

Habits of Financially Healthy Organizations

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Context and Goal:

- For Executives, CFOs/Finance Directors, Board members, Program Directors, and more.
- We all want our organizations to be financially healthy. However, it doesn't just automatically happen. It is usually the result of a number of disciplined habits and practices that are implemented and regularly maintained.
- We will begin by trying to reach a consensus about what constitutes a financially healthy organization, then we will look at contributing habits.
- Let's introduce ourselves by sharing your name, organization, and position, to see who is here.

What constitutes a financially healthy organization?

Some words and phrases:

- Financial ability to make an impact on the organization's mission
- Sufficient resources to take advantage of opportunities
- Sufficient resources to solve problems
- Strong financial trends and performance
- Prosperity, Growth, Sustainability and Resilience
- Sufficient financial infrastructure (staff, policies, systems, reporting)
- Do we agree? Are there other descriptors? Do we have consensus?



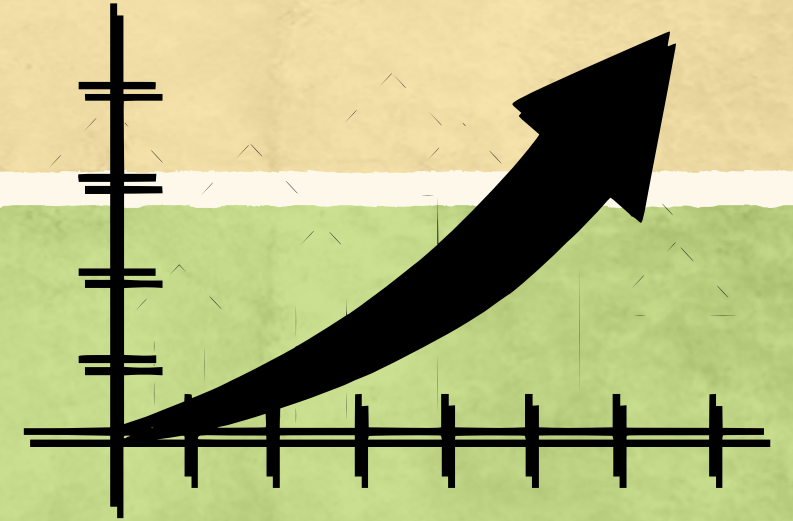
Habit #1: Strive to raise more than you spend and diversify revenue streams



- Do robust resource development to increase revenue.
- Aim for consistent surpluses by managing resources and expenses.
- Work to diversify funding to protect the organization, not relying on one or two resources which concentrates risk.
- Seek reliable sources that match the mission, multi-year where possible.
- Develop revenue streams within each line of business.
- Revenue such as fees, earnings, rent, interest, and donations make up a Sustainability Rate that decreases your reliance on grants.
- Example of a benchmark: each year, aim to generate an operating surplus large enough to cover depreciation, debt obligations, and contribute *at least 5%* of your operating budget to savings/reserves.

What is your experience? What do you think?

Aim for Positive Financial Trends



Aim for strong Balance Sheet trends such as:

- a. Growing assets (what you own)
- b. Reasonable liabilities (what you owe)
- c. Growth of net assets (assets owned – liabilities owed)
- d. Sufficient cash & equivalents on hand (liquidity and cash flow)
- e. Establishment of reserves and contingencies
- f. Strong financial ratios. Ask your CPA what ratios they use to determine financial strength.

Habit #2: Employ people who have a strong understanding of finances for key positions



- This would include Executive, CFO, Finance Director, Board Treasurer, and Program Directors who lead your lines of business.
- Key positions should ideally be experienced & credentialed when possible.
- At minimum, assure new hire has financial/economic/business/math aptitude and provide professional development training opportunities.
- There really is no substitute for this. If there is a weakness, and we all know when we have it, correct it.
- Think of this as critical organizational capacity, and when you hire, a goal is to increase organizational capacity.

What is your experience? What do you think?

Habit #3: Assure the organization has strong financial policies in place



- Build appropriate financial policies as the organization grows.
- Involve your CPA in the process of adding new policies, best practices, and annual updates.
- Use and refer to the Financial Manual in day-to-day work. Don't shelve it.
- Policies should be approved by the Board and Finance Committee.
- Policies should articulate internal controls and safeguarding of assets.
- Make sure policies comply with federal/state regs, particularly procurement.

What is your experience? What do you think?

Habit #4: Accurate and timely reporting to management, the Board, and funders



- Financial management is impossible without timely and accurate reports.
- Develop a detailed annual budget (approved by the Board) with projected revenue and expenses to measure financial performance by.
- Balance Sheet (financial position), Revenue and Expenses (activities), Expenses by line of business (functional expenses), and Expenses compared to budget, are critical to report on monthly.
- In addition, the Board can ask for a dashboard, account balances, cash position, aging receivables and aging payables, etc.
- Have management team and finance committee meetings.

What is your experience? What do you think?

Habit #5: Use quality, industry standard software with back-up and support

- Larger more complex organizations with multiple lines of business should consider MIP or GMS or similar. Talk with your auditor.
- Smaller organizations may find QuickBooks to be sufficient.
- It is important to understand the system and all it can do for you, making sure it is accurate, generates the reports you need, and provides the status of finances at a glance, all to aid management and decision making.

What is your experience? What do you think?

Habit #6: Annual Audits and 3rd Party Confirmation



- Utilize a CPA that is used to working with nonprofits. Have audit done soon after fiscal year end so it is of value to you and stakeholders.
- Audits are done to government standards, single audit act when federal dollars exceed \$1,000,000.
- Auditor typically issues Management Letter to the Board listing any recommendations or issues that didn't reach the "finding" stage.
- CPA should present the audit to the Board who has fiduciary responsibility. The Board can ask the CPA questions such as: evidence of fraud, compliance issues, organizational financial health, need for policy updates, financial ratios, etc.
- Audit represents 3rd party confirmation by an outside, qualified party.

What is your experience? What do you think?

Habit#7: Have necessary insurance coverage

- Meet with insurance broker annually, share all that is new or different, discuss areas where coverage may be needed and where liability or exposure exists.
- Have general liability, fidelity, theft, D&O, employment practices, cyber, etc.
- Have insurance broker meet with the Board every year or two to explain coverage and adequacy, as a form of safeguarding nonprofit's assets.
- When land or properties are purchased, immediately insure them.

What is your experience? What do you think?



Habit #8: Implement organizational reserves when able

- The Board may implement and designate organizational reserves.
- Reserves can be considered for buildings owned, operations, working capital (cash flow), compensated absences, strategic planning, succession, etc.
- Reserves send a good message to stakeholders that you consider these areas to be important and worthy of safeguarding.
- Reserves and contingencies can help organizations borrow and secure Lines of Credit for development and cash flow when needed.

What is your experience? What do you think?



Habit #9: Assess Risks (existing, potential and perceived)

- It is important for management and Boards to be aware of where there are risks to the organization.
- Whether done informally, formally, or by an outside consultant, time and attention should be paid to determining areas of risk that may need to be remediated or managed.
- Examples of areas of risk could be financial, funding, legal, reputational, cyber, competition, building/facilities, performance, etc.
- Put it on a future agenda!
- Does your organization do risk assessment?

What is your experience? What do you think?



Habit #10: Analyze financial performance of the organization and lines of business regularly

Portfolio Analysis Matrix

High Mission Impact	High Mission Impact
High Profitability	Low Profitability
Low Mission Impact	Low Mission Impact
High Profitability	Low Profitability

- Understand the financial status of the organization. Know which lines of business are profitable or not.
- Analysis will help you make changes to improve performance, resolve regular losses, or know which lines you must supplement & by how much.
- Assess lines of business: Ask is it feasible? Is it needed? What are the trends? Are there funders for it? What changes need to be made? Lines don't have to last forever - they can change, evolve, and even end.
- Consider positioning or assigning a financial person with key lines of business to help manager or director with financial assessment and advice.

What is your experience? What do you think?

What other Helpful Habits do you have?

- From your experience are there are other habits that should be added to help assure a financially healthy organization?
- Aim to build on organizational strengths and work to resolve weak areas – we all have them.
- Other thoughts?

Thank you and best wishes for financially healthy organizations!