7 Financial Tips for Not-For-Profit Organisations (NFPs)

As the number and variety of NFP organisations grow, available resources are stretched further and there is a greater demand for accountability. This environment makes it vital to have people within an NFP that are increasingly financially astute.

This webinar shares 7 financial tips to help people within NFPs (whose passion may not be numbers) to become more financially and business savvy.

Tip 1: Have a plan, not just a mission

Every NFP organisation is established with the vision of improving or enhancing life somehow and it’s this vision that attracts resources.

Achieving an organisation’s social purpose is greatly enhanced by having a business plan that clarifies: the objectives and purpose, the way forward and the key measures of success.

Tip 2: Understand and monitor the financial position

Increasing accountability from both a legislative and community perspective means that it is ever more critical to understand and monitor the financial position of an NFP.

The first step in understanding how the financial operations of an organisation work is by using the Financial Operating Cycle. This shows the relationship between revenue, expenses, assets, liabilities and equity. And it also shows the two ways an organisation can use its surplus:

![Financial Operating Cycle Diagram]

The Financial Operating Cycle also shows the two ways an organisation can use its surplus:

1. Reinvest in assets: this can be saved as cash, or used to purchase more stock and equipment
2. Reduce debt

Tip 3: Understand the costs to deliver

Understanding the costs involved in delivering the NFPs service and what drives these is critical in knowing how much funding you may need in order to deliver a certain amount of your services.

To get a better understanding of costs, you need to be able to define costs according to the way they behave i.e. are fixed or variable?

- **Fixed costs** are incurred regardless of whether a service has been delivered. Examples include: rent, advertising, insurances, utilities and leases.
- **Variable costs** are incurred due to the service being delivered. Examples include: direct costs such as labour and materials, and perhaps merchant fees and packaging in a retail setting.

Being able to identify the variable costs associated with delivery of the service can help forecast costs for a given number of deliveries.
Tip 4: Manage cash flow

Having sufficient cash to operate is critical in delivering a sustainable service to the community. Understanding your cash inflows and outflows enables you to forecast what cash will be available (or not) at certain points in the future.

Preparing a cash budget enables an organisation to forecast times of cash shortfalls or shortages. This then lets the organisation plan for how any shortfalls may be funded, or how any surpluses can be used.

Tip 5: Manage growth

As demand for their services increases an organisation will potentially need more stock, people, equipment or space; and all these things need to be paid for before any increased funding is received. This means that growth, initially, is a drain on the organisation’s available cash. Managing growth in a sustainable manner is about understanding how much growth can be absorbed within the existing capacity before cash is depleted.

Tip 6: Efficient use of resources

There are numerous available resources that an organisation can use to achieve their objectives. However, it is common to find that they are not being used as effectively as they could be. This might relate to assets such as land, buildings, or equipment being under-utilised, or not making the most of the available skills and time of a volunteer. Maximising the use of whatever resources an organisation has available assist greatly in enhancing long term sustainability.

Tip 7: Plan for transition

This simply means planning for change, in particular where people enter or leave the organisation.

- When an individual leaves, transition planning helps to manage this change so that everyone stays aligned to the purpose and objectives of the organisation during this process.
- Evolving purpose or outcome achieved. It’s also worthwhile to think about how an organisation’s purpose may change over time or what happens when an organisation achieves its objective. For example: will the organisation wind down? How will it be repurposed? What might it look like and how might it be achieved?
- Merging organisations/partnerships. Another change may be the opportunity to partner or merge with similar organisations in order to achieve economies of scale or share resources. Here it’s important to ask: how do we still achieve the goals of the smaller organisation? Is the achievement of both organisations’ goals enhanced through the partnership or merger?

Any information provided is of a general nature. Before making any decisions please ensure you seek appropriate professional advice to ensure it is appropriate to you.