**Financial Operations**

Nonprofit organizations have remarkable flexibility. Remember these are private self-governing enterprises. Although they provide public benefits, they are unlike cumbersome government bureaucracies. Nonprofits can be very responsive, if the leadership of the organization creates such a culture.

For managing the nonprofit’s finances, this flexibility is a valuable characteristic. McLaughlin, in the assigned readings for this week, lays out several general areas including Cash Flow, Pricing, Debt Financing, and Indirect Costs, which can influence the nonprofit’s financial condition.  Nonprofit managers should understand these options for effectively managing their organizations.

An example of how that may work comes from a private nonprofit fine arts college. One of the many difficulties in managing that organization was the cash flow problem. Tuition revenue came in August and September for fall semester, December and January for spring semester and then a small amount came in June when children’s summer classes started. This placed the school in jeopardy during several months during the year, especially July and early August. The objective was to even out the flow of cash. That objective was met when the management offered parents a monthly payment plan that ensured revenue was received more evenly throughout the year. This also slightly increased the total revenue because it was possible to charge a modest fee for the extended payment plan (a Pricing option). Placing that cash flow adjustment in perspective, it established a less anxious environment because income became more regular and predictable. That was a positive result of the change but the adjustment did not change the expense side of the equation. That had to be dealt with through other actions such as eliminating staff positions and deferring maintenance.

The point is that reliable financial information makes it possible to understand the financial condition of the organization. Reliable and current financial information enables the ED and the board to test various hypotheses on the impacts different decisions will have on the organization.  For example, if we add another program assistant to relieve stress on the staff, will that position generate more fee revenue than the cost of the position? Or, how much does it cost to offer one unit of service and does our current pricing structure generate a net surplus per unit? If each child in the afterschool program costs the nonprofit $29.00 per month, is it appropriate to charge parents $25.00 per month to consume that service?

We can think of Financial Operations as being the management steps we take to collect information, analyze it, and act upon it in fulfillment of the organization’s mission. When we think about financial operations we can ask ourselves; is our accounting system recording and reporting the information we need in the format we must have to adequately analyze it?  Once we gather the data, are we investing the time and energy into fully understanding the information? Are we looking for adjustments to our operations that are consistent with the nonprofit’s mission? Are we able to prove that our mission was implemented?