

*CompassPoint intensifies the impact of fellow nonprofit leaders, organizations, and networks as we achieve social justice together.*



## *Today's Objectives*

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- ✓ Understand the different kinds of capital needed to achieve your intended impact sustainably
- ✓ Build competency in reading and analyzing core financial statements
- ✓ Develop an approach to building a meaningful annual budget

## Checking in

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How confident do you feel in managing the financial aspects of your organization?

- **1** = I don't have the financial knowledge and/or information I need for my role
- **2** = I can understand and interpret our financial performance on the program level, but not on the organizational level
- **3** = I am actively learning more about understanding our financial performance through an organizational lens
- **4** = I have the financial knowledge and information I need and know where to get additional information and support needed

## *Pair Conversations*

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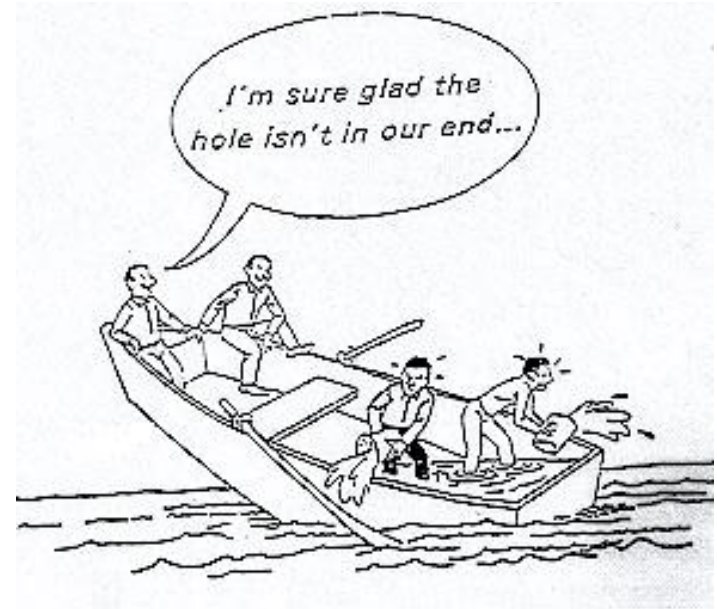
- In what ways are your organization's financial management practices compliance-driven and in what ways are they outcome/impact-driven?
- How do you *personally* think about the financial management elements of your role? Are you looking primarily through a compliance lens or an impact lens?

# Traditional Format: Budgeting for Compliance and Cost Recovery

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What are the unintended consequences of this model?

- Funding-driven and siloed structure and practice
- False compartmentalization of efforts in an era of increasing integration/ systems-thinking
- False separation of action, reflection, and learning
- Maintenance of systems and reporting that do not reflect how people actually want to and are working to contribute to impact
- Under-capitalization



Cartoon credit: <http://www.chumans.com/blog/wp-content/uploads/2012/03/Systems-Thinking.jpg>

# Changing the conversation...

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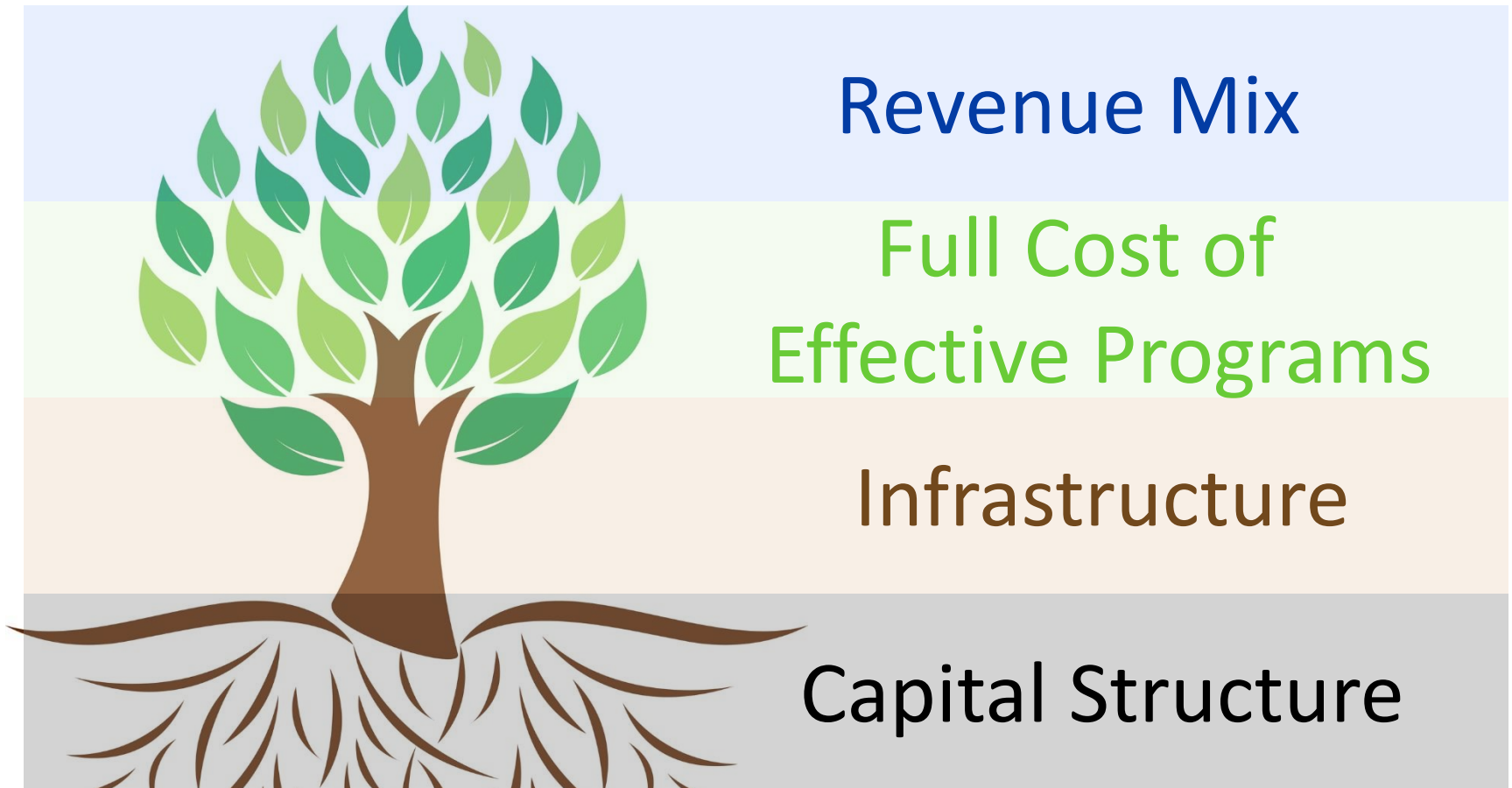
- The Overhead Myth (2013/2014)
- OMB Revisions on Indirect (2014)
- Nonprofit Overhead Project (2015)
- The Real Cost Project (2015)
- “Why Funding Overhead is Not the Real Issue: The Case to Cover Full Costs” by Claire Knowlton, NPQ (2016)
- “Pay-What-It-Takes Philanthropy” by Jeri Eckhart-Queenan, Michael Etzel, & Sridhar Prasad, SSIR (2016)
- “Demanding that Nonprofits Not Pay for Overhead is Preventing Them from Doing Good” by Ben Paynter, Fast Company (2016)
- “A Graphic Re-visioning of Nonprofit Overhead” by Curtis Klotz, NPQ (2016)





# Budgeting for Organizational Financial Health

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# Creating a Meaningful Annual Budget

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- When the process starts
- Who on staff and board are involved and in what roles
- How the budget structure reflects your true, internal understanding of the work
- How you capture impact drivers such as evaluation and professional development
- How you monitor and adjust as new information arises during the year

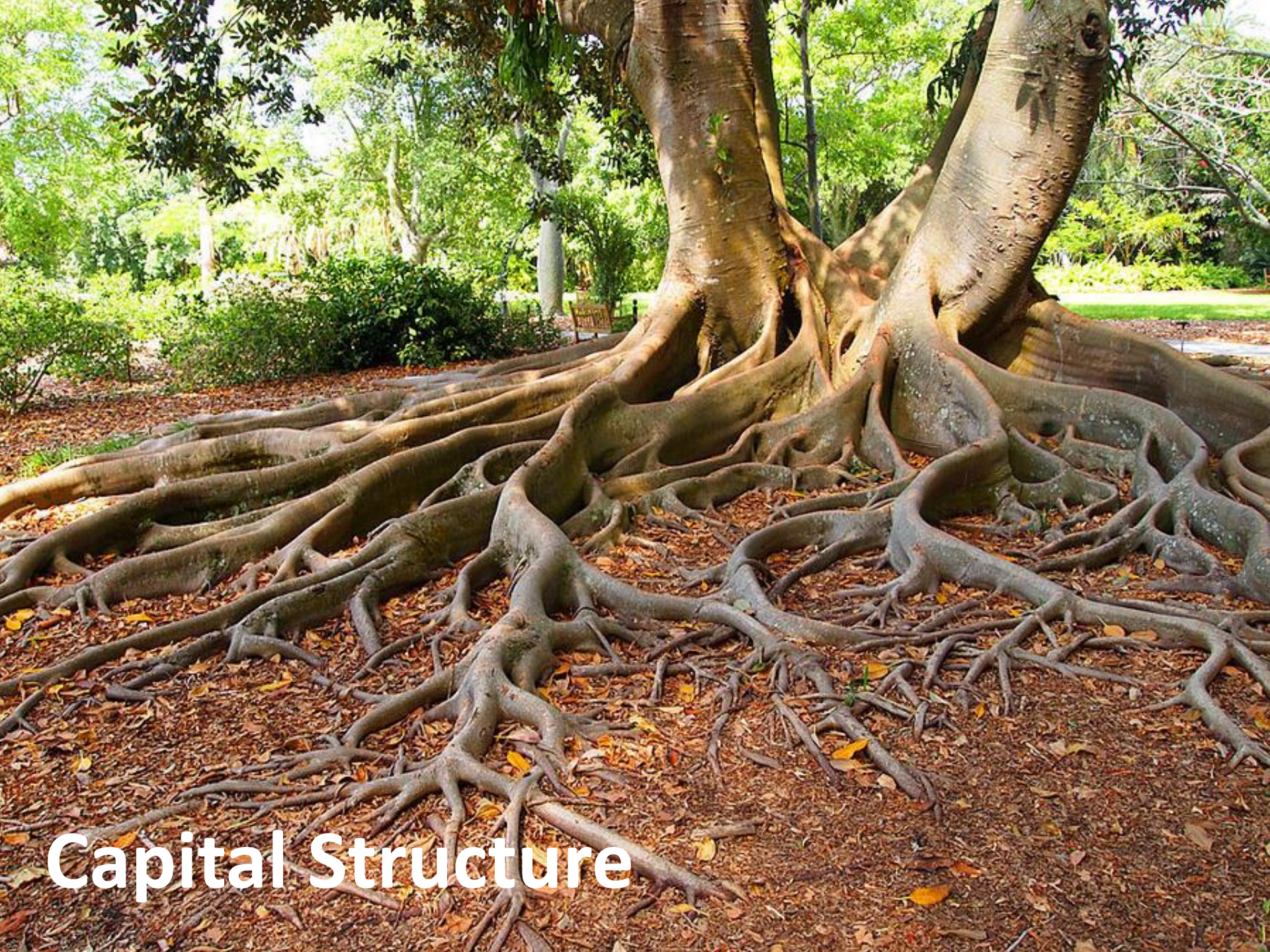


# *Personal Reflection*

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- What's not in your budget this year that should be given your intended impact statement(s)?
- What's not in your budget this year that should be given your organizational values?
- How might you influence a shift in your budgeting process for next year?





# Capital Structure



## *Personal Reflection*

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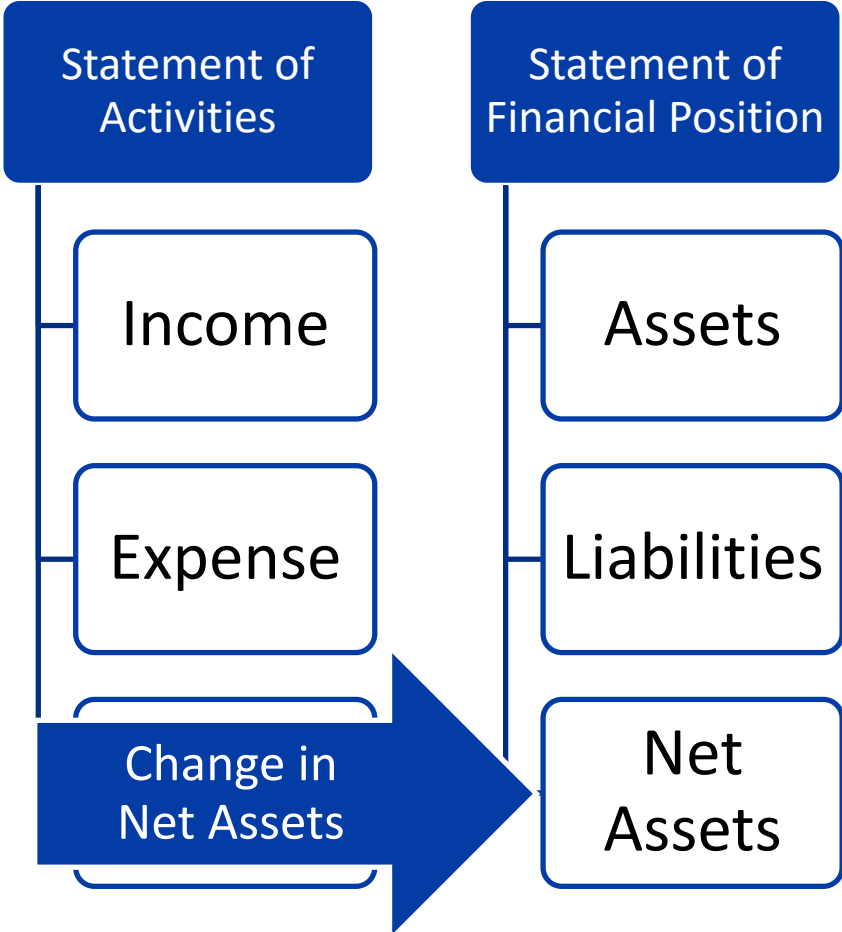
Reflect on your intended impact(s) statements created yesterday.

Which **types of capital** are you using to achieve that impact?

Which **types of capital** do you need more of to increase impact?

# Core Financial Statements

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# Statement of Financial Position

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## ASSETS

What you OWN

Bank Accounts

Accounts Receivable

Property & Equipment

Investments

Minus

## LIABILITIES

What you OWE

Accounts/Loans Payable

Accrued Salaries/Vacation

Equals

## NET ASSETS

What you are WORTH

Unrestricted

Restricted (Temporarily or Permanently)

# Statement of Activities

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INCOME -  
(Contributed or Earned; Conditional or  
Unconditional; Unrestricted or Restricted)



EXPENSE =  
(Program, Administration, Fundraising)



SURPLUS/DEFICIT  
(Change in Net Assets)



## *Pair Exercise*

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1. Take out your income statement and/or annual budget.
2. Help each other determine the LARGEST and SECOND LARGEST types of income.
3. Calculate the % of TOTAL income that each type makes up.

# Financial Health Questions

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- ✓ How much surplus will you generate this year?
- ✓ How liquid are your assets? Is your quick ratio comfortable?
- ✓ How many months of unrestricted cash do you have?
- ✓ Other than cash, what kinds of assets make up your wealth?
- ✓ How secure is your core funding? How related to your intended impact is it?
- ✓ How are you capturing “supporting costs”?