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Assessing Your Organization's Investability

What makes an organization *investable*? Strategy and sustainability. A strong organization has a compelling 10-year vision, a 3-year plan with a short-term focus, a 1-year plan that works toward the 3-year plan, and 90-day plans where the work is done to achieve these goals. This strategic plan, along with having the right people in right roles working together, is what makes an organization investable.

How do you know your organization is investable? Understand your revenue sources and uses and keep healthy margins so you are able to not only fund your baseline operating expenses, you can fund the special projects that help your organization thrive.

Managing Decline versus Managing Growth

Any organization is either managing decline or managing growth. To determine your investability, you need to understand if your organization is in a cycle of decline and survival or a cycle of growth and success.

Managing Decline

An organization managing decline is coping with a decrease in or lack of perceived value. It may start the first time enrollment fails to cover the organization's budget, leading to a one-time or chronic budget deficit. This deficit weakens the perceived value of the organization.

The next year, the organization reduces to tuition to attract more students and build back its enrollment. It may defer some maintenance or even lay off personnel to make ends meet. Some valuable staff members may resign over fear that the organization is not sustainable, weakening the perceived value of the organization once again. Then, the cycle repeats itself.

Managing Growth

For an organization managing growth, the cycles looks quite different. Enrollment exceeds the operating budget, generating a budget surplus. The surplus strengthens the perceived value of the organization, and enrollment grows without the need to discount tuition. Current staff are happy, and the organization can hire new talent. Strategic resources continue to grow, which in turn strengthens the organization's perceived value. The cycle repeats itself.

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Two Investability Realities

These two cycles illustrated the two realities of investability: No Margin, No Mission and Money Moves Walls. If an organization cannot sustain a healthy margin between its revenue and operating expenses, it will not have the resources or perceived value to fulfill its mission.

On the other hand, an organization that is able to sustain a healthy margin between its revenue and expenses can not only fund its day-to-day operations, it has the reserves to fund special projects and meet its long-term, strategic goals.

Identifying Revenue Sources

An organization has three primary revenue sources. Together, these sources should meet an organization's baseline operational needs.

Net Tuition and Fees

This is the money coming in from enrollment tuition and enrollment-related feels. Strong organizations have processes and staff in place to collect tuition in full and on time and rarely write off debt.

Escale Tip: Your organization will be more investable if you diversify your income sources. Don't throw all your eggs in one basket.

Congregational Investment

Most religiously affiliated organizations are supported by a larger religious body, such as a congregation or parish. This group may be an organization's core sponsor or grantor. Without their support, it may be difficult to cover baseline operational needs.

Fund Development

This is the money raised from supporter outreach. It includes annual and lead annual gifts of $9,999 or less as well as major, leadership, and transformational gifts of $1 million or more. Fund development may also include fundraising revenue from a candy bar sale or thrift shop, too.

Sometimes, an organization has other revenue streams, such as room and board at a boarding school or a breakfast and lunch program. These are auxiliary sources of income that contribute to the overall budget but cannot fund your operations on their own.

Identifying Revenue Uses

So, where does all this money go?

Academic Program and Faculty

Most of an organization's revenue funds everything that happens inside the classroom. This includes faculty, curriculum resources, and books and other supplies.

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Program Support and Staff

Another portion of an organization’s revenue funds everything that happens outside the classroom that supports learning, including school staff and leadership.

Occupancy

Occupancy costs include everything required to operate an organization’s physical space, including rent, maintenance, and utilities.

Special Projects

Only after the academic program, program support, and occupancy expenses are covered can an organization fund any special projects. Most often, funding for special projects come from dedicated campaign and fundraising efforts, such as a capital campaign.

Assessing Revenue Sources and Uses

The easiest way to understand your organization’s revenue sources and uses is to perform an audit. Doing so will allow you to understand whether your organization is managing decline or managing growth and empower you to form a strategic plan.

During your audit, look at the current and historical numbers for your enrollment, debt and interest rates, fundraising revenue, and staff and faculty expenses. Is enrollment increasing or decreasing? Are your debts rising or falling? Are your fundraising efforts successful? Is your team stable, skilled, and happy?

Next, think about what you can expect for the future given these historical numbers. Will your enrollment increase or decrease? Will congregational support grow or dwindle? Will fundraisers be an opportunity for growth? Overall, will your organization increase its perceived value or decrease its perceived value?

The Strategic Gap between Baseline and Balance

Surviving is not thriving. An organization will continue to survive if it is able to meet its baseline operational expenses. But it will not thrive until it is strategically balanced, with additional revenue funding strategies and special projects that build value. The difference between baseline operational expenses and the costs of strategies and special projects is called the strategic gap.

Funding for strategies and special projects should not come out of an organization’s operating budget. Taking money from the baseline operational budget to fund these projects is like purchasing a second home when you are having trouble paying your mortgage on your primary residence. Temporarily or permanently restricted funds fill in the strategic gap between baseline budget and the cost of special projects.

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Temporarily and Permanently Restricted Funds

Temporarily restricted funds are funds identified for a specific purpose. A supporter may identify that their gift be used for a special project, or the organization may run a dedicated campaign for a special project. Either way, the money dedicated to a temporarily restricted fund must be put to specific use.

Escale Tip: Your school also has unrestricted funds. These funds support the baseline operating budget and have no restrictions on their specific use.

A permanently restricted fund, often called an endowment, is an organization's nest egg. The money in this fund is often invested in the market. While the principal of this fund cannot be used, an organization can use the interest generated to fund special projects.

Closing Thoughts

Managing growth and increasing your organization's perceived value should be your short-term and long-term goal. Identify your strategies, take an audit of your organization's current financial situation, and make prudent decisions to keep your margins strong and fill the strategic gap between your baseline operations and the funding for special projects that will help your organization thrive.