Colby Reade: Welcome to the M.J. Murdock Charitable Trust Podcast on Writing Great Grants. We're a private nonprofit foundation serving the Pacific Northwest where for more than 44 years, we have awarded more than $1 billion in cumulative grants to organizations that serve and support our local communities. On this podcast, we want to share insights and information that help nonprofits flourish and thrive in order to serve the [00:00:30] common good. On today's episode, our host Steve Moore, the executive director of The Murdock Trust, sits down with Pauline Fong to discuss financial management. Pauline joined the Trust after extensive career helping serve and support students and faculty at the college level with InterVarsity Christian Fellowship. She's an active volunteer in the community and frequent speaker at conferences and events. Enjoy the conversation.

Steve Moore: So Pauline, as we kind of get into [00:01:00] the idea of financial management, what is it that you would say would be a good way to just frame the discussion on financial management? Something that organizations need to keep in mind as they approach this part of any grant application, or as they approach this part of their work in general.

Pauline Fong: Yeah, that's a great question, Steve. The way I think about it is that sound financial management is about being a good steward of resources. [00:01:30] Part of it is that institutional funders such as the Murdock Trust and donors like me who engage in personal philanthropy, we want to know that our investments in nonprofits that we support are being effectively managed to achieve the mission for which the donations have been given.

And the way I view a grant—whether it's a personal grant, a private grant from a private donor, or a grant as a donation from an institutional funder—is really an investment in a nonprofit [00:02:00] as a partner. So sound financial management, I think, can help build credibility and community support for your organization as you write grants to inquire about a potential partnership.

So that's really how I think about it. It's being a good steward of resources, by being fiscally responsible, by being appropriately transparent, and by being accountable to donors. That's what I think of when I think of sound financial management.

Steve Moore: Yeah, that's a great overview. And it's a great reminder too that [00:02:30] stewardship has a key part of stewarding the mission. And boards have a very unique role that one of the key things in stewarding the mission of an organization is to steward the resources. That's people resources, but it's also the other kind of resources. The facilities, the finances, and those kinds of things.

So for those people that might be listening to this and thinking [00:03:00] about their own organization and planning, what are a couple of things that you've observed that organizations that really have learned to do it right, that they're doing when it comes to financial management?

Pauline Fong: A couple things I notice. One is that both the board and the senior staff are both committed and invested, and also really understand the financial oversight of the organization. They understand where the financial position is currently. [00:03:30] They understand how much it costs to actually do a program or service. And they have actually financial planning and assessments planned, and that's done regularly.

And then I think the other thing that I see often is that there's proper structures and policies in place. Procedures are actually in place that provide appropriate financial controls and then it guards against potential conflicts of interest. So those are some broad categories of where I see those organizations that have good sound financial management, [00:04:00] they tend to have those.

Steve Moore: That's very helpful. And in another one of our podcasts, Moses talked about business models. When we talk about business models, what is it we're talking about there? What's included in a business model? And should nonprofits have business models as well?

Pauline Fong: Yeah. So business models, it's pretty comprehensive. And part of where the financial piece is really related is— I think of the revenue [00:04:30] sources. So a revenue model is actually a part of the business model. So revenue source is basically where your resources are coming from in order to do the mission that your organization has. So if you have a service or a program, all of the things that your organization provides, how is that funded? Where are those revenues coming from? So some of those revenues can come from earned income, some sort of program fees or some sort of contracts that by providing the services [00:05:00] that you do, you get income that's earned. Or it could be contributed income from a number of sources where basically it's contributions from a number of different people, corporations, government, institutional funders. So those are just some of the pieces around a revenue model. And that's where an organization needs to pay attention to revenue model, because that's actually where you're going to find the resources to be able to do the kind of services and program that's the core part of your mission.

Steve Moore: Yeah. That's great. [00:05:30] And Pauline, several times now you've mentioned diversified. Diversified revenue streams. Why is it important for nonprofits to consider having diversified revenue streams?

Pauline Fong: Yeah. So actually, I was thinking of some of the organizations that I had a chance to work with. And I remember one where basically, one of their major donors moved out of state. It's probably their most significant donor. [00:06:00] And as a result, it took the chunk of their revenues with them. And that year, they experienced a pretty dramatic deficit.

So then that's because their revenue model was very dependent on that one major donor or individuals contributing, of which that major donor was most significant. So that really created issues for them. They had to cut programs because they didn't have enough funding for the year.

Another organization I can think of, they [00:06:30] were dependent on government grants. And there's been a lot of different places where programs that were being funded by government grants are no longer being funded. And so again, their revenue took a really big hit.

And then sometimes, institutional funders change funding priorities. So perhaps they don't fund a sector anymore. And if an organization's revenues are dependent on that one source only, then that's going to lead to a lot of issues. And likely lead to either deficits, [00:07:00] which are not sustainable in the long run. Or leads to unfortunately cuts to services and programs to the people that we want to serve. So that's where having a diversified revenue stream is helpful. In general, it kind of guards against having a revenue source go away, and then you actually still have other places where you can find revenue to fund the work that you need to do. So that's why we talk about diversified revenue sources. It really is a way to [00:07:30] safeguard the funding that you need to actually do the work that you need to do.

Steve Moore: Yeah. Great, great insight there. Occasionally, we will see an organization where a foundation may have come along and they say, "We have a great idea that we want you to do, and we'll give you a lot of money to do it." And it's not really connected directly to the core of the mission. How should a nonprofit respond to that if they've [00:08:00] got this offer of money, but an idea that may not be core to their mission?

Pauline Fong: Yeah, that's a great question. Having led a nonprofit myself, it's pretty hard to say no to large funding sources like that. But I think maybe some things to think about just in terms of that program that perhaps this idea that the funder is proposing, what would it actually take to do that program? Usually it takes staff time, resources. So [00:08:30] if that proposed idea is not a part of the core of your mission, it means mission drift. It means you having to devote staff time and staff resources to something that may not be what you've actually been called to do, or is really the core of your mission.

So on one hand, it's pretty hard to say no to money and to a big chunk of funding that seems like, "Wow, that'd be great to have." On the other hand, there's costs on the other end in terms of how you would have to appropriate your staff resources [00:09:00] that may or may not really accomplish what you set out to do.

Steve Moore: Yeah. It really speaks to how financial management is really key to stewardship of the mission. And that those are so closely connected. So, yeah. Thank you for speaking to that one. In terms of nonprofits, what do you think that you find nonprofits struggling with [00:09:30] the most when it comes to financial management? Are there things that you consistently see organizations wrestling with or not really grasping, or in a sense not getting their arms around very well?

Pauline Fong: Yeah. I think I can think of three main areas. So maybe I'll just name those three first, and then we could talk about each of those. So I think one is just in terms of the board's ownership and participation, engagement in the actual financial oversight. [00:10:00] That's one area where there seems to be some consistent struggles.

And then second area is having proper financial controls and procedures in place. That seems to be another area. And then the last area is, I seem to hear conversations with people struggling about whether or not to do reserves and things like that, and how does that work with devoting funding towards the mission versus putting some of the surpluses aside.

So I would say those are kind of three general areas [00:10:30] where I consistently hear either issues or have seen just examples when I've had the privilege of visiting nonprofits and asking their story. Those are kind of common areas of struggle.

Steve Moore: Sometimes, we've seen nonprofits that are functioning well, and their boards began to not pay as much attention. If you're a staff person and you're trying to keep a board engaged, what are ways that you can kind of make sure that your board [00:11:00] understands the importance of connecting those dots?

Pauline Fong: Yeah, great question. So I find that most boards have a few people who maybe are financially, shall we say, oriented. So they have a lot of expertise in that area. Most of the board members come without a financial background. So it's pretty easy to lose sight or not be engaged, kind of glaze over when the balance sheet [00:11:30] or the spreadsheets get projected.

So I find that a little bit of training may be really helpful, because it's easy to glaze over when you have no idea what's in front of you. When it's a foreign language, basically, and you're looking at it, and it makes no sense. So it's easy to check out when that's the case. I've been on boards before, and that was true for me in the beginning. I don't have a financial background. Liberal arts major. But I had to learn. So [00:12:00] some of the training and even just basic training so that there's a little bit of handle on what's being projected or what's being talked about financially, I think would be really, really helpful.

Steve Moore: And what about the idea of reserves? Because every nonprofit would love to have the problem of having more resources come in at a given year than they were planning. How should they think and plan on that?

Pauline Fong: Yeah. So I think reserves can and perhaps [00:12:30] should be considered to be a part of your budget for the year. And the reason for that is that there's actually, let me just back up a little bit. There's different kinds of reserves, so maybe that would be helpful to just define.

Steve Moore: That's good. Yeah, that'd be helpful.

Pauline Fong: Because I think sometimes when people think of reserves, they think endowment. And that's not necessarily the case. I think there's different kinds of reserves. So some of the more common ones are an operating reserve, which basically is a couple of months, two to six months of reserve funds. So that if for whatever reason you run into [00:13:00] a deficit ... so as nonprofits there are oftentimes the funding time—when people give the donations vary from month to month. So a lot of nonprofits have certain months that are particularly large in donations, and others when it's not. So a reserve fund can provide that kind of cash flow. But also if there's a big cost that comes up for whatever reason, an unexpected cost that comes up, or an unexpected deficit, like the one that I mentioned, when that major [00:13:30] donor moved out state. In that case if they had an operating reserve, that would have been really helpful in giving them some on-ramp time, some lead time to be able to replace those donor resources. So that's one kind, is an operating reserve.

Another kind that I see often are facility or maintenance reserves. And those are incredibly helpful. If you own a building, the issue is maintenance, right? It's just like anyone owning a house. You have to maintain the house. Things break over time. And [00:14:00] so when an organization owns a building, the question is both what about minor maintenance like little things? But then there's also major maintenance issues, like I hear about roofs and gutters very often.

So I just remember a few years ago, a particularly bad winter for an organization where the roof basically partially collapsed, or gutters that they thought were properly attached to the roof were not. So those ended up being extraordinarily big costs, [00:14:30] line items that weren't anticipated in the operating budget. That would've been really helpful if that organization had a facility or a maintenance reserve to be able to cover those in the meantime.

And another reserve that I see often are equipment. So for example, if you have vehicles or a lot of nonprofits who serve youth— I get to work with a lot of youth serving organizations. Computers, for example, are very common. And I still remember this one organization letting me know that someone broke into [00:15:00] their office and stole all of their computers. And they had no reserves to be able to replace that right away and it really created a lot of issues for them. And part of it is they couldn't get me the documents that I needed for the grant proposal, because all of their computers were completely wiped out, taken.

So those are basically unexpected occurrences that might impact your organization's financials, and reserves really give a cushion. That's [00:15:30] kind of how I think about it. It gives margins so that you as an organization can work with whatever comes your way and have room to maneuver and not be in a crisis.

Steve Moore: That's a great way to think about it. Is there an amount, or a percentage, or a principle that groups might could follow as they think about an operating reserve?

Pauline Fong: Yeah. So generally speaking, I think best practice wise, the recommendation would be two to six months of operating reserves [00:16:00] if possible. And then if you have buildings, this is where I just think it's really, really important to have a separate fund for facility and maintenance.

Steve Moore: That's great. Many organizations, though, rather than thinking about reserves, they're thinking about, “How do we meet payroll this next month?” And we had a convening recently where there were a number of groups that were under-resourced. And [00:16:30] they had terrific missions, but they just had not gotten to place where they had a good financial model. And they in fact thought of the foundation world in sort of a monolithic way. And they asked, "How do we ever get access to all the money in the foundation world?"

And one of the real breakthroughs in thinking was to realize that every foundation [00:17:00] is different, and foundations do different kinds of things. We're a foundation that thinks a lot about capacity building. We don't give operating grants. We help organizations build their capacity.

So as you think about small- or medium-size nonprofits that are trying to build their capacity, and particularly in this area of financial management, are there things that you think, if they're [00:17:30] under resourced, that they need to begin to work to?

Pauline Fong: Yeah. So a couple of things I can think of, and Steve, feel free to add to this as well. But one thing that I would think of is, I'm actually thinking of two in particular organizations that I worked with recently. And they don't currently have a reserve of any kind. But they realize that this is something that's really important for their long term sustainability and strength as an organization. So what the board decided was [00:18:00] that they would begin to work that into the budget and work on it in very incremental, small amounts, month to month to month. And I think of that as an equivalent to personal savings. It's like $5 each month. It's still going to add up to quite a bit at the end of the year.

So I think building towards that, even incrementally in a small amount, takes discipline. And it's not going to be easy, but I think these couple of nonprofits, that's really where they were at. They have no reserves, and they [00:18:30] really were just making it a priority as a board and as a senior staff leadership to say, “We know that we want to use the money elsewhere, but for our organization's long-term strength and sustainability, we want to just go ahead and begin to put that away.”

So they actually have a five-year goal for a certain amount that they're working on and working towards. So I just really appreciate that. That's one way that I've seen smaller organizations, organizations who don't have a reserve for whatever [00:19:00] reason.

Recently, I worked with one who really came from a financial, I would say a financial disaster. The executive director inherited a very, very, very difficult financial situation. So I was really surprised to hear, even though they're just beginning to turn around—this is three years after he's taken over—but he's already thinking about a reserve fund. And now that they're starting to be in the black, that's one of his first priorities. [00:19:30] So I just think that's really smart. Difficult to do. Takes a big disciplined approach, but I think important.

Steve Moore: Yeah, that disciplined approach is so important. And I think of an organization, Pauline, that we funded not too long ago, that was doing incredible work. And they had three primary programs that expressed their work. But they were constantly under-resourced. And they finally made the hard decision [00:20:00] to trim it to two things. And they said, "If we can get these two things fully resourced, we'll come back and add that third." And just recently, they were able to do that. They really focused on those two things, began to build their donor base, their support base, their grant base. And then they were able to come back and add that third thing.

And it was such a rewarding thing for the board and the staff to realize how important that was in helping them fulfill their [00:20:30] mission. And it also was a discipline for them to think about building the constituency that understood what it costs to do what they did, which is a really challenging area that they work in, in serving youth that are underserved. So it does require some discipline. And that's a hard thing when you see so many needs that are out there that you want to try to deliver on.

[00:21:00] Do you have tips for leaders or boards as they look at that or work on those? Or are there some that come to your mind that you say , “They made this hard decision,” or, “They really got strategic about that?”

Pauline Fong: Yeah. So you talked about trimming programs. I thought of another one where basically, they also had to adjust their operating budget to what's more realistic to the revenues that are coming in. And it meant that they needed to really [00:21:30] figure out what staff was really needed, as different staff retired. So I'm thinking of a particular one where basically as staff retired, they didn't replace certain staff positions. Because they realized in order to have a solid financial position, we really needed to trim some staff positions. And that's always so difficult really, for nonprofits and for anybody, right? Because we're talking about people. But I think as the leadership [00:22:00] was looking at both adjusting the budget so that it was realistic to their revenue and not continue to accumulate deficits, they needed to make some really tough decisions around that.

Steve Moore: Yeah. That's good. That's a good insight. Some nonprofits struggle with just monitoring or kind of reviewing and looking at their financials throughout the year. Any tips on monitoring and responding to financials [00:22:30] throughout a year, or even over a period of time that you might suggest?

Pauline Fong: Yeah. So I think thinking of both short-term and long-term monitoring and reporting. So in terms of short-term, I think as the year goes along, revenue projections are rarely exactly the way you think it will happen in real life. So keeping short-term monitoring in place so that you can make adjustments [00:23:00] and expenses, if there are revenue shortfalls that come up unexpectedly in order to avoid deficits, which just can't be sustained in the long term. So I think that's short-term planning and monitoring.

And then long-term monitoring, just in terms of doing something like an annual audit, that's like a gold standard. But it may not be affordable or realistic for some smaller nonprofits, in which case, a financial review would be helpful.

And then I just think of having proper [00:23:30] fiscal controls in place to begin with so that as reporting on those are done, you can really have something that's realistic and accurate. So for example, I think of different smaller nonprofits needing to hire a bookkeeper or having a board member who's actually volunteering and donating their time as a CPA, an accountant, or something like that, to provide the services that it needs in order to have the financial records in a way [00:24:00] that is accurate to what's happening, right? What's happening to the revenues, what's happening to the expenses.

So having those proper fiscal procedures, and policies, and also structures and reporting in place helps a leader, both executive director and also helps the board, to be able to have an accurate understanding of what's actually currently happening, both short-term and also long-term. Because then that really helps you to be able to know, "Okay, can we afford to expand a program even though we [00:24:30] really want to, when we see so much need out there?" Maybe the answer is yes, but maybe the answer is no, not right now. And these are some of the things that we would need to do in order to grow those revenues to be able to make that kind of expansion.

So I think having the proper monitoring and report is not just so that you can have the right documents to show an institutional funder, even though that would be really helpful. But also really, I think it really strengthens your organization to be able to make accurate assessments on what can [00:25:00] you do and what can't you do. Every program, every service costs money, right? So actually, how much does it cost to provide that service and program? And do we as an organization currently have the kind of funding to be able to make that happen?

Steve Moore: Yeah. I know on our website, we always put up all of the questions that we're going to ask about each one of these major areas like assessment, or financial planning, or boards and leadership. And it surprises [00:25:30] me always when organizations don't take advantage of those questions being there. When we say, "We're going to ask you these. It's going to be on the application or in the site visit. Or at some point, we're going to ask you these questions." And they're really there not to trip people up. They're there to help people in their planning and to, again, help people be successful as they do their organization.

Pauline Fong: That's right. Actually, I do want to comment on that. And I think that's where I love our process in [00:26:00] terms of—it really asks some of the questions around financial controls and current financial position and current financial health that I think is pretty helpful.

I just remember working recently—and just in the last three years, I've worked with three nonprofits that have had some sort of embezzlement in their history. So this is where in each case it’s because proper financial controls were not in place to guard against potential conflicts of interest. So one was because [00:26:30] a staff member was expensing things, and there was no proper checks and balances in place. So they were able to make up expenses and basically embezzle a bunch of money. That's one instance.

And then another was because the bookkeeper was handling cash donations and cash program fees. And again, there was no checks and balances in place. There was no fiscal control. So again, that was a very, very unfortunate story. So each of these just were really sad that there was [00:27:00] no accountability in place, fiscal controls in place to guard against that.

So the positive part is that each of these nonprofits have learned from those experiences. And now, fiscal controls and checks and balances are in place because they realized, “We need to put this in place for our organizational health, our organizational credibility, and just moving into the future.” So I was glad to see that in each of those cases, they really learned and have either brought on board [00:27:30] members that are CPAs. So that was one instance. They brought on a board member that was a CPA. And now there's a bookkeeper, executive director, and the board member in place to form basically a checks and balances to provide the fiscal controls.

Steve Moore: Yeah. I can just imagine that every inspired, motivated nonprofit leader hears something like financial controls. And they think, "Oh no, bureaucracy is taking over." But [00:28:00] it's not really bureaucracy. It's stewardship. It's a real key principle of leadership, to be good stewards of the mission and of the resources that you're given.

Pauline Fong: Yeah. And I think that's where this is a potential place for a really good partnership between the board and the executive director. Because not every executive director comes in with extensive financial background. And it doesn't mean that you have to have that. But it's really important then to actually have board members who have that expertise [00:28:30] and can partner with you, and then to get some training and learn around that.

I know that it's not the most exciting thing for many people who are in nonprofit work. A lot of nonprofit leaders get into nonprofits to do the people work. But I think this is where I've realized over the years that, actually, having a proper understanding of what's happening financially for the organization helps me actually do the work better. Because then I can know, “What can we do? What can we not do? What [00:29:00] resources do we need to go find in order to do what we want to do?” So it can be one of those really important tools and an important piece of leadership.

Steve Moore: Yeah. It can be more like the fuel than the brakes to help an organization really run effectively. I've used code language a couple of times, I realized, and just talked about capacity building. Whenever we think capacity building, what are we talking about?

Pauline Fong: Yeah. The way I explain that is [00:29:30], “What is the thing that's going to help you as an organization take it to the next level?” Whether it's to expand your programs, or help your organization grow stronger in your infrastructure. So those are a couple things that I think of. And generally, I see most capacity building projects or proposals land in one of three buckets, for example.

So one would be, again, program and staff expansion. So what's it going to help you build capacity to do more of your mission? [00:30:00] So, sometimes that's adding a new program. Sometimes that's adding a new staff, right? So that's one area of capacity building.

Another area of capacity building that we see a lot are capital projects. So a lot of organizations need to have a facility. So whether it's a purchase, or a renovation, or a building of a facility in order for you to do your mission and your programs. That could be capacity-building.

Another area that I'm seeing quite often are equipment and technology. [00:30:30] So both equipment, something like computers to vehicles in order for an organization to accomplish a mission. But also technology projects we're seeing a lot, because I think a lot of us are trying to catch up to the digital age. So even figuring out who uses our programs and services. Well, this is where technology could be really, really important and helpful. So those are kind of some areas where potential capacity building could be really helpful in helping an organization take their mission to the [00:31:00] next level.

Steve Moore: And a lot of our grants are capacity building in one of those areas. When we talk about sustainability, what are we talking about? When a grant runs out and we say, "Are you able to sustain this?" How does that relate to this whole financial management thing?

Pauline Fong: Yeah. So I was actually new to that word. I had never thought about sustainability before, and I wish I'd known about that earlier. Part of it is just [00:31:30] thinking through long-term wise. So let's say you have a grant proposal. You ask for an award to fund a staff position. Great. That staff person is going to help you do the program that you have always dreamed of doing. But after the grant period of three years, how is that position going to be sustained? What kind of either earned income from the programs that the staff person actually does, or perhaps the staff person enables you as an organization to do other things [00:32:00] that could have some sort of earned income revenue. That could be one way of sustaining that position in the future.

Or perhaps as a development director position, and that person's going to help generate funding that's going to help you build funding for the future and make both the position and also your organization more sustainable.

So I guess I think of sustainability on two levels. One is sustainability for you as an organization and the sustainability for the project itself. How is the proposed project going to keep going post the grant period? Because [00:32:30] I think our philosophy is that we want to help you get to where you want to go. But we also want you to think about, how are you going to keep that going in the future?

Steve Moore: That's a great way to think about it. I remember an organization that was adding about a third more space. And they were asked in the site visit, "How much more will this cost you in terms of utilities, and maintenance, and upkeep, and staffing, and everything?" And [00:33:00] it was so great to see that they had thought through all those kinds of things and actually gotten information from different groups to kind of know how it had impacted them. So they really dipped into their pool of peers to learn from them as well. And they were well on their way to sustainability, because they'd given good thought to that.

Pauline Fong: Yeah. The other tool that I just thought of as you were speaking is there's something called a pro forma, which I had never [00:33:30] heard of before I came to work for Murdock. But I wish someone had told me earlier in my years as a nonprofit leader. And basically it's a tool that helps you project revenues and expenses. So let's say you do this project as proposed. How will it impact your revenues and expenses as an organization? And I just wish I'd known about this tool. It really would've helped me figure out, "Okay, by adding these couple of staff, this would increase revenues by this much. But it would also generate [00:34:00] expenses around their salary, their benefits, their taxes. They'd need a computer, phone, office costs." I mean, those are things that I just didn't know about, and I wish I had known about this tool. And if you go on a website, there's actually templates that show examples of that. And that's a great tool that I recommend often to nonprofits to use. And generally, the feedback I get is, "That's a great tool. That's really helpful."

Because it projects revenue and [00:34:30] expense's impacts not just for one year, but for a couple of years beyond your grant cycle. So you can really get a broader, longer-term picture. I mean, we talked about financial management, some of the long-term planning and assessment. Pro forma kind of helps you do some of that, right? It kind of helps you think long term. "What would it become if we did do this? If we added this program, what would it do to our revenues and expenses? If we added this staff, what would that do?" So I just find that to be a pretty helpful tool.

Steve Moore: [00:35:00] Yeah. That's a great insight. Any other insights that you would have coming from having been a nonprofit leader and continuing to grow in your own understanding of this area of financial management, how it fits into the overall leadership of an organization and the kind of planning? Any other kind of tips or insights that you could give those that are trying to continue to learn and grow just like we're talking about?

Pauline Fong: Yeah. One of the things that I worked on [00:35:30] before I left the nonprofit that I was with was a quasi-endowment. And that's where one, I did not even know that term before. I didn't even know what it was. But one of the supporters mentioned it to me. And because part of it is I was sharing with him my vision for wanting to bring these people on staff who are from under-resourced communities, and they needed to raise funds, but could not raise the funds, and it was just a historic problem. So [00:36:00] he said, "Well, why don't you raise a quasi-endowment?" And I'm thinking, "What is a quasi-endowment?"

Steve Moore: Is that a fake endowment?

Pauline Fong: And then I realized that it's a pool of money that is donor-directed. So donors could give to a specific purpose. So that's kind of what I did, was we approached a bunch of supporters above and beyond their normal giving. Or perhaps they were supporters who had ceased giving. And really talked to them about this vision of what we wanted [00:36:30] this pool of money to do. So we began working towards that quasi-endowment, and it's basically a donor-restricted or board-restricted type of fund. And it can really help work on a particular area that is historically difficult to fund or something that you want to preserve to make sure that it can be in the future, that you can continue to fund. And the thing that I learned through the process was that the raising the funds [00:37:00] is one part of it. But there's a whole other piece around having the board decide on, how do you accept the money? What's the purpose of the money? How do you manage the money? How do you take legacy bequests that all feed into that?

So those were all types of information that I didn't know beforehand, but I was really glad that I was able to find help to figure that piece out. Because now, there's actually a pool of money in place that continues to fund staff from under-resourced [00:37:30] communities. And I think that's a great tool for them to be able to continue to bring staff on that really serves the population that they are wanting to serve.

Steve Moore: Yeah, that's a great example of that. And a great example of a quasi-endowment being used in a very missional purpose. Maybe say a word more about some more that can kind of be code language, and that’s, what's the difference between restricted money and unrestricted?

Pauline Fong: Yeah. So restricted would be restricted by either a donor—so [00:38:00] let's say I give a bunch of money and I say, "I want this to go towards this purpose only." So that would be a donor-restricted pool of money. Or it could be board-restricted. So sometimes, a board will say, "We want to put this amount of money away, and it's to be used for scholarships only." Or, "It's to be used for facility maintenance only." And that would be a board-restricted or board-mandated reserve.

And unrestricted would be just donations and funds that are given, and you could use it towards [00:38:30] anything that would be towards the mission. So it could be towards your operating. It could be an unexpected expense. It's basically no restrictions that are placed.

Steve Moore: And how does endowment relate to restrictive?

Pauline Fong: Yeah. So generally, endowments have different rules, I would say, that are placed around it. And an endowment—it depends on what the situation is. But an organization has an endowment that could be given by different donors. [00:39:00] So it could be pooling different donors' funds into one. And sometimes I've seen organizations that have an endowment that was just one donor who said, "This is my endowment that I want to give to you for the long haul."

So there's different kinds of endowments and there's different kinds of disbursements, meaning how you distribute the money, and then different kinds of rules around that. So those would be good to get some further information about if that's something that someone's interested, because there's a legality around it as well [00:39:30], is what I found out. There's a lot of laws around how that's worked, and how you distribute the money, and different forms that you have to have in place, and different board policies that have to be in place.

Steve Moore: Yeah. And that's a great reminder that it's a constant process of learning, a constant process of really growing to understand and develop all of the tools that are available for organizations as they seek to fulfill their mission.

Well, [00:40:00] we're about to wrap it up. What's the one other thought you might want to leave with somebody about great financial management, or some positive thing that you've seen at times, and you think, "I wish that for every organization"?

Pauline Fong: Yeah. I'm thinking of an organization that I worked with recently. So for example, they were anticipating an executive director transition. And they knew that with the transition of this executive directorm who had been around for 20 years, [00:40:30] that it potentially had a big impact on their donations and their individual contributions.

And at the same time, they were working on a facility expansion. So those are both very risky financial situations that an organization has to handle and navigate. I was just really impressed with the thoughtfulness with which they approached it. So they did a couple of things.

One is while they were raising the capital campaign for this building expansion, [00:41:00] they included the three years of operating funds that's needed for this new facility. And they included that in the capital campaign. And they raised the whole thing as the entire project. Because they knew with the new executive director coming on, it was going to take at least two or three years for them to navigate that transition. And that likely was going to have an impact on their revenue. So it really provided us—that campaign thought through what was needed and really provided the longer term funding for that facility.

[00:41:30] And the other thing that they did was they really did a very intentional transition with the executive director in having the outgoing executive director both mentor and train the new one, but also work with different board members and major donors. So I just was really impressed with the long-term and the intentional thoughtfulness around financial management that they thought through. Because they knew that it wasn't just going to impact their organization [00:42:00] in terms of the staff. It was actually going to impact them financially. So I just was really impressed with how they thought about it.

Steve Moore: Yeah, that's a great example. Not only a financial planning and financial management. It's a great example of succession planning, and of leadership development, and of really good handoffs in the organization. And in a later podcast, we'll talk more about succession planning and some of these other things. And it's just a great way to kind [00:42:30] of go out on this particular part of our podcast in thinking about how to write great grants, how to really help organizations succeed. And we'll be talking more about some of the other principles in some future episodes. But Pauline, thanks so much. Great job on this. And people are going to all want you to come do their site visit for them.

Pauline Fong: Thank you, Steve. Great to be here.

Steve Moore: Thanks.

Colby Reade: And [00:43:00] that wraps up this episode of the M.J. Murdock Charitable Trust Podcast. For more information on writing great grants as well as resources on fundraising, board development, leadership, team management, and a variety of other topics in the nonprofit space, please visit our website murdocktrust.org. This episode of the M.J. Murdock Charitable Trust Podcast was recorded at the Luis Palau Association studios in Beaverton, Oregon. Episode produced by Colby Reade with sound engineering by Doug Steward [00:43:29], and special thanks to Kaedyn House [00:43:30]. Music by Lobo Loco via the Free Music Archive.