

Achieving Financial Resilience

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FISCAL STRENGTH FOR NONPROFITS



Hartford Foundation
FOR PUBLIC GIVING

What is nonprofit financial resilience?

When are times a nonprofit might 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

Type of Capital

Capacity Goal

Operating Reserve /
LUNA

Liquidity

Security

Facility Reserves

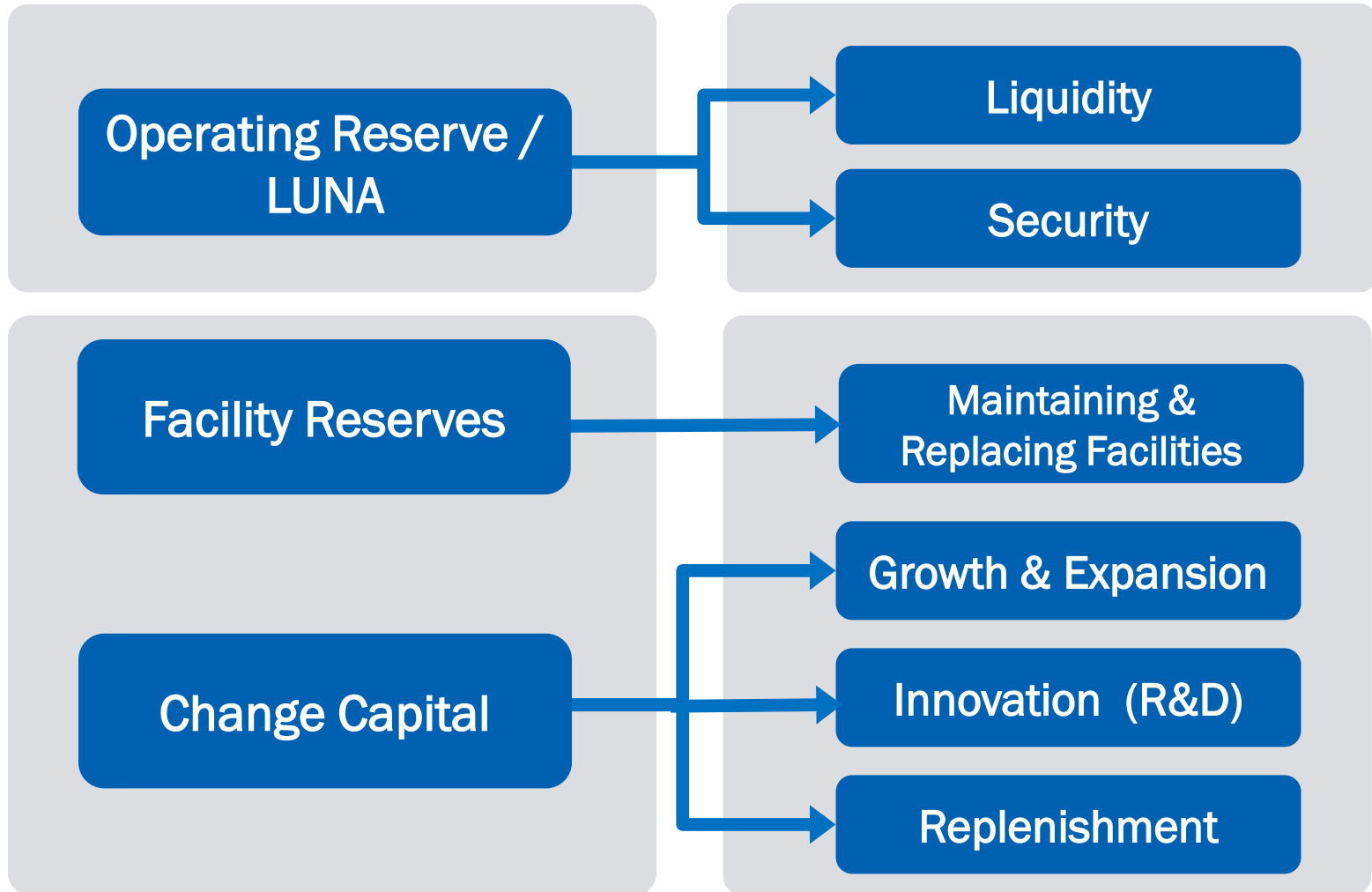
Maintaining &
Replacing Facilities

Change Capital

Growth & Expansion

Innovation (R&D)

Replenishment



Capital for Change & Security: LUNA

Unrestricted net
worth



Unavailable
net worth



Operating
reserves

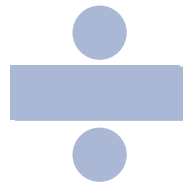


Months of LUNA

What is spent on
average per
month

Operating
reserves

Months of
LUNA



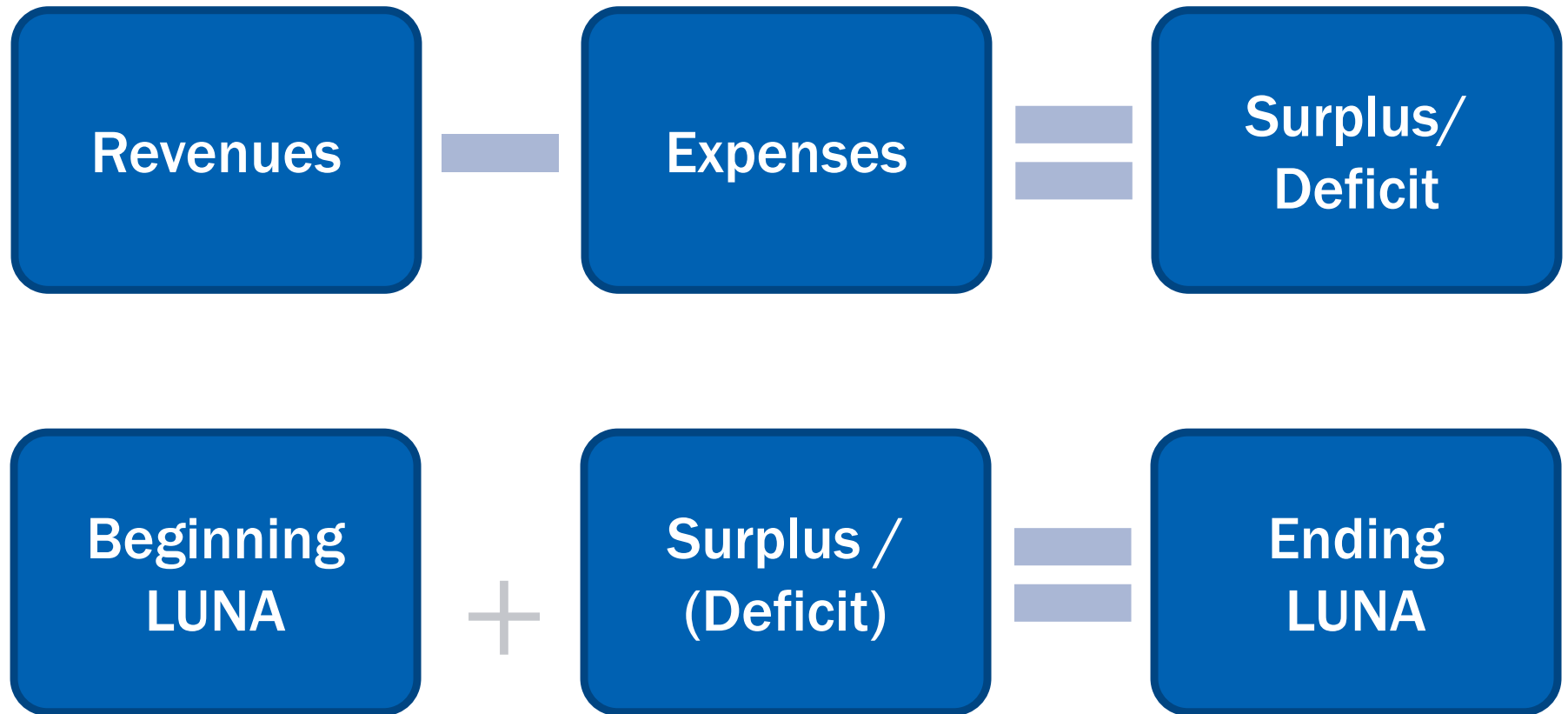
NONPROFIT ORG, INC.

STATEMENT OF FINANCIAL POSITION

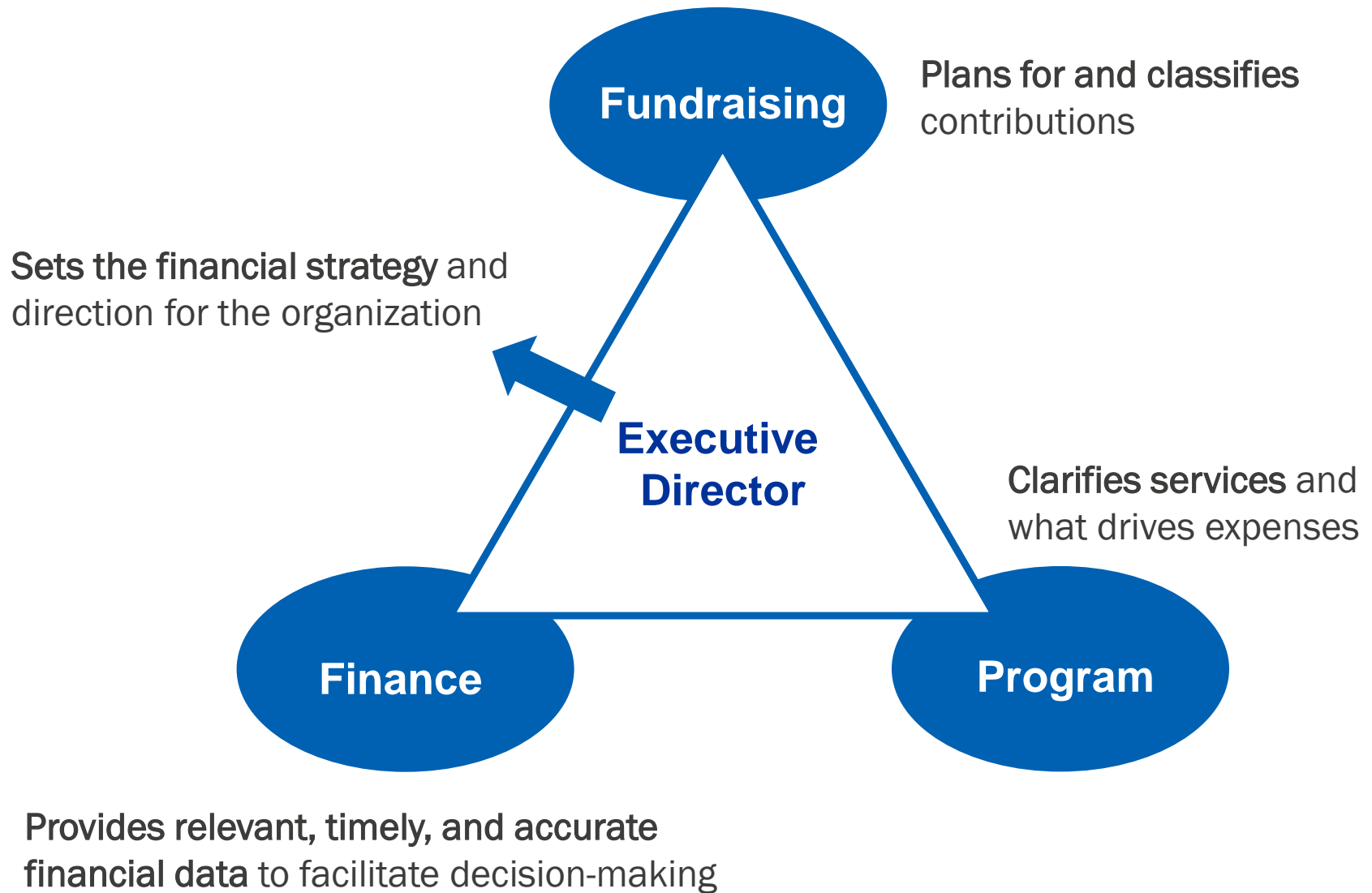
JUNE 30, 2018 and 2017

ASSETS			
		<u>2018</u>	<u>2017</u>
Assets:			
Cash		\$274,139	\$297,389
Pledges and contracts receivable		200,000	210,000
Prepaid expenses		<u>17,000</u>	<u>22,000</u>
Total Current Assets		491,139	529,389
Property and equipment, net of accumulated depreciation \$27,505		39,393	64,393
Other Assets - security deposit		<u>12,000</u>	<u>12,000</u>
Total Assets		<u>\$542,532</u>	<u>\$605,782</u>
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		<u>10,500</u>	<u>9,750</u>
Total Current Liabilities		91,378	228,304
Long-term debt		<u>160,744</u>	<u>170,494</u>
Total Liabilities		<u>252,122</u>	<u>398,798</u>
Net Assets:			
Unrestricted		(38,427)	114,417
Temporarily restricted		<u>328,837</u>	<u>92,567</u>
Total Net Assets		<u>290,410</u>	<u>206,984</u>
Total Liabilities and Net Assets		<u>\$542,532</u>	<u>\$605,782</u>

Resources: Sustainable Business Model



Resources: Effective Leadership Team



PRACTICES

Financial Resilience in Nonprofit Organizations



..... **PRACTICES**

Practices: Financial Planning

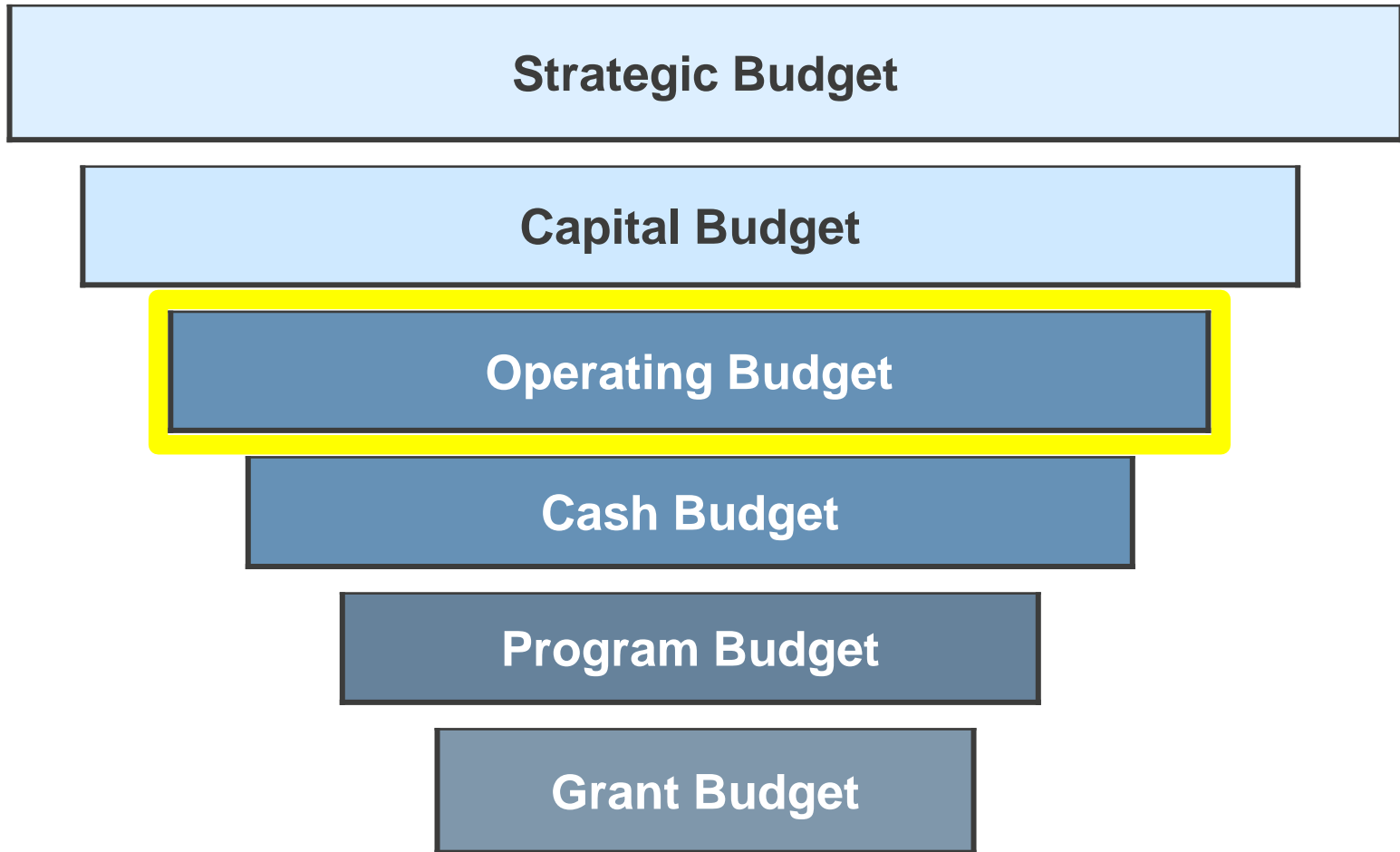
What is Financial Planning?

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



Types of Expenses

Natural and Functional Expenses

Natural Expenses

Expenses classified by the *nature* of the expense:

- Salaries
- Rent
- Utilities
- Supplies

Functional Expenses

Expenses classified by the *type of activity* for which the expense was incurred:

- Programs
- Management and general
- Fundraising

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

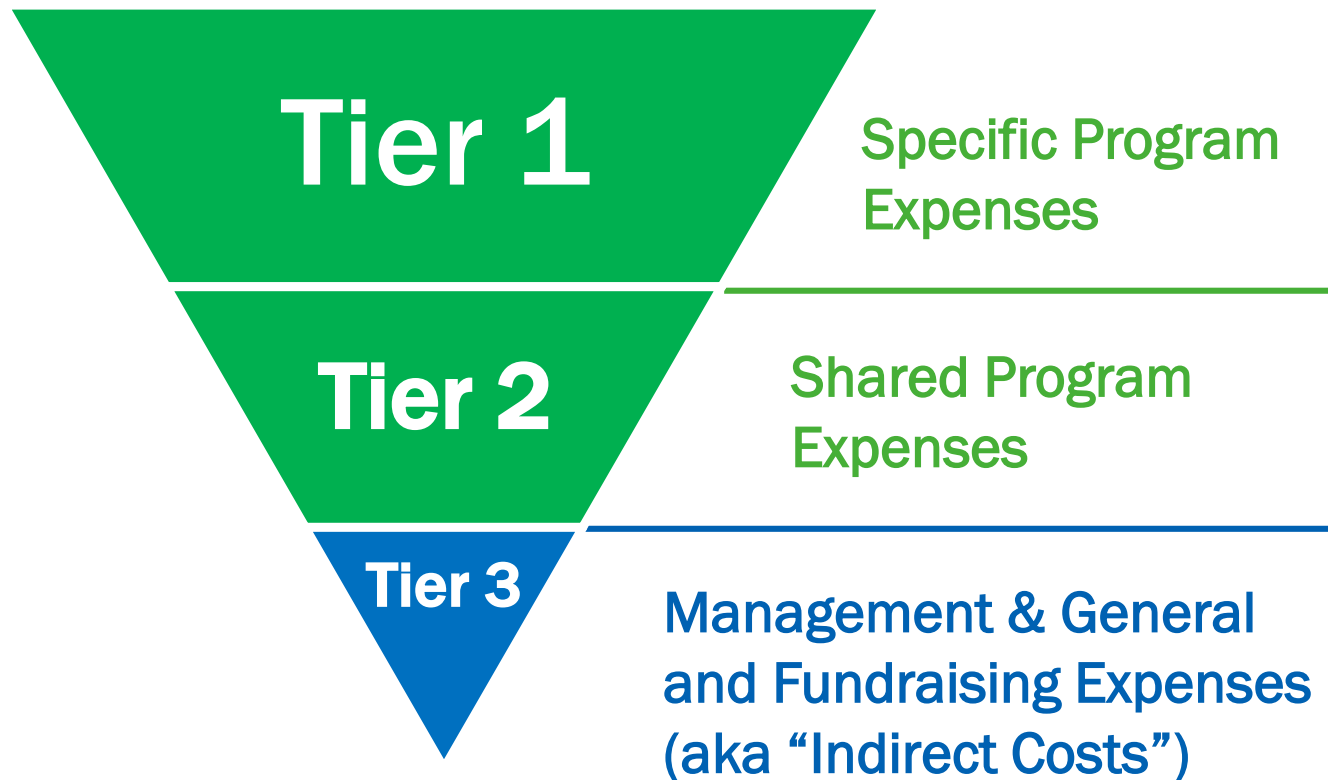
Shared Expenses

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

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
<i>Total Expense</i>	210,944	178,937	59,535	38,684
				
	389,881		98,219	

$$98,219 \div 389,881 = 25\%$$

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)

True Cost The National Conversation



THE **OVERHEAD** MYTH
MOVING TOWARD AN OVERHEAD SOLUTION

Forefr^{Ont}
Real Talk About Real Costs

The Bridgespan Group

Pay-What-It-Takes Philanthropy

Philanthropy CA
**Full Cost
Project**
Real Costs. Real Outcomes.

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?



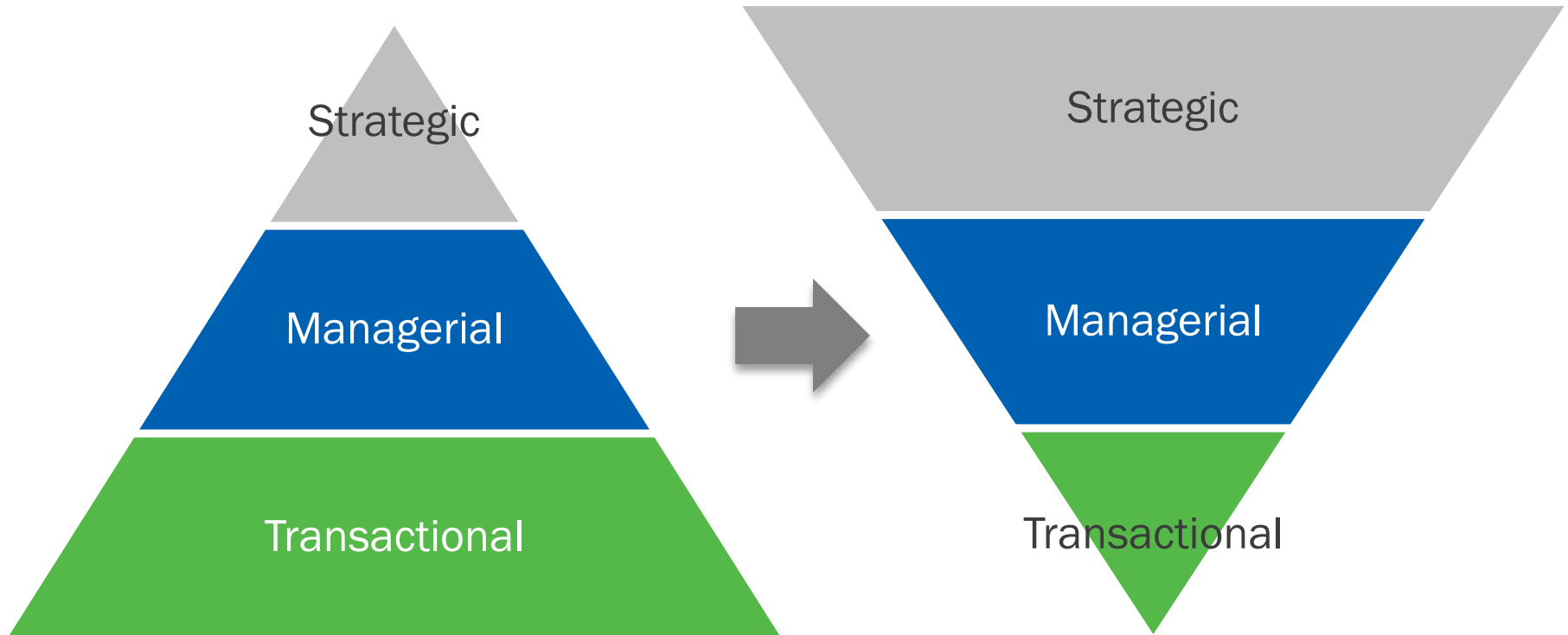
Practices: Operations

Strategic

Managerial

Transactional

Practices: Operations



Practices: Performance Management

Who Should Receive Financial Reports?

Monthly	Quarterly
Executive Leadership	Board of Directors*
<ul style="list-style-type: none">• Performance Dashboard• Budget-to-Actual Revenue & Expenses for<ul style="list-style-type: none">(a) each program(b) organization-wide• Statement of Activities• Balance Sheet and supporting schedules• Cash Flow Projection• Year-end Forecast	<ul style="list-style-type: none">• Management Narrative• Performance Dashboard• Budget-to-Actual Revenue & Expenses for<ul style="list-style-type: none">(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

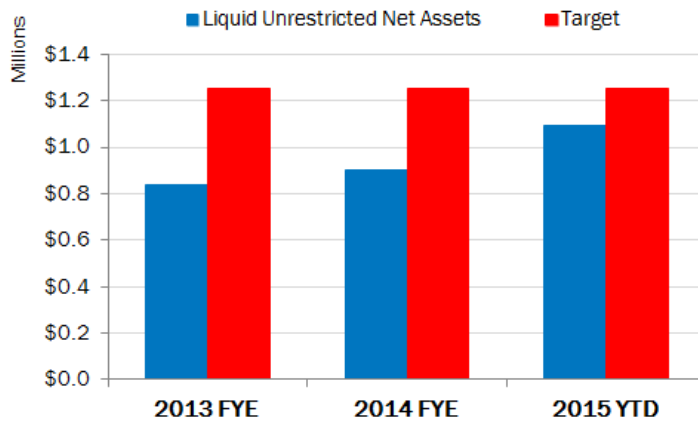
Practices: Performance Management

Reporting Period: June

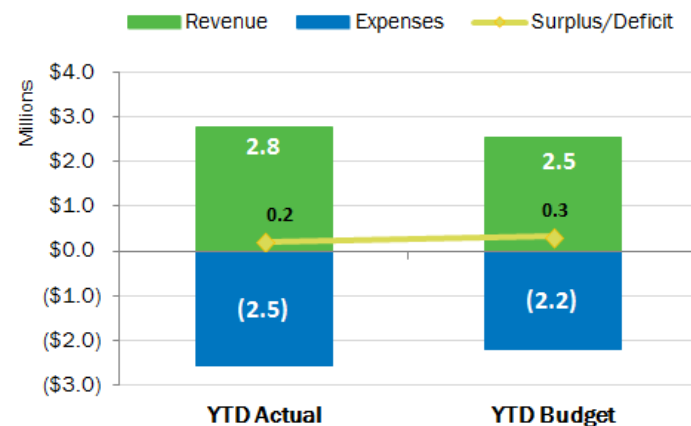
Fiscal Year End: December

Financial Performance

Liquid Unrestricted Net Assets (LUNA)

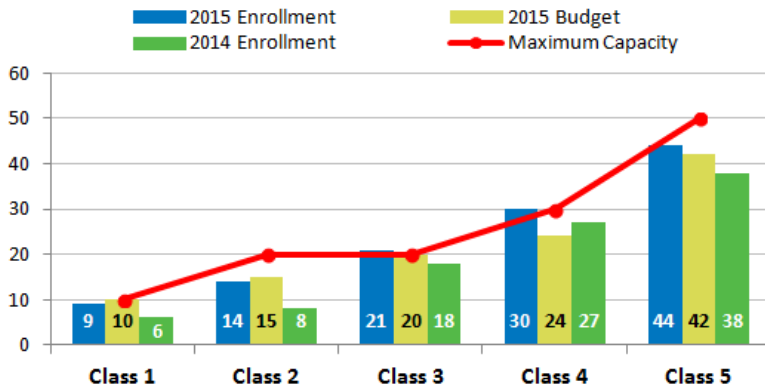


Fiscal YTD Operating Results

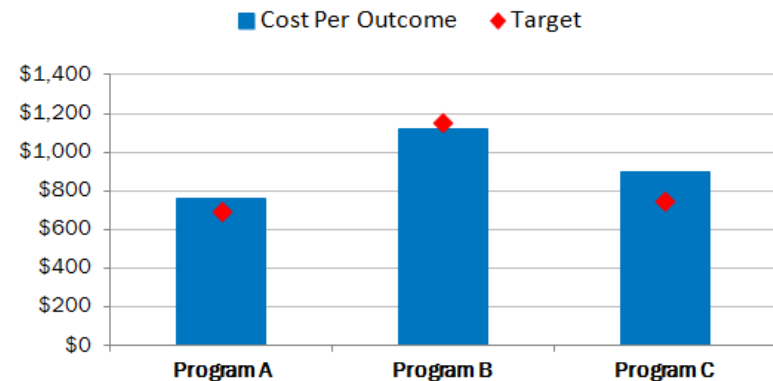


Program Enrollment & Outcomes

Youth Program: Enrollment



Cost Per Outcome



VALUES

Financial Resilience in Nonprofit Organizations



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:
<http://www.nynp.biz/index.php/strengthening-nonprofits/10505-the-key-to-long-term-financial-health-liquid-unrestricted-net-assets-luna->
- *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/#sthash.vz0CAXOZ.dpbs>

Resources

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](#)



The screenshot displays the 'Resources for Nonprofit Financial Management' page. At the top, a green navigation bar contains the text 'The Wallace Foundation / Knowledge Center / Resources for Nonprofit Financial Management' and links for 'Share', 'Print', and 'Email'. Below this, the main heading 'Resources for Nonprofit Financial Management' is shown in a large, purple font. A search bar with the placeholder 'Search Financial Management Resources' and a 'GO' button is positioned to the left of a large background image showing a group of people in a meeting. Below the heading, a horizontal menu with green buttons lists 'Overview', 'Planning', 'Monitoring', 'Operations', 'Governance', and 'All Resources'. The 'Planning' button is currently selected. On the left side, under the heading 'SHOW:', there are three checked checkboxes: 'General Resources', 'Tools and Templates', and 'Case Studies'. The main content area features the title 'Planning Resources for Nonprofit Financial Management' followed by a descriptive paragraph: 'Good planning finds the most effective ways to deploy your organization's resources – and meet your overall objectives. Materials here include help with budgeting, cost calculations and cash projections.' At the bottom of this section, a blue link reads 'Strengthening the Budget Development Process'.

The Wallace Foundation / Knowledge Center / Resources for Nonprofit Financial Management

Share | Print | Email

Resources for Nonprofit Financial Management

Search Financial Management Resources **GO**

Overview | **Planning** | Monitoring | Operations | Governance | All Resources

SHOW:

- ☒ General Resources
- ☒ Tools and Templates
- ☒ Case Studies

Planning Resources for Nonprofit Financial Management

Good planning finds the most effective ways to deploy your organization's resources – and meet your overall objectives. Materials here include help with budgeting, cost calculations and cash projections.

[Strengthening the Budget Development Process](#)



- Established in 1999 to serve not-for-profit organizations around the country
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