

RESOURCES

FINANCE

Nonprofit Finance: 12 Golden Rules

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Healthy nonprofit organizations employ financial management practices that build stability and flexibility, both today and in the future. In this resource we set out the 12 golden rules for nonprofit finance, including budgeting, diverse funding sources, and interdependence.

Nonprofit organizations impact communities and individuals by delivering services, providing advocacy, and building community. Behind the scenes, powerful missions, innovative programs, and passionate staff and volunteers are supported by financial activities and decisions. Healthy nonprofit organizations employ financial management practices that build stability and flexibility both today and in the future.

1. Budgeting

Budgets matter because they provide the financial information to support all planning. Effective budgets are realistic, using sound assumptions and clear accountability to achieve those assumptions.

2. Program Costs

Financial decisions rely on good information. It is essential that organizations understand the real costs of their programs in order to make decisions about fundraising needs, contract terms, and program expansion or modification.

3. Diverse Funding Sources

While it sounds good, diversifying funding sources isn't easy, and isn't necessarily a smart move. Different types of income require different systems, structures, relationships, and communications.

4. Functional/Infrastructure Expenses (aka, Core Mission Support)

Nonprofits are required to account for functional expenses – program services and general/administration & fundraising (often referred to as “overhead”). While lower overhead expenses may sound better to donors, this emphasis is destabilizing and unsustainable. Make the case by reframing from “overhead” to “infrastructure” or **“Core Mission Support.”**

5. Cash Flow

Day to day, cash in the bank to pay the bills often matters more than any financial statement or long-term plan. Cash flow can be monitored and managed with a few basic management tools.

6. Financial Information

To be an effective leader, encourage everyone to develop financial literacy. This includes learning the terminology, understanding and using financial reports, and asking lots of questions. Good information is provided by trained and respected staff and professionals.

7. Financial Responsibility

Responsibility for making financial decisions and carrying out financial activities is shared throughout an organization. Responsibility needs to be supported with good information, frequent communication, and appropriate authority.

8. Operating Reserves

Every nonprofit needs to have some cash in reserve in order to respond to an unexpected downturn or opportunity. Is there a golden number that every organization should maintain, and how can a nonprofit build reserves?

9. Accountability and Transparency

Between the IRS, Attorney General, foundations, and donors, everyone is demanding information and answers about how nonprofits receive and use financial resources. This trend is accelerating and many nonprofits choose to make accountability an important organizational value.

10. Financial Integrity

As public charities, nonprofits can expect to be held to a high standard of integrity and honesty in all financial activities. While policies, job descriptions, and internal controls help to maintain this integrity, they are built on the foundation of mission, values, and leadership.

11. Responding to Financial Problems

Sometimes things go wrong – contracts are lost, fundraising plans flounder, and expenses skyrocket. Responding to financial problems requires strong leadership, good communication, creative planning, and decisive action.

12. Interdependence

Financial management connects to every aspect of a nonprofit – governance, planning, programs, evaluation, on and on. Keeping everything connected is what financial leadership is all about.

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