Finance Imitates Program

Nonprofits Assistance Fund
Helping nonprofits thrive

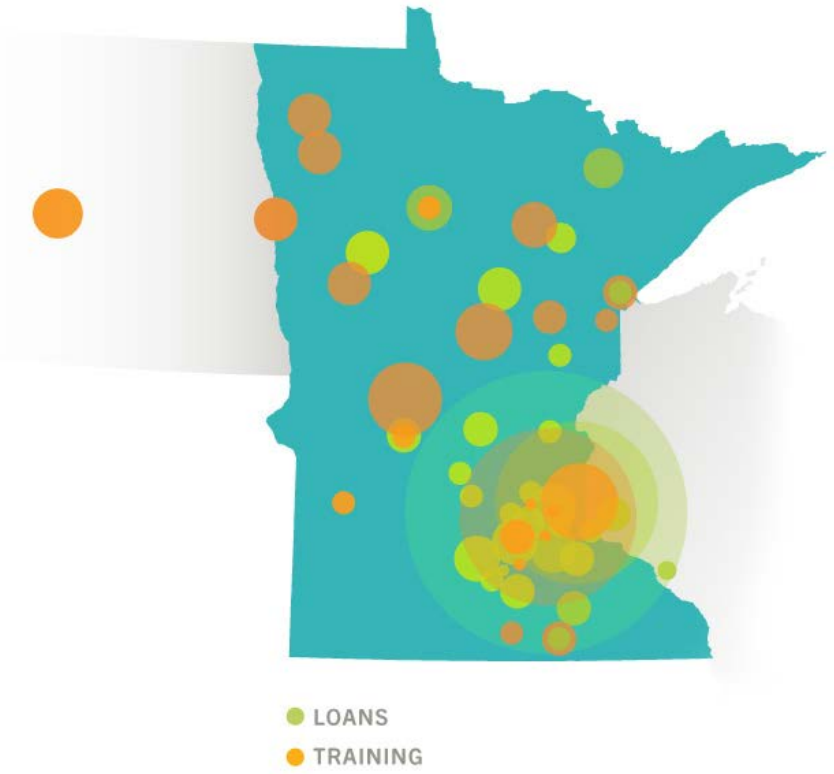
Nonprofit Finance & Sustainability Conference
March 3, 2016

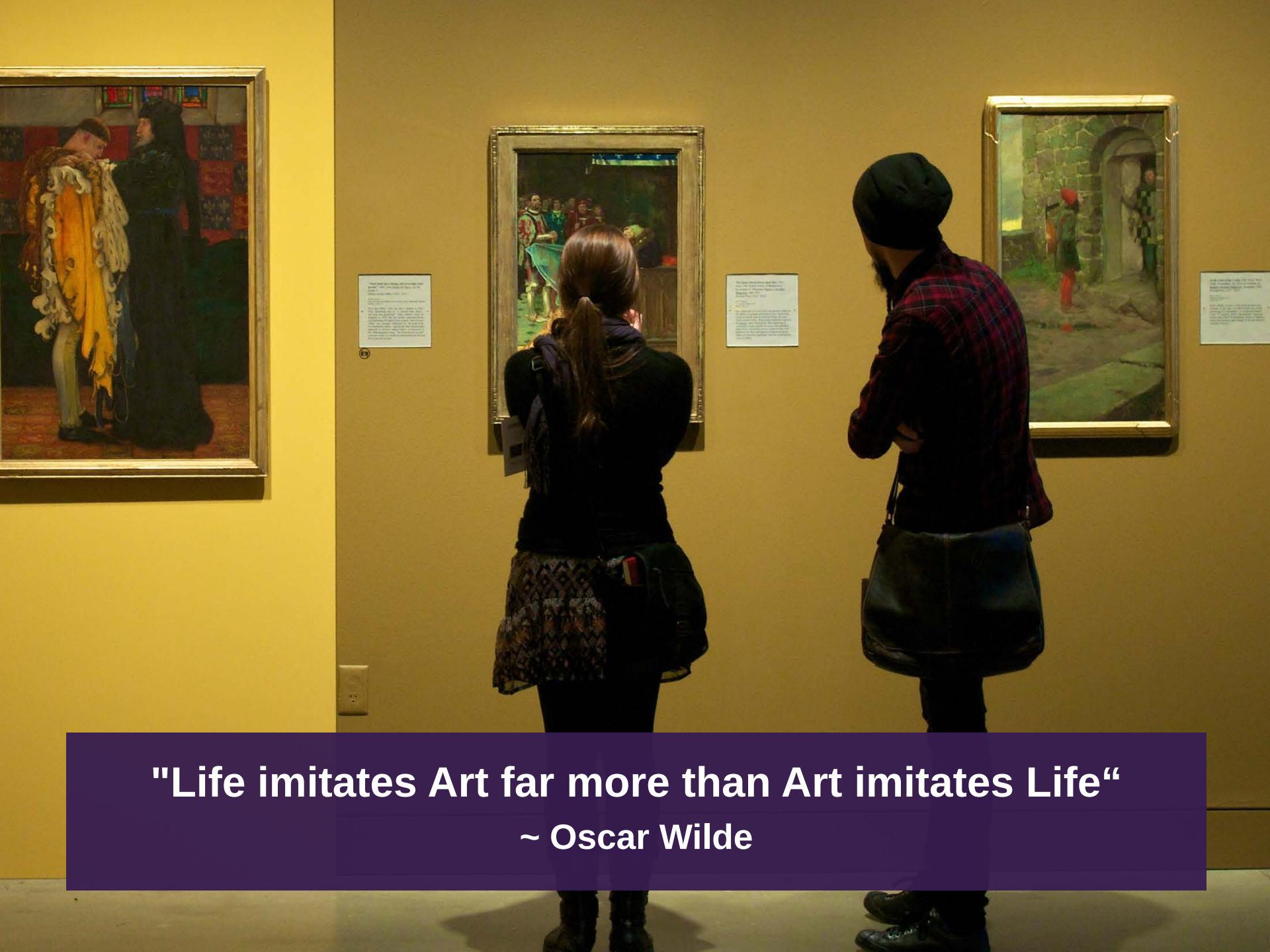
Curt Klotz
Finance Director
Nonprofits Assistance Fund

About NAF

Nonprofits Assistance Fund
Helping nonprofits thrive

Nonprofits Assistance Fund invests capital and expertise in nonprofits through loans, training, practical guidance, and financial management resources.





"Life imitates Art far more than Art imitates Life“

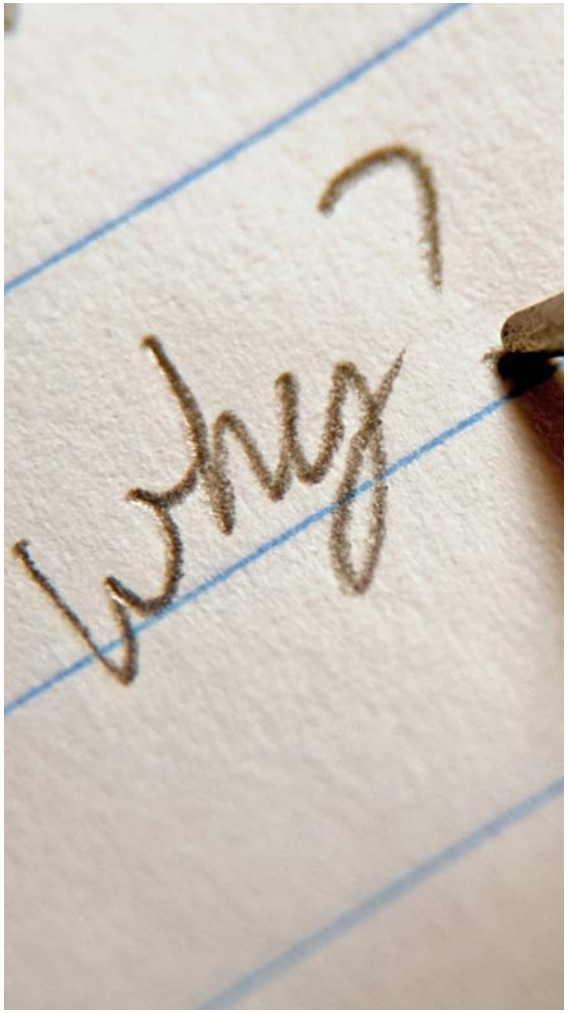
~ Oscar Wilde

Finance Imitates Program

Goals for the Session

- Make a case for finance imitating program more than program imitating finance
- Provoke debate about how defining mission and program guide the way we design financial systems
- Inspire us to share stories about our proudest moments enhancing mission success through our financial leadership
- Show practical, technical examples of how to design accounting systems to imitate program

Mission Defines All

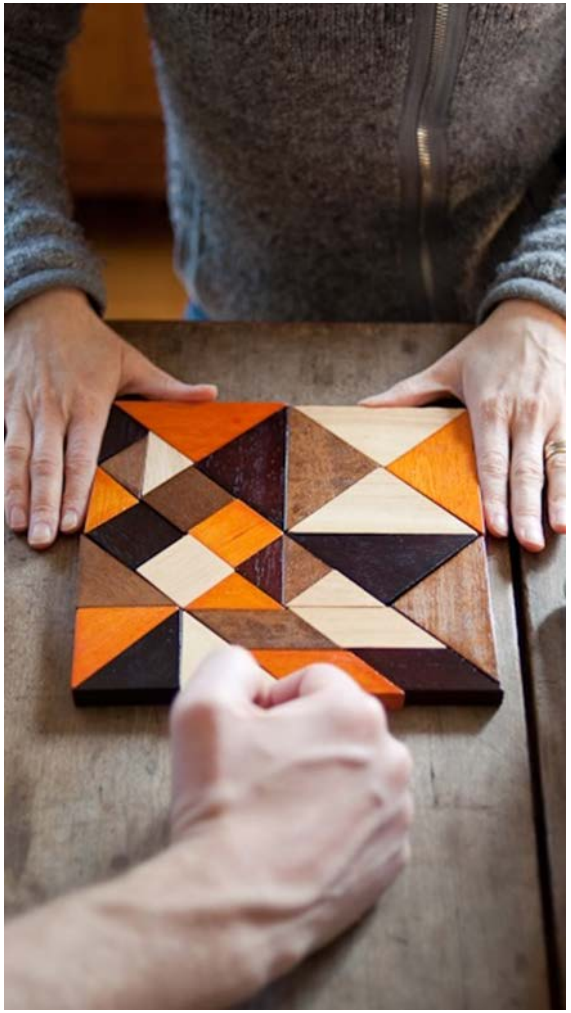


- Mission is WHAT we *promise* to do and WHY we do it.
- Strategy lays out HOW we intend to *accomplish* our mission.
- Programs represent the *actions* we take and the *resources* we deploy to make our strategy come alive.

Defining Our Programs - Consciously

- Consciously or unconsciously, our programs are structured to get exactly the results they are currently getting.

- Make the unconscious conscious. Programs should flow naturally from our mission and reflect our vision, strategy, and goals.



Defining Our Programs - Prioritizing

- Is the current structure of our programs truly the best way to deliver on our promises and commitments?

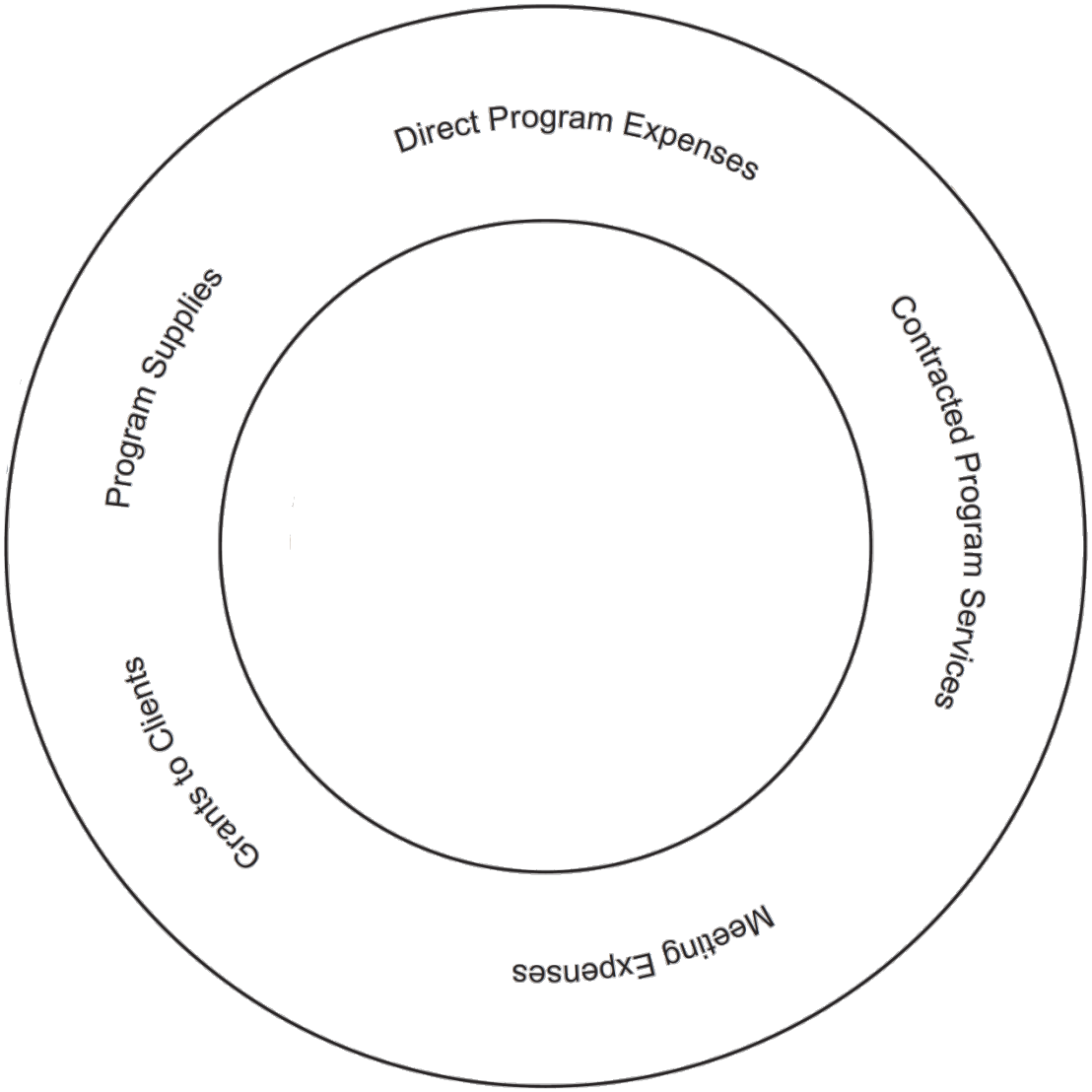
- The staff time we throw at a problem, the resources we deploy, the attention we pay to supporting systems, all expose our priorities.

- Does the way our programs are structured reflect our priorities?

Defining Our Programs - Elegance

Each time we divide our mission into one more program, we risk diffusing our overall effectiveness by isolating activity, personnel, resources, and impact that would otherwise be stronger together.

Programs Are The Organization



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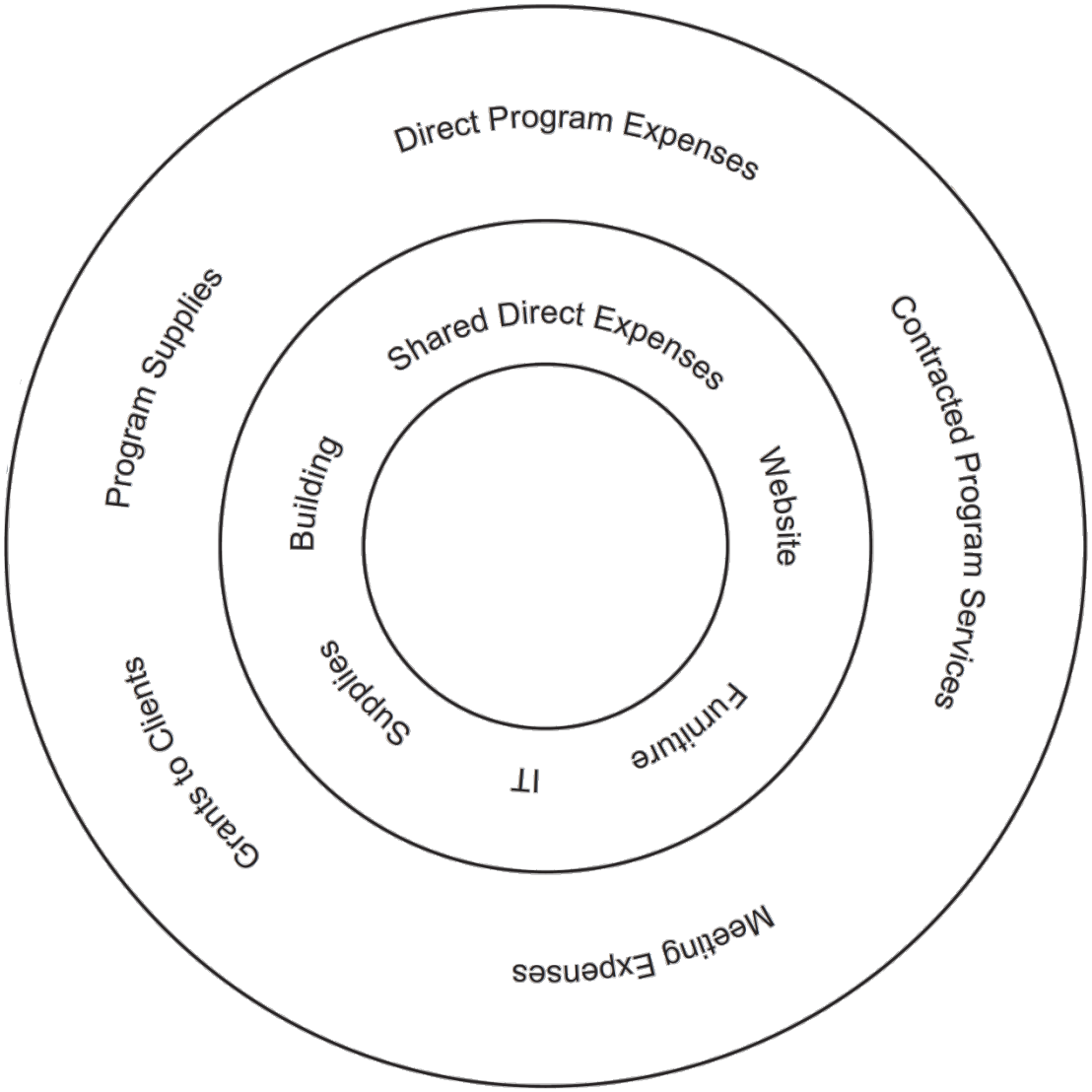
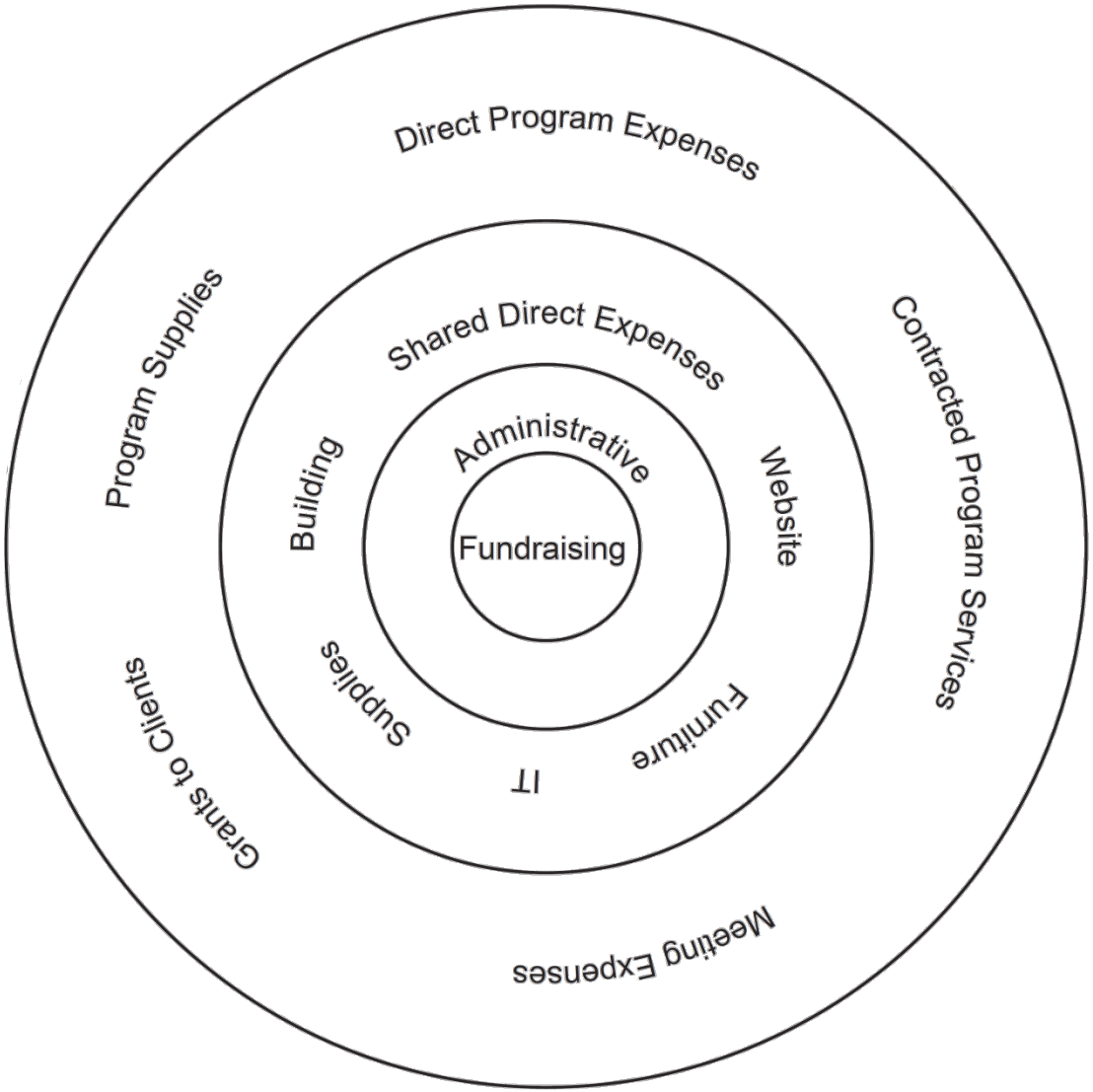


Programs Are The Organization

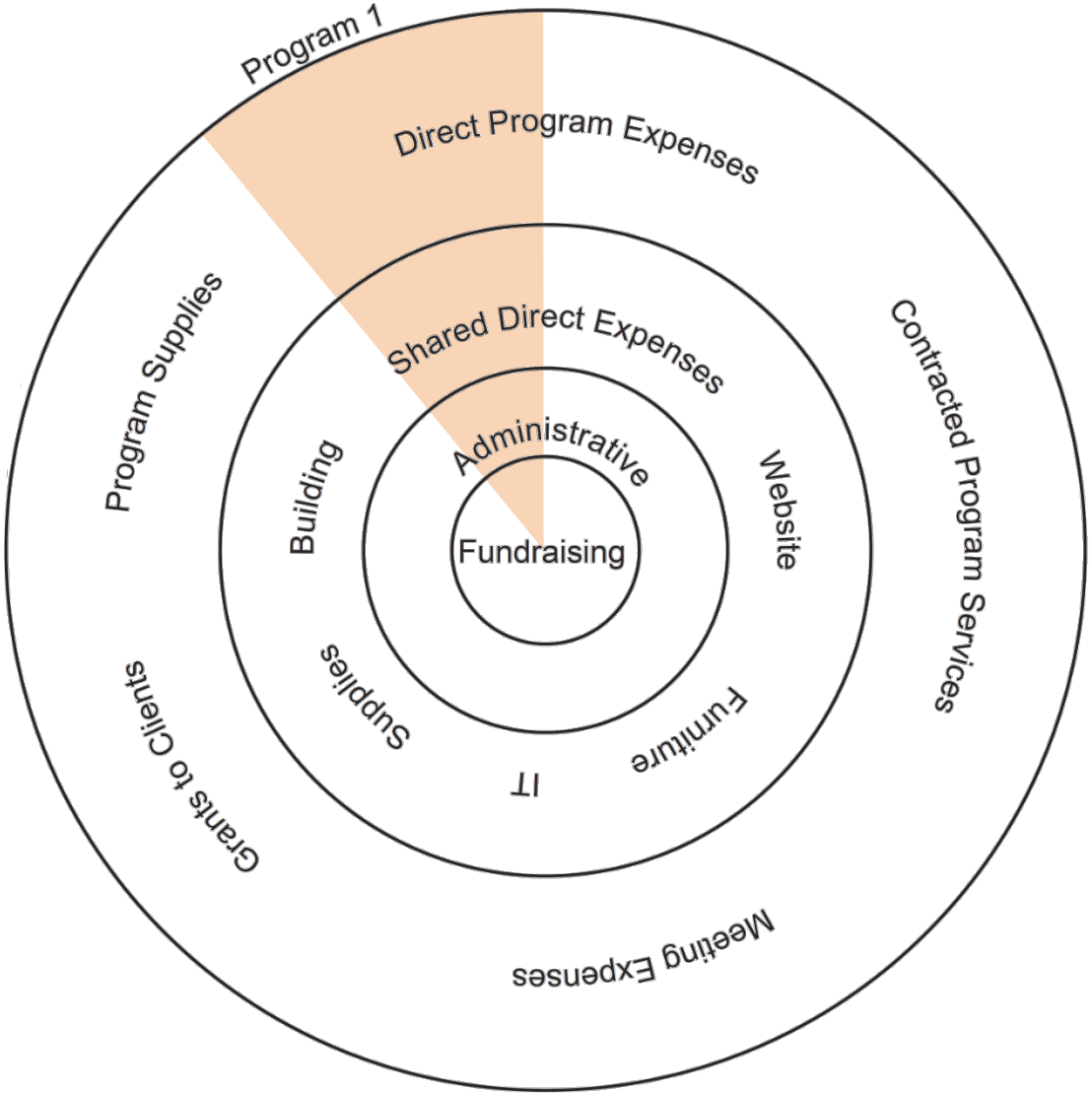


Advantages of Elegantly Defined Programs

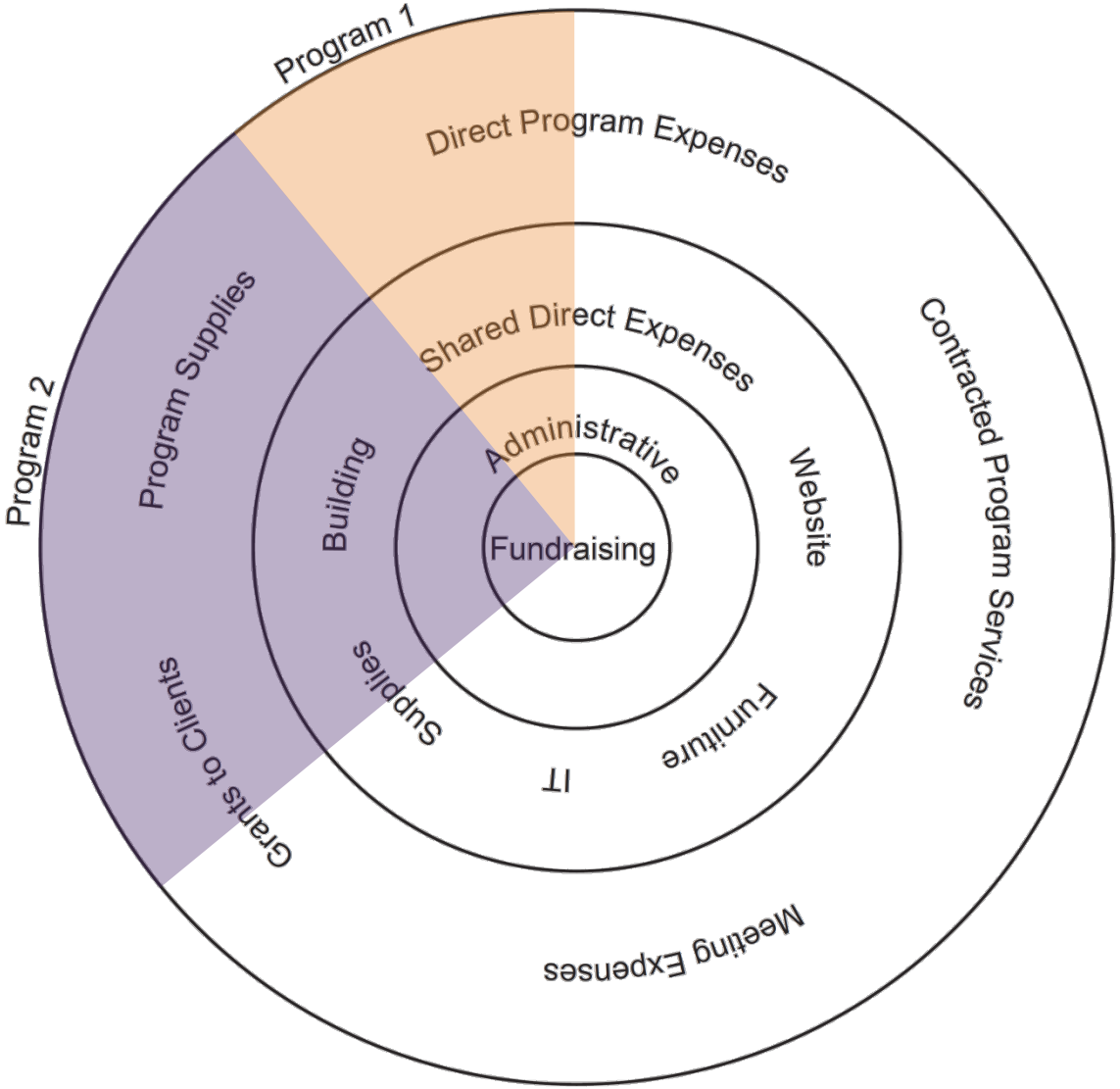
When programs are defined elegantly, …

- restricted grants begin to function as general support grants.
- we can better partner with funders – ask many funders to support our few programs, rather than inadvertently allow each funder to define a new program.
- we are more likely to capture the true costs of our programs and so better ensure that we are fully funding our entire organization.

Finance Imitates Program



Finance Imitates Program



Finance Imitates Program

Finance Imitates Program – Systems Design

- When we trust that our programs are aligned with our mission, then we can design our financial systems around the programs.
- If the programmatic structure of our organization mirrors our mission, then an effective financial system should mirror that same structure.
- Strong financial systems amplify mission by enhancing our ability to plan, strategize, manage, and monitor the success of programs.

Let’s Get Technical

Let’s put technology (our systems and software) in service of programs and not the other way around

Fitting Big Ideas into Current Realities

Outside forces that define our financial structures:

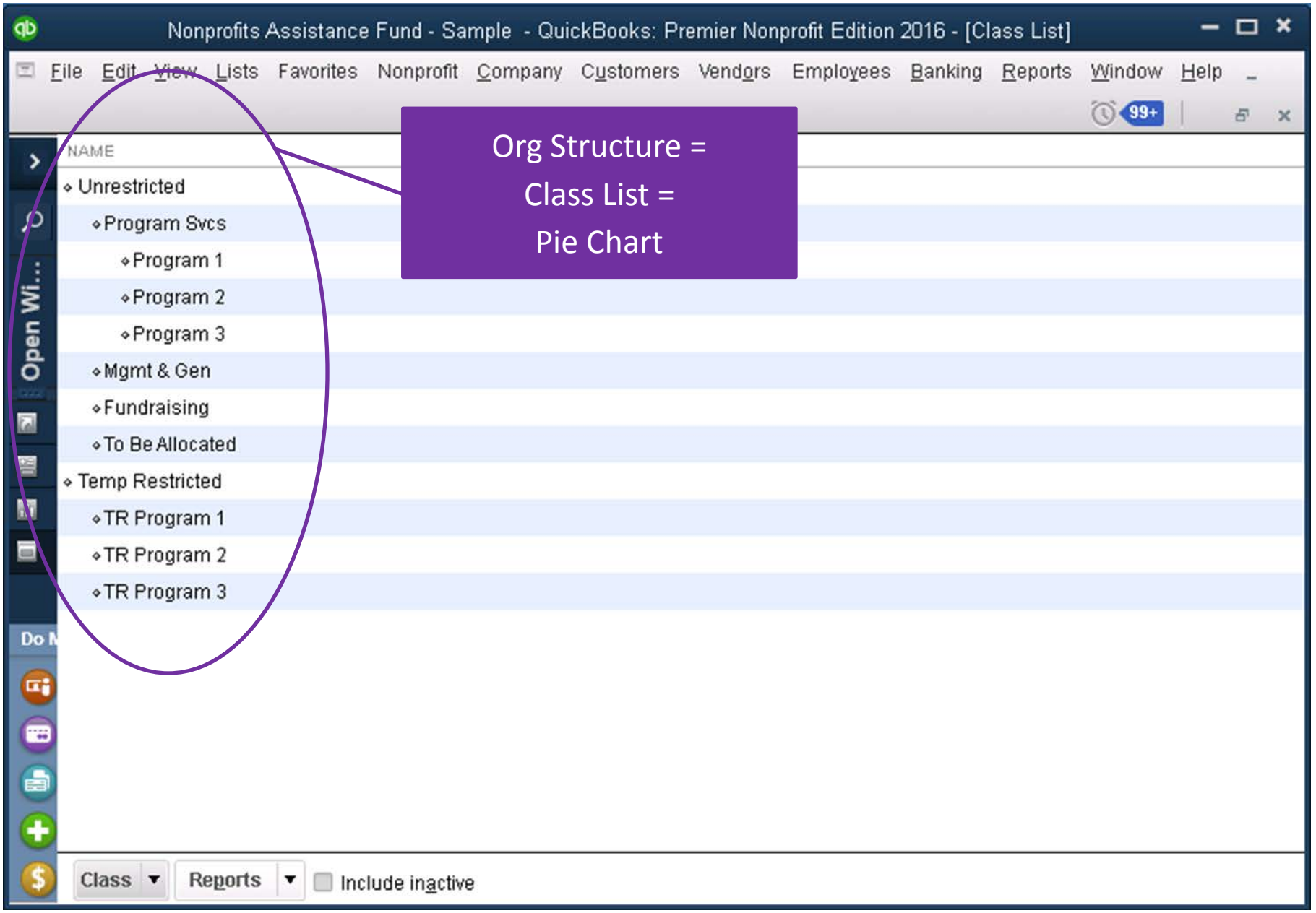
- FASB standards on classifying net assets
- FASB and IRS requirements to show expenses by function
- Uniform Guidance classification of fundraising expenses as unallowable costs
- Proposed new FASB standards that require showing functional expenses by nature

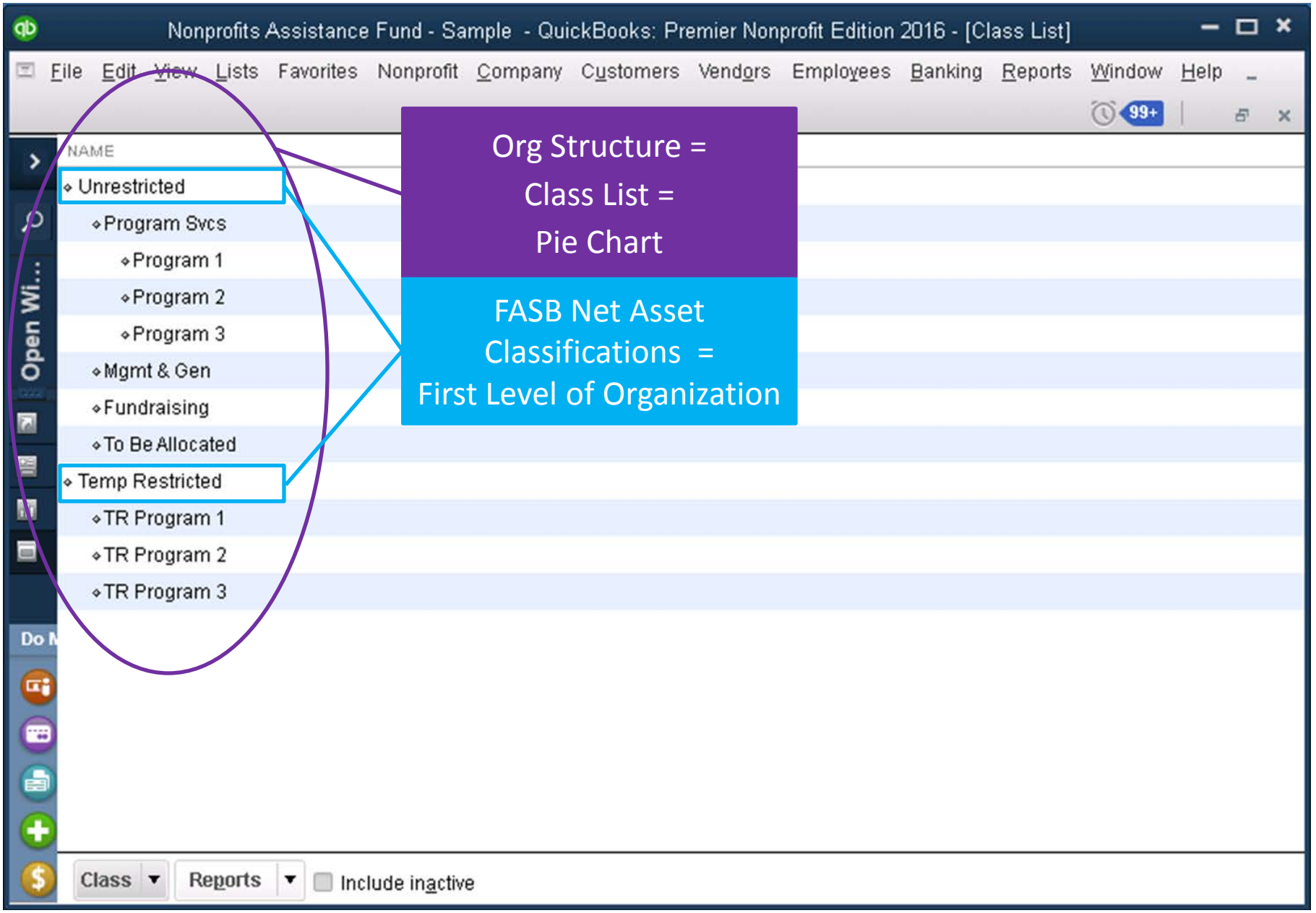
What does this Big Idea look like in Accounting Software?

Example from the Common Denominator - QuickBooks

We've developed a sample nonprofit accounting system in QuickBooks that simultaneously…

- tracks unrestricted and temporarily restricted funds – including on the Statement of Financial Position,
- provides a functional expense breakout for the IRS Form 990,
- allows for allotting shared costs,
- and provides program by program reporting for management purposes.


Nonprofits Assistance Fund - Sample - QuickBooks: Premier Nonprofit Edition 2016 - [Class List]
File Edit View Lists Favorites Nonprofit Company Customers Vendors Employees Banking Reports Window Help
99+
Org Structure =
Class List =
Pie Chart
NAME
Unrestricted
Program Svcs
Program 1
Program 2
Program 3
Mgmt & Gen
Fundraising
To Be Allocated
Temp Restricted
TR Program 1
TR Program 2
TR Program 3
Open Wi...
Class
Reports
Include inactive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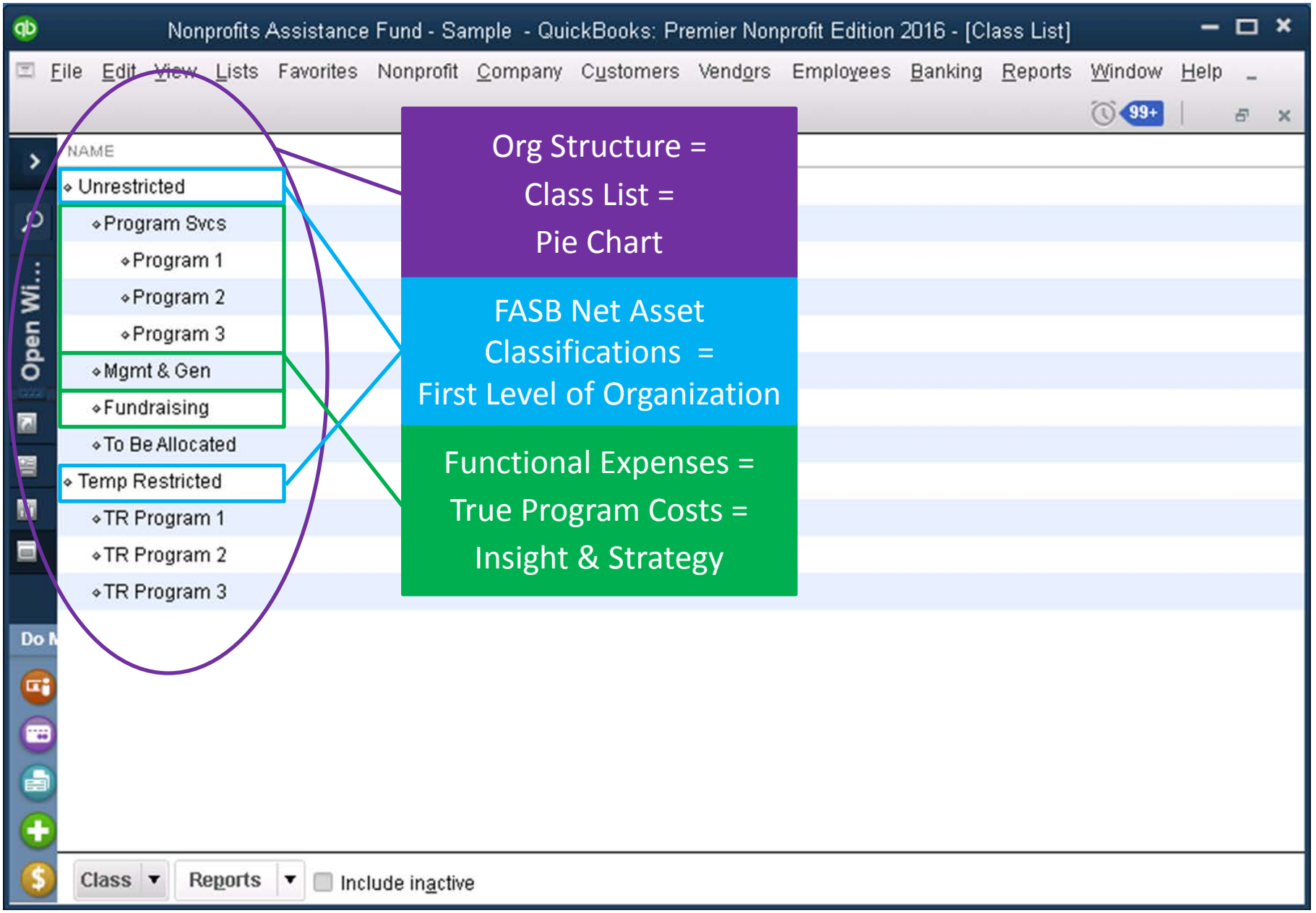
Org Structure =
Class List =
Pie Chart
FASB Net Asset
Classifications =
First Level of Organization
Open Wi...
Class
Reports
Include inactive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NAME
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Org Structure =
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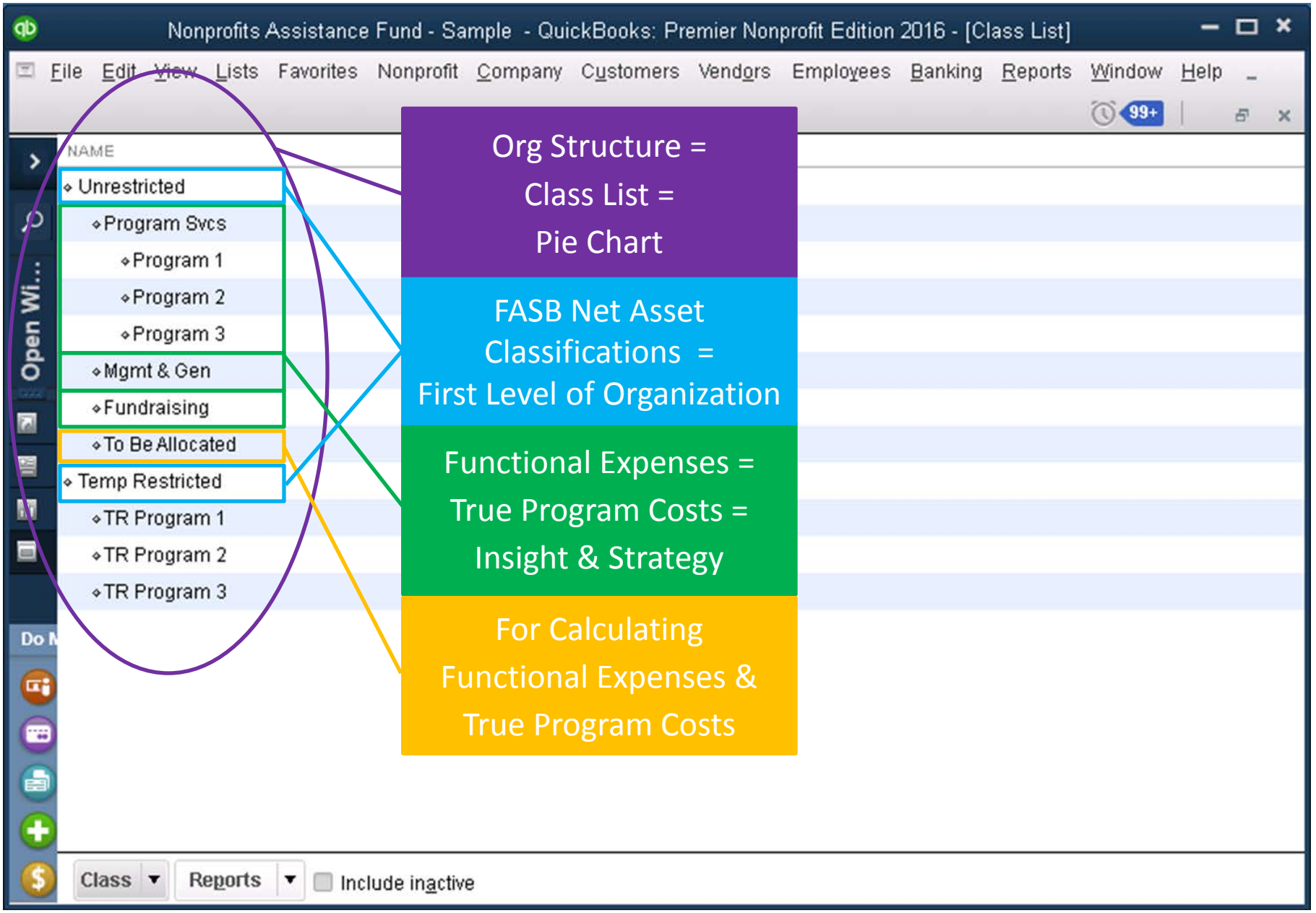
FASB Net Asset
Classifications =
First Level of Organization
Functional Expenses =
True Program Costs =
Insight & Strategy
Class
Reports
Include inactive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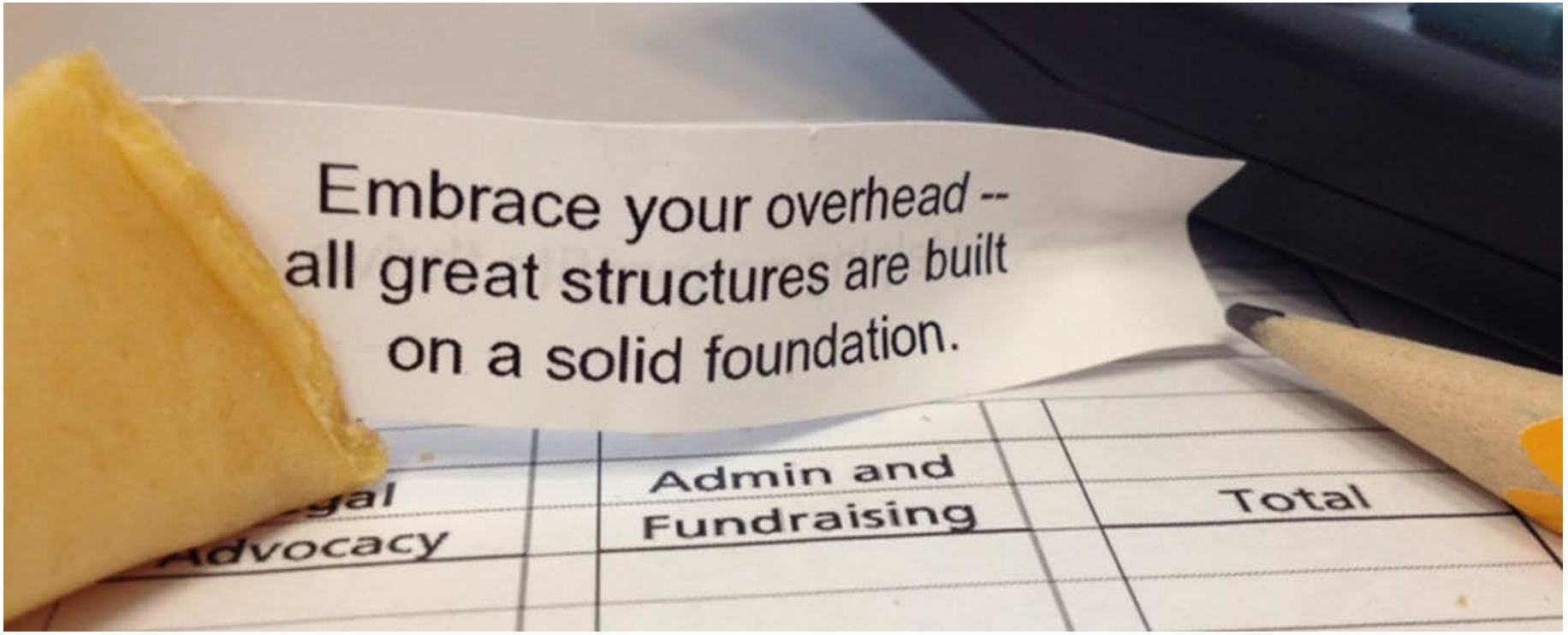
Classifications =
First Level of Organization
Functional Expenses =
True Program Costs =
Insight & Strategy
For Calculating
Functional Expenses &
True Program Costs

Use Functional Expense to highlight Core Mission Support



Financial, administrative, and development systems should be designed to reflect and amplify our mission, strategy, and programs

Different Expressions of the Same Organizational Design

What Works for Programs Works for Accounts

For a chart of accounts to be most effective, it should be as lean as possible.

When crafting our chart of accounts, there are two reasons that warrant an additional line item.

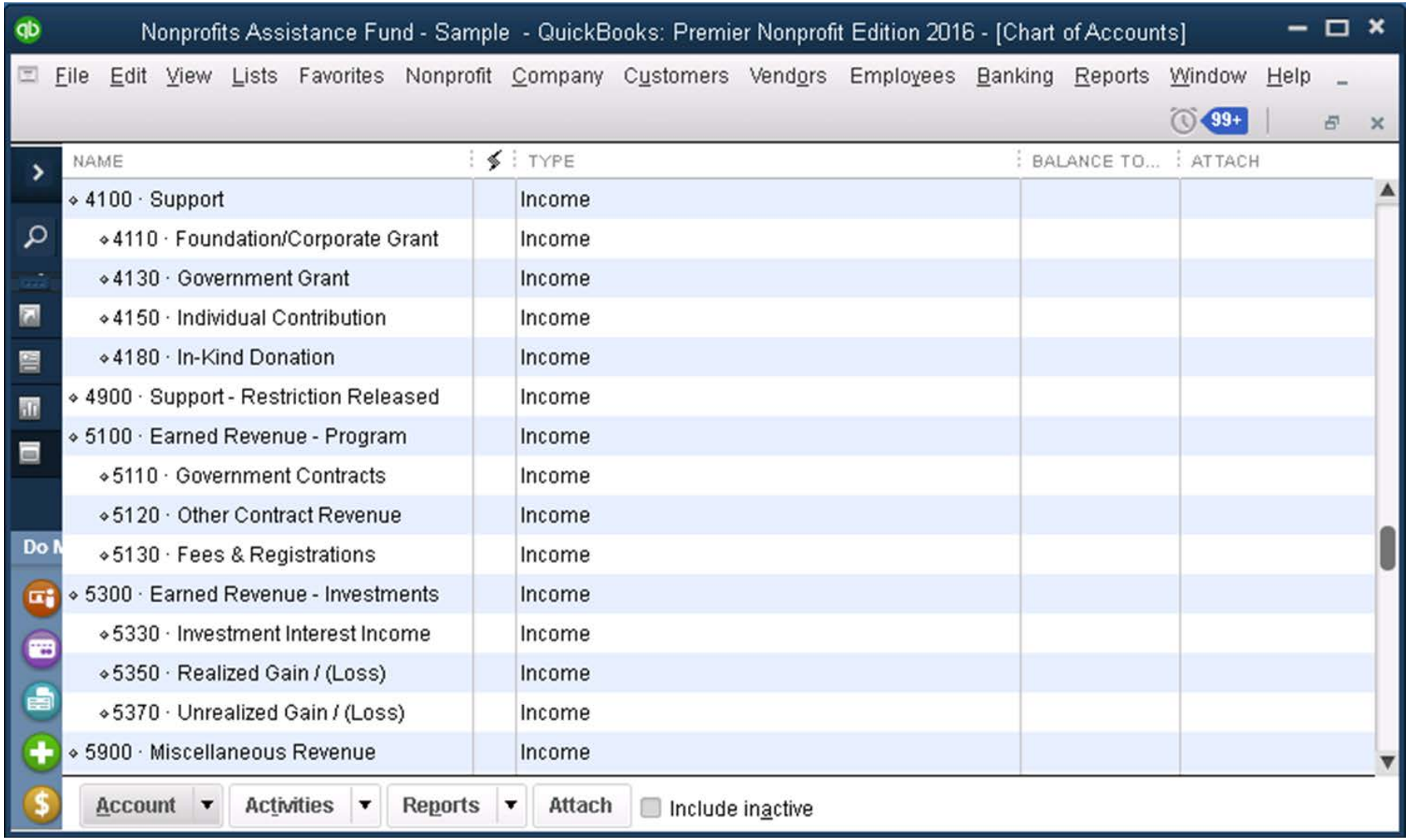
- The item is something we manage around.
- The item is something someone else requires.

Strategic Reporting Starts With the Chart of Accounts

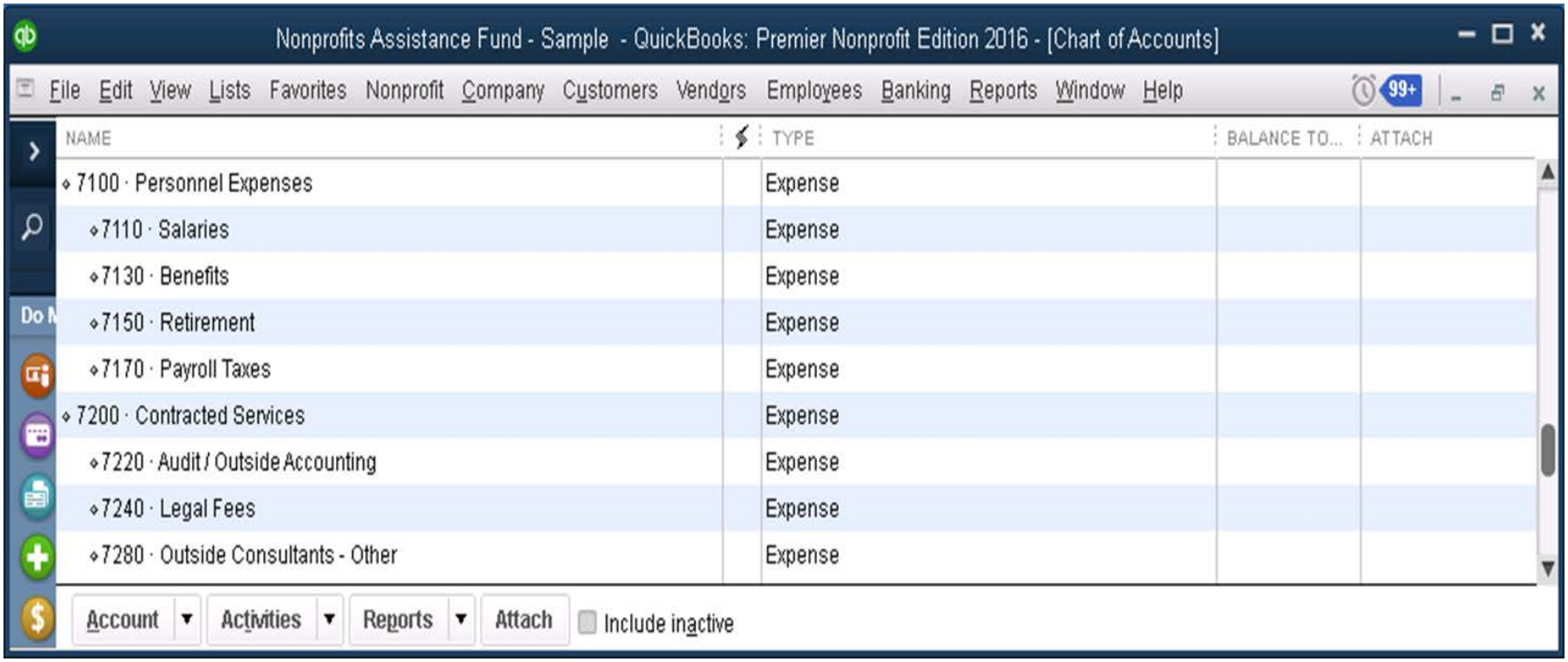
Financial printouts with stultifying levels of detail…

- draw users into minutiae that have little to do with the strategic decision-making our organization really needs.
- risk diluting the power of our reporting function.

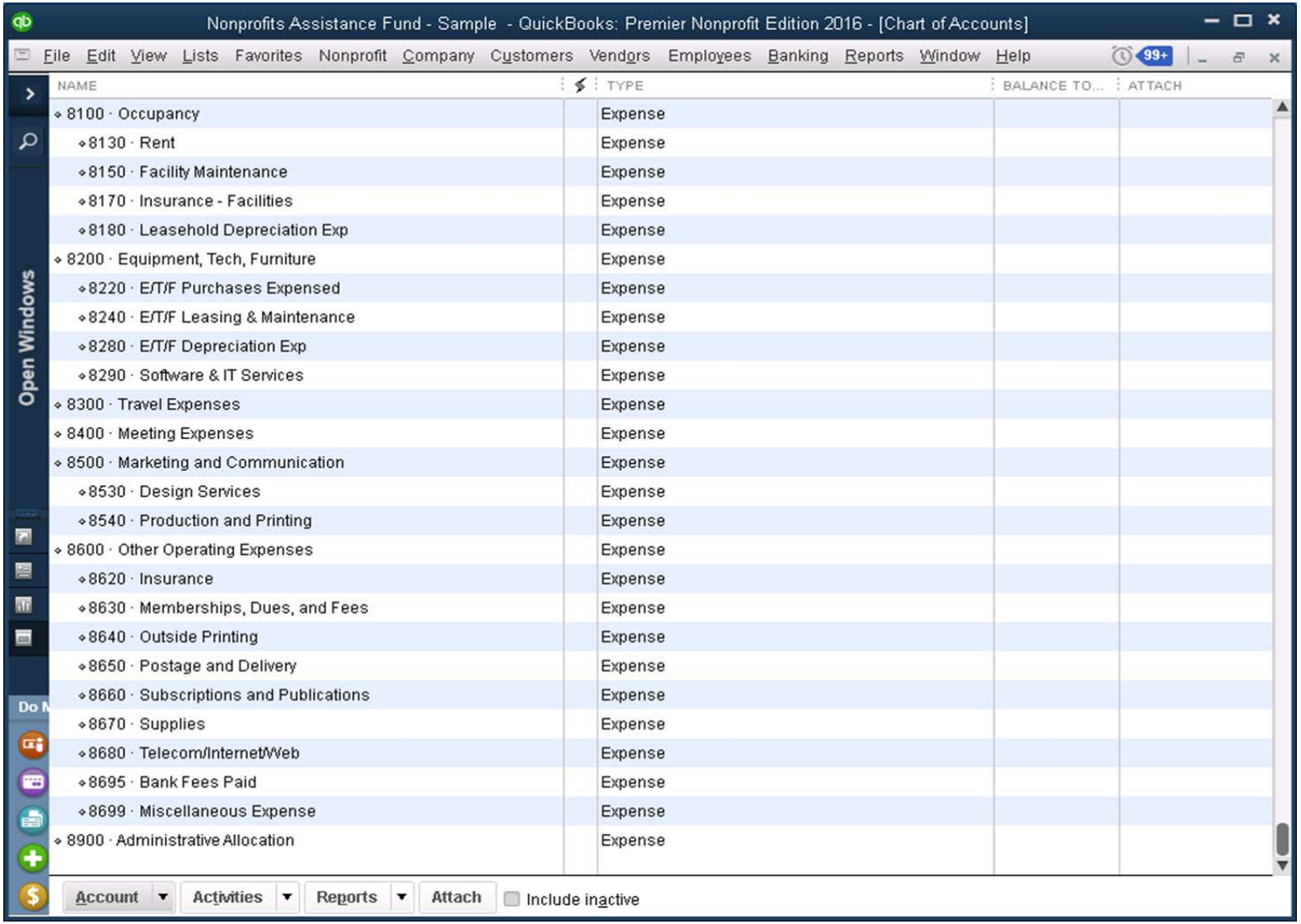
QuickBooks Example – Income Items



Design Example – Personnel Items



Design Example – Expense Items

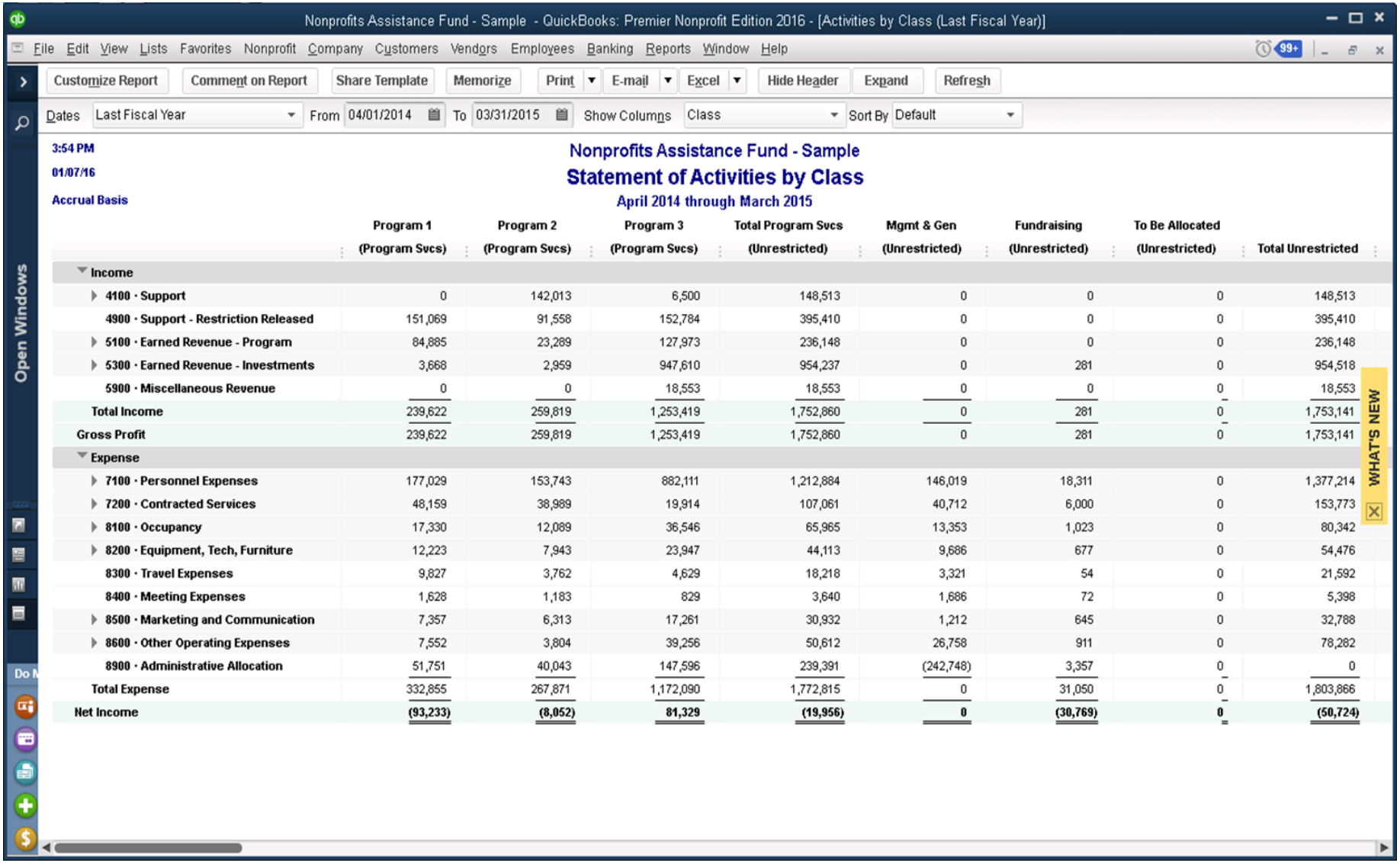


Break It Down to Put It Back Together

Remember Elegance

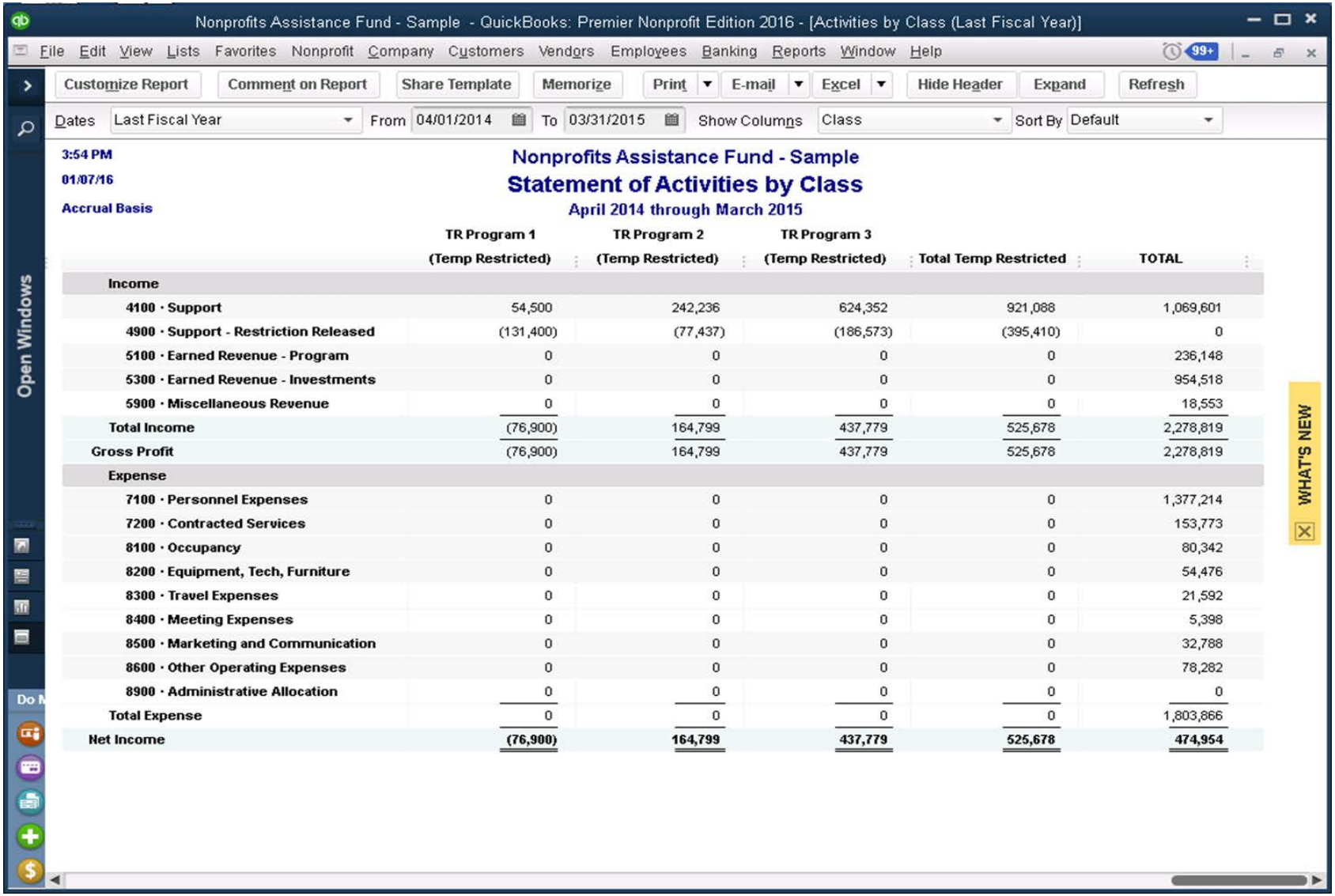
Use reports to focus each of our various audiences on the highest, most useful level of their decision making.

Design Results – Statement of Activities



	Program 1 (Program Svcs)	Program 2 (Program Svcs)	Program 3 (Program Svcs)	Total Program Svcs (Unrestricted)	Mgmt & Gen (Unrestricted)	Fundraising (Unrestricted)	To Be Allocated (Unrestricted)	Total Unrestricted
Income								
4100 · Support	0	142,013	6,500	148,513	0	0	0	148,513
4900 · Support - Restriction Released	151,069	91,558	152,784	395,410	0	0	0	395,410
5100 · Earned Revenue - Program	84,885	23,289	127,973	236,148	0	0	0	236,148
5300 · Earned Revenue - Investments	3,668	2,959	947,610	954,237	0	281	0	954,518
5900 · Miscellaneous Revenue	0	0	18,553	18,553	0	0	0	18,553
Total Income	239,622	259,819	1,253,419	1,752,860	0	281	0	1,753,141
Gross Profit	239,622	259,819	1,253,419	1,752,860	0	281	0	1,753,141
Expense								
7100 · Personnel Expenses	177,029	153,743	882,111	1,212,884	146,019	18,311	0	1,377,214
7200 · Contracted Services	48,159	38,989	19,914	107,061	40,712	6,000	0	153,773
8100 · Occupancy	17,330	12,089	36,546	65,965	13,353	1,023	0	80,342
8200 · Equipment, Tech, Furniture	12,223	7,943	23,947	44,113	9,686	677	0	54,476
8300 · Travel Expenses	9,827	3,762	4,629	18,218	3,321	54	0	21,592
8400 · Meeting Expenses	1,628	1,183	829	3,640	1,686	72	0	5,398
8500 · Marketing and Communication	7,357	6,313	17,261	30,932	1,212	645	0	32,788
8600 · Other Operating Expenses	7,552	3,804	39,256	50,612	26,758	911	0	78,282
8900 · Administrative Allocation	51,751	40,043	147,596	239,391	(242,748)	3,357	0	0
Total Expense	332,855	267,871	1,172,090	1,772,815	0	31,050	0	1,803,866
Net Income	**(93,233)**	**(8,052)**	**81,329**	**(19,956)**	**0**	**(30,769)**	**0**	**(50,724)**

Design Results – Restricted Classes



Nonprofits Assistance Fund - Sample - QuickBooks: Premier Nonprofit Edition 2016 - [Activities by Class (Last Fiscal Year)]

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Customize Report | Comment on Report | Share Template | Memorize | Print | E-mail | Excel | Hide Header | Expand | Refresh

Dates: Last Fiscal Year | From: 04/01/2014 | To: 03/31/2015 | Show Columns: Class | Sort By: Default

3:54 PM
01/07/16
Accrual Basis

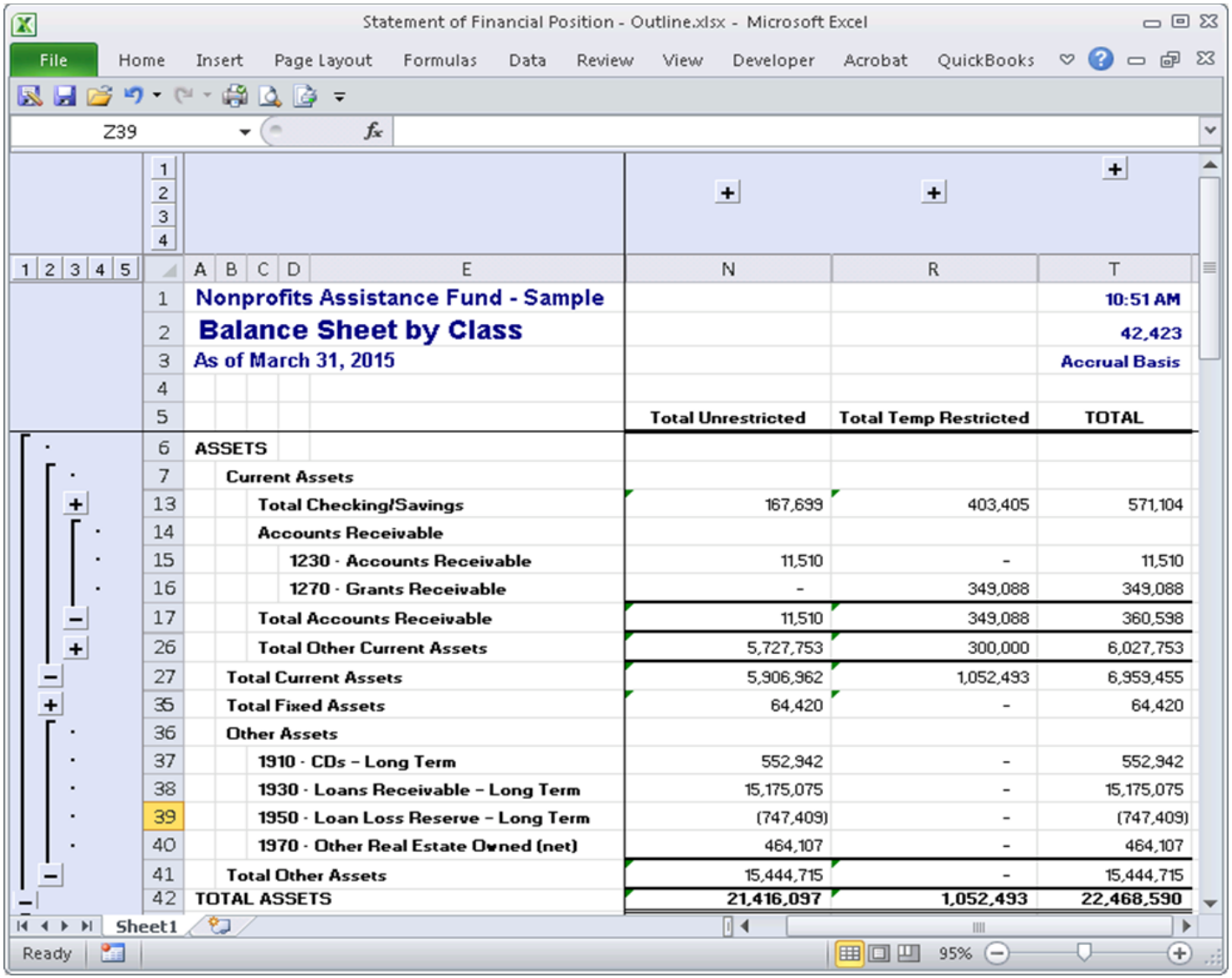
Nonprofits Assistance Fund - Sample
Statement of Activities by Class
April 2014 through March 2015

	TR Program 1 (Temp Restricted)	TR Program 2 (Temp Restricted)	TR Program 3 (Temp Restricted)	Total Temp Restricted	TOTAL
Income					
4100 · Support	54,500	242,236	624,352	921,088	1,069,601
4900 · Support - Restriction Released	(131,400)	(77,437)	(186,573)	(395,410)	0
5100 · Earned Revenue - Program	0	0	0	0	236,148
5300 · Earned Revenue - Investments	0	0	0	0	954,518
5900 · Miscellaneous Revenue	0	0	0	0	18,553
Total Income	(76,900)	164,799	437,779	525,678	2,278,819
Gross Profit	(76,900)	164,799	437,779	525,678	2,278,819
Expense					
7100 · Personnel Expenses	0	0	0	0	1,377,214
7200 · Contracted Services	0	0	0	0	153,773
8100 · Occupancy	0	0	0	0	80,342
8200 · Equipment, Tech, Furniture	0	0	0	0	54,476
8300 · Travel Expenses	0	0	0	0	21,592
8400 · Meeting Expenses	0	0	0	0	5,398
8500 · Marketing and Communication	0	0	0	0	32,788
8600 · Other Operating Expenses	0	0	0	0	78,282
8900 · Administrative Allocation	0	0	0	0	0
Total Expense	0	0	0	0	1,803,866
Net Income	**(76,900)**	**164,799**	**437,779**	**525,678**	**474,954**

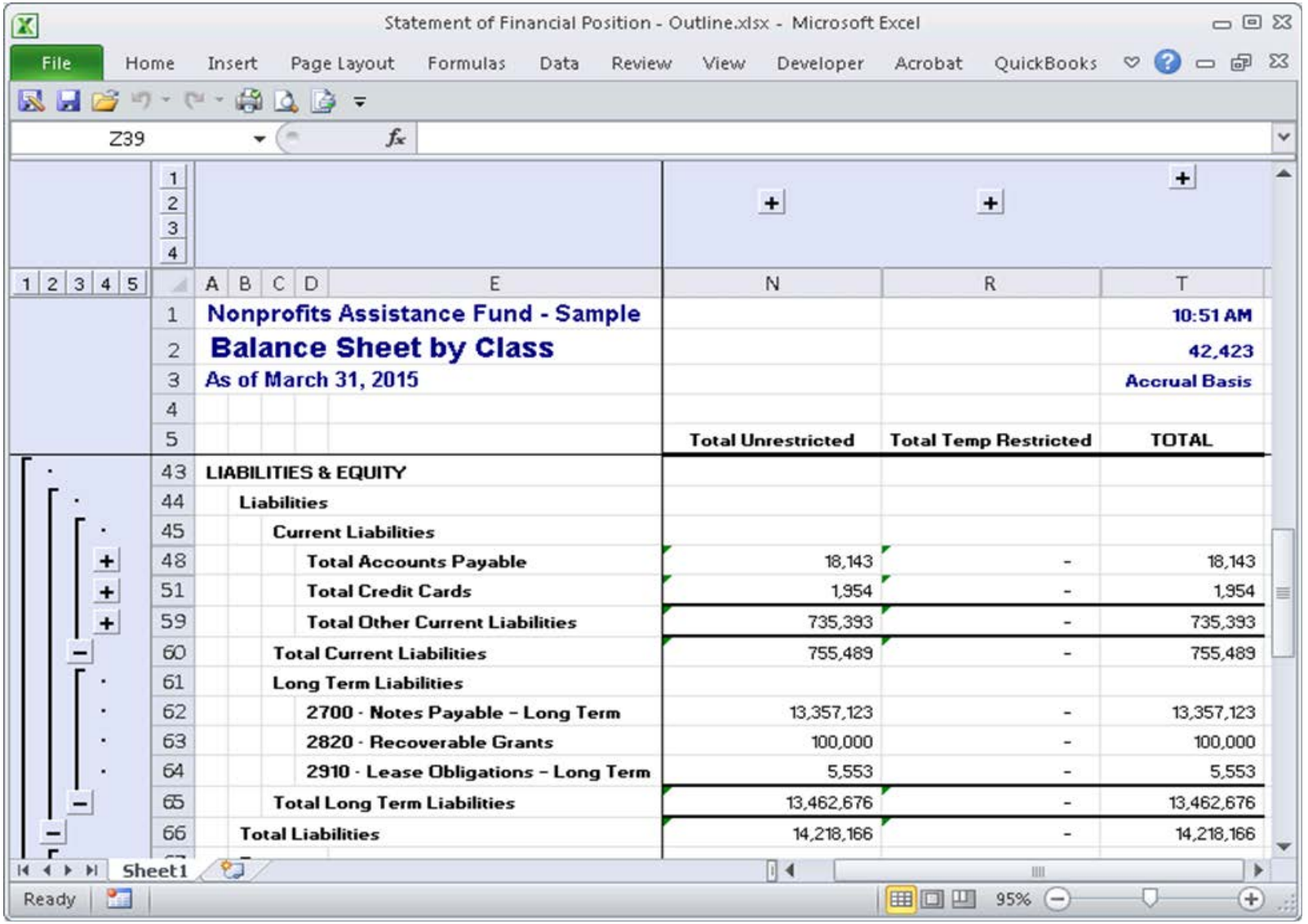
Open Windows

WHAT'S NEW

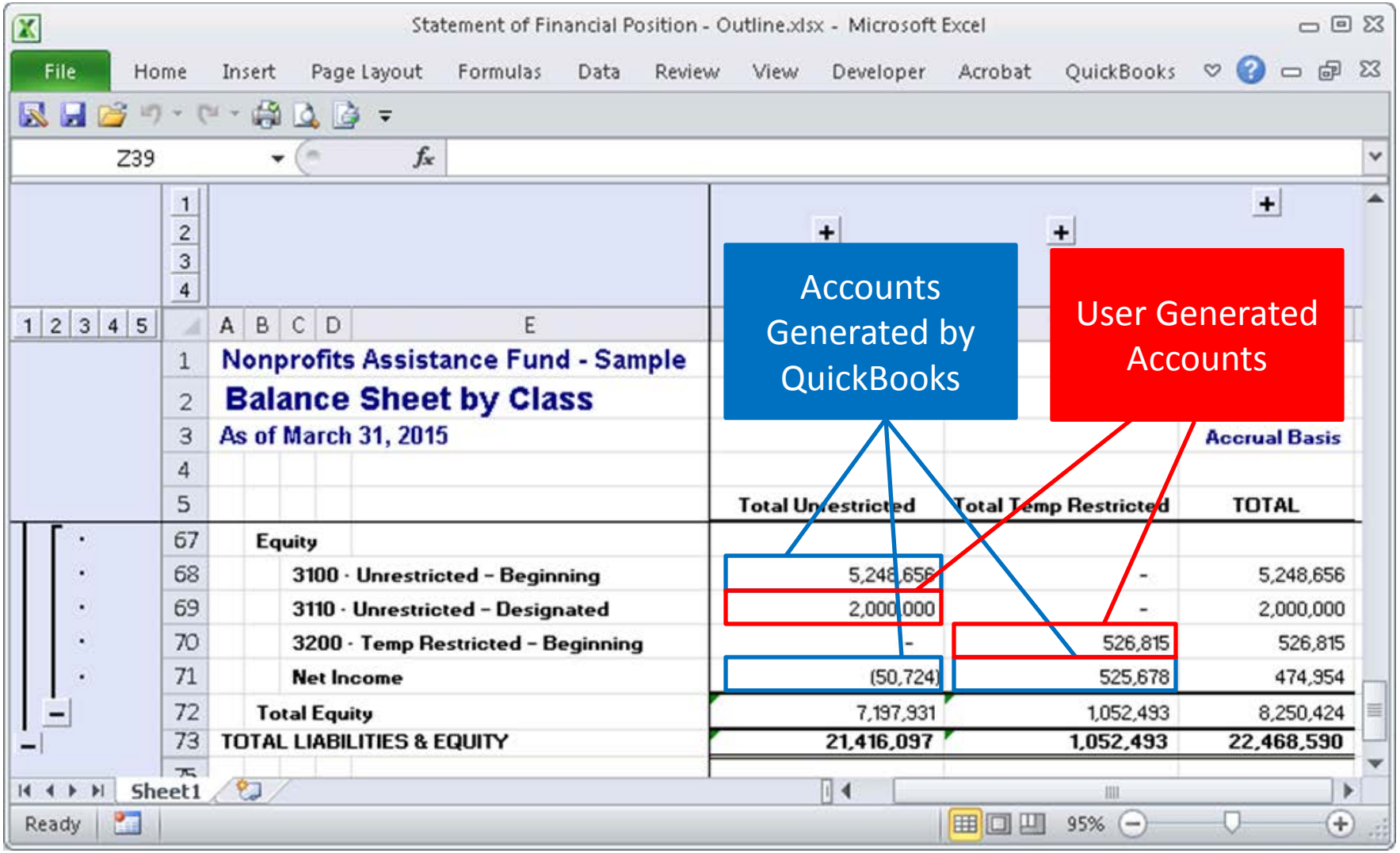
The Power of an Elegant Balance Sheet - Assets



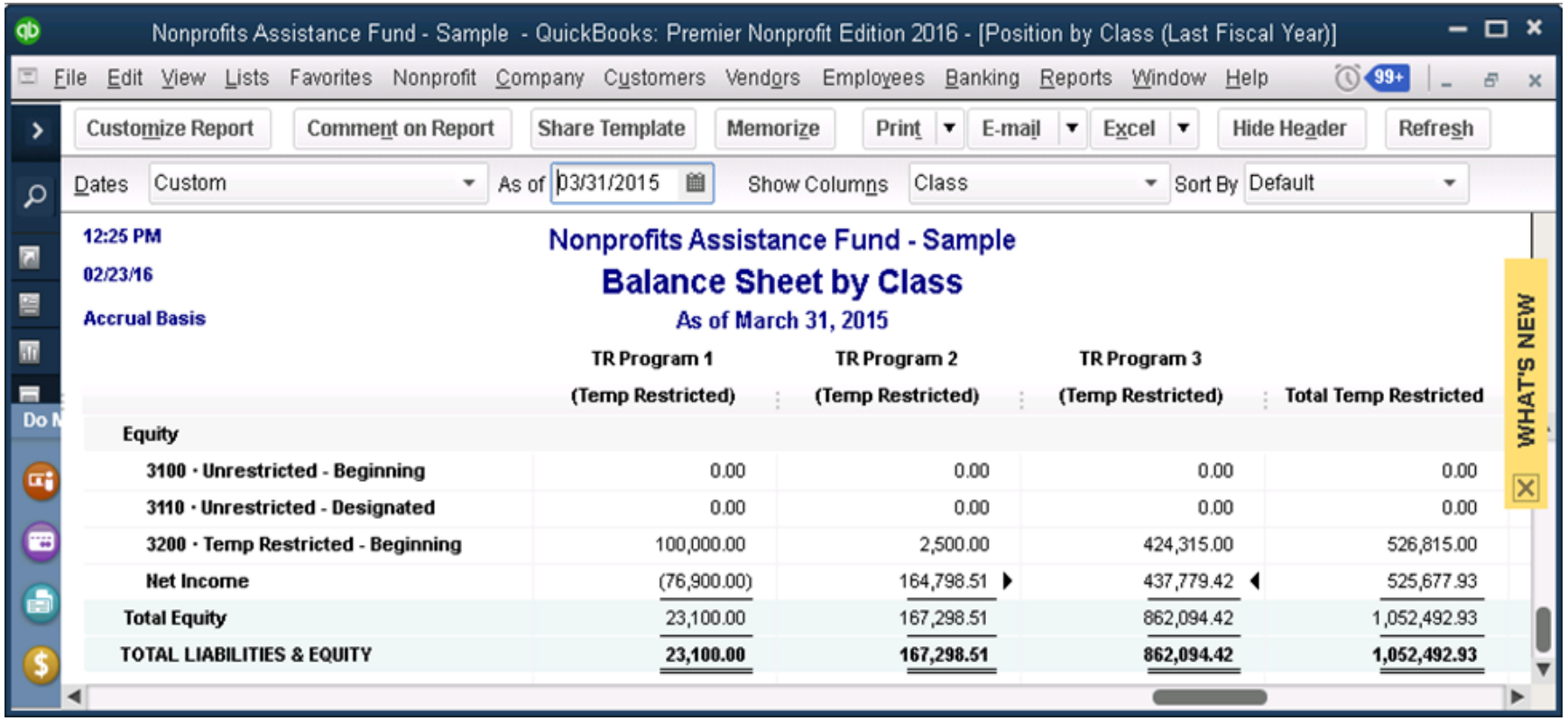
The Power of an Elegant Balance Sheet - Liabilities



The Power of an Elegant Balance Sheet – Net Assets



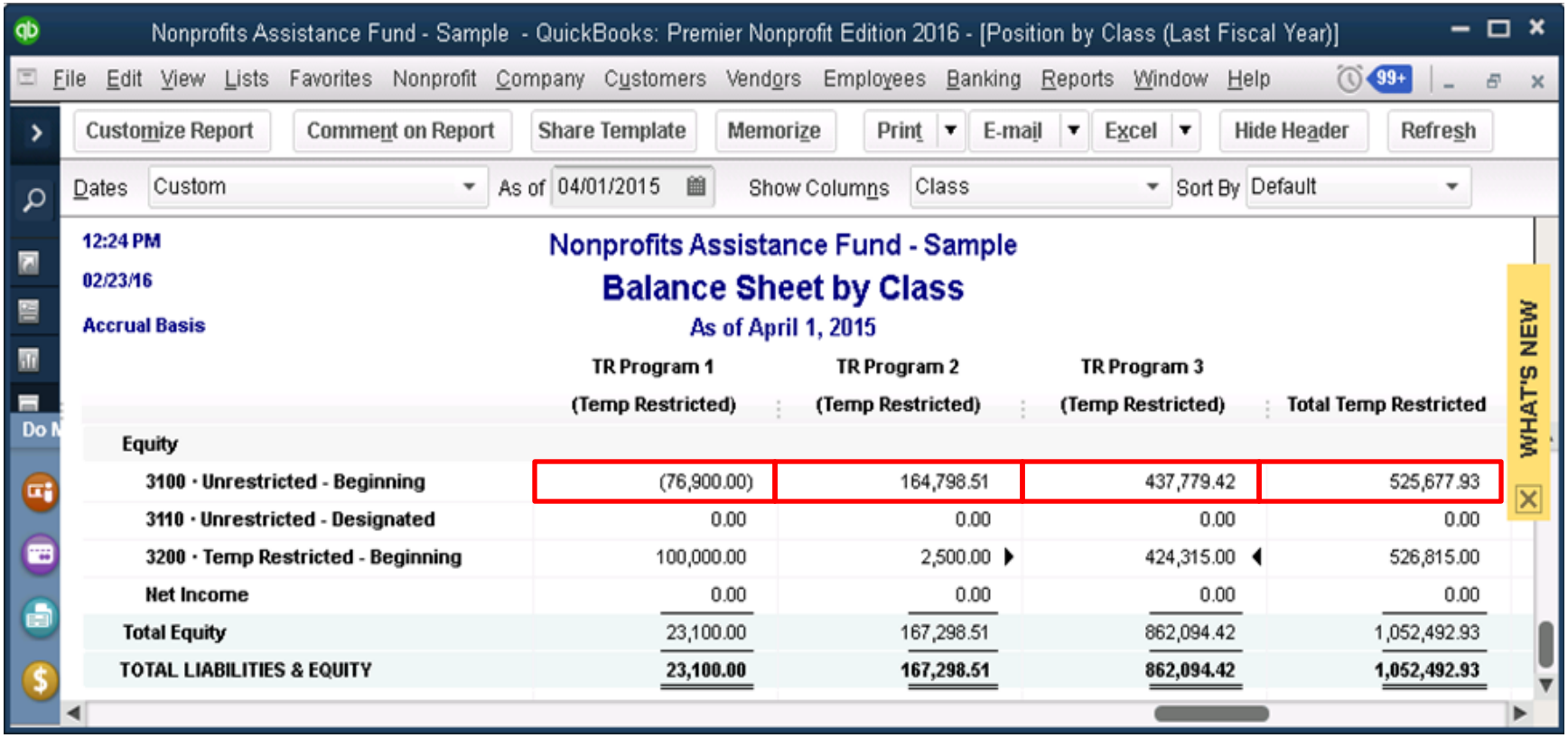
One Technical Difficulty – Year End Close



	TR Program 1 (Temp Restricted)	TR Program 2 (Temp Restricted)	TR Program 3 (Temp Restricted)	Total Temp Restricted
Equity				
3100 · Unrestricted - Beginning	0.00	0.00	0.00	0.00
3110 · Unrestricted - Designated	0.00	0.00	0.00	0.00
3200 · Temp Restricted - Beginning	100,000.00	2,500.00	424,315.00	526,815.00
Net Income	(76,900.00)	164,798.51	437,779.42	525,677.93
Total Equity	23,100.00	167,298.51	862,094.42	1,052,492.93
TOTAL LIABILITIES & EQUITY	**23,100.00**	**167,298.51**	**862,094.42**	**1,052,492.93**

QuickBooks handles year-end net asset balances adequately. The Total Equity line here is accurate.

One Technical Difficulty – Year End Close



	TR Program 1 (Temp Restricted)	TR Program 2 (Temp Restricted)	TR Program 3 (Temp Restricted)	Total Temp Restricted
Equity				
3100 · Unrestricted - Beginning	(76,900.00)	164,798.51	437,779.42	525,677.93
3110 · Unrestricted - Designated	0.00	0.00	0.00	0.00
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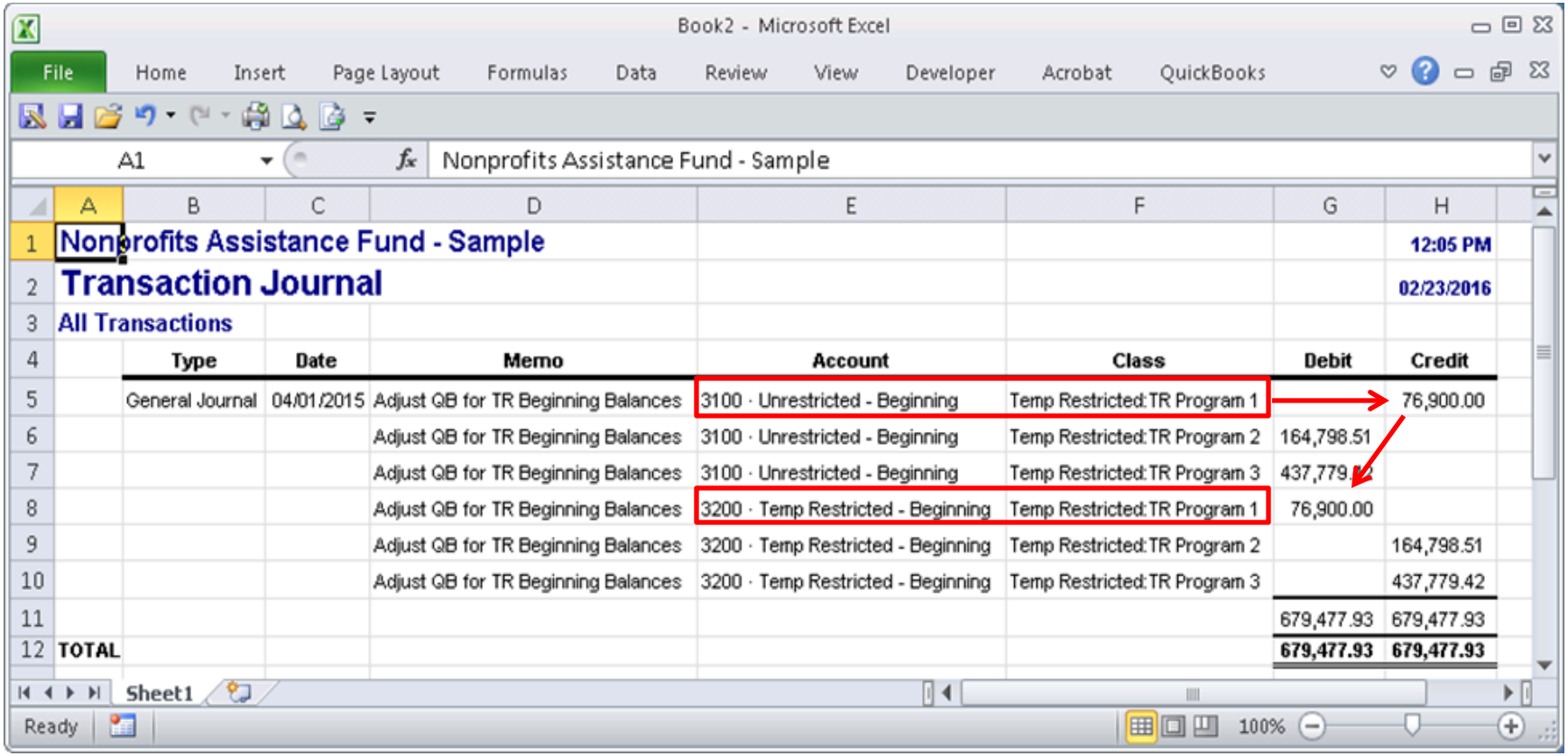
Net Income	0.00	0.00	0.00	0.00
Total Equity	23,100.00	167,298.51	862,094.42	1,052,492.93
TOTAL LIABILITIES & EQUITY	23,100.00	167,298.51	862,094.42	1,052,492.93

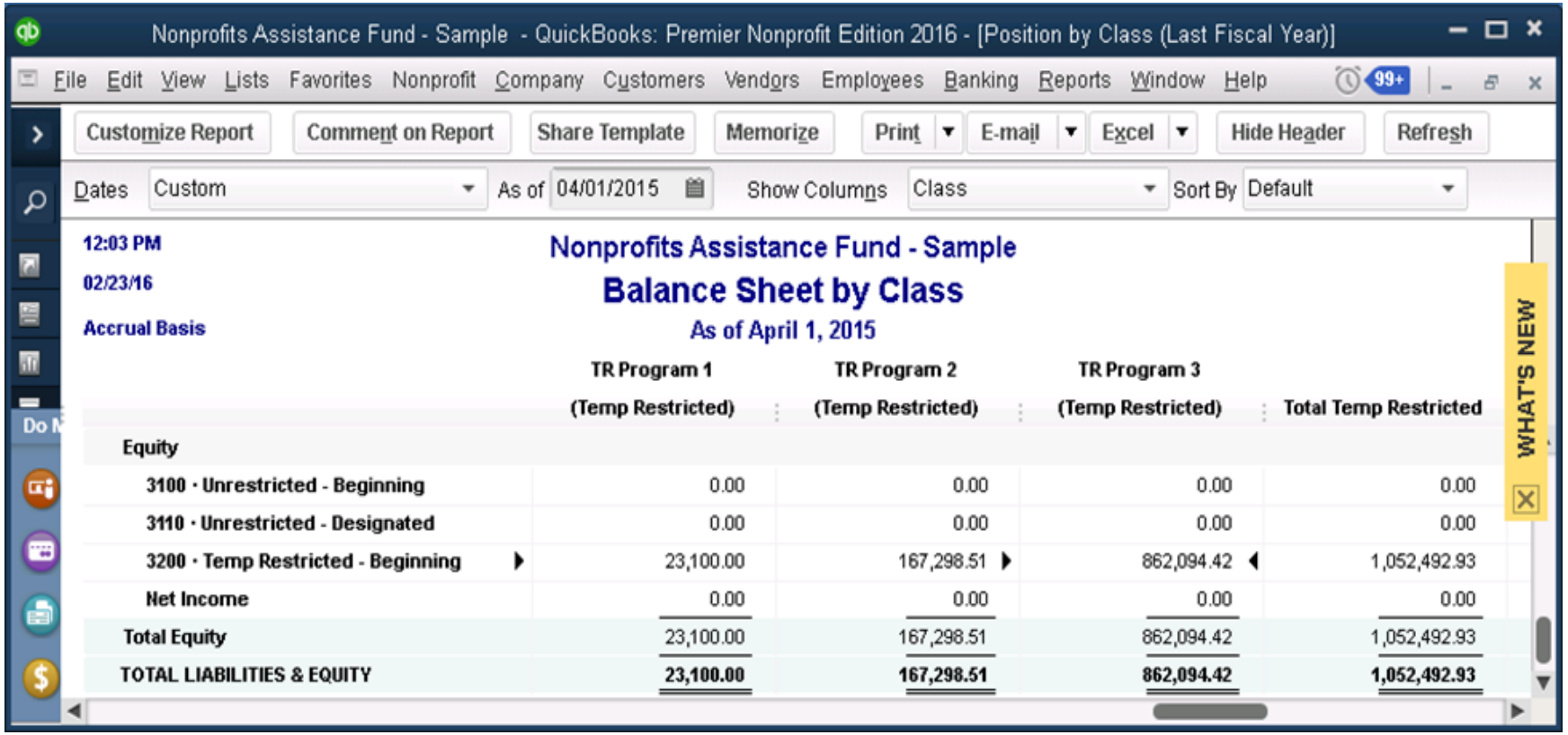
However, on day one of the new year, the temp restricted net assets are closed to unrestricted.

The Power of A Single Journal Entry



A journal entry easily adjusts the closing effects from the unrestricted line item to temp restricted.

Technical Difficulty Solved



	TR Program 1 (Temp Restricted)	TR Program 2 (Temp Restricted)	TR Program 3 (Temp Restricted)	Total Temp Restricted
Equity				
3100 · Unrestricted - Beginning	0.00	0.00	0.00	0.00
3110 · Unrestricted - Designated	0.00	0.00	0.00	0.00
3200 · Temp Restricted - Beginning	23,100.00	167,298.51	862,094.42	1,052,492.93
Net Income	0.00	0.00	0.00	0.00
Total Equity	23,100.00	167,298.51	862,094.42	1,052,492.93
TOTAL LIABILITIES & EQUITY	**23,100.00**	**167,298.51**	**862,094.42**	**1,052,492.93**

Beginning temporarily restricted net asset balances now display in the right row and column.

From Broad Brush to Laser Etching

- Start with Mission
- Define our Programs
- Design Systems to Mirror Our Programs
- Apply Elegant Technical Solutions

How to Use Today's Session

- Ensure finance imitates program by aligning accounting systems with mission
- Model financial leadership that thinks big and is mission-focused
- Remember elegance in systems design – less is better
- Use finance to tell your story with sophisticated reporting targeted to specific audiences

Thank You!

Nonprofits Assistance Fund
Helping nonprofits thrive

Nonprofits Assistance Fund

www.nonprofitsassistancefund.org

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