Twelve Golden Rules of Nonprofit Finance

MCN Annual Conference
September 25, 2019
Rochester, MN

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Our Mission

Fuel the effectiveness of nonprofits with guidance, expertise, and capital.
What is Financial Health?
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- Financial resources directed to achieve mission
- Sufficient cash to pay the bills
- Reliable income sources that support programs
- Flexibility to try new things and manage surprises
- Adequate investment in facility, technology, and staff development
- Good stewards of all funds received
1. Budgeting

- Budgets matter … budget assumptions matter more

- Assumptions answer the questions
  - *How much* income/expense to expect
  - *Why* it is expected
  - *How* it will be generated/managed

- Realistic budgets use well considered assumptions
2. Program Costs

The school district pays $1,500 for a half day lecture demonstration program.

How much does it cost to provide that program?

a) $ 1,500
b) $ 1,000
c) $ 3,000
d) we have no idea
2. Program Costs

What are program costs?

- Direct program expenses
- Allocated or shared expenses
- Pass-through expenses
- Share of indirect or infrastructure (sometimes called overhead expenses)
3. Diverse Funding Sources

Different types of income require:

• Systems to bring in income

• Operational structures

• Program management approaches

• Relationships with community and funders
3. Diverse Funding Sources

Contributions
- Individual contributions, major gifts, planned giving
  - Grants
  - Grants with donor restrictions
  - Special events

Government Grants & Contracts
- Service delivery contracts

Earned Revenue
- Program service revenue
- Social enterprise
### 3. Diverse Funding Sources

Not all contributed income is the same. Contributions may have restrictions based on donor intent and direction.

<table>
<thead>
<tr>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
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<tbody>
<tr>
<td>• Funds available for general use</td>
<td>• Funds in which restrictions expire over a defined period or time or by performing defined activities – often program grants</td>
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<td>• Funds in which the principal remains intact (in perpetuity), but investment income can be used – often endowment or scholarship fund</td>
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4. Core Mission Support (aka Overhead)

- Core Mission expenses are...
  - Functional expenses
  - General & Administrative and Fundraising
  - GAAP and IRS requirements

- Differences in definition of overhead

- Role of overhead in achieving mission
Retire this Pie Chart

Infrastructure seen as diminishing “real” work of our mission.

Work vital to nonprofit organizations needs to be communicated.
Core Mission Support

Program 1
- Direct Program Expenses
- Shared Direct Expenses

Program 2
- Program Supplies
- Building
- Supplies
- IT/Technology

Program 3
- Contracted Program Services
- Website
- Furniture
- Fundraising
- Meeting Expenses
- Grants to Clients
5. Cash Flow

- Day to day, it’s cash in the bank that counts

- Managing cash flow
  - Plan and project
  - Anticipate problems
  - Look for options
  - Monitor and project again
6. Financial Information

- Produce accurate reports
- Understand information
- Analyze information
- Interpret information
- Communicate and use information
7. Financial Responsibility

- Shared throughout an organization

- Frequent tension points:
  - Silo thinking about income and expense
  - Budget culture of hoarding
  - Disconnect between program level and overall
  - Minimal information sharing
  - Financial information mystique

Responsibility needs comparable authority.
8. Operating Reserves

• Why reserves are needed
• How to determine the “right” amount
• How to accumulate reserves
• When to tap into the reserves
• Other types of designated reserves
9. Accountability and Transparency

• Financial information is tangible evidence

• Nonprofits are public charities with tax exempt status, responsible to:
  • Donors
  • Attorney General and IRS
  • Public
10. Financial Integrity

- Mission, values, and culture
- Board adopted policies
- Procedures and systems
- Internal controls
11. Responding to Financial Problems

- The majority of serious organizational problems have a financial aspect
- Financial problems get worse without treatment – and can be fatal
- Mission drives priorities and trade-offs
- Solutions involve interdependent factors
- Plan – authority – decisions – communication
12. Interdependence

- Budgets and Planning
  - Reputation
  - Development
- Program Quality
  - Cash Flow
- Management and Governance
Financial Leadership
Financial Leadership

- Financial health as component of mission
- Importance of organizational culture and communications
- Commitment to integrity in all activities
- Support of financial management function
- Integration of financial decisions in all planning
- Responsibility for information and decisions
Thank you!