



Are You Financially Empowered? A Quiz

Take this self-assessment to rate your organization.

BY PETER C. BRINCKERHOFF

Is your organization financially empowered? As we explained in an earlier article,¹ financial empowerment is much more than financial stability. Financially empowered organizations have resources to apply now—this week—to meet unexpected needs. As we noted, “Empowerment enables you and your organization to change as the world does. Don’t settle for stability. Go for empowerment.”

Use this self-assessment to see how financially empowered your organization is. There is no score, no scale on which to rate yourself. This is intentional. We don’t want you to feel you’re in the “low,” “medium,” or even “high” range for answers. You are where you are, and you need to know how much further you need to go. Answer each of the questions completely and honestly.

1. Has your organization had more revenue than expenses in at least seven of the past 10 years?

- Do you have a board policy that requires a positive net revenue in the budget for each fiscal year?
- Do you know which funders’ policies require them to claim unexpended income?

Don’t say, “We’ll talk about empowerment after we get over this crisis.” There will be another crisis tomorrow.

- Do you know which funders’ policies require you to spend unrestricted income prior to grant awards?
- Do you have a written strategy to retain what your organization earns through restricted accounts² or other mechanisms?
- Have you trained all staff in marketing, emphasizing the fact that this is a team effort, and stressing the need for excellent customer service in an increasingly competitive world?
- Do you have a fundraising plan? Do you need additional internal or external expertise in fundraising?
- Do you have a strategic plan that calls for profitable operations, assesses new markets, and includes establishment of an endowment, an operating reserve, a mission reserve,³ and more staff training?

2. Does your organization have a cash operating reserve of at least 90 days?

- Do you have a policy stating how many days of cash operating

reserves are best for your organization?

- Do you regularly report the number of days of cash on hand at the end of each reporting period?
- Do you have a board policy on cash operating reserves, including the appropriate uses of the reserve, and who should authorize its depletion beyond any minimum?



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Financial Empowerment is published by Alpine Guild and is available through the Society’s Resource Center (see “Selected References”).

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3. Does your organization get at least 5% of its total income from earnings on its endowment?

- Do you have a restricted account or a separate corporation to hold your endowment?
- Do you have a funding mechanism for the endowment, a way to put money aside?⁴
- Do you have a goal for the end of each of the next five years for the size of your endowment?
- Do you have policies on the use of the endowment, including what uses it can be put to?

4. Does your organization share its financial information widely, and practice bottoms-up budgeting?

- Do you have an ongoing training program for staff and board members on how to read, interpret, and use your financials?
- Do you regularly ask your board, finance committee, CPA, and banker what financial reports and displays would be of most use to them? Do you then provide them with those numbers?
- Do you regularly meet with staff to discuss both financial and non-financial information?

5. Does your organization support its mission directly by establishing and using a rapid-response mission reserve?

- Do you have a mission reserve as a restricted account?
- Do you have a policy on the funding mechanism for this account?
- Have you established rules by which the funds will be distributed, by whom, for what, and on what schedule?
- Have you established goals for the fund's size for each of the next

five years, as well as goals for how much of the fund you plan to distribute?

- Have you decided what projects will be funded next? Have you shared that information with staff and board?

6. Is your organization appropriately leveraged?

- Do you review the status of all debt every 18 months, and consider refinancing?
- Have you established appropriate

debt-to-net-worth benchmarks for your organization?

- Are you happy with your bank? Does it provide you with a wide array of services?⁵
- Do you have a pre-approved line of credit with your bank?⁶
- Do you have an annually updated five-year capital expenditure plan?
- Do you have written guidelines on who can authorize debt?

7. Does your organization have sources of revenue from non-traditional, non-governmental sources?

- Do you have an outside business? Is it bringing in adequate net revenues?
- Do you have goals for business development? How much of your income do you want from new sources in five years? In 10 years?

8. Is your organization financially flexible enough to accommodate changes in service delivery?

- Do you review your assets and liabilities every 12 months? Do you have enough liquidity?
- Do you have established levels of cash (and credit) reserves that allow you to invest in new services or expand current ones?

Final Words of Encouragement:

Your organization has a mission. You need to use all the resources at your command—your staff, board, community, buildings, equipment, volunteers, and your money—to do the most mission possible every year. But using all your resources and using *up* all your resources are two different things. If you use up all your money this year, you

won't have the resources to address the unforeseen demands placed on you next year.

If your organization is financially strapped, it may be mission-driven, but it will not be fully mission-capable. Financial empowerment brings a whole new set of mission capabilities.

Don't wait. Don't say, "We'll talk about empowerment after we get over this crisis." There will be another crisis tomorrow. Start today. The world will not wait for you, and the people your organization serves need you to be there for them, not just after "this crisis" but long into the future. ■

Footnotes

¹See Brinckerhoff's "Keys to Financial Empowerment" in "Selected References."

²A restricted account is an account that is designated for a specific purpose, such as a capital account or an endowment. A restricted account is one of the best and simplest places to keep your earnings.

³**Operating reserves** are the cash and easily sold securities that equal at least 90 days of operating disbursements. **Mission reserves**—funds that you put away to apply quickly to mission-related needs—are cash, money market funds, or CDs due within 30 days, not stocks, bonds, receivables, or any other fixed asset. **Endowments** are permanently restricted assets, the principal of which is protected but the income of which you may spend.

⁴Ways of putting money aside for your endowment include endowment campaigns and planned giving vehicles such as life insurance. These and other endowment funding mechanisms are described in "Preparing for an Endowment Campaign" and "Building Your Endowment with Life Insurance" in *Fundraising & Resource Development, Leadership Series, Volume II* and *Are You Sitting on a Gold Mine? Fundraising Self-Assessment Guide* (see Muehrcke in "Selected References").

⁵For more information on finding the right bank, see Muehrcke's *Are You Sitting on a Gold Mine? Fundraising Self-Assessment Guide* and *Enterprise (For-Profit) Endeavors, Leadership Series* in "Selected References."

⁶You need a line of credit, but be sure you have strict controls on its use. Lines are like credit cards and thus are potentially very dangerous. Why do you need the line? Because it removes the potential for coming up cash short when a check you need doesn't arrive on time.

Selected References

Brinckerhoff, Peter C., *Financial Empowerment: More Money for More Mission*.

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Vinter, Robert D. & Rhea K. Kish, *Budgeting for Not-for-Profit Organizations*.

These publications are available through the Society for Nonprofit Organizations' *Resource Center Catalog*, included in this issue, or contact the Society at 6314 Odana Road, Suite 1, Madison, Wisconsin 53719 (800-424-7367).

Financial & Accounting Software Resources

Axcnt for Not-for-Profit Organizations software, Axcnt Accounting Software, 4635 South Lakeshore, Tempe, Arizona 85282 (phone 800-292-3681 or 602-838-3030; fax 602-345-4109).

Blackbaud Fund Accounting software, Blackbaud, Inc., 4401 Belle Oaks Drive, Charleston, South Carolina, 29405 (phone 800-443-9441; fax 803-740-5410).

DOS-NETWORKS-UNIX fund accounting software, Cougar Mountain Software, 2609 Kootenai, Box 6886, Boise, Idaho 83707 (phone 800-388-3038; fax 208-375-4460).

Echo Management fund accounting system, Echo Management Group, 1620 Main Street, Center Conway, New Hampshire 03813 (phone 800-635-8209; fax 603-447-2037).

Fund Accounting software, Advanced Data Systems, P.O. Box 2130, Bangor, Maine 04402-2130 (800-288-8167). See "10 Tips for Better Fund Accounting," *Nonprofit World*, March–April 1995.

Fund E-Z fund accounting software, Fund E-Z Development Corporation, 220 White Plains Road, Tarrytown, New York 10591 (phone 914-332-0900; fax 914-332-0103).

Fundware Accounting software, American Fundware Inc., 1385 S. Colorado Blvd., Suite 400, Denver, Colorado 80222 (800-551-4458).

Kenrick fund accounting software, Kenrick Technologies, 8760 Manchester Road, St. Louis, Missouri 63144 (phone 800-659-2022; fax 314-963-9432).

MIP Fund Accounting software, Micro Information Products, 505 East Huntland Drive, Suite 340, Austin, Texas 78752-3772 (phone 800-647-3863 or 512-454-5004; fax 512-454-1246).

Not-for-Profit Accounting software, Micro Information Products, 505 East Huntland Drive, Suite 340, Austin, Texas 78752-3772 (phone 800-647-3863; fax 512-454-1246).

Uniform Financial Reporting and Analysis software, AA Software, 429 S. Huntington Avenue, Boston, Massachusetts 02130 (617-522-6531).

Using all your resources and using up all your resources are two different things.