Building Nonprofit Capacity and Sustainability: A Financial Management Workshop

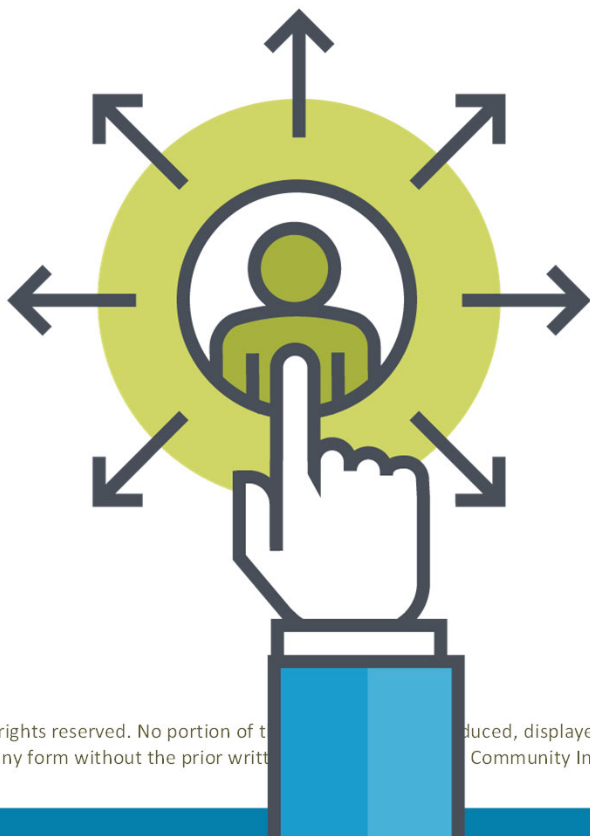
FORWARD
community investments

THANK YOU!!!

Great Rivers United Way

About FCI

Our vision is an equitable and inclusive Wisconsin built on cooperative social action.



Mission

FCI is an investor, connector and advisor for organizations and initiatives that reduce racial and socio-economic disparities in Wisconsin communities.

Goals for Today's Session

- Understand how to link your mission with your budget
- Better understand equity considerations
- Identify ways to monitor organizational financial sustainability
- Learn how to prepare and manage a budget
- Evaluate programs through the financial lens
- Grow your nonprofit

Housekeeping Notes

- This session will be recorded and made available for playback.
- All resources will be shared with all registrants following today's session.
- Have a question? Utilize the Questions, Chat or Hand Raising Features Located on your Zoom Toolbar.
- We will address these questions and comments as they come in.

Agreement with your Peers

- Ask questions and share your opinions
- Participate in the discussions
- Hold what you hear in confidence
- Help each other learn

Mission, Values, Vision, and Strategy

Module 1

Mission

- A statement (generally short and concise) describing the reason an organization or program exists, which is used to guide priorities, actions, responsibilities
- The Mission statement is used to evaluate whether a program or opportunity is “right” for your organization

Values (or beliefs)

- Values are what we believe in

  We need to examine how we live them on a day to day basis

  – Staff

  – Board

  – Organization

Vision Statement

- A vision statement is a succinct sentence that clearly *articulates your nonprofit's aspirational long-term goal.*
- Identifies an aspirational goal or strategic direction.
- Your vision statement is a meaningful first impression.

Moving from Vision to Strategy

- What is the change in condition that your vision requires?
- What change in stakeholder actions are necessary for the conditions to be realized?
- What do stakeholders need to learn?
- What does your organization want to do to create this change?

What is Strategy?

According to David La Piana,
a strategy is a:

"Coordinated set of actions designed to create and sustain a competitive advantage to achieve a nonprofit's mission"

The Nonprofit Strategy Revolution: Real Time Strategic Planning in a Rapid Response World, by David La Piana

Strategy

- Strategy IS NOT the same as planning
- Strategy IS ACTION that creates change and helps your organization achieve it’s goals
- Strategy changes over time depending on conditions in your environment and on your own organizational qualities

Strategy and Equity

- If strategy is ACTION, you need to ensure that the strategies you employ don't have unintended consequences
- After development of strategies, you should look at your plans through an equity lens
- How should you modify your outreach and programming to be as equitable as possible?

Racial Equity

A racially equitable society would be one in which the distribution of resources, opportunities, and burdens was not determined or predictable by race.

Why Apply a Racial Equity Lens?

- " A 'racial equity lens' brings into focus the ways in which race and ethnicity shape experiences with power, access to opportunity, treatment, and outcomes, both today and historically." Grantcraft.org
- "Using a racial equity lens means paying disciplined attention to race and ethnicity while analyzing problems, looking for solutions, and defining success." Grantcraft.org
- A racial equity lens forces us to take an "intentional pause" and consider the potential consequences (*intended and unintended*) of our strategies and related programming.

Strategies vs. Goals

Strategies are **Actions**

Goals focus on **Results**

Developing Goals

Goals: what does your organization hope to accomplish?

Your organization's goals should be SMART!

Strategic

Measurable

Actionable

Realistic

Time bound

Linking Goals to Budgets

Goal:

Related Budget and Finance Considerations:

- What resources do we need to achieve our goal?
- How will we fund this?
- How will we monitor our progress?

Budgeting

Module 2

Budgets

Budgets tie organizational strategies to finances

Basic of Budgeting

- A budget PROJECTS how much income can be realistically earned to cover organizational expenses
- A budget is used to MONITOR actual income and expense performance against what was projected so that you can adjust expenditures where necessary

Budgeting: Fact or Fiction?

Nonprofits must have a balanced budget

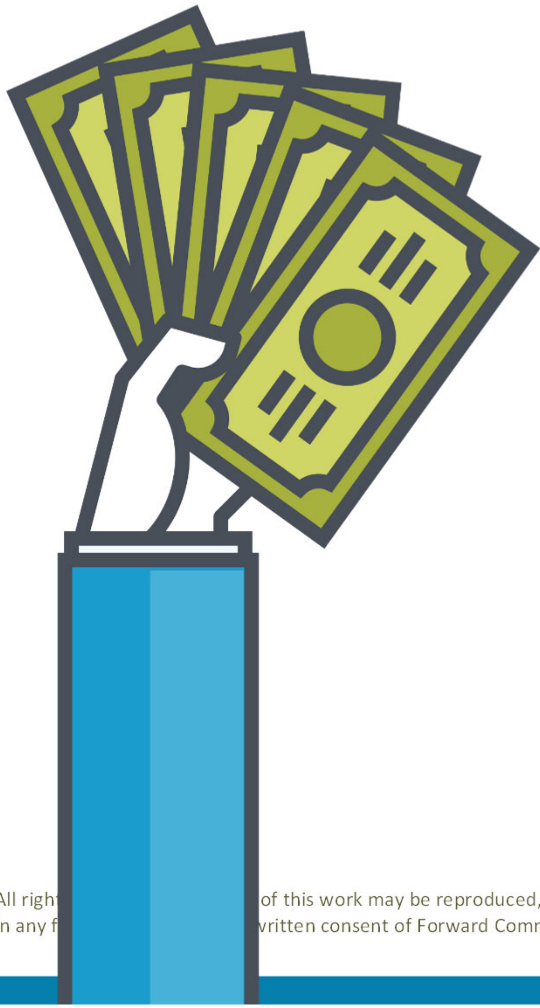
Once the budget is approved, it should not be modified

We can't give staff raises because of the budget

If it's in the budget, I can spend it

The budget has nothing to do with financial health

Financial Health



- A nonprofit should try to generate a surplus so that it can
    1. generate reserves for new programs,
    2. attract and retain staff,
    3. manage cash flow
- You should not spend money you don't have

Budget Types

- Line Item
- Program based
- Income based

….in addition to one of the above, organizations may need to develop a **capital budget**!

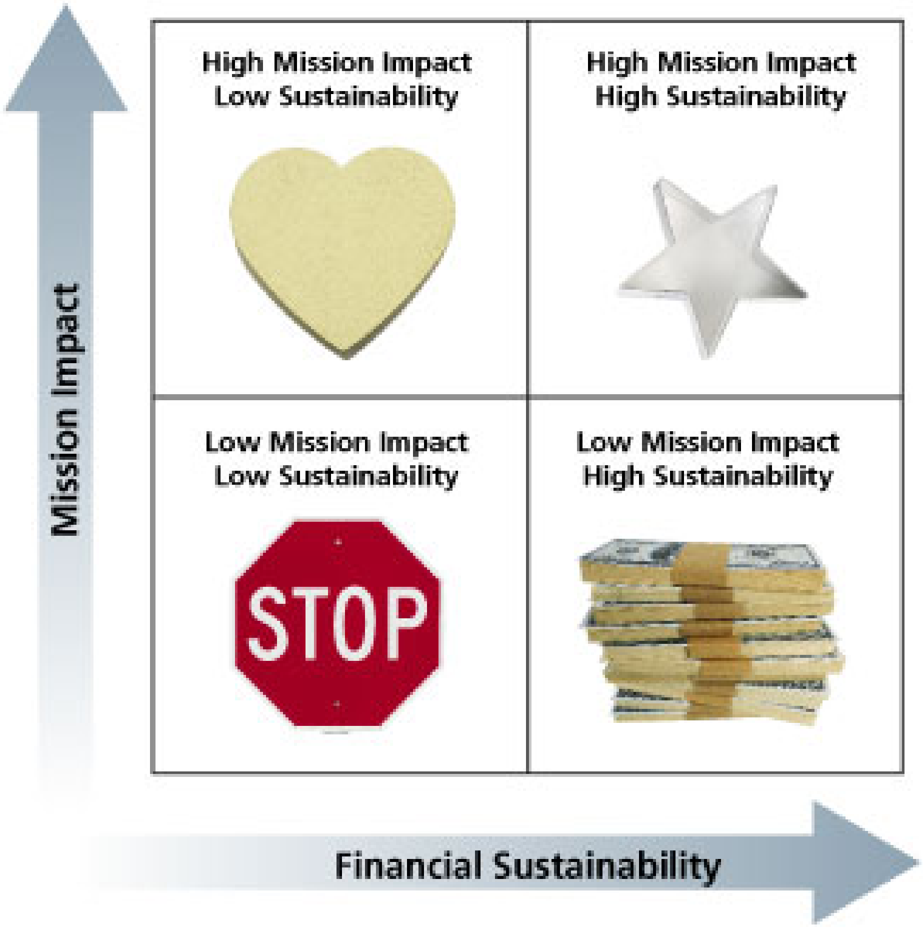
Line Item Budget

- Method of presenting an overall and categorical picture of your organization's income and expense items
- Gives an at-a-glance look at your expected income and expenses for a given period of time
- Generally fine for a small organization with one or two programs

Program Based Budget

- Isolates the expenses of individual programs from one another, so best type of budget for organizations running multiple programs
- Segregates program expenses from general administrative budgets or fund raising
- A program-based budget allows you to determine which programs are self supporting and which require subsidy
- This allows you to make decisions about programming you offer

Dual Bottom Line Matrix



Program Decisions

- Program budgets are an important decision making tool
- This type of analysis supports the notion of "social enterprise", which are likely to be programs that help us meet our mission, but also generate surplus funds.
- We need to acknowledge that we operate certain programs so that we can support those that are critical to our mission, but operate at a deficit.

Income Based Budgets

- This budget starts with realistic income projections
- Using income projections, you can determine the expense side of the budget.
- This type of budgeting works well for programs/activities/organizations first starting out "what can we do with what we have?"
- Works less well when staff are in place and programs are operational
- You should still try to budget a surplus

Capital Budget

- A capital budget is separate from, but tied to our operating budget (i.e., Line Item, Program or Income Based Budget)
- It considers larger expenses that are "one-time" or infrequent expenses
- Think: buildings, land, new technology
- These are items relevant to our work that we have to save or borrow for, but increase productivity or improve our programs
- It needs to be **tied to our operating budget** to the extent we need to save or pay debt service

Preparing and Managing a Budget

MODULE 3

Key Steps

- What is the basic budget process?
- How should your Board be involved?
- How should staff be involved?
- Should we budget for a surplus?
- Should it be put on a shelf?
- Does the budget reflect your mission and values?

Basic Process

- Establish a schedule
- Start with organizational goals; use them to develop your budget
- Develop income and expense projections informed by budget-to-actual variances in current budget
- Determine your main sources of revenue; how certain are you that they will continue?
- Develop expense projections; what is the cost of the status quo? what items are fixed? what are the costs of expanding to meet your strategic goals?
- Compare income projections to expenses. What changes need to be made?
- Make sure your budget is in place before the beginning of your fiscal year

Timing

- Budgeting is really a year long activity!
- Start budget planning 4-6 months before your fiscal year, depending on board meeting schedule
- It is ideal to give your Board a draft budget to review at one meeting, and pass the budget the next

Integrate Strategic Goals

- Look at upcoming goals for the organization
- Which goals have an impact on your budget?
- Translate the goals into "budget"
  - identify the resources required
  - identify any potential income from changes
  - involve staff and board in this step

Income and Expense Projections

- This is a “technical step” and should be done by the person most familiar with your finances
- Budget income first:
  - be realistic, it helps to attach probabilities
- Project expenses next:
  - what are recurring expenses?
  - what will it take to retain your staff?
  - consider expenses by program
- This step should be “surgical” meaning that you are realistic and pragmatic
- Take a careful look at your current budget versus actual to help with this step

Budgeting Income

- As you identify income, you also need to consider the income “type”
- Is the income restricted?
- Is the income reimbursement based?
- Are there conditions associated with the income?
- Does your income “type” match up with your expense “type”?

Budgeting Expenses

- Salaries are generally a large part of expenses
- If you operate several programs, you may need to "allocate" expenses to various programs or activities. This may require using timesheets
- Consider which expenses are fixed and which are flexible

Analysis

- Analyze the results of the income and expense projections
- Consider how the addition of new goals and activities might impact these numbers
- Meet with staff; help them identify realistic modifications to these numbers—what can they live with?
- Involvement of staff depends on your organizational culture, but generally those with daily decision making that impacts the finances should be involved

Draft Budget

- Put the whole thing together to create an initial budget
- This budget is realistic, incorporates new strategic goals, and the staff supports it
- Develop a summary budget to present to the Board—this does not need to include details, but should include a listing of the assumptions used to develop the budget (e.g., you may not want to present salary expenses by individual, but state that salaries were increased between 2-4 percent depending on performance)
- Present summary budget to the board
- Review the budget with appropriate staff and make sure that all program managers support what is presented

Board Review

The board should:

- Understand each line item in the summary budget
- Understand how projections are made
- Question assumptions used to develop the budget
- Make strategic decisions about the budget

The board should have a clear understanding of the implications of the final budget for them:

- what are the fund raising responsibilities they are taking on?
- they have fiduciary responsibility, so they need to comfortable that the budget is realistic
- the budget will serve as the basis for organizational financial management

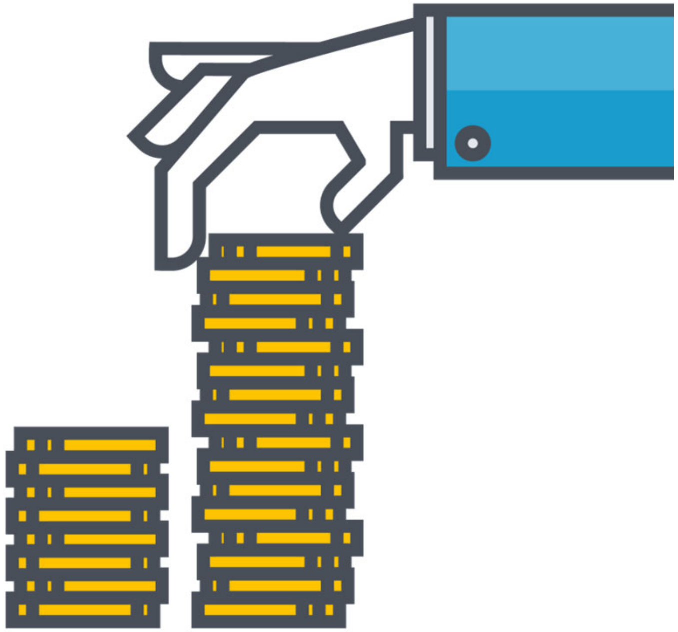
The Board should pass the budget in a timely fashion

Staff Review

- There are many views on how actively staff should be involved in the budgeting process; you should pick the one that is consistent with your culture and organizational structure
- If you are holding management staff accountable through the budget, they should probably be involved in the development of the budget; at the very least, they should be AWARE

Budgeting a Surplus

- Being a non-profit does not mean NO profit
- Budget surpluses can:
  - Help cushion an organization against the unexpected
  - Allow the nonprofit to invest in new programs or activities



Surplus versus Reserves

- **A surplus** is a positive difference between revenues and expenses
- **A reserve** is a surplus that has been set aside for a particular purpose.
- **A replacement reserve** is money set aside for a specific purpose (to replace computers or furniture or to do maintenance on properties)
- There can also be other types of reserves (operating, cash)
- There may be policies about using a reserve that are established by the Board and may require Board approval to use funds from any type of reserve account
- Surpluses can be used to fund reserves (cash reserve, operating reserve, replacement reserve)

Once you have the budget: USE IT

Your budget should be used as a management tool:

- Compare actual performance to the budget to see how you are doing
- If you see variances, understand why they are occurring
- Are you bringing enough in on a month-to-month basis to cover your expenses?

Mid-year Corrections

- When you note large discrepancies between your “actual” and your “budget” you should take corrective action
- If you are doing better; it might be time to expand your programming or invest in new things
- If you are not keeping up with your expenses, make changes

Nonprofits have to be nimble and make changes or they risk “getting in over their heads”

Financial Reports

Module 4

Why do I need to know this?

- These are all important terms to know and understand because this is how funders and lenders evaluate your organization
- Financial reports are used to calculate various ratios that determine whether funders will invest in you, lend to you, give you a grant, etc.
- And, it is an important way to track your fiscal well being

Current Assets

- **Current Assets:** Assets that can be converted to cash in 12 months or less:
  – Money you have in the bank
  – Grants receivable
  – Accounts receivable
  – Pledges

Long Term Assets

- Assets that you plan to hold for more than one year:
  - Capitalized assets, minus depreciation
  - Investments (like stocks you will hold on to)
  - Property or equipment
  - Need to consider depreciation

Liabilities

- **Current:** Debts you have that are repayable in the next year (salaries, payroll taxes, loans repayable during this year)
- **Long Term:** Debts you have that are repayable in future periods (longer term loans where pay-off is in the future)

Net Assets

- This is the difference between your assets and liabilities
- They can be restricted (permanently or temporarily) or unrestricted
- This can be likened to the “equity” in your home—the part you own as compared to what the bank owns
- Net assets are shown at the very bottom of your balance sheet
- Funders and investors look at the “change in net assets”--which really represents the surplus shown on your <u>income and expense statement</u>

Balance Sheet

Assets (What you OWN)

— Liabilities (What you owe)

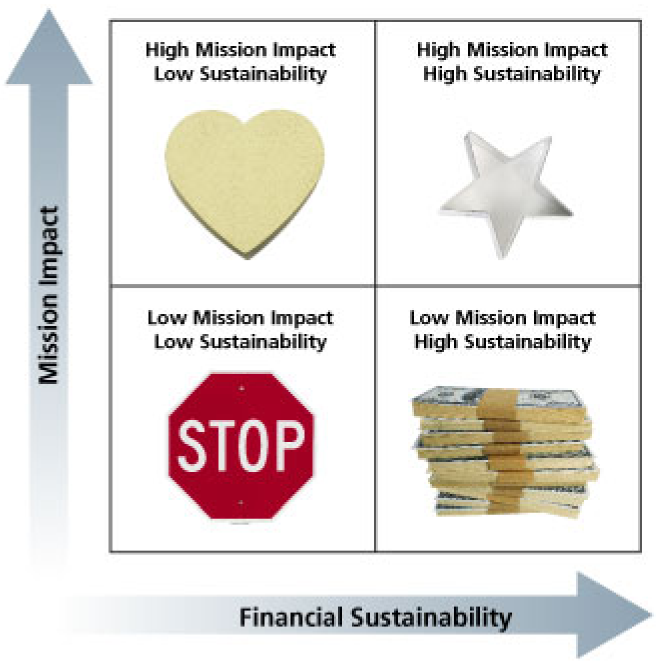
Net Assets (What's left)

Income Statement

- The income statement tallies up all your expenses and all your income
- The bottom line is the surplus or <u>change in net assets</u>
- This is transferred to your balance sheet
- This is the link between the balance sheet and the income and expense report

Finance Reports:
Monitoring Financial Sustainability

- Finance reports give a snapshot of the organization
- They indicate whether you have "sustainable programming"
- They don't measure everything about your organization



THANK YOU!!!

United Way

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Wrap Up!

- Thanks Margaret!
- This session was recorded.
- All resources will be shared with all registrants following today's session via email.
- Have a question? Feel free to follow up with info@forwardci.org
- Details about upcoming session will be forthcoming
- Thank YOU for your time and have a great day!