



Financial Management Training Series

Session # 6

Performance Management

Participant Manual

Initiative Overview

Hartford Foundation for Public Giving’s team and [Fiscal Management Associates](#) (FMA) have partnered to deliver a Financial Management Training series (October 2020 – February 2021) to increase the **financial and operational stability and resiliency** of a cohort of organizations. Together, we believe that if organizations are rooted in a sound financial position and develop discipline around financial and operational practices, then they will be better positioned to deliver innovative programs in support of their mission. Through virtual convenings, and coaching, organizations in this cohort will work towards becoming more durable and resilient in the face of challenging times.

Key Program Activities

Each organization participates in the following:

- Organization **pre-assessment** for baseline capacity and financial practices
- Development of a **multi-year financial health trends analysis** for each participant
- Hands-on **learning activities** in a workshop setting, and as part of a **series of virtual convenings**
- **Coaching** geared toward creating space for each organization’s specific context and helping leaders hold themselves accountable

Core Topics



Today's Session: Performance Management

Agenda

Performance Management

Finance Team and Communication
Reports and reporting best practices
Financial Storytelling

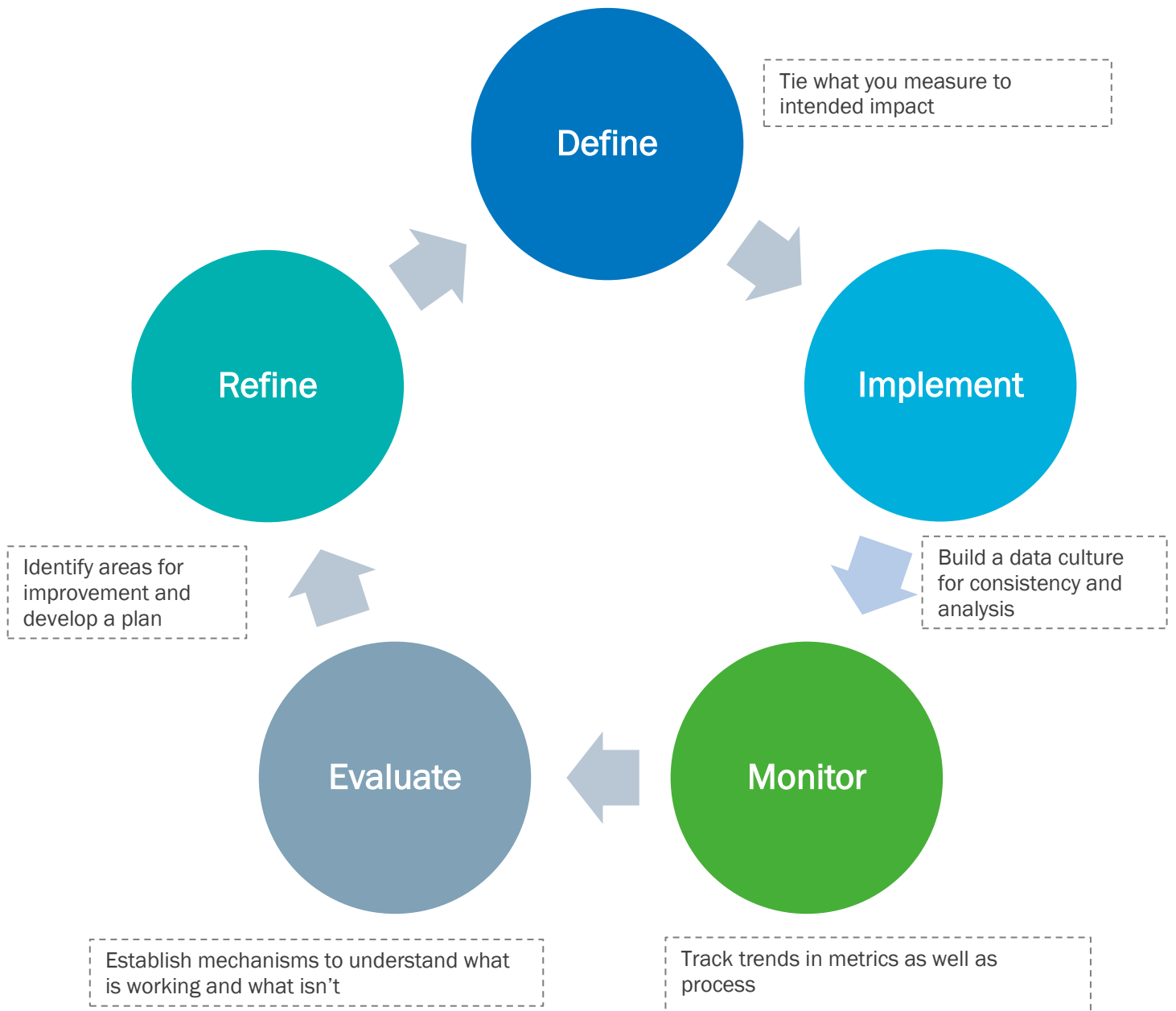
Activity: Homework Review

Homework Review

- With your leadership team, complete the **Internal Controls Self-Assessment Checklist** (page 24 of participant manual from Session 5). Discuss areas of strength and those that require attention

Internal Controls	Is this automated?	Is this a Current Practice?
Purchasing		
• Purchases are properly authorized prior to purchase		<input type="checkbox"/>
• Competitive Bids are obtained for large purchases		<input type="checkbox"/>
• All goods and services paid for have been received <u>prior</u> to payment		<input type="checkbox"/>
• Disallowable expenses are considered when purchasing for contracts		<input type="checkbox"/>
• "Encumbrances" are monitored against approved budgets		<input type="checkbox"/>
<i>Efficiency Goal: Consider implementing a paperless document routing and approval process</i>		<input type="checkbox"/>

Performance Management Cycle



The Finance Management Team



Creating a Common Team Around The Numbers

What Program & Development Need from Finance:

- A calendar with specific deadlines
- Standardized, regular communication around cash flow
- Transparent access to the status of purchase requisitions, payments, etc.
- Financial reports that are mutually agreed-upon, issued on standardized dates, and have clarity around what is controllable and what are action items
- An understanding of the level of complexity involved in fundraising efforts

What Finance Needs from Program & Development:

- Timely submission of data (timesheets, receipts, invoices)
- Program staff to be trained on how to read financial information
- Notification of staffing changes
- Proposals written in a way that doesn't "over-restrict" funding
- Communication from Development on the restrictions related to grants

The Partnership Between Development & Finance

- **Understanding Roles:** Ensure members of each team understand the other's roles, responsibilities, and relevant deadlines
- **Terminology:** Agree on common revenue terminology and use the same language across both departments
- **Reconciliation:** Outline the terms of a successful reconciliation process, includes roles & timeline
- **Communications:** Institute a schedule of standing meetings between Finance & Development Staff

Strategies for Success:

- Come together across departments to agree upon reporting formats and calendar
- Increase inter-departmental dialogue
- Provide education for Finance team on what it takes to fundraise successfully
- Come to agreement on how to categorize revenue (i.e. events vs. corporate donations)
- Integrate the donor database and the accounting database

Financial Reports Best Practices

Internal financial reports should present information in a way that addresses the needs of the end-user, including the leadership team, board members, program directors and/or other department managers. This is best accomplished by including stakeholders in the design of reports. Reports should be distributed on a regular basis (i.e., monthly) and ideally should inform decision-making at all levels of the organization.

Designing Effective Financial Reports

Financial reports should be designed to:

- **Meet the needs of the intended audience.** Think about what information is important for the intended audience to know and what decisions should they consider. As an example, the board should have a big-picture view of the financial results. Insignificant line-item variances could steer conversation into operations territory. Instead of sharing detailed line-items (e.g. electricity) roll-up items into categories that provide a more strategic view (e.g. facilities). Where needed, additional information can be provided at the line-item level.
- **Deliver information in a user-friendly format.** If you have to tape together multiple printouts to read the financials, there is likely too much information being presented at once. Even small design elements, such as formatting the report to print on a page, can go a long way for users. Instead of making the main points a game of hide and seek, use graphs and colors to highlight the most important numbers and/or trends.
- **Use categories and captions that make sense and are consistent across the organization.** List items on the Balance Sheet and Statement of Activities (or budget vs actuals) with labels that are descriptive and meaningful. If there are often questions about what a line item includes, the name may not represent the activity. When something like earned revenue is called out on one report but included as part of “other” on another report, it can create confusion about what is included when.
- **Separate controllable from non-controllable costs.** Budget owners should be able to take action based on financial reports. If a program manager has a report with a program expenses in the same line, it is unlikely to be useful since that is likely the only line the individual can control.

Example: Controllable vs. Non-controllable Expenses for Programs	
Expenses Program Staff Typically Do Not Control	Expenses Program Staff Typically Control
<ul style="list-style-type: none"> • Rent • Utilities • Telephone expense • Other “shared” expenses allocated to program 	<ul style="list-style-type: none"> • Transportation for participants • Consultants/contracted professionals delivering program services • Food for participants • Program supplies • Travel expenses for program staff

- **Make decisions.** Order the financial reports and/or narrative with the most important items first that need to be discussed by the group for whom the reports are created.
- **Compare against where you want to be.** Reports containing information on revenue and expense should show results for the current period in the context of key points of comparison, such as:
 - Amounts budgeted for the same period
 - Actual results from the same period a year earlier
 - Projection for the end of the year

Financial Report Timing

Balance timeliness with the expectation of accuracy, which is a trade-off. Timely reports are important to make operational decisions and ensure proper coding. However, if the goal is to achieve 100% accuracy and prepare a mini-audit every month, reports will likely not be timely. Set expectations for the level of accuracy—using estimates where appropriate—in the spirit of timeliness.

Leadership should ensure that roles and responsibilities in the process of reviewing, analyzing, and communicating financial information are understood by all involved and that financial reports are designed to best facilitate this process.

Internal vs External Reports

Internal Reports

Shared with Board & Management on a regular basis

- Budget-to-actual (revenue and expense): a side-by-side comparison of the budgeted revenue and expense drivers against actual revenue and expense to date.
- Statement of Financial Position (Balance Sheet): a summary of the organization's financial balances
- Statement of Activities (Profit & Loss): revenue and expense report which often details restricted vs unrestricted activities.
- Cash flow projections: a detailed breakdown of anticipated cash ins and outs; often projected 3-6 months. [Find a template here.](#)
- Management narrative: a written document highlighting challenges, opportunities, and risks to the financial health of the organization.

External Reports

Shared with external stakeholders as required or at the discretion of the organization

- Independent Financial Audit: A written opinion on the presentation of the organization's financial statements following a series of procedures by an independent professional accountant used to test, on a selective basis, transactions and internal controls in effect.
- IRS Form 990: The most publicly available document about an organization, this form is the information return for organizations exempt from income tax.

Financial Reports by Audience

Who Should Receive Financial Reports and When?

A Good Starting Point:

Staff: Monthly	
Program & Operations Managers*	Executive Team**
<ul style="list-style-type: none"> Performance Dashboard Budget-to-Actual Revenue & Expenses for the program(s) or function(s) and grants/contracts they oversee 	<ul style="list-style-type: none"> Performance Dashboard Budget-to-Actual Revenue & Expenses for <ol style="list-style-type: none"> each program organization-wide Balance Sheet <ol style="list-style-type: none"> Accounts Receivable Aging Accounts Payable Aging Components of Net Assets with Donor Restriction ★ Cash Flow Projection ★ Year-end Forecast ★

*Includes Development, HR, IT, and other department managers, as applicable

**For small organizations, only the ED/CEO would receive this package of reports

★ [Tool available on www.strongnonprofits.org](http://www.strongnonprofits.org)

Financial Reports by Audience

Board

A Good Starting Point:

Monthly*	Quarterly
<p style="text-align: center;">Finance Committee</p>	<p style="text-align: center;">Full Board of Directors</p>
<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 ▪ Balance Sheet <ul style="list-style-type: none"> a) Accounts Receivable Aging b) Accounts Payable Aging c) Components of Net Assets with Donor Restriction ★ ▪ 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 ▪ Balance Sheet ▪ Year-end Forecast ★

*Larger organizations may opt to only provide reports to the Finance Committee on a quarterly basis

★ *Tool available on www.strongnonprofits.org*

Financial Monitoring & Using Financial Reports

Using Financial Reports to Analyze Results

When analyzing reports, the end-user should determine whether differences between budgeted and actual results are driven by true variances, as opposed to timing differences. In the process of reviewing financial reports, key representatives from Executive, Programs, Development, & Finance teams should:

- Identify problem areas
- Determine action steps
- Assign responsibilities and a timeframe for carrying out any corrective action

Members of the finance team should schedule **regular meetings (monthly or quarterly)** to review and discuss reports with end-users, focusing on:

Backward-looking:

- Budget to Actual Variances
- Rate of spending on contracts (if applicable)
- Completion of activities funded by restricted grant

Forward-looking:

- Cash flow projections
- Revenue Projections and pipeline
- Anticipated future spending and/or cost control efforts

If staff members need support in analyzing financial reports or using financial data to inform decisions, consider incorporating training on financial monitoring into professional development plans.

Financial Decision Making Meetings: Action Steps

- **Form the team:** Includes key representatives from Finance, Program, Development, Executive Leadership and other departments
- Establish a **meeting calendar** with specific dates, times, and topics for discussion/decision
- Ensure the **right data and reports** are available 2-4 days prior to the meeting for review by participants
- Take note of **agreed-upon action steps** and circulate immediately after the meeting

Reviewing Financial Reports: Questions to Ask

Balance Sheet

- **LUNA:** what are available LUNA balances to provide flexibility?
- **Restricted Net Assets Balances:** what is the balance of temporarily restricted net assets compared to unrestricted net assets?
- **Unrestricted Net Asset Change:** are operations generating surplus or deficits? Are deficits planned or unplanned?

Budget vs Actuals

- **Revenue:** what is the composition of revenue by source?

Cash Flow Report

- **Cash Balance:** is there enough cash to cover daily operations?

Contract Management Report

- **Contract Spend Down:** how much funds are remaining to be spent down, and by when?

Financial Storytelling

“When we consider responding to a challenge with purposeful action, we ask ourselves two questions: why and how. Analytics helps answer the ‘how question’—how to use resources efficiently, detect opportunities, compare costs, and so on. But to answer the ‘why question’—why this matters, why we care, why we value one goal over the other—we turn to narrative.”

~Marshall Gantz, *Leading Change: Leadership, Organization, and Social Movements*

Trading Spaces Video Clip: <https://www.youtube.com/watch?v=ul4fVgVVpiw>

- What makes Eddie Murphy’s story so compelling?

Tips for Financial Report Narratives

- Write it in plain English, not accounting lingo!
- Get straight to the point. Highlight the most important numbers or metrics to inform decision making.
- Keep it brief. Make the narrative short enough so your audiences can read the whole thing
- Keep it relevant. Where possible, tie financial information with programmatic metrics so your audiences can understand the connection.

My Organization’s Financial Story:

- Is **accurate** and based on current, relevant data
- Headlines key **successes** and **challenges**
- Explains **past trends** and gives insight into the future
- Is **accessible** and easy to understand
- Has been tailored to the interest and needs of its **audience**
- Utilizes **visual** tools
- Addresses **weaknesses** and anticipates **questions**
- Has a clear **call to action** for its audience
- Is connected to the organization’s **mission**

Activity: Reporting for Various Audiences

Instructions:

- You will be broken into random breakout groups
- As a group, discuss the needs of your assigned stakeholder, reflecting on the following questions:
 - What are their interests?
 - What do they want to know?
 - What types of decisions do you need them to make?
 - What are their biggest concerns or fears?
- You have 10 minutes for the discussion
- Assign a reporter to transcribe your thoughts onto Padlet

Resource: StrongNonprofits.org

Resources www.strongnonprofits.org

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

StrongNonprofits Toolkit

Resources to strengthen your nonprofit financial management

Toolkit Home Budgeting **Cash Flow** Audit Readiness Operations Data and Analysis Governance and Strategy



- Understanding Cash Flow
- Cash Flow Projections
- Cash Flow Projections (Basic)
- Next Steps

Cash Flow

Once you have completed your annual budget process, these tools can help your team translate your newly minted operating budget into a detailed cash flow projection over the course of a fiscal year.

Optional Homework: Financial Narrative Template

Summary of Financial Results

Organization:

Date:

Our organization received a “clean” or “unqualified” audit opinion for [\[fiscal year\]](#); this is the highest level of assurance an audit firm can issue. While a clean opinion is something for which we strive, the opinion alone does not tell stakeholders much about “how” [\[organization name\]](#) is doing financially. Therefore, we would like to call attention to a few key financial indicators that give a more complete picture of the organization’s financial health.

Operating Results

One of the most important indicators of financial health is the organization’s ability to break-even or generate an operating surplus each year. Our total unrestricted revenues [\[exceeded/failed to cover\]](#) our total expenses in [\[#\]](#) of the past two years. The organization had a [\[surplus/deficit\]](#) of [\[\\$ ____\]](#) in [\[year 1\]](#) and a [\[surplus/deficit\]](#) of [\[\\$ ____\]](#) in [\[year 2\]](#). This trend indicates [\[the organization’s success at building towards a sustainable future / a struggle to keep expenses in line with revenue / other...\]](#)

[\[If there was an operating deficit this year, describe how the deficit was funded. Consider the following options in your answer:](#)

- [Tapped into available liquid unrestricted net assets \(i.e. operating reserves\)](#)
- [Accessed a board fund designated for this purpose](#)
- [Incurred debt](#)
- [Borrowed funds from our endowment or other restricted assets, with the intent to repay\]](#)

[\[If there has been a negative trend in operating results over time, please explain your organization’s plan to address this trend going forward.\]](#)

Investment of Resources

We have an allocation plan that we use to distribute expenses across the three functional categories: program, management and general (M&G), and fundraising. Our allocation methodology is driven by [\[staff level of effort, square footage, etc.\]](#). Direct expenses are charged to the appropriate program or function. Shared costs – such as rent, utilities, and insurance – are then allocated to each of the functions based on the [\[staff level of effort, square footage, etc.\]](#) percentages. As a result of this process, our Statement of Functional Expenses shows that program expense makes up [\[%\]](#) of our total expenses. M&G expense makes up [\[%\]](#) of our total expenses and fundraising expense making up the remaining [\[%\]](#) of the total. This approach to calculating and presenting expenses on a functional basis is [\[consistent/inconsistent\]](#) with the presentation in prior years [\[if inconsistent, insert explanation here and indicate how the allocation methodology has changed\]](#).

As you can see from our most recent Statement of Functional Expenses, [\[insert a statement about the program the foundation is funding, if applicable\]](#).

Availability of Liquid Reserves

An organization's Liquid Unrestricted Net Assets (LUNA) – also referred to as “operating reserves” – is the portion of unrestricted net assets that can be converted to cash relatively easily. It is a measure of funds available to an organization for guarding against downturns, pursuing new opportunities, and providing working capital in times of low cash flow. This is the portion of Unrestricted Net Assets not designated by the Board of Directors for a particular purpose, or otherwise invested in fixed assets.

As of our most recent financial statements, [\[organization name\]](#) had [\[\\$_____\]](#) of LUNA, enough to cover approximately [\[#\]](#) months of operating expenses. This is [\[above/within/below\]](#) the 3-6 month recommended benchmark. Our LUNA has [\[increased/decreased\]](#) over the past two years due to [\[the accumulation of annual operating surpluses/successive operating deficits\]](#).

[\[If there has been a trend of declining LUNA over time, please explain your organization's plan to address this trend going forward.\]](#)

[\[If the organization's total unrestricted net asset balance is negative, please describe the long-term plan to address this issue.\]](#)

Although our permanently restricted net assets amount to [\[\\$_____\]](#) as of the end of the fiscal year, we recognize that these funds are not available for internal borrowing.

Our Most Recently Completed Fiscal Year [\[Optional\]](#)

[\[If a full fiscal year has taken place since the close of the audited fiscal year being discussed in this memo, provide an update on the financial results from this most recent year. Did the organization have an operating surplus or deficit for that year? Was the allocation of resources consistent with the description above? How did this interim unaudited year impact LUNA for the organization?\]](#)

Plans for the Future

Based on the metrics described above, [\[organization name\]](#) is currently in a [\[very stable/stable/somewhat tight/troubled\]](#) financial position and will focus on the following areas to [\[maintain/build\]](#) our financial sustainability for the future:

- For the upcoming fiscal year, we plan to [\[generate an operating surplus/intentionally run an operating deficit\]](#) in order to [\[insert plans/goal here\]](#).
- [\[If you have reserves, explain how the funds will be used/invested/managed going forward. If you don't have them, explain the plan to build reserves\].](#)
- We plan to [\[maintain/increase\]](#) liquidity by [\[insert plans/goal here\]](#).

Appendix: QuickBooks Tips for Easier Reporting

The setup of your accounting software plays a critical role in being able to produce timely, usable reports that meet stakeholder needs. While QuickBooks is commonly used in the nonprofit sector, it is not a fund accounting package. Therefore, tracking restricted funding in QuickBooks is a manual process. Additionally, it uses for-profit terminology (e.g. customer, sales, etc.) which means that the set-up and financial reporting require some customization and/or translation.

Structure

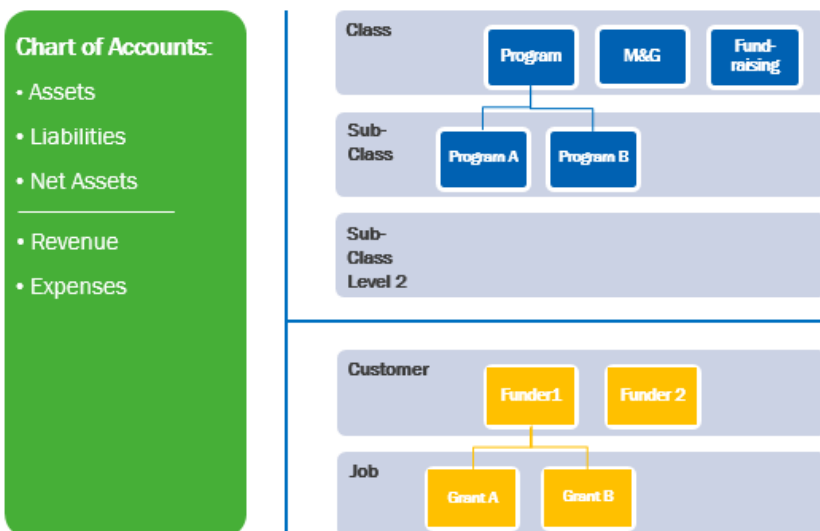
The below is a recommend way to track revenue and expense in QuickBooks. This structure is applicable to various QuickBooks versions includes PC desktop, Mac desktop and QuickBooks Online.

Chart of Accounts: Includes assets, liabilities, net assets, revenue, and natural expense categories. (Refer to the Unified Chart of Accounts, for a best practice format for nonprofits - <http://www.notforprofitaccounting.net/wp-content/uploads/2008/08/ucoa.pdf>). Header accounts can be used to more easily run rolled-up reports.

The Chart of Accounts should have as few as possible repeating items if the dimension can be captured elsewhere. For example, it is not necessary to have a “salary” expense for each and every program/function (e.g. Salary – Program A, Salary – Fundraising). Instead, the programs/functions can be setup as classes and reports can be run with and without the class dimension.

Class/Subclass: Programs/Functions can be setup as classes. Subclasses can be used if needed.

Customer/Job: Funding sources can be identified as “customers” and specific grants and/or contracts with line-item budgets can be listed as “jobs” under the customer.



Budgets

Entering budgets into QuickBooks facilitates easier budget-to-actual reporting. There are three types of budgets in QuickBooks, which are all independent of one another:

1. Budget by revenue and natural expense category (operating budget)
2. Budget by Class/SubClass
3. Budget by Customer/Job

Budget Types

