




 Fiscal Management Associates, LLC 

## What Will Your Nonprofit Look Like When the Economic Dust Settles?

### Financial Priorities and Processes

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Fiscal Management Associates, LLC

Sponsored by:

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## AGENDA

- Introductions
- Historical Perspective  
*Prepare for a sustained economic crisis*
- Understand Your Financial Health And Assess Your Liquidity  
*Am I operating from a position of relative strength or weakness?*
- Quantify The Challenge Ahead  
*What kind of financial flexibility do I have?*
- Develop A Strategic Organizational Response  
*What are my options for managing in this environment*

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## Introductions

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*What's the size of your organization?*



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- *What's your position in the organization?*
- *Are you leading the budget process?*
- *When does your fiscal year end?*



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- *How worried are you?*
- *Have you been significantly impacted?*
- *Are there signs of hope?*



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### Historical Perspective



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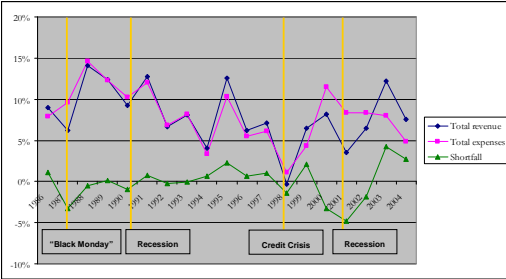
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### HOW ECONOMIC DOWNTURNS AFFECT NONPROFITS



Each line shows percent change in total dollars



Slide courtesy of Nonprofit Finance Fund



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### WHY IS THIS RECESSION DIFFERENT?

- **Severity and length remains in question, but it is only part of the story**
- This period is plagued by a **combination of events** we haven't seen in any of the market events over the past 20 years:
  - Credit markets have seized up
  - Stock market has crashed, with 50% drop in past 12 months
  - Employment falling in many sectors
  - Housing construction and real estate markets are in decline
- **What does this mean to nonprofits?**
  - Immediate downward pressure on both government and philanthropic funding
  - Limited and/or more expensive access to credit
  - In early and out late



Slide courtesy of Nonprofit Finance Fund



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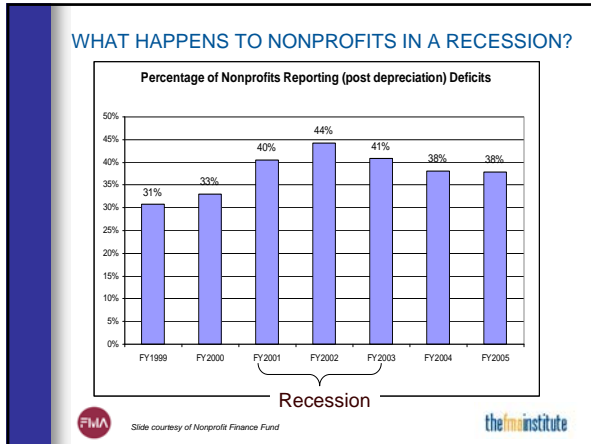
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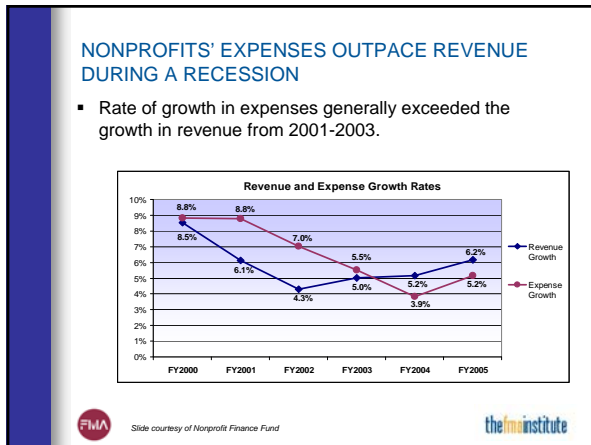
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### Understand Your Financial Health And Assess Your Liquidity

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**BALANCE SHEET:  
AN ORGANIZATION'S STRENGTH**

- Several "tools" on your balance sheet are key to managing risk
  - Cash – How much? Cover 1 month of expenses?
  - Receivables – Are they slow to collect? Non-existent?
  - Line of Credit – How do you manage cash flow?
  - Temporarily Restricted Net Assets – Do they best support your core programs?
  - Reserves – Do you have them? Suitable to your needs?


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**BALANCE SHEET: AN ORGANIZATION'S STRENGTH**

- If your balance sheet has...
  - No cash or receivables
  - A fully drawn line of credit
  - Little or no reserves available to management

...There is nothing supporting the organization and nothing to draw on in challenging times
- Start with your balance sheet to assess your current financial position– what's your cushion?


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**IDENTIFY LIQUIDITY CHALLENGES**

Cash	Working Capital	Total Net Assets	"Liquid" Net Assets
Is cash available? What is our Months of Cash?	Current assets less current liabilities	Net worth of the organization	The "liquid" portion of net assets that can support operations


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**MEASURING LIQUIDITY**

Months of Cash =	$\frac{\text{Total Cash}}{\text{Total Expenses} / 12}$
Months of Liquid Net Assets =	$\frac{\text{Unrestricted Net Assets} - (\text{PPE} - \text{PPE Debt})}{\text{Total Expenses} / 12}$
Working Capital =	$\text{Current Assets} - \text{Current Liabilities}$

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**MONTHS OF CASH: RULE OF THUMB**

Right amount for my organization? In this environment?

Months of Expenses Covered by Cash	Operating Situation
0	<b>Crisis</b> – Scrambling for cash, delaying payment to vendors, overdrawing checking account.
Less than 1 month	<b>Cash is tight</b> – Relying on line of credit, delaying payment to vendors.
1-3 months	<b>Room to breathe</b> – Can do some long-term thinking. Little room for “rainy days.”
3+ months	<b>Handles risk</b> – Able to withstand increasingly acute shocks such as large facility repairs, funding cuts and possibly recessions.

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**CASH FLOW MANAGEMENT**

 Cash Flow Template

- Plan and monitor cash needs by analyzing the timing and reliability of revenue and expenses.
- Best practice: Cash flows (sources and uses) projected on a monthly basis.
- Estimate how much cash to keep on hand and, if appropriate, how much short-term debt you will need to access for the extra difficult months.

! Distinguish between “**cash flow**” issues (timing of receipts) and “**cash**” issues (shortage of revenue to cover expenses).

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**MAXIMIZING ACCESS TO DEBT FINANCING**

- The conversation with your banker must be **ongoing, deep,** and **fully transparent** in today's tightening credit environment
- Be prepared to talk beyond the numbers:
  - **Short- and long- term plans** for the organization
  - **Contingency plans** for potential reductions or loss in funding
  - **Funding commitments** / contracts for next 12 mo (at minimum)
  - **Evidence of reporting** and processes in place to measure progress against budget and ability to course correct
  - Management team with the **ability to manage through changing** economic and funding **environment**
  - Track record of **support from community** and funders
  - **Engaged board** of directors



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**TYPES OF RESERVES:  
TOOLS FOR SUPPORTING OPERATIONS**

- Board-designated Cash Reserve for Operations
  - Internal line of credit to bridge funding delays
  - NOT to replace lost income or cover ordinary expenses
- Rainy Day (emergency) Reserve
- Infrastructure Reserve
  - Building maintenance, systems replacements, first year of salary for new staff, etc.
- Investment Reserve
  - A "self-governed" endowment with board authority to use the principal for other purposes if necessary



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**Quantify the Challenge Ahead**



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**ESTABLISH A PROCESS FOR DECISION MAKING**

- Integrated team approach that communicates on a regular basis
- Partnership between staff and board
- Strategy for decision making:
  - Who will make these decisions
  - When will they be made



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**HR DIRECTOR: A STRATEGIC PARTNER IN FINANCIAL DECISION MAKING**

- Between 50-70% of expenses are personnel, staff and benefits
- HR Director is well positioned to offer perspective on expense reduction options:
  - Managing Salaries
    - Eliminating merit increases and suspending COLA
    - Furloughs vs. Salary Reductions
  - Benefits
    - Suspending or reducing matching pension contributions
    - Increasing staff contribution to medical insurance



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**TIPPING POINT: CAN ORGANIZATIONS OVERREACT?**

- Productive staff leave, less productive remain and new productive staff are harder to find
- Program targets for performance-based contracts can't be reached leading to a loss of revenue
- Cost re-imbursement grants may have unfilled positions impacting indirect cost recoveries



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**ESTABLISH A PROCESS FOR DECISION MAKING**

- Look at your program economics
  - Understand revenues and expenses by program
  - Quantify unfunded mandates requiring investment
- Look at components of remaining temporarily restricted net assets
  - Ensure most strategic use to support core program activities
  - Take action in communicating with funders if necessary



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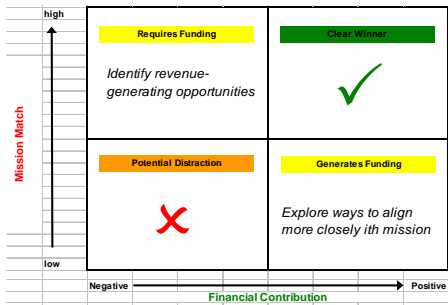
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**PRIORITIZE YOUR PROGRAMS**



Adapted from "Costs are Cool: The Strategic Value of Economic Clarity." The Bridgespan Group, November 19, 2008.



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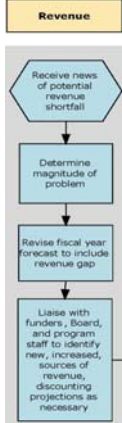
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**Revenue**



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### STRATEGIC COST REDUCTION STRATEGIES

- Take action based on specific nature of activities
- Will the funding cut be:
  - Vertical (eliminate entire activity/program)
  - Horizontal (across the board %)
  - Combination of both


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### STRATEGIC COST REDUCTION OPTIONS



Cost Reduction Strategies

- Managing salaries:
  - Delayed hiring
  - 4/5 time (4-day work week)
  - Unpaid leave
- Benefits:
  - Ask staff to identify underutilized benefits
  - Change vendors
- Other areas to evaluate:
  - Fixed costs
  - Consumption expenses
  - Outsourcing


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### EXPENSE REDUCTIONS

Cost Reduction Scenario Planning Strategies Model

Program/Department	Size of Proposed Cost Cutting Measure	Description of Proposed Cost Cutting Measure	Impact to Delivery of Core Mission			Total Cost Savings	Outsourcing Cost	Notes on Impact of Proposed Reductions
			Eliminate	Reduce	Reallocate			
Program A		Decrease # of trucks served in Senior Center		6,500			Decrease in provision of case service for clients in transition - will require work for current staff in the interim for support request	
		Discontinuing of Program Assistant for 4 months	20,000					
		Fringe savings	4,000					
		Outsource contract for program supplies vendor	2,000					
<b>Subtotal</b>	<b>\$ 26,500</b>		<b>\$ 26,500</b>	<b>\$ 6,500</b>	<b>\$ 33,000</b>	<b>\$ 2,500</b>		
Program B		Provide counseling program for clients					Proctor reduction of attention on this program could affect other related program participants	
		Salary of part-time Program Counselor		28,000				
		Supplies for counseling program		3,500				
<b>Subtotal</b>	<b>\$ 28,500</b>		<b>\$ 31,500</b>	<b>\$ 31,500</b>	<b>\$ 31,500</b>	<b>\$ 17,500</b>		
Development		Volunteer Development Associate position		60,000			May reduce ability to raise future revenue	
		Fringe savings		6,500				
<b>Subtotal</b>	<b>\$ 66,500</b>		<b>\$ 66,500</b>	<b>\$ 66,500</b>	<b>\$ 66,500</b>	<b>\$ 0</b>		
Management & General		Response kit hiring of 1st assistant		40,000			No impact to mission - will increase workload for current staff in the interim. May impact staff morale	
		Fringe savings		8,000				
		Increase program contribution to med. insurance		8,000				
<b>Subtotal</b>	<b>\$ 56,000</b>		<b>\$ 56,000</b>	<b>\$ 56,000</b>	<b>\$ 56,000</b>	<b>\$ 0</b>		
<b>Total</b>	<b>\$ 176,500</b>		<b>\$82,000</b>	<b>\$63,000</b>	<b>\$21,000</b>	<b>\$174,500</b>		


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**Develop A Strategic Organizational Response**



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**STRATEGIC ALLIANCES:  
FEASIBILITY CONSIDERATIONS**

- What are the reasons to affiliate?
- Is it a good mission fit? Does it fit with core competencies?
- Is it a good fit culturally? What is our organizational compatibility?



Slide courtesy of Nonprofit Finance Fund



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**SPECTRUM OF STRATEGIC ALLIANCES**

Program Consolidation	Hybrid Partnership	Merger
<ul style="list-style-type: none"><li>▪ Transfer of services / programs to another entity</li><li>▪ Reduction or elimination of service delivery or programs</li></ul>	<ul style="list-style-type: none"><li>▪ Maintain separate, distinct identities, including missions, board members and financials</li><li>▪ Share facilities and back office operations, including Accounting, IT, and Human Resources</li><li>▪ Merge fundraising activities and responsibilities</li></ul>	<ul style="list-style-type: none"><li>▪ Formal, legal merger agreement with one entity fully dissolved</li><li>▪ Maintain only one organizational Executive</li><li>▪ Assume debt, liabilities, and potential assets of partner organization</li></ul>



Slide courtesy of Nonprofit Finance Fund



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**MAKING IT REAL**



**Prepare for a **sustained** economic crisis**



- Not a time for "fake it 'til you make it" behavior--- assess, plan, reassess, plan.....

**Understand your **balance sheet** and **assess** your **liquidity****

- Your balance sheet will tell you if you're operating from a position of relative strength or weakness
- Use multiple liquidity measures and determine your organization's financial cushion

**Quantify** the challenge ahead

- Build scenario planning around program objectives *and* program economics
- Consider 1) current operations; 2) capital maintenance and replacement; and 3) investment and expansion



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**MAKING IT REAL**





**Communicate** with all stakeholders

- Conduct conversations early and often with your banker, individual donors and institutional funders about financial and management plans throughout these times

**Develop an **organizational response****

- Times of challenge are often times of opportunity-- consider strategic alliances with other organizations



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**ABOUT THE SPEAKER**

**Russell Pomeranz, MBA**, is Manager of Financial Advisory Services at Fiscal Management Associates, LLC (FMA). Russ provides consulting support to nonprofit executives in financial management areas such as budgeting and financial analysis. His support enables leaders to improve their organizations' financial health by understanding the true cost of their programs, enabling them to plan effectively for the resources necessary to carry out their missions.

Russ comes to FMA with over 20 years of nonprofit financial management experience, most recently as Chief Operating Officer/Chief Financial Officer and Treasurer of the Vera Institute for Justice. Prior to that he was the Director of Finance at the Council of Foreign Relations, CFO at Spence-Chapin Services to Families and Children, and worked in a senior financial and administrative capacity at several arts organizations including the International Center of Photography and Meet the Composer.

He serves on the Boards of Directors of the nonprofit organizations Job Path and MATA (Music at the Anthology), and is President of the Columbia County Historical Society. He is currently an adjunct professor at the Columbia School for Public Health.

Russ had published articles on the nonprofit sector in publications including the New York Times, the Chronicle of Philanthropy, CPA Journal and the Register Star. He holds an MBA from the University of Michigan, and a BA in Economics from Haverford College.

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