

Pathways to Excellence Workshop

Excellence in Financial Management

June 17, 2016

9:30 AM – 11:30 AM

Nonprofit Coordinating Committee of New York
135 West 36th Street, 15th Floor, New York, NY 10018

Moderator: **Jina Paik**, Director, Advisory Services, Nonprofit Finance Fund

Panelists: **Chitra Aiyar**, Executive Director, Sadie Nash Leadership Project
Ed Lada, Senior Director, Finance & Operations, New York Cares

Do you know the keys to achieving financial stability and health in your nonprofit? Are key staff and board members comfortable understanding your financial statements? Do you have the right financial management tools? Are you able to communicate your financial story to key stakeholders? This workshop will include an exercise to help you think about how you currently manage your organization's finances and the steps you need to take to achieve excellence in this area. You will also receive a set of helpful resources. This session will be of most interest to finance staff and Executive Directors.

Agenda

9:35 AM – 9:40 AM	Welcome
9:40 AM – 9:50 AM	Moderator and Panelist Remarks
9:50 AM – 11:05 AM	Panel Discussion & Short Exercises
11:05 AM – 11:25 AM	Q & A
11:25 AM – 11:30 AM	Wrap Up

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*The Pathways to Excellence workshop series is an outgrowth of **The New York Community Trust Nonprofit Excellence Awards Program**, managed by the **Nonprofit Coordinating Committee of New York** in collaboration with **The Trust** and **Philanthropy New York**, and sponsored by **WNYC**.*

ORGANIZATIONAL PROFILE

Sadie Nash Leadership Project

2010 Gold Prize Winner for Overall Management Excellence

Sadie Nash Leadership Project (SNLP) was founded in 2001 to promote leadership and activism among young women. SNLP provides a dynamic and intensive learning experience that centers on the achievements of young women, the use of role models, service-based learning, community organizing, and independent social justice projects. The program is designed to strengthen, empower, and equip young women as agents of change in their lives and in the world. By increasing the participation of women in social, political, and economic decision-making, SNLP seeks to question and redefine the nature of leadership and to promote perspectives and practices that are cooperative, accountable, ethical and effective.



Examples of Excellence Identified by the 2010 Selection Committee:

- Transparent across all levels of the organization; sustaining resources is a major focus of management team; hired new staff, yet remained “budget neutral”
- Takes fiduciary responsibility very seriously; financial management practices support goals of good documentation and accountability; steady growth of 26% on average annually, reflecting growing funding commitments
- 2007 “boon year” – large corporate funder allowed carrying over a substantial fund balance into 2008 (1/2 of budget); established two new programs responding to critical client needs
- After closing 2008 with a sizable deficit, increased staff awareness and cut expenses by 8%; increased surplus by 4% in 2009; has 3-month reserves and hopes to have 6-month reserves in the near future
- Embodies a strong sense of collaboration and inclusion; 2008 deficit did not solely result from the financial crisis; underlying strength in the organization’s ability to learn and “grow” from the situation
- Strong ability to attract and cultivate diverse donor segments

ORGANIZATIONAL PROFILE

New York Cares

2009 Winner for Overall Management Excellence

Founded in 1987, New York Cares meets pressing community needs by mobilizing caring New Yorkers in volunteer service. By developing programs that respond to pressing community needs, New York Cares - New York City's leading volunteer management organization - provides a lifeline of support to our city's most vulnerable residents. Last year, we mobilized 63,000 individual volunteers and hundreds of companies, civic and youth groups to help improve the lives of over 400,000 struggling New Yorkers. Our volunteers donate their time and talents at over 1,300 nonprofits across the five boroughs to help address issues related to education, urgent needs such as hunger and homelessness, and environmental revitalization.



New York Cares prides itself on a culture of excellence, defined by integrity, reliability and professionalism. These values have enabled us to earn best in class status for financial management and transparency.

New York Cares has a structured budgeting process in place which takes into account the needs of the organization. It involves budget scenarios, review by the Finance Committee, approval from the Board of Directors, and is presented to all management and staff. The Board of Directors' Finance Committee develops the annual budget and reviews financial performance, while the Audit Committee conducts the annual audit, develops fiscal procedures and controls, and reviews organizational policies. The organization performs regular, monthly financial reporting, and assesses financial health in conjunction with the Finance and Fundraising Committees to determine current financial state and plan for the future.

Examples of Excellence Identified by the 2009 Selection Committee:

- Strategic plan guides budgeting process
- Careful expense projections involve entire organization
 - Conduct bottom up analysis using matrix of each expense projection by department, produced by Program Managers, Directors and Senior Directors
 - Review year-on-year changes
 - Board Finance Committee reviews budget before June Board Meeting
 - All-staff review budget led by Executive Director before July 1
 - Program expense snapshots (submitted by each Program Manager) include monthly expenses by location, # of total slots, # of participants, # of projects, and budget for each location as well as highlighted expansion scenarios demonstrating how the Program Managers "own the goals"
- Revenue projections
 - Acknowledge fundraising goals within the budget planning process
 - Monthly revenue projections for all staff; presented by category for individual and special events
 - Fulfill most challenge grants and also set campaign goals; development team secured 13 new corporate funders since January

Monitoring

- Revenue Status Report keeps track of money in hand and receivables; distributed to key staff (Development, senior staff & interested program staff) weekly and includes pledges by each category (e.g. corporations, individuals, etc.)
- Monthly financial packet to Board Finance Committee includes:
 - Account Reconciliation
 - Balance Sheet and Statement of Activities
 - Review of progress against budget (e.g., directors review Profit & Loss)
 - Analysis of "real" shortfall or surplus vs. budget: on time, delayed, denied, or early status of each budgeted pledge
 - Thorough analysis of major expenses (vetted 7 vendors before selecting database provider)
- Full Board receives financial packet 1 week prior to Board meetings; detailed donor report shows donations that have been approved, denied and delayed

- Separate Board Audit Committee

Forecasting

- Contingency planning
 - Month-by-month contingency triggers with percent projections enabled Board to make quick cuts without terminating employees; cuts are suggested by Program Managers
- Strong focus on cash liquidity
 - \$3mm cash in hand with average expenses of \$460k per month; Monthly Board Finance Committee works with senior staff to develop 3-year outlook based on changes in revenues and expenses; organization proactively thinks about what it wants/needs to do in terms of programming and decides how different scenarios will affect the organization's liquidity
- When funding goals are exceeded, Board encourages staff to further advance strategic plan

STRATEGIES TO IMPROVE YOUR ORGANIZATION'S FINANCIAL MANAGEMENT

Tips from the Workshop Panelists

❖ New York Cares

- **Practice Full Transparency**

Avoid surprises by constantly sharing up-to-date information with all levels of the organization. At a minimum, the goal is to provide:

- Board of Directors with quarterly updates on the overall financial health of the organization
- Board Committees (Finance, Audit, Development, etc.) with monthly updates (more if circumstances warrant)
- Senior Staff with weekly updates at regularly scheduled, on-going meetings
- Directors with individualized monthly P&L's to monitor budget variance and provide forecast data
- Officers and Managers with continuing guidance on financial health of the department and how it is going to affect them personally (belt tightening, spending increases, steady state, etc.)

- **Regularly Evaluate of Financial Performance and Goals**

The reports created provide all the information needed to assess the financial health of the organization. Here are some of the things we look at and for:

- Look at: Budget variance, YOY comparison and YE forecast
For: Surplus/(Deficit) projections to determine if belt tightening or spending increases are appropriate
- Look at: Program spend YTD and variance to budget
For: Ratio of program spend to total expenses - maintain 80% level or higher
- Look at: Balance Sheet/Net Assets
For: Reserve levels and liquidity position (typically measured as a percentage of annual spend)

- **Create Day to Day Operating Stability**

Here are some of the steps we take:

- In depth Fiscal Procedures Manual outlining all financial processes and controls
- Comprehensive organizational policies – and strict adherence
- Electronic process for all financial forms (not paper) including all source material and multi-level approval for every financial transaction – archived and searchable
- Every financial transaction requires Senior Director approval – no exceptions
- Finance Team must be knowledgeable and accessible to everyone – far better to provide guidance at the front end than to perform damage control at the back end

Pathways to Excellence Workshop Excellence in Financial Management

EXERCISE 1

What are your own organization’s practices, strengths, opportunity areas, and needs?

- Which practices are particularly strong?
- Where are areas for improvement?

It may be helpful to refer to the 8 Areas of Nonprofit Excellence, Area 3: Financial Management (handout) as well as the Readiness Assessment questions below:

1. Transparent Financial Management
2. Regularly Evaluate Financial Performance and Goals
3. Day-to-Day Operating Stability

For Reference FROM NPCC’s READINESS ASSESSMENT Area 3: Financial Management is Strong, Transparent & Accountable	YES	NO
Do you have a procedure for periodically updating the board on tracking and reporting of budget performance, liquidity, and cash flow? (AREAS 1, 2, 3)		
Do you have program budgets that are periodically reconciled? (AREA 2)		
Do you have a financial reserve or a financial reserve policy? (AREA 3)		
Have you received clean (unqualified opinion) audits over the past three years? (AREA 1)		
Do you have a procedure ensuring appropriate categorization of donated funds? (AREA 1)		

Strong Practices	Standard Practices	Areas for Improvement

EXERCISE 2

It's important to involve your board and staff in the financial management of your organization. Think about how you currently engage your board and staff, and what you can do to make their involvement even more robust.

Discuss with a partner:

- How do you communicate financially to your board/staff?
- What questions are you asking or would like to be asking?
- Do your reports and discussions best suit your organization's goals?

EXERCISE 3

An essential part of comprehensive financial management is understanding and managing financial risks.

What are the big areas of financial risk or concern for your organization? If you know, note how you are currently thinking of managing/mitigating these risks.

Where Are Our Biggest Financial Risks?	How Are We Mitigating or Managing this Risk?

As reference, some examples of financial risk: *Loss of funding, Unfavorable contracts/funding terms, Rising and/or inflexible expenses, Insufficient liquidity, Revenue concentration, Gov't agency audits ("clawbacks"), Shifting business model, The need to move locations, Inability to realize revenue from existing funding, High and inappropriate debt, Facility purchase.*

New York Cares

Current Financial Management Practices

Budget Process

- Directors in each group work with Finance team to create 'zero-based' expense budgets for each area within the organization.
- Once the needs of the organization are established, they are matched to fundraising goals and adjusted as necessary.
- Ultimately, a balanced budget is created, in draft form, for the upcoming fiscal year.
- The organization develops three budget scenarios:
 - Steady State – based on maintaining current levels and pre-approved growth, as well as any additional investment required per strategic plan.
 - Surplus (wish list) – based on prioritization of how surplus revenue would be deployed if received.
 - Contingency – based on modifications to be made in the event revenue is down relative to budget.
- A draft budget is presented to the Finance Committee for review. This process typically involves multiple revisions and several formal Committee meetings.
- Upon Finance Committee approval, the budget is presented to the Board of Directors at the annual meeting for final approval prior to the start of the fiscal year.
- Once adopted, the final budget is distributed to the management team and presented to all staff at the next monthly meeting.

Governance/Oversight

- Responsibilities of Finance Committee
 - Annual Operating Budget – development of and adherence to
 - Financial Performance – regular and ad hoc review of financial statements
 - Liquidity - operating cash on hand
 - Reserves/Investments – establish threshold, investment policy, allocation strategy, and monitor performance of portfolio and manager
- Responsibilities of Audit Committee
 - Annual Audit Process – full oversight, approval of audited financials and tax filings
 - Fiscal Procedures and Controls – develop, monitor and amend as needed
 - Organizational Policies – conflict of interest, whistleblower, etc.

Reporting & Monitoring

- A Financial Report for the organization is prepared monthly, consisting of a Statement of Activities and Balance Sheet as well as any other information relevant to the financial state of the organization. This information is shared with the Finance Committee.
- Department specific P&L Statement are prepared monthly and distributed to the management team.
- Finance and Fundraising meet regularly to assess fundraising health, including a detailed analysis of unanticipated support received, anticipated support decreased or denied, progress toward stretch goals, etc. The goal is to determine not just what has been received but where the organization can expect to be at year end.
- Trigger dates are established (e.g. end of January after year end giving season) to determine if spending changes are appropriate based on full year projections.

New York Community Trust Nonprofit Excellence Awards
29 Winning Organizations 2007 – 2015

- **America Needs You**, 2015 Winner
- **BRC**, 2015 Winner
- **BronxWorks**, 2013 Winner
- **Center for Urban Community Services**, 2007 Winner
- **City Harvest**, 2011 Winner
- **Community Health Action of Staten Island**, 2008 Winner
- **CSH**, 2013 Winner
- **Families United for Racial and Economic Equality**, 2007 Winner
- **God's Love We Deliver**, 2010 Winner
- **Good Shepherd Services**, 2007 Winner
- **Graham Windham**, 2014 Winner
- **Groundwork, Inc.**, 2009 Winner
- **Harlem Academy**, 2011 Winner
- **Harlem RBI**, 2009 and 2012 Winner
- **Ifetayo Cultural Arts**, 2008 Winner
- **Institute for Family Health**, 2008 Winner
- **Leake & Watts**, 2014 Winner
- **Neighborhood Economic Development Advocacy Project**, 2009 Winner
- **New York Cares**, 2009 Winner
- **New York Common Pantry**, 2015 Winner
- **New York Lawyers for the Public Interest**, 2010 Winner
- **Open Door Family Medical Centers**, 2012 Winner
- **Red Hook Initiative**, 2012 Winner
- **Row New York**, 2014 Winner
- **Sadie Nash Leadership Project**, 2010 Winner
- **Sanctuary for Families**, 2011 Winner
- **The Children's Village**, 2013 Winner
- **Vera Institute of Justice**, 2009 Winner
- **WITNESS**, 2007 Winner