

Seven Characteristics of Financially Healthy Nonprofits

by The Stevens Group at LarsonAllen, St. Paul, MN

1. The financially healthy organization has sufficient income to ensure stable programming.
2. The financially healthy nonprofit has an internal source of cash or ready access to cash in times of shortfall.
3. Financially healthy nonprofits engage in income-based, rather than budget-based spending. Income based budgeted: A. Begins with realistic income projections. B. Determines realistic costs of next year's service delivery through: Analysis of last year's costs; Consideration of current market conditions; Functional cost allocation.
4. At the end of each year, the financially healthy organization retains a positive cash fund balance (surplus).
5. In years where a deficit does occur, the financially healthy organization has accumulated sufficient to cover the current deficit.
6. The financially healthy organization has established (or has plans to establish) an operating reserve to finance growth and cash shortfalls.
7. The board and management of financially healthy nonprofits hold themselves responsible for the financial stability of the organization.