



Parents as Teachers

Tammy Craig speaking to the Missouri Society of Certified Public Accounts
on October 30, 2010

I am delighted to be speaking today. Not only am I a CPA with an accounting background, but I'm a life-long promoter of community service. I firmly believe in social responsibility...that companies can do well by doing good. So after 25 years in the corporate sector, I decided to walk the walk and moved over to the nonprofit side as CFO of Parents as Teachers.

My office, the St. Louis-based headquarters, sets direction for the Parents as Teachers model of services, and for the advocacy and research agendas at the national level. We develop curricula, train early childhood professionals, and advocate for children and families.

Our network of organizations and professionals supports *hundreds of thousands of families* across the country and around the world. That's a huge responsibility. My job is to mind the money.

I'm going to spend the next 20 minutes or so talking about seven challenges nonprofits face and the different financial reports required of them.

Coming from a corporate world, the hardest thing for me to do was to remember that you don't always have to make a profit. But having a nonprofit spirit, it was hard for me to accept that we can't fix everything.

As opposed to the corporate world where business decisions are often dictated from the top down, decisions in the nonprofit world are more often determined by consensus. Staff, board, community and funders have to be heard. This can often be time consuming, but it's necessary for the organization.

There are so *many* worthy projects! It is very hard for a nonprofit to say no to new projects that come with funding even though they might not be part of its strategic plan. Nonprofits have a fiduciary responsibility to get the best bang for the buck, so we have to be very careful of our resources.

- We must remain responsive to the environment around us.
 - As we all know, the economic environment has been less than perfect. During times like this, the need for nonprofits is up while the funding of the nonprofits are down.
 - Political changes also affect our funding. We are affected by those who are in office whether they support us or not.
- This brings up the issue of diversity of funding. Nonprofits need to have a diverse base for their revenues so they are not impacted as greatly when the environment changes.
- When funding resources dry up, we tend to go back to those who are loyal and support us. We try not to cause "donor fatigue". It has been difficult to enhance and recruit new donors.
- When funders provide money for projects, they are usually restricted in nature. Most funders do not allow for the recapture of Indirect Costs. This causes great challenges to organizations trying to pay for facilities and the staff who perform these funded projects.
- Nonprofits have a difficult time attracting and retaining staff. They need highly skilled business and technical people just like the corporate world.



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- However, salaries are usually not as lucrative as the corporate world.
 - Sometimes people will accept a nonprofit job until they find a higher paying job. This is an issue because it takes time and money to train and develop staff appropriately.
 - Usually, the biggest motive for staff to stay is that they believe in the mission of the company and want it to succeed. They develop a loyalty.
- Attrition plus the fact that nonprofits do not have excess staff on their benches causes problems with leadership and succession planning. Management in nonprofits must handle multiple functions and roles. They must have broad backgrounds and be skilled in a variety of technical, management, and human resources skills.
 - Due to the fluctuations in funding and the environment, it is not uncommon to have to readjust the staffing for the organization.
 - Nonprofits measure different things.
 - They're constantly reassessing their mission.
 - They're called upon by funders to provide measurable proof of programmatic success and positive impact on communities and populations.
 - While the corporate sector most commonly measures outputs, nonprofits tend to measure outcomes. How do you measure the human condition? People are affected by an infinite number of experience and opportunities based on a wide variety of factors.

Boards of directors are as critical to nonprofits as they are to for-profits. Most of the people that you would want on your board are the same people we want on *our* board! These people are in great demand and we are competing with other for-profit and nonprofit organizations. We want people who will buy into our mission and be involved in its direction.

In one respect, nonprofits are no different from for-profits: they still have to manage information. But when costly technology prohibits nonprofits from keeping up with the most current systems, it can negatively impact information management.

Technology is very important to nonprofits, but it is difficult to get funds to support it. Technology helps staff work more efficiently. It creates better reporting to funders when we can gather data in a more clear and concise manner. And technology helps nonprofits keep donors and constituents engaged and informed.

Collaboration is a powerful tool for nonprofits. Nonprofits must continually network and create strategic partnerships with others to achieve the desired impact in the community. Public policy is an area that we benefit from the collaboration with others who have common goals. Working together can help changes in outcomes.

Nonprofits often partner with other groups to achieve mutual objectives more effectively and to make the most of limited financial resources. In addition, some funders may require grantees to work collaboratively. For many of us, our collaborators are in many ways also our competitors. For example, while all early childhood initiatives advocate for public policies that promote children and families, we're all competing for the same dollars and often for the same "customers".

We have to be careful not to create any conflicts of interest while creating these partnerships.



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Recognition of revenue: Revenue for grants must be recognized when it is obligated and no restrictions placed for reimbursement. This means a five-year grant must be recognized in the year obligated...while the expenses related to this grant occur over the next five years. There is no matching of revenue and expenses.

This type of revenue recognition makes budgeting very difficult. A budget year could look profitable in year one, but show a loss the next year...all while continuing the same amount of business. Receiving an unexpected grant will distort your budget as well. (That's okay, we welcome the money).

Likewise, when a national nonprofit's "customers" are also nonprofits, as is the case for Parents as Teachers, revenue forecasting is difficult. We simply cannot foresee if or when someone will receive a grant or unexpected funding. This makes planning inventory and services particularly tricky.

Unrelated business income tax or UBIT is another consideration nonprofits must be aware of. In general, any business activity that generates unrelated business income is subject to taxation if it is not substantially related to furthering the exempt purpose of the organization.

I also encountered having to provide a functional expense report. This report shows the expenses for the functional categories of a business with the indirect costs spread among them based in headcount, square footage, etc. (indirect costs are unrelated and unidentifiable to any particular work but needed to run an organization).

Besides being accountable to the IRS, the Board of Directors, and to donors, nonprofits are also accountable to funders and must supply periodic progress and expenditure reports. The amount of reporting varies by funder. When nonprofits receive grant funds that have restrictions on them, they become "restricted". This means that they can only be used for a specific purpose and the expenditures must be accounted for separately. Some of the grants must be tracked for several years until the tasks have been performed or the funds have been spent.

This is a chart made by Peter Brinckerhoff. I started off by talking about Money vs. Mission and it seems appropriate to end with the same message. We struggle with this every day.

When people look at a Statement of Revenue and Expenses, they tend to look at the bottom line...the net income. Sometimes a good organizational year isn't reflected in its bottom line. A nonprofit sometimes has a bad financial year and the successes are not captured adequately.

I heard a story on the radio that made me think that working in a nonprofit is like cooking in a kitchen.

- Fill three pots with water
- Place each pot on a high fire.
- The pots come to a boil.
- In the first pot, place carrots,
- In the second place an egg
- In the last, place coffee beans.
- Boil for 15 minutes.



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Each item faces the same adversity—boiling water. Each reacts differently. This is our environment...a pot of boiling water.

Any company can go into the environment strong and unrelenting on its purpose, but can soon become softened and weak when faced with adversity.

It can also go into the environment with the best intentions of fulfilling its goals, but fragile and without direction. Facing adversity can make it hard and lose focus.

But a nonprofit strives to be the coffee bean. We cannot control everything that happens around us. Instead of being changed by adversity or circumstance, nonprofits must remain resilient, ultimately changing the environment.

Coffee, anyone?