets} - \text{Liabilities} = \text{Net Assets}
\]
Capital for Change and Security

Type of Capital
- Operating Reserve / LUNA
- Facility Reserves
- Change Capital

Capacity Goal
- Liquidity
- Security
- Maintaining & Replacing Facilities
- Growth & Expansion
- Innovation (R&D)
- Replenishment
Capital for Change & Security: LUNA

Unrestricted net worth

Unavailable net worth

Operating reserves

Unrestricted Net Assets = Illiquid Net Assets = Liquid Unrestricted Net Assets
What does a financially resilient organization look like?

What is spent on average per month

Months of LUNA
## Statement of Financial Position

**June 30, 2018 and 2017**

### Assets

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>$274,139</td>
<td>$297,389</td>
</tr>
<tr>
<td>Pledges and contracts receivable</td>
<td>200,000</td>
<td>210,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>17,000</td>
<td>22,000</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>491,139</td>
<td>529,389</td>
</tr>
<tr>
<td>Property and equipment, net of accumulated depreciation $27,505</td>
<td>39,393</td>
<td>64,393</td>
</tr>
<tr>
<td>Other Assets - security deposit</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$542,532</strong></td>
<td><strong>$605,782</strong></td>
</tr>
</tbody>
</table>

### Liabilities and Net Assets

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$29,578</td>
<td>$140,054</td>
</tr>
<tr>
<td>Advances</td>
<td>51,300</td>
<td>78,500</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>10,500</td>
<td>9,750</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>91,378</td>
<td>228,304</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>160,744</td>
<td>170,494</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>252,122</strong></td>
<td><strong>398,798</strong></td>
</tr>
</tbody>
</table>

### Net Assets:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>(38,427)</td>
<td>114,417</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>328,837</td>
<td>92,567</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>290,410</strong></td>
<td><strong>206,984</strong></td>
</tr>
</tbody>
</table>

**Total Liabilities and Net Assets**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$542,532</strong></td>
<td><strong>$605,782</strong></td>
<td></td>
</tr>
</tbody>
</table>
Resources: Sustainable Business Model

Revenues - Expenses = Surplus/Deficit

Beginning LUNA + Surplus/(Deficit) = Ending LUNA
Provides relevant, timely, and accurate financial data to facilitate decision-making.

Sets the financial strategy and direction for the organization.

Clarifies services and what drives expenses.

Plans for and classifies contributions.

Resources: Effective Leadership Team

Fundraising

Executive Director

Finance

Program
PRACTICES
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

<table>
<thead>
<tr>
<th>Natural Expenses</th>
<th>Functional Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses classified by the <em>nature</em> of the expense:</td>
<td>Expenses classified by the <em>type of activity</em> for which the expense was incurred:</td>
</tr>
<tr>
<td>• Salaries</td>
<td>• Programs</td>
</tr>
<tr>
<td>• Rent</td>
<td>• Management and general</td>
</tr>
<tr>
<td>• Utilities</td>
<td>• Fundraising</td>
</tr>
<tr>
<td>• Supplies</td>
<td></td>
</tr>
</tbody>
</table>
Types of Expenses

Specific 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.

- Salaries for program personnel
- Salaries for fiscal staff
- Fundraising expenses

Shared Expenses
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.

- Rent & utilities in a common space
- Office supplies
- Depreciation
Three Tiers of Expenses

- Tier 1: Specific Program Expenses
- Tier 2: Shared Program Expenses
- Tier 3: Management & General and Fundraising Expenses (aka “Indirect Costs”)
## Bringing Together Tiers 1, 2, and 3

### Tier 1: Specific Program Expense

<table>
<thead>
<tr>
<th>Personnel</th>
<th>Program A</th>
<th>Program B</th>
<th>M&amp;G</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>38,900</td>
<td>20,280</td>
<td>18,500</td>
<td>13,320</td>
<td>91,000</td>
</tr>
<tr>
<td>Program Director</td>
<td>42,000</td>
<td>42,000</td>
<td>-</td>
<td>-</td>
<td>84,000</td>
</tr>
<tr>
<td>Teacher A</td>
<td>58,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>58,000</td>
</tr>
<tr>
<td>Teacher B</td>
<td>-</td>
<td>55,000</td>
<td>-</td>
<td>-</td>
<td>55,000</td>
</tr>
<tr>
<td>P/T Bookkeeper</td>
<td>-</td>
<td>-</td>
<td>15,000</td>
<td>-</td>
<td>15,000</td>
</tr>
<tr>
<td>P/T Grantwriter</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Fringe</td>
<td>22,980</td>
<td>20,056</td>
<td>8,700</td>
<td>6,664</td>
<td>58,400</td>
</tr>
</tbody>
</table>

### Tier 2: Shared Costs Allocated to Programs

<table>
<thead>
<tr>
<th>OTPS</th>
<th>Program A</th>
<th>Program B</th>
<th>M&amp;G</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classroom supplies</td>
<td>18,200</td>
<td>16,600</td>
<td>-</td>
<td>-</td>
<td>34,800</td>
</tr>
<tr>
<td>Snacks</td>
<td>4,200</td>
<td>3,000</td>
<td>-</td>
<td>-</td>
<td>7,200</td>
</tr>
<tr>
<td>Bus rental</td>
<td>3,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,000</td>
</tr>
<tr>
<td>Audit fees</td>
<td>-</td>
<td>-</td>
<td>9,500</td>
<td>-</td>
<td>9,500</td>
</tr>
<tr>
<td>Conference travel</td>
<td>-</td>
<td>-</td>
<td>800</td>
<td>-</td>
<td>800</td>
</tr>
<tr>
<td>Event space rental</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Event catering</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,200</td>
<td>3,200</td>
</tr>
<tr>
<td>Rent</td>
<td>13,011</td>
<td>12,097</td>
<td>3,868</td>
<td>3,024</td>
<td>32,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>2,440</td>
<td>2,268</td>
<td>725</td>
<td>567</td>
<td>6,000</td>
</tr>
<tr>
<td>Office supplies</td>
<td>1,952</td>
<td>1,815</td>
<td>580</td>
<td>454</td>
<td>4,800</td>
</tr>
<tr>
<td>Depreciation</td>
<td>6,262</td>
<td>5,822</td>
<td>1,862</td>
<td>1,455</td>
<td>15,400</td>
</tr>
</tbody>
</table>

### Tier 3: “Overhead”

- Costs funded by program grant(s)
- Costs funded by indirect rate from program grant(s) or unrestricted revenue
**Indirect Cost Rate**

<table>
<thead>
<tr>
<th></th>
<th>Program</th>
<th>Supporting Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Expense</strong></td>
<td>Program A</td>
<td>210,944</td>
</tr>
<tr>
<td></td>
<td>Program B</td>
<td>178,937</td>
</tr>
<tr>
<td><strong>M&amp;G</strong></td>
<td>59,535</td>
<td>38,684</td>
</tr>
<tr>
<td><strong>Fundraising</strong></td>
<td>98,219</td>
<td></td>
</tr>
</tbody>
</table>

\[
98,219 \div 389,881 = 25\%
\]
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)
The Nonprofit Starvation Cycle

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

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

Financial planning forces focus on the “how” – e.g. relevant operational decisions.

How do strategic and financial planning interact?
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
What does a financially resilient organization look like?

Practices: Operations

Strategic
Managerial
Transactional

Strategic
Managerial
Transactional
# Practices: Performance Management

## Who Should Receive Financial Reports?

<table>
<thead>
<tr>
<th>Monthly</th>
<th>Quarterly</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive Leadership</strong></td>
<td><strong>Board of Directors</strong>*</td>
</tr>
<tr>
<td>• Performance Dashboard</td>
<td>• Management Narrative</td>
</tr>
<tr>
<td>• Budget-to-Actual Revenue &amp; Expenses for</td>
<td></td>
</tr>
<tr>
<td>(a) each program</td>
<td>• Performance Dashboard</td>
</tr>
<tr>
<td>(b) organization-wide</td>
<td>• Budget-to-Actual Revenue &amp; Expenses for</td>
</tr>
<tr>
<td>• Statement of Activities</td>
<td>(a) each program</td>
</tr>
<tr>
<td>• Balance Sheet and supporting schedules</td>
<td>(b) organization-wide</td>
</tr>
<tr>
<td>• Cash Flow Projection</td>
<td>• Statement of Activities</td>
</tr>
<tr>
<td>• Year-end Forecast</td>
<td>• Balance Sheet and supporting schedules</td>
</tr>
<tr>
<td></td>
<td>• Cash Flow Projection</td>
</tr>
<tr>
<td></td>
<td>• Year-end Forecast</td>
</tr>
</tbody>
</table>

*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

### Liquid Unrestricted Net Assets (LUNA)
- **2013 FYE:** $1.1
- **2014 FYE:** $1.2
- **2015 YTD:** $1.3

### Fiscal YTD Operating Results
- **Revenue:** $2.8
- **Expenses:** $0.2
- **Surplus/Deficit:** $0.3
- **YTD Actual:** $2.5
- **YTD Budget:** $2.2

### Youth Program: Enrollment
- **2015 Enrollment:**
  - Class 1: 9
  - Class 2: 10
  - Class 3: 14
  - Class 4: 15
  - Class 5: 18
- **2014 Enrollment:**
  - Class 1: 21
  - Class 2: 26
  - Class 3: 24
  - Class 4: 27
  - Class 5: 30
- **Maximum Capacity:**
  - Class 1: 44
  - Class 2: 42
  - Class 3: 38

### Cost Per Outcome
- **Program A:** $1,400
- **Program B:** $1,200
- **Program C:** $1,000

**Target:**
- Program A: $1,400
- Program B: $1,200
- Program C: $1,000
VALUES
Financial Resilience in Nonprofit Organizations

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Mission-Focused
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Data-Driven
Financial Resilience in Nonprofit Organizations

Effective Leadership Team

Planning

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Mission-Focused
Continuously Improving
Data-Driven

Performance Management

Sustainable Business Model

Capital for Change & Security

VALUES

PRACTICES

RESOURCES
Questions?
The Key to Long Term Financial Health: Liquid Unrestricted Net Assets (LUNA)
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/
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
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Works directly with organizations or through funder-supported management and technical assistance programs

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