Our Mission

Fuel the effectiveness of nonprofits with guidance, expertise, and capital.
What is Financial Health?
## What is Financial Health?

<table>
<thead>
<tr>
<th>Financial resources directed to achieve mission</th>
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<tbody>
<tr>
<td>Sufficient cash to pay the bills</td>
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<tr>
<td>Reliable income sources that support programs</td>
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<td>Flexibility to try new things and manage surprises</td>
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<tr>
<td>Adequate investment in facility, technology, and staff development</td>
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<td>Good stewards of all funds received</td>
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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

What are program costs?

• Direct program expenses

• Allocated or shared expenses

• Pass-through expenses

• Share of indirect, overhead expenses
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
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

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

Overhead = Infrastructure
Retire this Pie Chart

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

Work vital to nonprofit organizations needs to be communicated.
True Program Costs

- Direct Program Expenses
  - Shared Direct Expenses
    - Administrative
      - Fundraising
    - Website
      - Furniture
    - IT/Technology
  - Meeting Expenses
    - Grants to Clients
    - Program Supplies
  - Building
    - Program Supplies
  - Program 1
  - Program 2
  - Program 3: Contracted Program Services
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 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!

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