Financial Toolbox

Financial Management 101

BALANCE SHEET

A snapshot of an organization's financial health at a given moment

Assets: what you own

Current: an asset that can be converted into cash flow within one year

Long-term: an asset that will take longer to convert into cash.

Liability: what you owe

Current: an obligation due within one year

Long-term: an obligation due after one year.

Equity= asset - liability

INCOME STATEMENT

A summary of a business's revenue and expenses over a period of time.

Revenues

All revenue streams: donations, subsidies, members' contributions, and revenues generated from activities.

Costs

Direct: cost directly linked to the good or service provided and usually variable.

Indirect: costs that cannot be directly linked to goods or services provided. Usually fixed cost or slightly variable

Profit (revenues > costs) or loss (revenues<costs)

Program budgeting

What is it?

It's allocating resources directly to a specific program or project, linking all expenses and revenue to ensure efficient resource use.

Why is it important?

Knowing the real costs of each program and differentiating between core costs and program costs enables informed decisions and more efficient financial management.

Budgeting tips

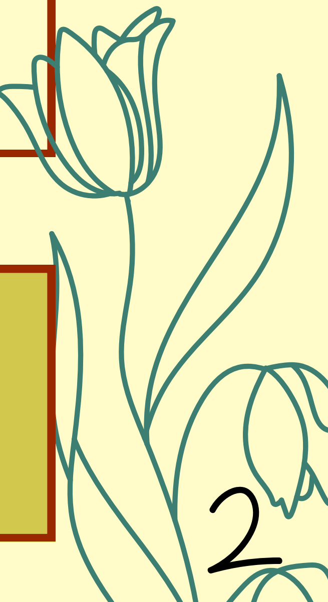
1 When estimating your costs, **differentiate between direct (expenses directly linked to a specific program) and indirect costs (shared with multiple programs).**

2 **Review and adjust the process regularly:** compare actual revenue and projection and investigate the differences, use program performance metrics

3 **Identify potential risks and develop risk mitigation strategies (diversifying funding sources, contingency funds, etc.**

4 Set a **contingency fund** for when inflows are lower than outflows

5 **Monitor cash flow to ensure enough liquidity to cover for short-term obligation**



Pricing strategy

What's your pricing strategy?

- What are your revenues, costs and expenses? Collect the necessary data
- Determine your **breakeven point**
- Determine your optimal pricing strategy

It is usually recommended to incorporate at least a **15% margin** into your pricing

There are different types of pricing strategies:

- Informed cost-plus pricing: sell your product or service for more than it costs.
- Value-based pricing: set a price based on the perceived value to the consumer

Break-even point is the point at which: **Total revenues = Total costs**

It helps understand the minimum amount of revenue needed to cover all expenses.

$$\text{Break-even units} = \frac{\text{Fixed cost - Income}}{\text{SP - VC}}$$

SP= selling price per unit

VC= variable price per unit

Pricing strategy

Don't forget: you need at least a **15% margin**

Value-Based pricing:

This strategy sets a price based on the perceived value of your service to the beneficiary. It requires a great understanding of your clients and what they value in your service

(+)	(-)
Beneficiary focused	**May be complex**
Revenue potential	**May not suit all beneficiary segments**

Create a value statement

A clear message that enhances the value of your organization and its services. What does OWA do and does it represent?

This value statement will explain why it's worth supporting your organization and the value it brings to society.

Adopt value-based pricing paired with a flexible pricing structure

Your target segment doesn't share the same pricing needs and capabilities, by setting a flexible pricing structure, your organization can have a broader reach and appeal.

Examples:

- Offer different pricing options (around 3)
- Offer discounts to mission-relevant customer

Grant Reliance Ratio vs Self-Funding Ratio

What is it?

The Grant Reliance Ratio measures the nonprofit organization's reliance on external funding.

How do we calculate it ?

$$\frac{\text{Grants and other external contribution}}{\text{Total revenue}}$$

Why is it important?

It provides insight into the organization's financial stability and sustainability.

The higher this ratio is, the more dependent the organization is on funding. Organizations with high grant reliance ratios should aim to diversify their revenues.

What is it?

The Self-Funding Ratio measures the nonprofit organization's capacity to support its programs and activities by itself

How do we calculate it ?

$$\frac{\text{Self-generated income}}{\text{Total revenue}}$$

Why is it important?

It provides insight into the organization's independence and capacity to sustain itself.