



Hartford Foundation
FOR PUBLIC GIVING

The Right Time to Rightsize?

Hartford Foundation for Public Giving

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May 24, 2017



Today's Session

I Think We Need to Have a Talk

- How to know when it's time to consider rebalancing operations

Program Portfolio Analysis

- How to use a “mission-money” approach to assess the impact of programs and activities

Rightsizing Decisions

- How to approach the decision-making process on rightsizing

Prevention is the Best Cure

- How to strategically approach decisions on new funding and program opportunities to avoid future challenges

I THINK WE NEED TO HAVE A TALK...

How to know when it's time to consider
rebalancing operations

What are some of the key symptoms indicating your organization may need to rebalance operations?



Indicators of a Need to Rebalance

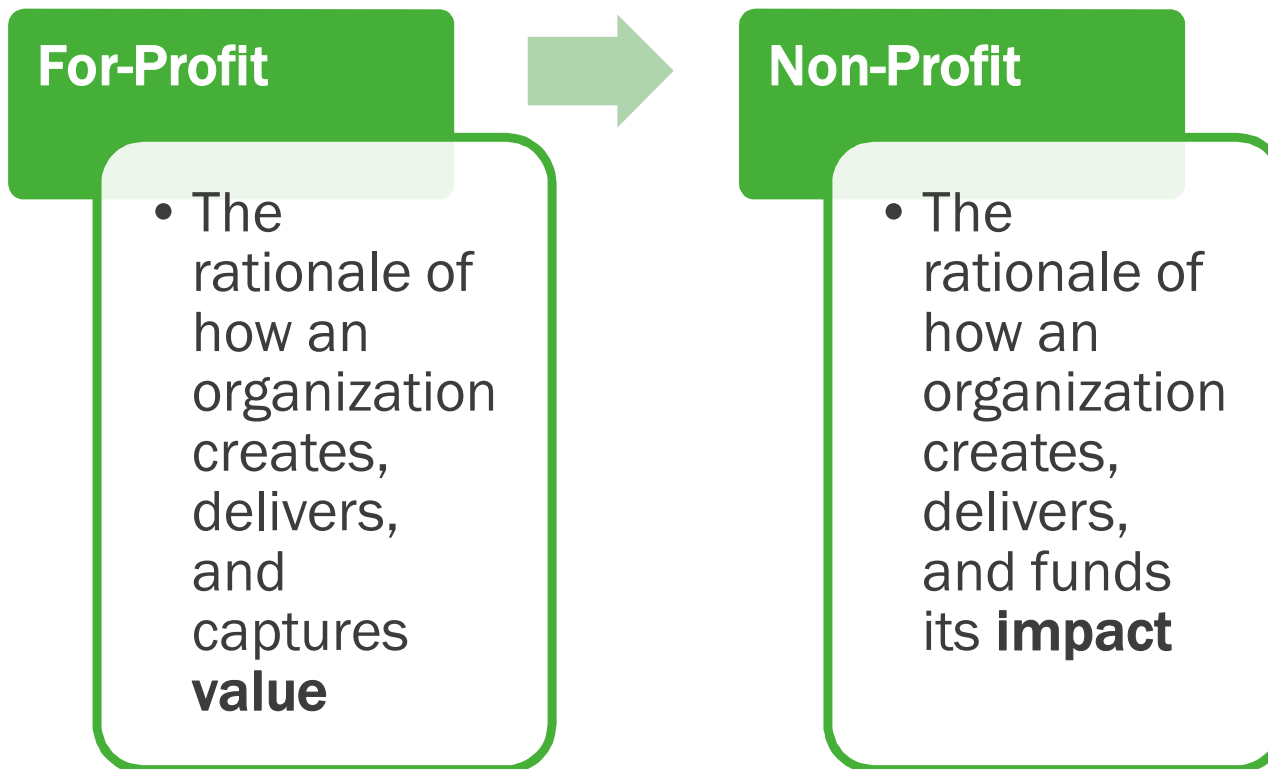
Financial / Business Model

- Persistent operating deficits (a.k.a. “structural deficit”) within a program or across the organization
- Loss/reduction (or impending loss/reduction) of a key funder or funding commitment
- Expense increases due to external factors (e.g. health insurance premiums, FLSA regs)
- Significant change to business or operating model

Program Design / Model

- Decline in demand for particular programs or activities
- Shift in organizational strategy or approach
- Opportunity to develop or expand a program or activity
- Results of program evaluation

What is a Business Model?





Revenue Type and Business Model

What organizational characteristics are associated with different revenue types?

Contributed (e.g. individual, foundation, special events)

- Delivery of programs and raising of funds **independent and distinct** activities
- Requires robust fundraising function

Earned (e.g. program fees, sales)

- Delivery of programs and generation of funds **closely tied**
- May require (contributed) **subsidies**

Government (e.g. fee-for-service, reimbursement contracts)

- Revenue tied to delivery of services, *but* with a
- Third-party payer



Expense Composition and Business Model

What are the key “drivers” of costs in your organization’s model?

- Personnel
 - Total personnel costs (including taxes and benefits) are typically around 70% of a human service nonprofit’s expenses
- Occupancy
 - Occupancy costs (rent, utilities, mortgage interest, depreciation, etc.) tend to be relatively fixed over the medium or even long terms
- Purchased goods and services
 - Professional fees, supplies, materials, travel, food, etc.
 - Generally smaller dollar amounts but greater flexibility



Analyzing Operating Expenses

Statement of Functional Expenses

- How do we define our programs?
 - Are the costs of our programs in line with the impact they achieve?
 - Are the costs of individual programs supported by adequate revenues?
 - Are our investments in administration and fundraising adequate but not excessive?
- What are our primary cost drivers?
- Does our statement of functional expenses adequately and accurately reflect our programmatic work?



Analyzing Operating Expenses

ASSOCIATION FOR A BETTER COMMUNITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015
With Comparative Totals for the Year Ended June 30, 2014

	2015					2014	
	Program A	Program B	Program C	Management & General	Fundraising	Total	Total
Salaries	\$ 508,540	\$ 263,038	\$ 105,215	\$ 209,501	\$ 134,931	\$ 1,221,225	\$ 1,100,103
Employee Benefits	49,401	25,552	10,221	20,351	13,108	118,632	106,866
Payroll Taxes	34,580	17,886	7,155	14,246	9,175	83,043	74,806
Professional Fees	64,513	33,369	13,347	26,577	17,117	154,923	139,558
Occupancy	22,849	11,818	4,727	9,413	6,063	54,870	49,428
Equipment Lease and Maintenance	3,644	1,885	754	1,501	967	8,750	7,882
Equipment Purchase	4,401	2,276	911	1,813	1,168	10,569	9,521
Supplies	42,015	21,732	8,693	17,309	11,148	100,897	90,890
Telephone	13,481	6,973	2,789	5,554	3,577	32,374	29,163
Advertising / Marketing	2,343	1,212	485	965	622	5,627	5,069
Printing and Publications	5,684	2,940	1,176	2,341	1,508	13,649	12,295
Postage and Shipping	1,103	570	228	454	293	2,648	2,385
Travel	13,169	6,811	2,725	5,425	3,494	31,624	28,488
Professional Development	3,061	1,583	633	1,261	812	7,351	6,622
Conferences and Meetings	4,324	2,237	895	1,782	1,147	10,385	9,355
Dues and Subscriptions	2,158	1,116	447	889	573	5,183	4,669
Insurance	11,005	5,692	2,277	4,534	2,920	26,428	23,807
Interest	9,970	5,157	2,063	4,107	2,645	23,942	21,567
Depreciation	24,678	12,764	5,106	10,166	6,548	59,262	53,384
Bad Debt Expense	1,620	838	335	667	430	3,890	3,504
Miscellaneous	806	417	167	332	214	1,936	1,744
TOTAL EXPENSE	\$ 823,344	\$ 425,868	\$ 170,347	\$ 339,190	\$ 218,459	\$ 1,977,208	\$ 1,781,107



What Is a Business Model?

Business Model Statement

- Complements the mission statement by describing the organization's key financial drivers (expenses and revenues)
 - **Health clinic:** We are a community mental health clinic supported by Medicaid fees and private insurance and supplemented by a variety of other revenue streams, including government contracts.
 - **Education reform organization:** We provide research and advocacy for educational reform efforts, supported by a few committed individual and foundation donors who helped create and share our vision for reform.
 - **Neighborhood multi-service agency:** We serve our neighborhood through a Head Start program funded by a government contract, and through ESL and citizenship classes supported by an annual fundraising event and business sponsorships.



What Is a Business Model?

Activity

Craft a “business model statement” for your organization, answering questions such as:

- What are our core programmatic activities?
- How are they delivered?
- What is our funding model?
- Are any funding sources at risk at the current time?
- Are there any expected significant changes in our program model?



Understanding the Business Model

- Financial position and net assets
- Revenue and expense composition
- Program portfolio



The Current Financial Situation

Balance Sheet

- Cumulative result of an organization's financial activity from its inception to the present day
- Source of key financial health indicators such as liquidity, debt, and reserves
- Shows how much financial flexibility your organization has

	2013	2012
ASSETS		
<u>Current Assets</u>		
Cash	\$ 257,590	\$ 286,052
Grants and Contracts Receivable	65,250	53,505
Accounts Receivable	17,232	14,192
Prepaid Expenses	21,200	17,259
Total Current Assets	<u>361,272</u>	<u>371,008</u>
<u>Non-Current Assets</u>		
Property and Equipment, Net	1,506,326	1,545,689
TOTAL ASSETS	<u>\$ 1,867,598</u>	<u>\$ 1,916,697</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
<u>Current Liabilities</u>		
Accounts Payable	\$ 78,244	\$ 89,119
Accrued Expenses	26,190	12,250
Current Portion of Mortgage Payable	36,442	31,573
Deferred Revenue	917	1,084
Total Current Liabilities	<u>141,793</u>	<u>134,026</u>
<u>Non-Current Liabilities</u>		
Long-Term Mortgage Payable	1,028,713	1,065,155
TOTAL LIABILITIES	<u>\$ 1,170,506</u>	<u>\$ 1,199,181</u>
NET ASSETS		
Unrestricted		
Operating	\$ 51,776	\$ 127,773
Fixed Assets, net of related debt	441,171	448,961
Total Unrestricted Net Assets	<u>492,947</u>	<u>576,734</u>
Temporarily Restricted	204,145	140,782
TOTAL NET ASSETS	<u>\$ 697,092</u>	<u>\$ 717,516</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,867,598</u>	<u>\$ 1,916,697</u>



The Current Financial Situation

Liquid Unrestricted Net Assets (LUNA)

- Indicator of an organization’s level of “true” reserves
 - Unrestricted net assets available in liquid or near-liquid form
 - Does not include fixed assets, property or other assets difficult to convert into cash
- Positive LUNA
 - Assets available to cover operating expenses, guard against financial downturns, and pursue new opportunities
- Negative LUNA
 - Indicates *borrowing* from restricted funds and/or external sources
 - Signals lack of financial flexibility



The Current Financial Situation

Liquid Unrestricted Net Assets (LUNA)

$$\text{LUNA} = \text{Unrestricted Net Assets} - (\text{Fixed Assets} - \text{Mortgages})$$

Benchmark: LUNA sufficient to cover 3-6 months of operating expenses is generally considered healthy, but this depends on an organization's business model, plans, and goals.



Homework

LUNA / Composition of Net Assets

Calculating LUNA		
	Year 2: _____	Year 1: _____
Total Unrestricted Net Assets:	\$ <input type="text"/>	\$ <input type="text"/>
Subtract Board Designated Net Assets:	- \$ <input type="text"/>	\$ <input type="text"/>
Subtract Net fixed assets:	- \$ <input type="text"/>	\$ <input type="text"/>
Add Mortgages:	+ \$ <input type="text"/>	\$ <input type="text"/>
TOTAL LUNA:	\$ <input type="text"/>	\$ <input type="text"/>
<i>Average Monthly Expenses</i>		
Total annual expense divided by 12:	\$ <input type="text"/>	\$ <input type="text"/>
MONTHS OF LUNA:		
Total LUNA divided by avg. monthly expenses:	\$ <input type="text"/>	\$ <input type="text"/>

PROGRAM PORTFOLIO ANALYSIS

How to use a “mission-money” approach to assess the impact of programs and activities



Strategic Financial Planning

The Program Portfolio

What do we do well?

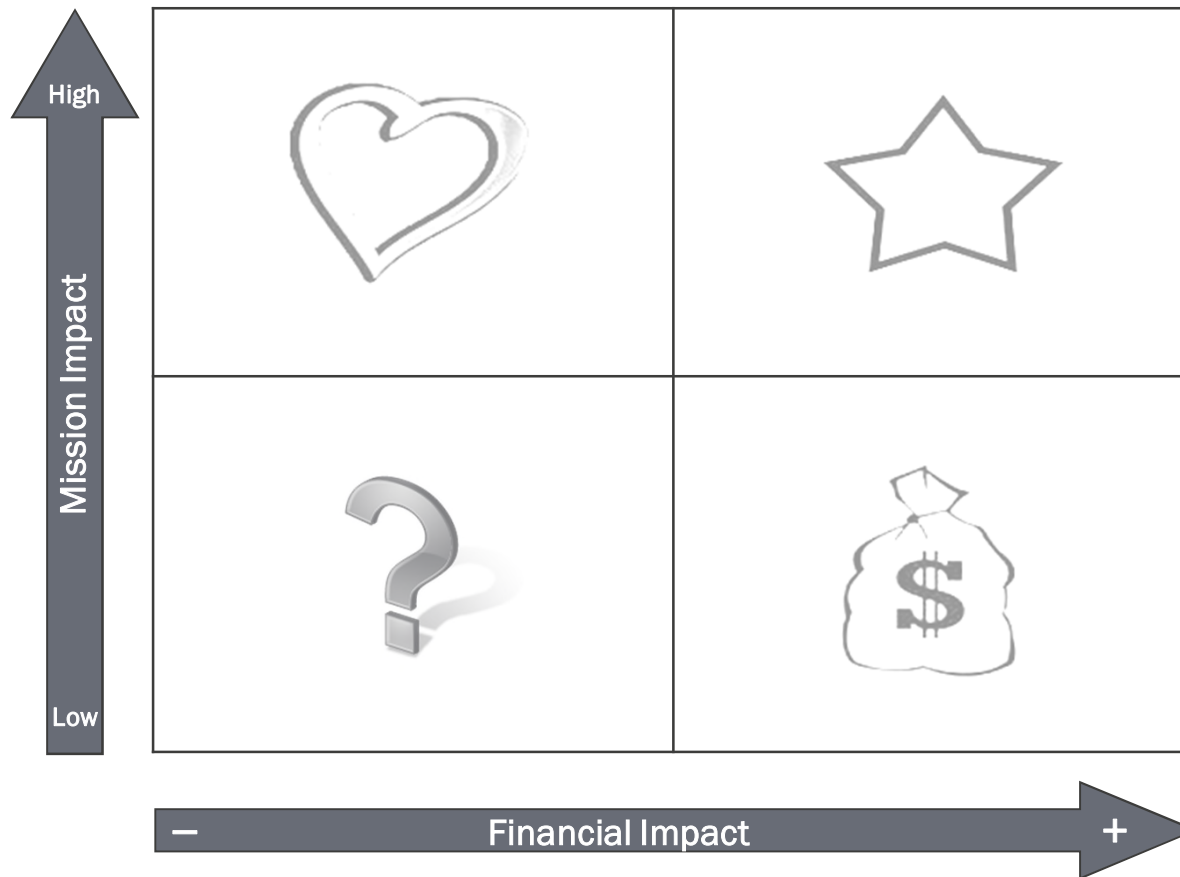
What is critical to our community?

What is core to our mission?

What is financially successful?



Double Bottom Line Matrix



Adapted from "Double Bottom Line Matrix", Bell & Schaffer, [Financial Leadership for Nonprofit Executives](#), 2005



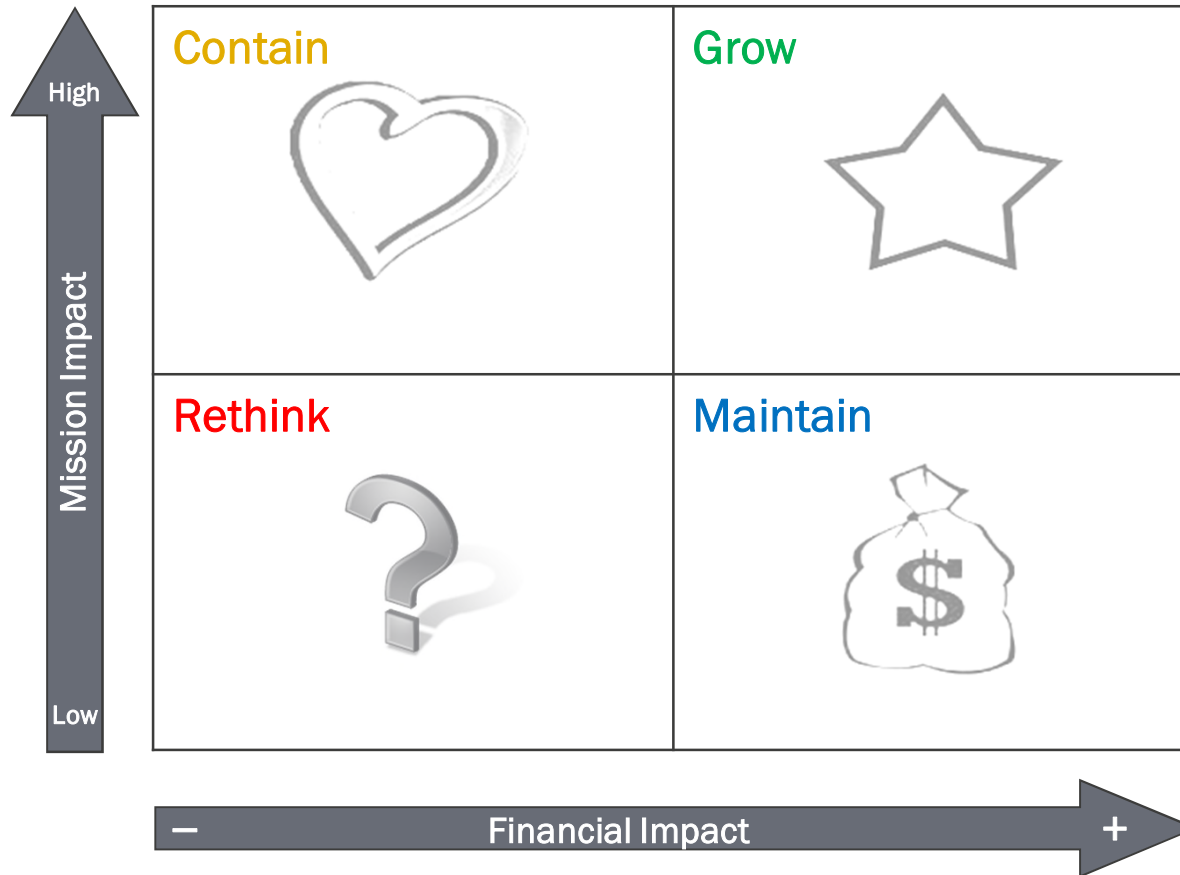
Double Bottom Line Matrix

Exercise: Mapping your Double Bottom Line

1. List each of your program areas (consult your budget and/or Statement of Functional Expenses)
2. For each program:
 - How much does it contribute to the achievement of your mission? Consider:
 - Impact on target population
 - Excellence in execution
 - Scale and depth of engagement
 - Supply of services from other providers
 - What is the program's financial impact to your bottom line? Does it generate resources or require investment?
3. Plot each program on the 2x2 matrix



Double Bottom Line Matrix



Adapted from "Double Bottom Line Matrix", Bell & Schaffer, *Financial Leadership for Nonprofit Executives*, 2005

RIGHTSIZING DECISIONS

How to approach the decision-making process on rightsizing



True Costs vs. Bottom-Line Impact

True Costs

- Shows what it fully costs to run a program or service—including costs singular to that area as well as shared expenses necessary to support its activities
- Critical for appropriately pricing services and asking for funding
- *“What would it cost for this program to stand on its own?”*

Bottom Line Impact

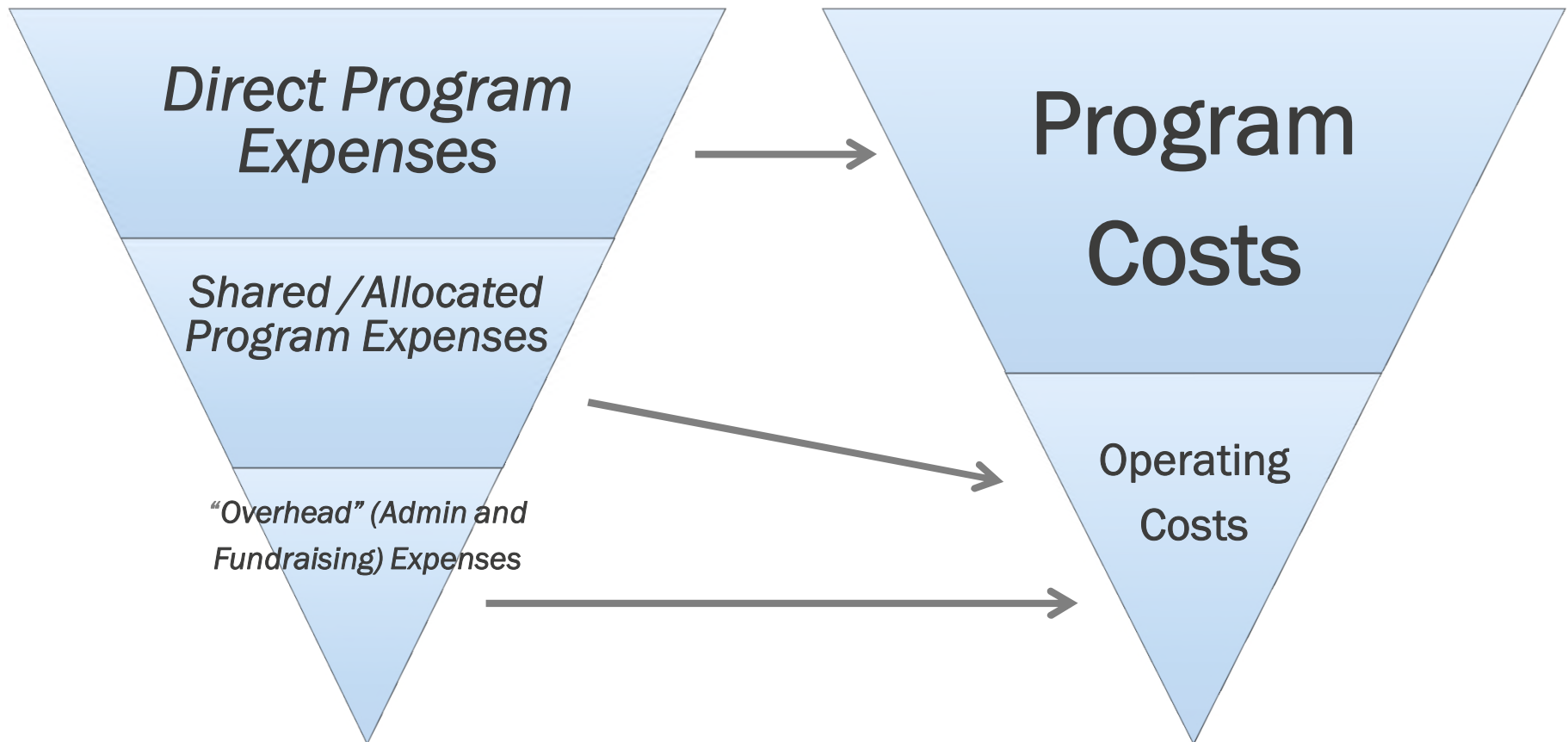
- Shows what the isolated impact of a program or service is on the organization’s bottom line
- Critical for understanding the actual effect of program elimination on the organization’s financial results
- *“What would the organization look like (financially) if this program went away?”*



True Costs vs. Bottom-Line Impact

Budget Development

Scenario Analysis





Questions for Rightsizing Decisions

- What would program expenses look like under a new model? What current costs would be eliminated? Are there any new costs that would have to be added?
- What would shared costs (e.g. rent, utilities, technology) look like under a new model? Which costs could be reduced and which would simply be spread across the remaining units (programs, departments, staff, etc.)?
- What would administrative expenses look like under a new model? Does the rightsizing provide any opportunities to eliminate, reduce or outsource current administrative functions?



Questions for Rightsizing Decisions (cont.)

- What one-time costs would the shift to a new model require? (e.g. severance pay, legal fees, moving expenses)
- Can we still fulfill the terms of our contracts and restricted funds under the new model? Does our reduction of expenses also reduce our revenues (e.g. cost reimbursement contracts)?
- What internal resources could be freed up by rightsizing (e.g. management team time)? How else might these resources be deployed for greater ROI?
- Are there some specific scenarios we should be modeling out?



Possible Alternatives

- Could collaborations or partnerships provide another approach to program delivery?
- Could additional resources be invested in income-generating programs or activities?
- Could we invest our reserves in maintaining the program in some capacity?



How to Address Disruption

Tap reserves

- Disruption is likely to be short-term in nature
- Underlying program model is financially sustainable
- Cost reductions would have a significant impact on ability to deliver on mission

Reduce operating costs

- Disruption is likely to be long-term or permanent in nature
- Underlying program model operates at a financial deficit
- Operations can be scaled down so as to not jeopardize mission impact

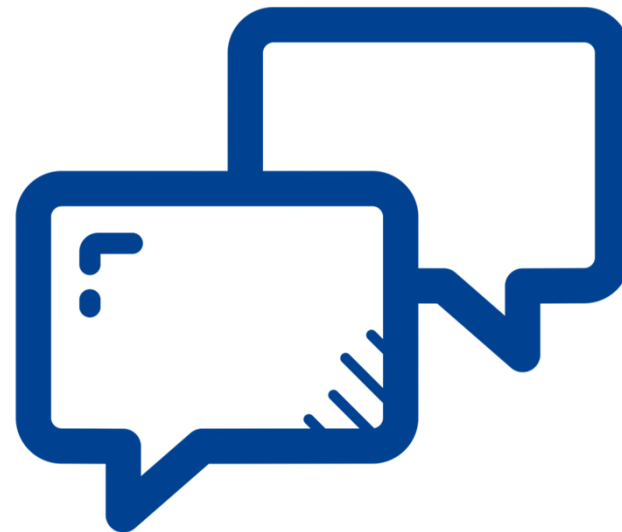
PREVENTION IS THE BEST CURE

How to strategically approach decisions on new funding
and program opportunities to avoid future challenges

Does your organization have an established process to evaluate funding opportunities *prior* to applying?

What is the process?

- Designate an RFP Committee to evaluate each funding opportunity – both private and government
- Include representatives from:
 - Program
 - Finance
 - Development
 - Senior Management
 - Operations





Evaluating Opportunities

Key Considerations

Program Alignment

Does the program fit within our core mission and competencies?

Financial Impact

Is the program sufficiently and sustainably funded?

Administrative Capacity

Do we have the systems and processes in place to monitor and report on the contract?



Evaluating Opportunities

<http://fmaonline.net/fundingtool>

FMA
FISCAL STRENGTH FOR NONPROFITS

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Funding Opportunity Assessment Tool

A new grant or contract can be vital to funding your organization's programs—but brings responsibilities and risks as well. This tool will help you evaluate whether a funding opportunity makes strategic sense and is feasible for your organization.

How Results Are Calculated

The tool focuses on three areas: Can you deliver the program? What financial impact will it have on your organization? And, can you manage the contract? After answering the questions in each section, you will see how good a "match" the opportunity is for your organization, along with points to consider in making a decision about what to do. The degree of fit is illustrated by colors: green for a close, yellow for a possible, and red for questionable match.

- Good Match
- Possible Match
- Questionable Match

The tool is best used in a group—so feel free to invite your colleagues to join you! Use it to guide a discussion that includes the Executive Director/CEO, Finance Director/CEO, Development Director, and the director or manager in

REFLECTIONS AND DISCUSSION



Resources

StrongNonprofits.org

In collaboration with the Wallace Foundation, FMA has created a library of tools and resources to help organizations become “fiscally fit”

Four Topic Areas: [Planning](#) | [Monitoring](#) | [Operations](#) | [Governance](#)

The Wallace Foundation / Knowledge Center / Resources for Nonprofit Financial Management

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Resources for Nonprofit Financial Management

Search Financial Management Resources

Overview | **Planning** | Monitoring | Operations | Governance | All Resources

SHOW:

- General Resources
- Tools and Templates
- Case Studies

Planning Resources for Nonprofit Financial Management

Good planning finds the most effective ways to deploy your organization's resources – and meet your overall objectives. Materials here include help with budgeting, cost calculations and cash projections.

[Strengthening the Budget Development Process](#)



Fiscal Management Associates, LLC

- Established in 1999 to serve not-for-profit organizations around the country
- Provides customized financial management, accounting, software, organizational development, human resources, and other consulting services
- Works directly with organizations or through funder-supported management and technical assistance programs

FMA's mission is to empower not-for-profit organizations with the knowledge and skills to successfully serve their constituents and fulfill their missions

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