
Financial Leadership

CompassPoint Nonprofit Services

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Welcome

- 9:30am – 4:00pm. 1 hour lunch around noon. A break in the morning and afternoon.
- Sign in & logistics
- Silence mobile phones
- Return from breaks on time
- Confidentiality
- Questions

Introductions

- Name, organization, and role
- Greatest challenge you're facing as a financial leader

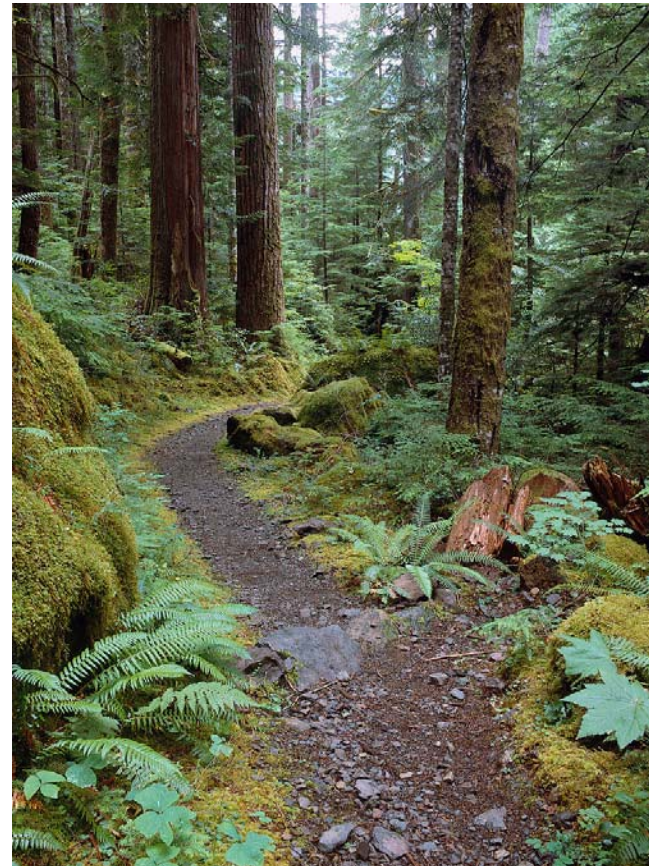
Learning Objectives

By the end of this course, you will be able to:

- Assess your current practice as a financial leader and identify areas for improvement.
- Use core nonprofit financial statements to evaluate your organization's financial health.
- Understand how to use financial information to communicate an organization's progress toward its mission.

Agenda

- ✓ What is financial leadership?
- ✓ Core financial statements
- ✓ Overview of financial health
- ✓ Assessing financial health
- ✓ Telling your financial story



What is financial leadership?

Financial Leadership

Understanding and interpreting financial data to inform decision making

Financial Management

Collecting and producing accurate, timely financial data

Strategic: analysis, planning, communication

Operational: compliance, systems design

Transactional: attention to detail, timeliness

Financial Leadership: Key Principles



Move beyond mission vs. money



Cultivate financial leadership on staff and board



View the nonprofit as an interdependent set of programs and activities



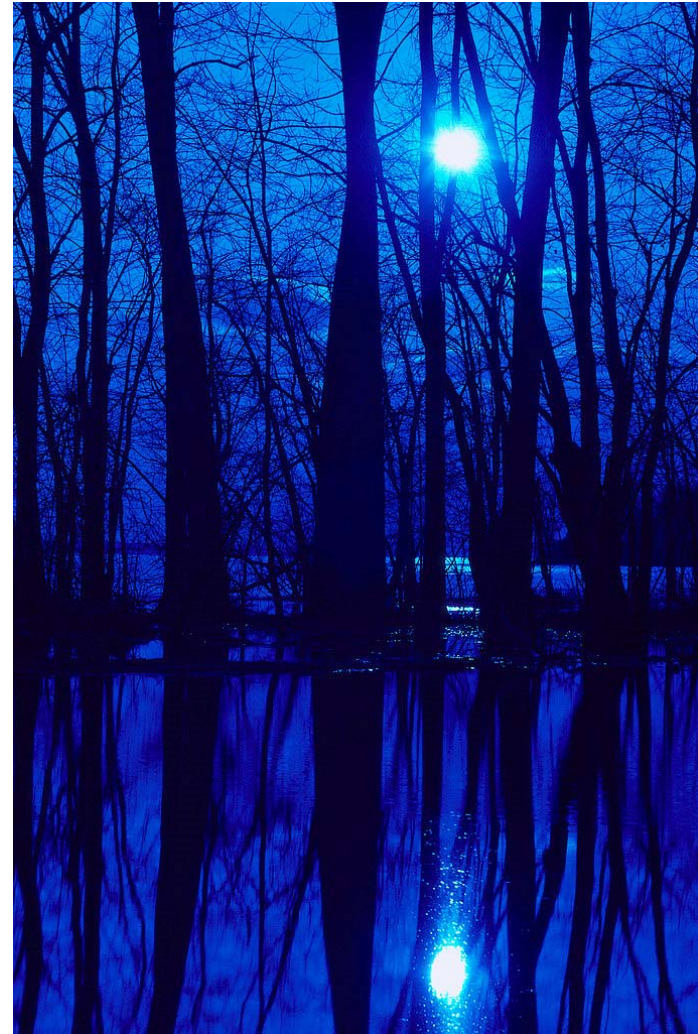
Recognize the relationship between strong infrastructure and strong programs



Set a tone of financial accountability and transparency

Leadership: Your Relationship with Money

- What is your strongest memory of money when you were young?
- What beliefs and attitudes about money influence you today?
- How does this affect your behaviors with money and financial information in your current role?



Culture: Money and Power

- What is the “culture of money” at your organization?
- How do positional leaders talk about money?
- How do others in the organization talk about money?
- What financial information is shared with whom, and how?
- How does race, class, power and privilege influence the culture of money in the organization?

Systems: Key Accounting Practices

Restricted Contributions

- Appropriate booking and presentation of restricted funds
- Properly planning for and executing release from restriction

Functional Expenses

- Tracking core functional areas (Admin/Fundraising/Program)
- Further defining and tracking core activities for analysis

Time Tracking

- Understanding how employees spend their time is critical
- Can evolve over time – from time study to more robust system

Cost Allocation

- Determine which costs are shared and how to allocate them
- Reasonable, documented, and consistently applied

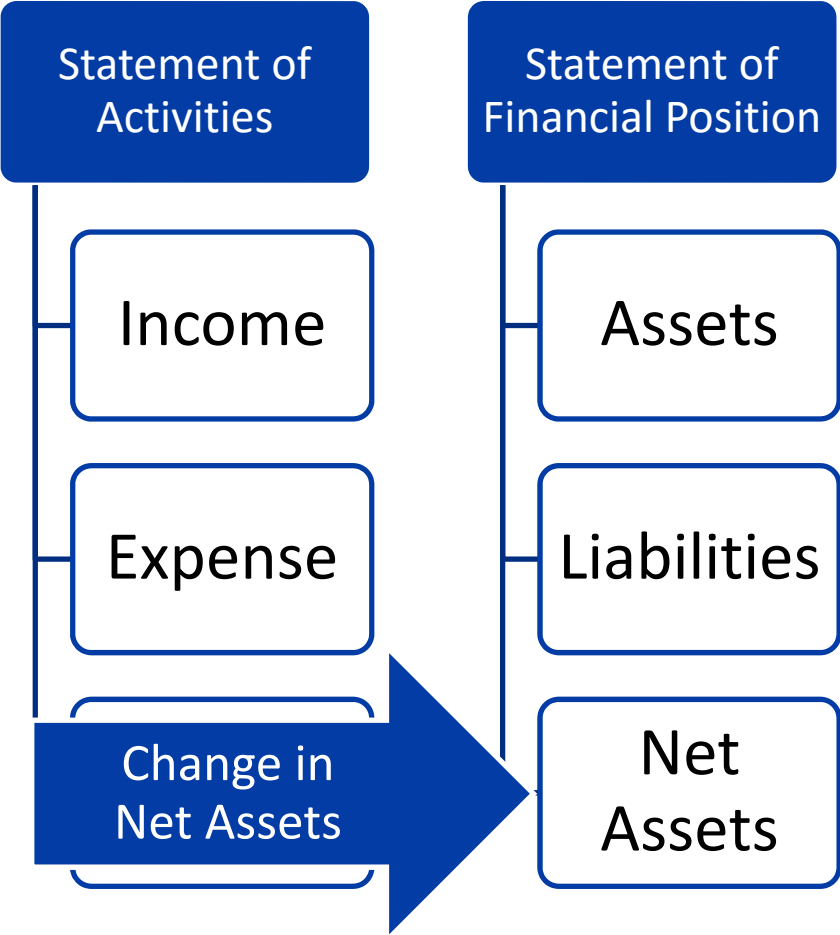
Accrual Basis

- Income and expense are recorded when earned or incurred
- Ensures an accurate picture of the organization's financial activity

Capitalization & Depreciation

- Converting cash into another kind of asset (fixed asset)
- Spreading out the cost over time

Core Financial Statements



Statement of Financial Position

ASSETS

What you OWN

Bank Accounts
Property & Equipment

Accounts Receivable
Investments

Minus

LIABILITIES

What you OWE

Accounts/Loans Payable
Accrued Salaries/Vacation

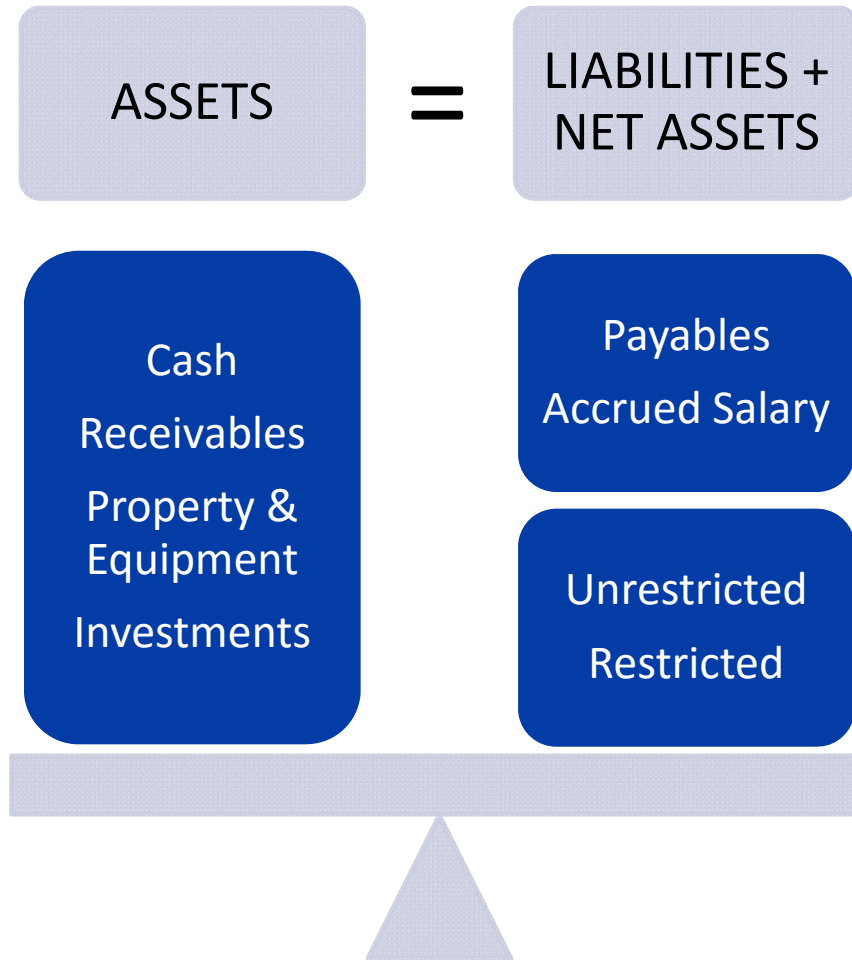
Equals

NET ASSETS

What you are WORTH

Unrestricted
Restricted (Temporarily or Permanently)

Statement of Financial Position



Statement of Activities

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

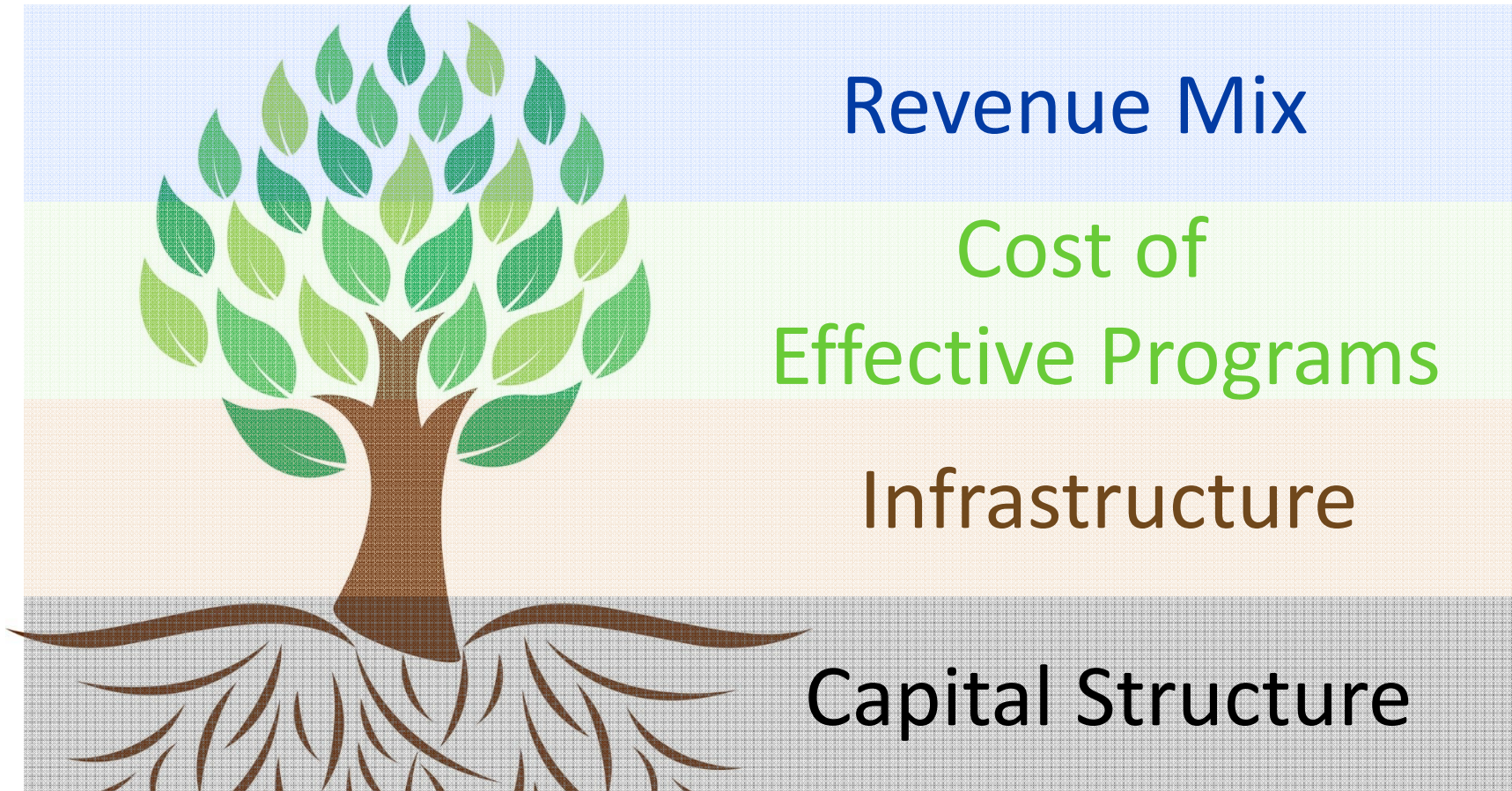


EXPENSE =
(Program, Administration, Fundraising)



SURPLUS/DEFICIT
(Change in Net Assets)

Organizational Financial Health



Organizational Financial Health



Revenue Mix

QUESTIONS TO CONSIDER

Dominant Revenue Type

Is it reliable?

Is it repeatable?

Is it flexible?

Secondary Revenue Type

Can it be developed further with existing systems and capacity?

Organizational Financial Health



Cost of Effective Programs

QUESTIONS TO CONSIDER

Do you have a strong understanding of your cost structure and actively monitor the full costs of your programs?

Organizational Financial Health



QUESTIONS TO CONSIDER

- Where is our infrastructure strong? Where is it vulnerable?
- What could be accomplished with stronger systems/support?
- How well will our current structure support our long-term impact as an organization?

Infrastructure

Organizational Financial Health



QUESTIONS TO CONSIDER

- What are our largest assets? Are they liquid? Restricted?
- Do these assets contribute significantly to our mission and program strategy?
- How much do we have in unrestricted net assets? How much of that is readily available in cash?

Capital Structure

Organizational Financial Health



What are our
immediate strengths
and vulnerabilities?

What are our
long-term strengths
and vulnerabilities?

Immediate Strengths and Vulnerabilities



What are our
immediate strengths
and vulnerabilities?

- ✓ Can we pay our bills?
- ✓ Is cash flow a concern?

Statement of Financial Position

As of December 31, 2011

ASSETS

Cash	73,800
Accounts receivable	25,000
Grants receivable	100,000
Prepaid expenses	1,000
Total current assets	199,800
Capital purchases	44,900
Less accumulated depreciation	(33,700)
Total fixed assets	11,200
Investments	35,000
TOTAL ASSETS	246,000

LIABILITIES AND NET ASSETS

Accounts payable	20,000
Accrued vacation	5,000
Line of credit	15,000
Total current liabilities	40,000
Long-term notes payable	50,000
Total liabilities	90,000
Unrestricted net assets	71,000
Temporarily restricted net assets	50,000
Permanently restricted net assets	35,000
Total net assets	156,000
TOTAL LIABILITIES AND NET ASSETS	246,000

Immediate Strengths & Vulnerabilities

✓ Can we pay our bills?

Current Ratio =

Total Current Assets
Total Current Liabilities

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Immediate Strengths & Vulnerabilities

✓ Can we pay our bills?

Quick Ratio =

Total Cash

Total Current Liabilities

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Immediate Strengths & Vulnerabilities

✓ Is cash flow a concern?

Cash = \$73,800

Receivables = \$125,000

Statement of Activities
For the Year Ended December 31, 2011

	Unrestricted
Contributions	11,875
Foundation grants	15,000
Total support	26,875
Government contracts	115,000
Interest and dividends	5,750
Total revenue	120,750
Net assets released from restriction	655,000
Total income	802,625
Meal Delivery	443,576
Nutrition Education	231,715
Administration	57,979
Fundraising	68,104
Total expenses	801,375
Change in net assets	1,250
Beginning net assets	69,750
Ending net assets	71,000

Immediate Strengths & Vulnerabilities

✓ Is cash flow a concern?

Cash = \$73,800

Receivables = \$125,000

Monthly Burn Rate =

Total Expenses

Total Months

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Immediate Strengths & Vulnerabilities

✓ Is cash flow a concern?

Cash = \$73,800

Burn Rate = \$66,871

Months of Cash =

Total Cash on Hand

Total Monthly Burn Rate

Long-term Strengths and Vulnerabilities



- ✓ Do we have a comfortable operating reserve?
- ✓ Are we spending funds according to donor intent?
- ✓ Are we generating enough surplus?

What are our long-term strengths and vulnerabilities?

Statement of Financial Position

As of December 31, 2011

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Long-Term Strengths & Vulnerabilities

✓ Do we have a comfortable operating reserve?

Burn Rate = \$66,871

Operating Reserve =
Unrestricted NA – Fixed Assets
Total Monthly Burn Rate

Statement of Financial Position

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Long-Term Strengths & Vulnerabilities

✓ Are we spending funds according to donor intent?

Cash + Grants Receivable
- Temp Restricted Net Assets

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Long-Term Strengths & Vulnerabilities

✓ Are we generating enough surplus?

$$\text{CUNA* Ratio} = \frac{\text{Change in CUNA}}{\text{Total Unrestricted Income}}$$

* Change in Unrestricted Net Assets (Profitability)

What is Your Financial Story?



How Will You Craft Your Story?

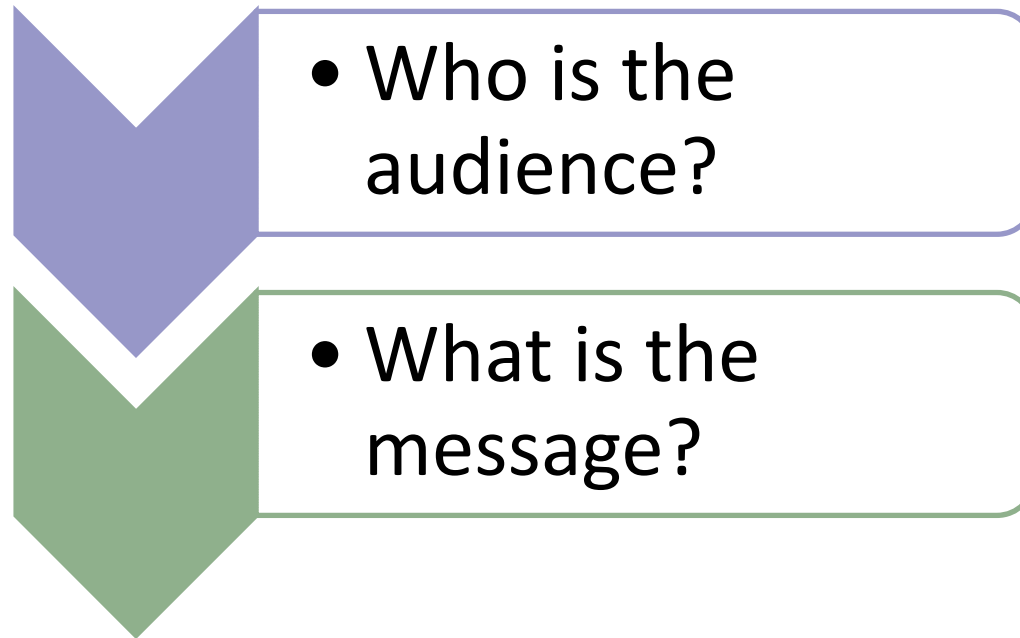
Audience

- Staff
- Board
- Funders
- Regulators
- Donors
- Constituents

Message

- What they want to know
- What you want them to know

How Will You Craft Your Story?



Craft Your Story: Highlight What's Important

Your Organization
FY 11-12 Performance Indicators

Key		Act Now
		Monitor
		Celebrate

Indicators	Target	Results			
	Q4	Q1	Q2	Q3	Q4
Financial					
Operating Surplus/Deficit	2,357	(29,058)	25,100	5,578	(14,842)
Operating Reserve	263,279	248,442	286,022	266,500	247,858
Months of Operating Reserve	3.0	1.9	2.2	1.9	1.8
Months of Cash on Hand	3.0	2.3	1.9	1.8	2.4
Current Ratio	3.0	5.6	3.5	4.8	4.3

Indicator Range Key	Q4	Act	Monitor	Celebrate	YEAR END
Financial					
Operating Surplus/Deficit	2,357	>%5 below	0-5% below	At budget	2,357
Operating Reserve	263,279	< 240,000	250,000	> 260,000	263,279
Months of Operating Reserve	3.0	2.0	2.1 - 2.9	3.0	3.0
Months of Cash on Hand	3.0	2.5	2.6 - 2.9	3.0	3.0
Current Ratio	3.0	2.0	2.1 - 2.9	3.0	3.0

Craft Your Story: Highlight What's Important

Lag Measures track the accomplishment of your strategies, e.g. financial statements and client evaluation data at the end of a program

Lead Measures track the high impact things your staff and board must do to ensure the lag measures meet or exceed their targets, e.g. client outreach, board fundraising calls, and mid-point program evaluation data

-The 4 Disciplines of Execution © 2012 FranklinCovey Co.

Craft Your Story: Tie it to Your Goals

Your Organization

Performance Scorecard

For the Six Months Ending December 31, 2012

Overall Goal	Current Objective	Measurement	Full Year Budget	Actual 12/31/12	Variance
Stabilize programs and ensure highest quality	• Salary increases to all staff	• Salary increases	8%	8%	0%
	• Replace computers and equipment	• Capital purchases	27,790	15,250	(12,540)
Improve on financial health indicators	• Build cash reserve	• Months of reserve	1.02	0.83	(0.19)
	• Obtain line of credit	• Available credit	75,000	200,000	125,000
Maximize fundraising effectiveness	• Increase endowment income	• Perm restricted net assets	355,000	369,500	14,500
	• Increase board role in fundraising	• Fundraising return	1.70	1.25	(0.45)
	• Build temporarily restricted funds	• Temp restricted net assets	756,004	1,105,984	349,980
	• Improve foundation grant cost recovery	• Net results of education & advocacy program	(4,114)	(419)	3,695

Craft Your Story: Tie it to Your Goals

Your Organization

Performance Scorecard

For the Six Months Ending December 31, 2012

HIGHLIGHTS

Salary Increases
Endowment Funds
Line of Credit
Cost Recovery

The full 8% increase was funded - our first in 3 years!
We have completed the campaign, ending \$14,500 over goal
As planned, we secured a \$200K line of credit with our bank
We have secured foundation grants to cover almost the full program costs AND we have commitments for next year

MIXED RESULTS

Capital Purchases

Fundraising Return

We have replaced all staff computers on schedule, but delayed the new database until our cash position improves

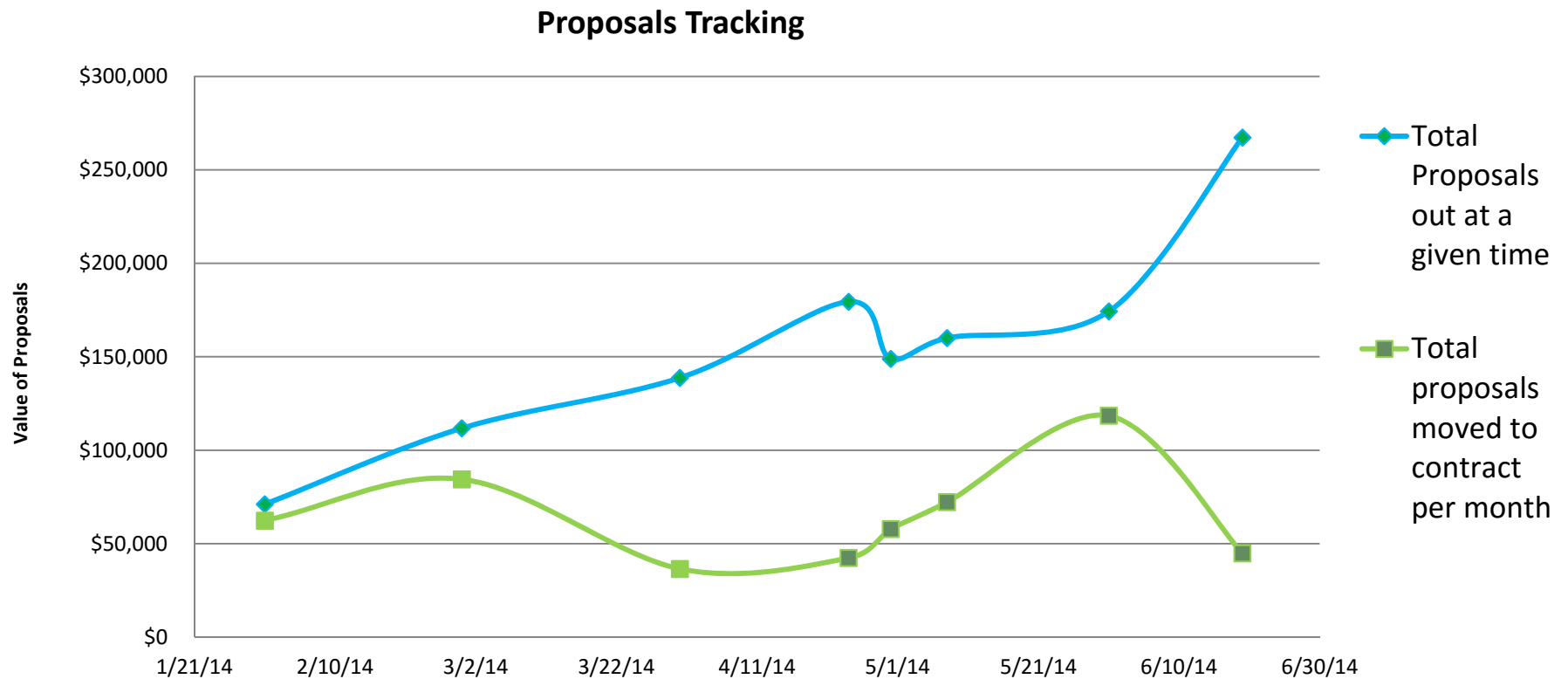
We had to spend more than expected on our fundraising efforts, although we are still hitting our revenue targets

LOW LIGHTS

Cash Reserve

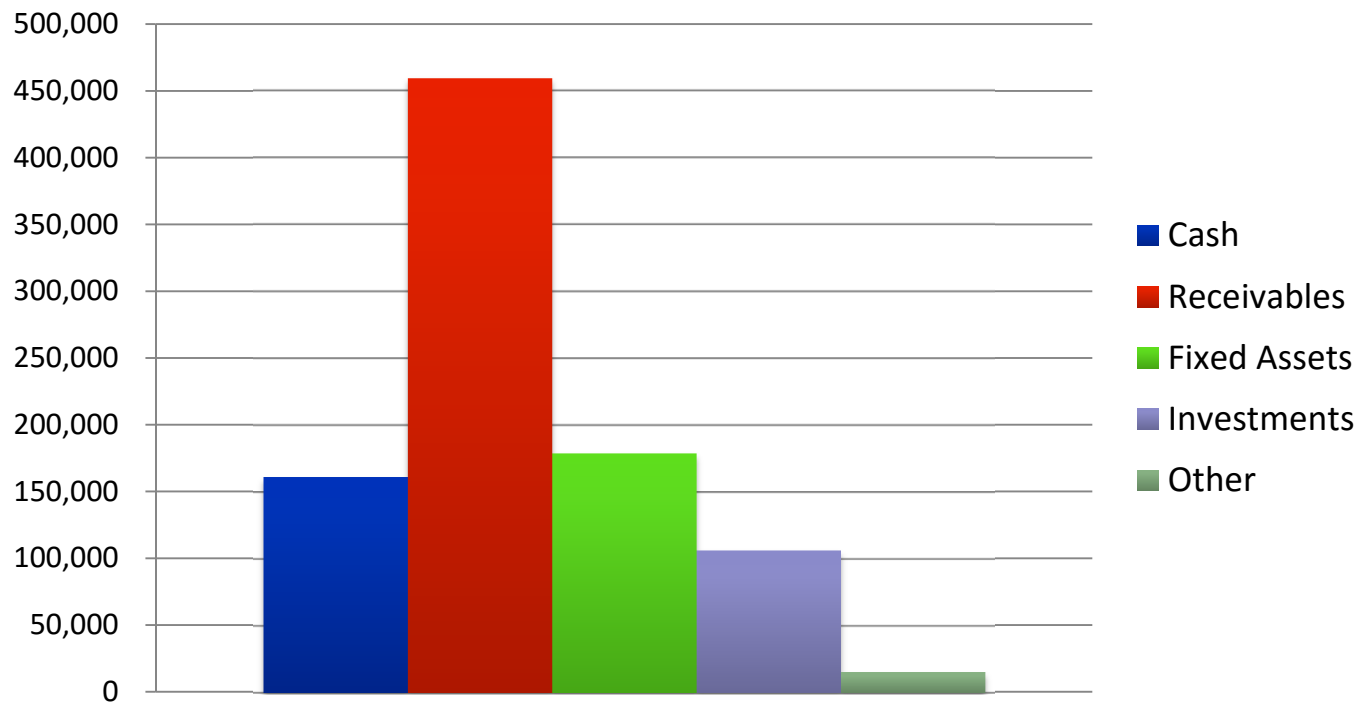
Although we are showing a small surplus at this point in the year, we are running behind in our efforts to build our cash reserve. This is not surprising given our focus on the endowment campaign and in renegotiating with our funders to cover the full costs of the education program. Unrestricted fundraising needs to be our next priority.

Craft Your Story: Make it Visual

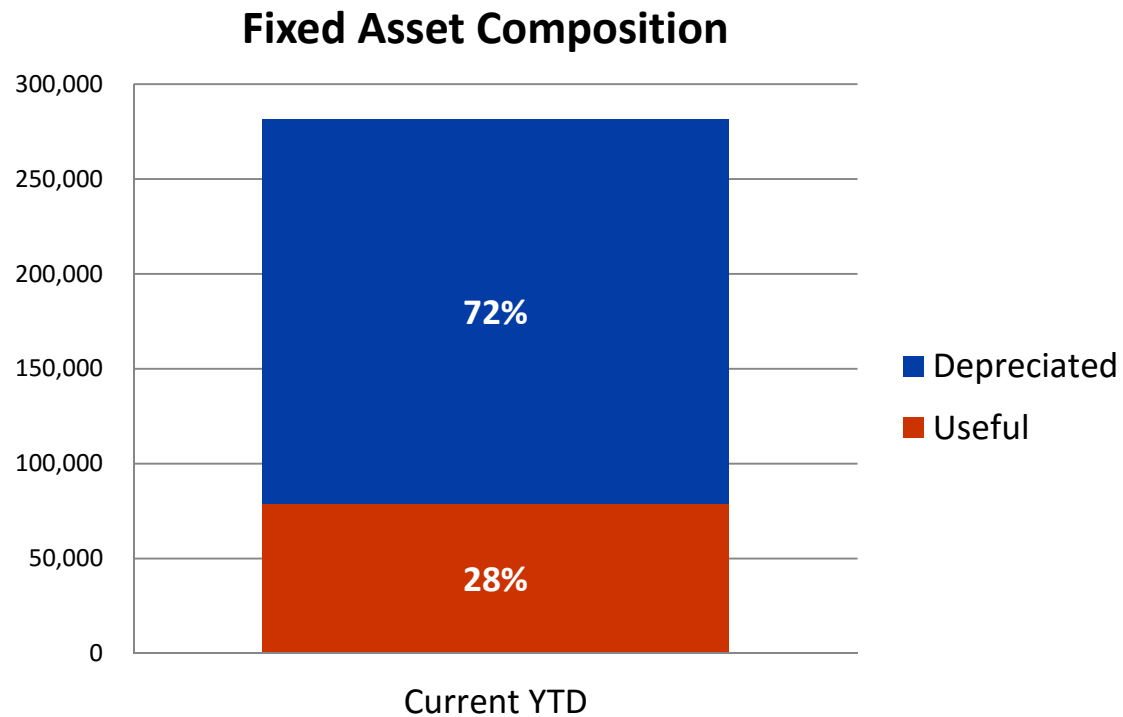


Craft Your Story: Make it Visual

Asset Composition



Craft Your Story: Make it Visual



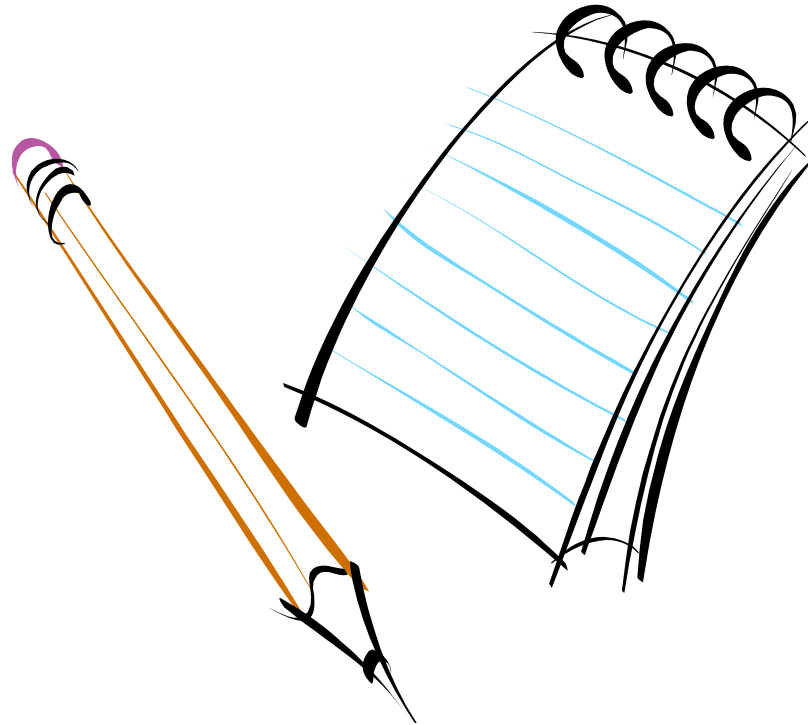
Telling Your Financial Story



Action Plan

Three things I will do differently, practice, focus on additional learning, try, or share with my coworkers:

- 1.
- 2.
- 3.



Wrap up & Evaluation

- Resources will be emailed after workshop
- Upcoming workshops
- Email me with questions – shannone@compasspoint.org
- Evaluation
- Thank you!



Learning Objectives

By the end of this course, you will be able to:

- Assess your current practice as a financial leader and identify areas for improvement.
- Use core nonprofit financial statements to evaluate your organization's financial health.
- Understand how to use financial information to communicate an organization's progress toward its mission.