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Southern Early Childhood Association

SECA

SOUTHERN EARLY CHILDHOOD ASSOCIATION

The Leadership Letter

January 2017

Planning for Organizational Transition: Financial Stability

As we enter 2017, the Southern Early Childhood Association (SECA) and our state partners are facing a changing landscape, with a great deal of uncertainty looming in the future.

SECA is anticipating these changes during the coming year.

⇒ A **leadership transition** will occur as a long time Executive Director retires and a new Executive Director is chosen to support the SECA Board of Directors, our affiliates and our members in meeting our organizational mission.

⇒ The **organizational structure** of SECA will change as our current "dual affiliate" states begin the journey of re-affiliation with NAEYC. Some of our dual states (**Kentucky** and **West Virginia**) will no longer qualify to affiliate with NAEYC, so they have chosen to become SECA affiliates only. Some states (**Florida, Georgia, Oklahoma, Texas** and **Virginia**) have chosen to maintain the dual affiliation and will provide membership options from both SECA and NAEYC. **Tennessee** has chosen to affiliate with SECA only and has not applied to NAEYC for continued affiliation. The affiliate in **Alabama** has dissolved and the potential affiliate in **North Carolina** will be delayed.

⇒ With the **changing relationship between SECA and NAEYC**, the financial system will be modified and uncoupled. Dues will no longer flow from NAEYC to SECA, nor from SECA to NAEYC. Members in those five states (Florida, Georgia, Oklahoma, Texas and Virginia) will be able to become members of SECA & the affiliate, rather than being required to purchase a triple membership.

- State affiliates that will remain "dually affiliated" will be in **financial transition** as NAEYC introduces new dues structures and redefines the affiliate and member relationship within their structure.

These changes will provide unique opportunities and challenges to an organization that has endured for 68 years and deliberations are underway to determine how best to structure the organizational response.

In our last ***Leadership Letter*** of 2016 we addressed how to strengthen the budget development process and this newsletter is the second in a series designed to assist with planning for organizational transition.

This newsletter will include information on:

- Organizational reserves, the basics and their importance in times of transition.
- Diversification of revenue streams.
- Connecting organizational priorities with financial realities.

Inside this issue:

Leadership Commission Members

- *Anita Dailey, Chair, GA*
- *Cathy Waggoner, TN*
- *Susan Barnes, VA*
- *Suzi Brodof, WV*
- *Chris LeJeune, LA*

Operating Reserves: What Are They and Why Are They Important?

Think of "operating reserves" as you think of your personal savings accounts...money that is put aside and kept in reserve to ensure that funds are available when you need them.

These reserves may be

- **Restricted—-set aside for a certain purpose, either by a vote of the Board or a restriction placed by a donor**

Restricted assets are most often utilized by non-profit associations to fund projects, support program initiatives. Fund raising strategies are often developed to ensure that assets/funds are directed to the projects for which they were raised. These reserves are typically invested to produce some type of return and the returns reinvested in the restricted asset.

- **Unrestricted—-maintained or designated to be utilized to ensure the financial stability of the organization**

Unrestricted assets are generally utilized in cases where income/operating revenues do not meet projections or expenses exceed revenue. These assets ensure that the bills are paid and that the organization has sufficient cash flow to manage daily operations. Unrestricted assets increase or decrease, based upon operating surpluses or deficits.

As SECA and our state affiliates begin a financial planning process to meet the changes that will occur in 2017, it is important for the leadership in each organization to consider its position in regard to operating reserves. The boards of each organization should be asking themselves two questions:

1. **What does it mean to be financially stable**? How secure are our current revenue streams? Are we too reliant on one source of revenue? What type of operating budget should be adopted? How should we monitor the financial status of the organization?

2. **What are adequate operating reserves?** If revenue drops, what would we need in reserves to finish the fiscal year successfully? What funds would be required to ensure a "bare bones" operation and maintain the majority of programs and initiatives?

In December 2008, a **Nonprofit Operating Reserves Workgroup** convened for the purpose of:

- Defining an "Operating Reserve Ratio".
- Using the ratio to focus attention on the importance of nonprofit financial stability.

This Workgroup brought together experienced non-profit managers that represented a wide variety or non-profit organizations and was formed in response to the economic downturn that occurred in 2008. It was noted that the very existence of many non-profits was being threatened by the economy and that sufficient operating reserves would be the mechanism by which many non-profits survived the economic challenges of that time.

The Workgroup issued a White Paper, *Maintaining Nonprofit Operating Reserves: An Organizational Imperative for Nonprofit Financial Stability* (December 2008) that provides a guideline to utilize for developing sufficient operating reserves.

Although the group was quick to say that sufficient reserves were different for each organization, **they recommended that at least 25% or 3 months of operating expenses be the minimum that was maintained in non-restricted assets. This is the lowest point of operating reserves during the year that is recommended by the group.**

For example, if the operating budget (expenses) for the year is $100,000, then the organization should have $25,000 available in unrestricted net assets/operating reserves to meet the minimum definition. This amount would ensure that the board would have at least 3 months to make the decisions/changes necessary to ensure the survival of the organization.

As a Board member, your job is to ensure that a plan is put in place to both react nimbly to financial ups and downs and to create sufficient reserves that will allow the organization to weather unexpected challenges. **Learn how to read the financials**. You'll find the financial balance sheet to be a wealth of information, including information on operating reserves and whether you meet that 3 month benchmark. Resist the temptation to "spend it all" and make sure to put some back for a rainy day. **How does your organization stand today?**

Diversification of Revenue Streams

For SECA and most of the states, revenue streams are restricted primarily to conference income and membership dues. The reliance on these revenue streams make the associations particularly vulnerable to the changes that are coming in 2017.

If our organizations have attempted to diversify what money is generated to support the organization, these attempts were generally:

⇒ To provide new training, such as professional institutes, topic specific training, etc.

⇒ To develop publications that can be sold.

⇒ To access local, state or federal grants.

Obviously, the best option would be to find additional revenue streams that don't fit the traditional model...most often more easily said than done.

Questions to ask as non-traditional revenue sources are sought

- ***Will the organization have the infrastructure to support the compliance that will be required with this new revenue?*** This might be accounting, intensive audits (quite often required with federal funds), reporting, staffing, etc.
- ***Does this new revenue source enhance our mission and work within the parameters of our strategic plan?*** (*One of the biggest tragedies for most non-profits is to go after money without a mission focus.*)
- ***Are we equipped to maintain the programs/ initiatives that new revenue sources create beyond the life of the original funding?*** Do we lose staff and programs if the money disappears? Should these new revenue streams be focused on supporting a short term program initiative or are we looking for something that will extend for several years and support the basics?
- ***Is there a benefit to our members?***

For assistance in this discussion, the Wallace Foundation has developed a Funding Opportunity Assessment Tool that is available for download. Use this tool to help you decide whether a new source of funding is right for your organization.

Business Planning for Non-Profits

"*The business-planning process offers a nonprofit's decision makers a rare opportunity to step back and look at their organization as a whole. It is a time to connect the dots between mission and programs, to specify the resources that will be required to deliver those programs, and to establish performance measures that allow everyone to understand whether the desired results are being achieved. As a result, it encourages strategic thinking, not only while the plan is being created, but also thereafter, as implementation leads to new challenges and the need to make new decisions and tradeoffs."*

This statement from the publication, *Business Planning for Nonprofits: What It Is and Why It Matters*, makes the point: sufficient planning equals organizational success.

Although it's not always recognized among leadership, our associations are essentially small businesses with the benefit of being considered non-profits by the IRS and federal government. The principles that apply to small business owners (auto repair, hair salons, local groceries, etc.) apply to our association and its activities. Healthy small businesses all have business plans that guide their operations.

While developing a business plan, consider these questions.

- What finances will be necessary to maintain the core functions of the organization? *This can include staff, office, technology, marketing, member support & benefits, etc.*
- What revenues can be projected and how does this revenue level measure up to expected expenses?
- Are there additional, one-time expenses that can be anticipated and should become part of the business plan for the next year?
- What revenue, if any, will be available to support new ideas and programs?
- Are there ways to streamline business functions to reduce costs without impacting member benefits and programs? *This can include renegotiating office rent, new phone & Internet contracts, editorial & print services, etc.*

Your business plan should provide 1) strategic clarity, 2) strategic priorities, 3) resource implications and 4) performance measures. Go to Business Plans for Nonprofits and Social Enterprise for more detailed information.

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Promoting Quality Care and Education for Young Children and Their Families

SECA is a "Voice for Southern Children"

This newsletter was written and produced by Glenda Bean, SECA Executive Director

www.southernearlychildhood.org

The Southern Early Childhood Association (SECA) is a regional organization committed to promoting quality care and education for young children and their families. SECA is committed to providing leadership and support to individuals and groups by:

- *Enhancing the quality of young children's lives through early childhood care and education.*
- *Supporting families in their roles of caring for their children.*
- *Fostering the professional growth and status of individuals working with young children and their families.*

SECA is a "Voice for Southern Children"

Other Resources from SECA:

The Leadership Letter, March 2015: *The Legal Side of Board Service*

The Leadership Letter, January 2015: *Grants*

The Leadership Letter, January 2016: *Strategic Planning*

The Leadership Letter, November 2016: *Budgeting*

Connecting Organizational Priorities with Fiscal Realities

You know what balancing the checkbook means in your family budget….you either spend within the limits of your income or you risk facing mounting debt. You may have savings that can assist for a while but ultimately, income and expenses have to align to ensure the financial stability of your family. Your association is no different.

We've talked about operating reserves, that savings account that is accessed only in the event of special circumstances or a need to ensure adequate cash flow in low revenue months.

As a member of your association's board of directors, it's your responsibility to:

- **Develop** a business/strategic plan that aligns expected revenue with organizational priorities. What do you want to accomplish and do you have the assets to meet your mission?
- **Participate** in the development of an annual budget that strives to ensure not only that you can "pay your bills" but that a little something is left over to fund organizational priorities beyond just keeping the doors open. If revenue isn't sufficient, it's your Board's job to figure out how to bring additional revenue to the table or modify the organizational structure to "live within your means."
- **Be realistic** when thinking through new initiatives. Ideas are always great but there are limits upon what can get done, what can be financed and how long it will take. This may be a place to seek "seed money"' to help get a program off the ground but be sure to look at whether this is something to maintain long term and how that will be done. It's easy to add something...hard to take it away.
- **Become knowledgeable** about the financial reports that are produced by the association and **READ** them….they won't be particularly helpful if you never look at them. It's your responsibility to ensure the financial health of your organization.

Remember, if the money isn't there to do something, it's just not there. Going into reserves routinely (without replacing funds) is a sure prescription for disaster. It's like your savings account… it will only last so long. It doesn't matter that you won't be on the Board when things get tight, so it's not your problem. It's your responsibility to manage it wisely NOW!