UPADM-GP 801: Finance for Social Entrepreneurs

24 Waverly Place, Silver Building Room 403

Thursdays, 4:55 - 7:25 Starting January 30, 2014

Professor Russ Pomeranz

Spring 2014

Contact Information

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Office hours: TBD and by appointment

Office Location: TBD and by appointment

This class is sponsored by, and was developed in conjunction with, NYU Reynolds.

Course Overview

Finance for Social Entrepreneurs is as much about story telling as it is about the underlying financial, managerial, and strategic concepts that are critical to mission achievement and financial success. Whether their vehicle is for profit, non-profit, hybrid, or government, all social entrepreneurs and innovators need to tell a credible operating financial story based on revenue streams, clarity and control of expenses, bottom lines and capital to thrive and grow in the short and long term. Integrating a past,
present and future financial story with the fulfillment of a societal mission with a quantifiable impact presents a particular challenge.

This class will provide an introduction to the financial concepts and tools, and an approach to analytical thinking that integrates managerial, programmatic and strategic considerations. Together, these enable social innovators to grow their ideas into financially viable and sustainable projects and organizations. The focus of the class will be on models and practices common to both the non-profit and for-profit sectors as well as understanding the implications of their differences.

The core financial areas this class will focus on include:

a) Understanding and applying the basic financial and non-profit accounting which build organizational financial statements, explaining what they mean, and illustrating how they are the basis for financial and programmatic decision making and connect with organizational mission. These topics will include issues such as whether an organization has the assets to invest in program growth and stability, innovation, infrastructure, etc., as well as take risks and make mistakes, or whether debt will inhibit investment or overwhelm the business model.

b) Understanding the budget process, revenue streams, expenses, net income, options, trade-offs, and projections that enable organizations to achieve necessary financial and organizational goals. These topics will include a discussion about business and strategic planning, about how such plans are integrated into organizational budgets and about how balance sheet assets such as reserves as well as liabilities are part of the budgetary process.

c) Understanding how having access to capital enables non-profits and for-profits to fund innovation, capital projects, and organizational growth to meet mission related needs. This includes endowments, mergers and acquisitions, lines of credit, loans, bonds to fund capital projects, etc...

d) Understanding what types of organizational infrastructure and leadership enable financial and programmatic sustainability and fulfillment in the short and long term.

e) Understanding programmatic metrics and impact connected to financial resources, investments and results.

Class Format

The class aims to combine theory and practice, principles and information on how choices play out in organizational reality. Therefore each class will spend time to both understand underlying financial concepts, and apply them to real situations and organizations. Several classes will also include the perspective from a practitioner of those concepts applying them to their organizational reality.

Readings (and various other texts such as videos etc...)

Suggested readings will be posted before each class. The only required reading will be the Vera Spin-Off Tool Kit. In addition, an Article Bank will be created by Professor Pomeranz and TA Claudia Pérez Pellicer
as well as by students. There will be an expectation that students will add to the Bank as well as evaluate articles that are included as per the appropriate lesson. Suggested articles are expected to be read by the start of next class.

There will also be a Financial Statement Bank that will be created in order to store relevant financial statements for evaluation and comment. There is also an expectation that students will add to this bank.

We will arrange for access to most other course materials on the NYU Course Site or in hard copy.

Evaluation

a) Class Participation (20%)

Class participation will be evaluated in terms of responses to specific question and assignments but also in terms of question asking, especially those focusing on organizational choices, goals, missions, and trade-offs. Participants should take risks in their responses. Students will be expected to contribute to NYU Course Site Forum discussions, the Article Bank and Financial Statement Bank.

b) “What to Ask” Writing Assignment (10%)

c) “What to Answer” Writing Assignment (10%)

d) Take-home Midterm (20%)

We will provide more details on the midterm later in the semester.

e) “Defining Impact” (10%)

f) Final Group Project (30%) [10% oral presentation, 20% written]

The final group project will give each student a chance to work together in a small group to define their vision of social entrepreneurship and convince a panel that their social entrepreneurial ideas have merit, impact, and are financially sustainable over time. Whether it be a group of investors, potential funders, existing non-profit organizations, government or use of the IRS (Form 1023) to establish 501 c 3 status, a clear and compelling case has to be made for selection and next steps should be mapped out. Students will be evaluated on how they’ve translated their entrepreneurial efforts into a sustainable financial, organizational and programmatic reality with measurable impact.

Late Assignment Policy

Extensions will be granted only in case of emergency, out of respect to those who abide by deadlines despite equally hectic schedules. Late submissions without extensions will be penalized 1/2 letter grade per day (e.g., B+ to B).

Students with Disabilities
Any students requiring accommodations should be in contact with me to make proper arrangements. Please be prepared to submit your documentation from the NYU disabilities office regarding appropriate accommodations.

Week by Week

Class 1 (January 30th): The importance of Mission, Accounting Concepts, Financial Statements and Back to Mission

- The importance of Mission
- Principles of Accounting (Accrual vs. Cash, Chart of Accounts)
- Non-profit accounting (unrestricted, temporarily restricted, permanently restricted fund balances)
- Financial statements and what they mean. This includes relevant ratios.
- Statement of Financial activity a.k.a Income Statement (Revenues, Expense, Net Income)
- Statement of Functional Expenses
- Statement of Cash Flows
- Mission story telling

Suggested Articles and Documents:

a) Non-profit Fund Accounting (Restricted Funds/Endowments)
b) IRS Form 990 (Non-profit Tax Return)
c) Vera Spin-Off Tool Kit

Assignment(s) Distributed: Assignment #1 “What to Ask”

Class 2 (February 6th): Budgeting (Process and Revenues)

- Basics of the Budget process (Timing and Team)
- Determination of the Business Model
- Financial, Programmatic, and Strategic Goals of Budget Process
- Revenue Streams (grants and contracts, fee for service, contributions, events, etc)
- Recognition of Revenue (unrestricted vs. temporarily restricted vs. permanently restricted)
- Use of Reserves (spending rates)

Suggested Articles and Documents

a) Federal Indirect Cost Proposal (A-122) (Defining Indirect Cost pool to determine IDC rate
b) Budget Narrative – Pomeranz/FMA Tool
c) Form 1023 (Formation of Non-profit Organizations)
Assignment(s) Due: Assignment #1 “What to Ask”

Assignment(s) Due: Contribute to Financial Statement Bank

Assignment(s) Distributed: Choose Group and write up Group Project Summary

Class 3 (February 13th): Budgeting (Expenses and Bottom Line Negotiations)

- Types of Expenses (Personnel/Benefits vs. OTPS)
- Project, Programmatic, Grants and Contract Expense
- Indirect Cost Rate/Administrative Cost pool
- Planning (Project, organizational, strategic)
- Net income (Grant, Program and organizational)
- Bottom line negotiation and final product
- Goal fulfillment and presentation to Board
- Contingencies and Opportunities

Potential Speakers

Sharon Sewell, Executive Director at Workforce Professionals Training Institute (WPTI)

CmC Contest winners

Suggested Articles and Documents:

a) Principles of Endowment Management/Sample Organizational Investment Policy
b) NFF- Borrowing with tax Exempt Bonds
c) Line of Credit Application form
d) Social Impact Bonds
e) Sample lease agreement

Assignment(s) Distributed: Assignment #2 “What to Answer”

Assignment(s) Due: Choose Group and write up Group Project Summary

Class 4 (February 20th): Raising Capital for Innovation, Administrative and Programmatic Staff Capacity, and Strategic Planning/Capital Projects

- Endowments, Board
- Capital campaigns
- Capital Funding/ Bond offerings
- Sale of assets
- Lines of credit/Loans
- Operations (Surpluses
- For-profit Equity

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• Organizational Vehicles (Non-profit/For profit)
• Mergers & Acquisition
• Spin-Offs/Independence

Potential Speakers:

TBD

Suggested Articles and Documents:

a) Scott Sherman (Folly on 42nd Street)
b) Russell Pomeranz- Non-Profit CFO’s
c) Sample Non-Profit Board by-laws
d) “7 Top Crowdfunding Sites for Nonprofits and Higher-Ed Institutions”
   http://blog.hubspot.com/Marketing/crowdfunding-sites-for-nonprofits-higher-ed-li
e) “How to Successfully Crowdfund for Your Nonprofit”
   http://www.huffingtonpost.com/ben-lamson/how-to-successfully-crowd_b_4274202.html

Assignment(s) Due: Assignment #2 “What to Answer”

Assignment(s) Distributed: Take-Home Midterm (Due prior to Class 5)

Assignment(s) Distributed: Assignment #3 “Defining impact”

Class 5 (February 27th): Organizational Roles, Leadership, Governance

• Board
• CEO
• CFO
• Administrative Staffing
• Programmatic Staffing
• Mission and Vision
• Organizational Growth
• Innovation

Potential Speakers:

Jessica Bynoe (Executive Director of Variety the Children’s Charity of New York)

Jenny Kronenfeld (Executive Director of Esperanza)

Lorna Harris (Staten Island Charter Schools)

Freddda Rosen (ED of Jobpath)

Julia Jean-Francois (ED of Center for Family Life)

The Wassaic Group
Suggested Articles and Documents:

f) Outcomes (Rensselaerville Institute Publication)
g) TBD – Research Study on Outcomes
h) TBD – Evaluation Methodologies
i) Deep in the Trenches- Understanding the Dynamics of Frontline Workforce Development Staff

Assignment(s) Due: Assignment #3 “Defining impact”

Assignment(s) Distributed: Reminder and Q&A Session to Prepare for Group Presentations

Class 6 (March 6th): On-Going Management Decision Making, Metrics, Programmatic Impact and Evaluation

- Reporting (Monthly, Quarterly, Annually)
- Projections
- Variances (Budget to Actual, Budget to Actual Projections)
- Analytical Tools (NPV, Cost Benefit)
- Decision making (Contingencies/Budget Modifications)
- Cost-benefit Analysis
- Tools to measure performance (programmatic and financial)
- Evaluation and research (different methodologies)
- Funder vs. Organization

Potential Speakers:

Claudia Perez Pellicer

Tina Chiu (Vera Institute of Justice - Director of Technical Assitances including Cost benefit analysis

Additional Speaker(s) - TBD

Suggested Articles and Documents:

Endeavour Global, Inc. 2013 Impact Report

Assignment(s) Distributed: Reminder and Q&A Session to Prepare for Group Presentations

Class 7 (March 13th): Group Project Presentations

- Group feedback
- What's next?
- Tying it all together
- What will you accomplish as a social entrepreneur?