

# **Weathering the Storm: Sustaining Healthy Nonprofits during Difficult Economic Times**

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By

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**Why do so many  
nonprofits endure  
ongoing financial  
challenges, even in  
good economic  
times?**



# Economic pressure drives interest in nonprofit financial management.

**Funding  
Shortage**  
2 miles

**Caution  
Competitors  
Ahead**

**Merge  
Here** ↗

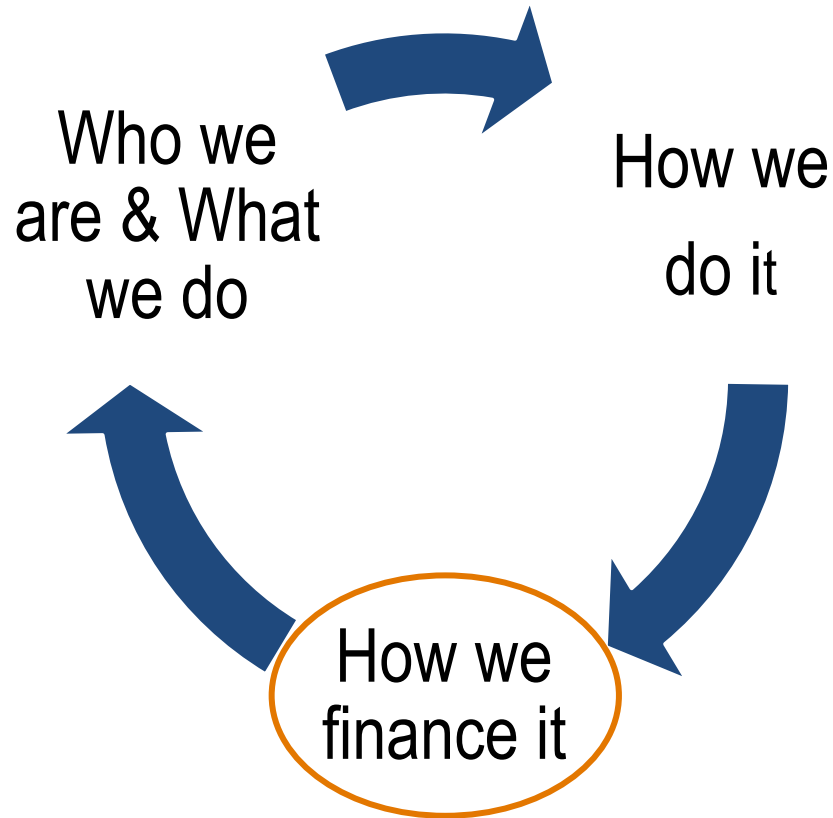


# What is a sound business model?

Requires clarity about:

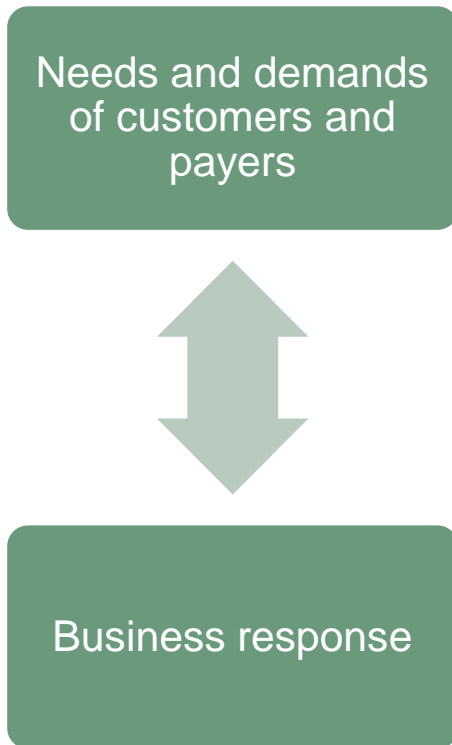
- Who you are: your mission and vision
- What work you do: the activities you undertake to advance your mission and achieve your vision
- How you do your work: the structure, operations, budgets, policies and procedures that support your activities
- How you finance it: maintaining adequate and consistent revenues

# The business model: an “ecosystem”



# How we finance it

## Traditional Model



## Nonprofit Model



**With third party payers, nonprofit funding models are more complex.**

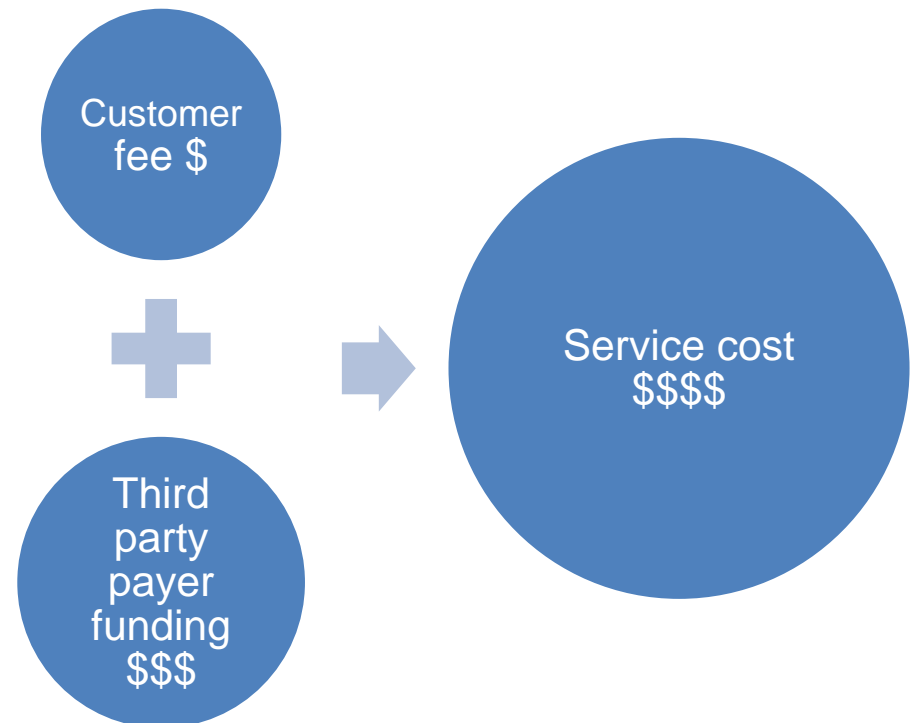


# How we finance it

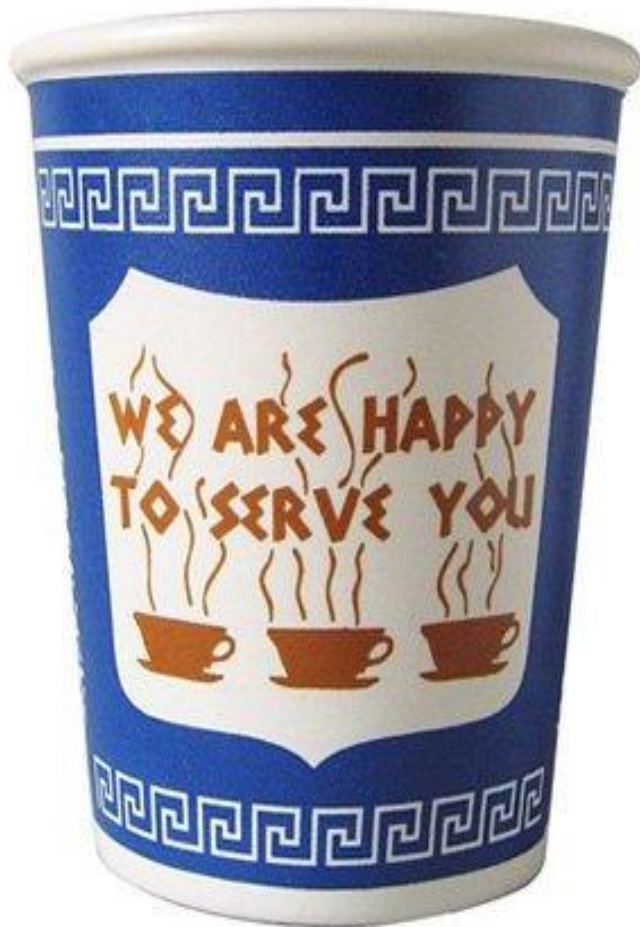
## Traditional Model



## Nonprofit Model



# Pricing



Item	Cost	%
<b>Ingredients</b>		
Coffee	\$0.12	5
Dairy	\$0.05	2
Cup + lid + sleeve	\$0.25	10
<b>Overhead</b>		
Labor	\$0.90	36
Rent	\$0.25	10
Marketing	\$0.12	5
G & A	\$0.50	20
<b>Operating profit</b>		
	\$0.30	12
<b>Price</b>		
	\$2.49	

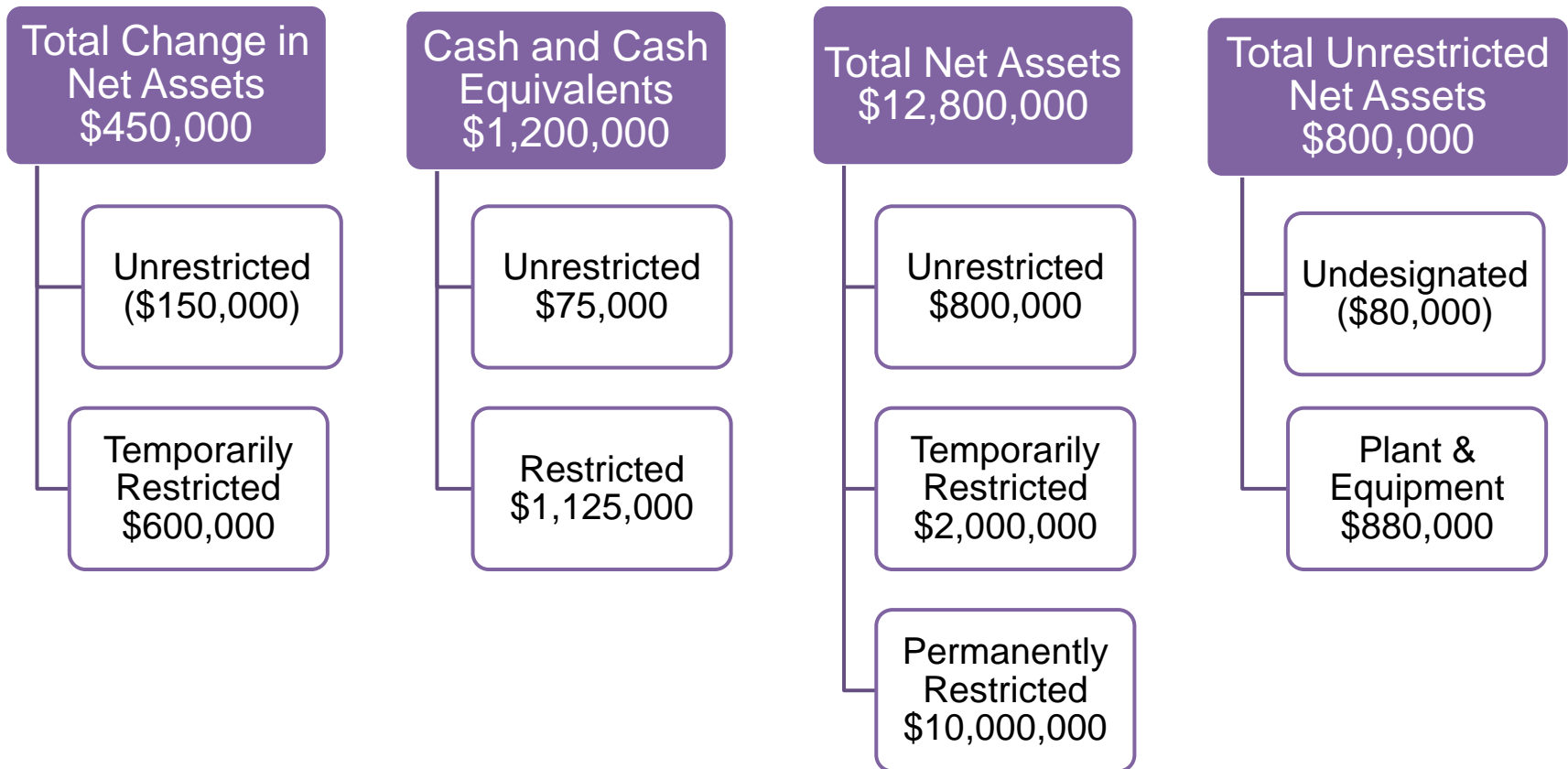
# The full cost of doing business

- Operating expenses and...
  - Principal payment on debt
  - Depreciation, investment in P & E
  - ***Surpluses and reserve-building?***
- Remember that the balance sheet matters!

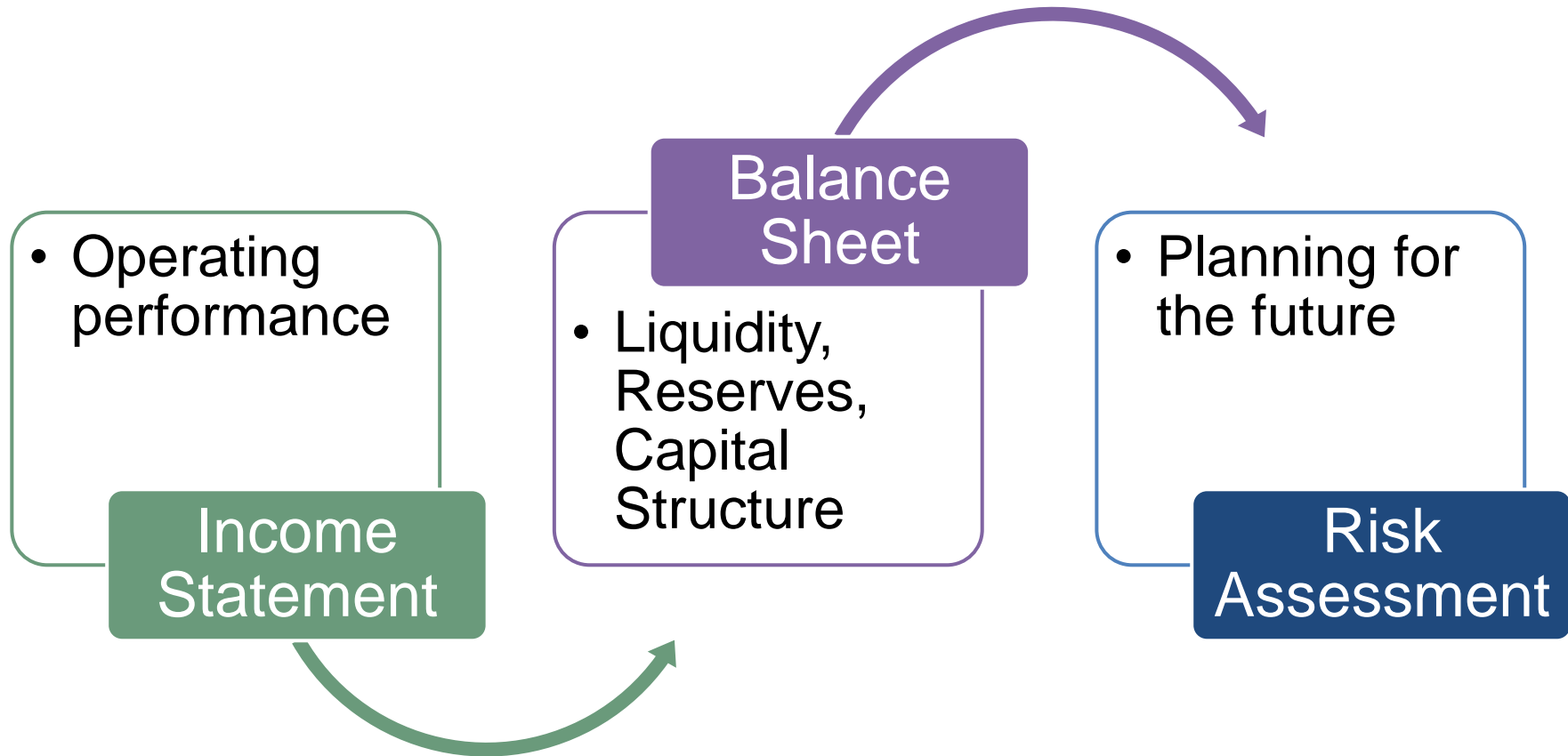
# Unrestricted reserves

- New opportunities
- Facility
- Rainy day
- Investment

# Nonprofit accounting is complex



# Responding to the challenges



# Sound financial planning

- **Analyze current situation**
  - Program margin analysis
  - Health of balance sheet
- **Set priorities based on mission alignment**
  - Define what is mandatory (core to mission)
  - Important but not essential
- **Quantify your plans for the future**
  - Budget forecasting, scenario planning
  - Determine tolerance for risk
- **Be prepared to adapt to “unforeseen events”**

# Program Margin Analysis

	Program Direct					Indirect		Total Budget
	School	Afterschool	Fitness	Residential	Camp	Subtotal Program	General	
\$ in Thousands								
<b>Revenue Earned</b>								
Tuition/fees	972	207	826		217	2,222		2,222
Rental income				1,145		1,145		1,145
Other	42					42		42
<b>Revenue Contributed</b>								
Individual	25	1				26	67	93
Grants	5	14				19		19
Net assets released				97		97		97
								0
<b>Total revenue</b>	<b>1,044</b>	<b>222</b>	<b>826</b>	<b>1,242</b>	<b>217</b>	<b>3,551</b>	<b>67</b>	<b>3,618</b>
<b>Expenses</b>								
Total expenses	1,258	208	731	988	180	3,365	421	3,786
Surplus/Deficit	-214	14	95	254	37	186	-354	-168
Allocation	157	26	91	124	23			
Total surplus/deficit	-371	-12	4	130	14			

# Actions

- Spin off program not central to mission
- Outsource financial management
- Clean up balance sheet
- Invest in development department

# Lessons learned

- Examine mission impact and sustainability of each program
- Focus on core competencies
- Ensure the right staffing model is in place
- Invest appropriately in fundraising
- Make good use of board members
- Prioritize reserve-building
- Be prepared to make difficult decisions

# Budget scenario planning

- Tool to manage uncertainty and prepare for the future
  - Examine revenues, expense and impact on bottom line (ideally by program)
  - Consider, from a financial perspective, how future may unfold (be honest about critical uncertainties)
  - Clarify challenges, engage multiple perspectives to generate new ideas and inform decisions ( determine what must be done)

\$ in Thousands				
	Total Budget	Scenario A	Scenario B	
<b>Revenue Earned</b>				
Tuition/fees	2,222	1,485	1,485	
Rental income	1,145	1,654	1,145	
Other	42	23	23	
<b>Revenue Contributed</b>				
Individual	93	131	131	
Grants	19	292	247	
Net assets released	97	127	127	
	0			
<b>Total revenue</b>	<b>3,618</b>	<b>3,712</b>	<b>3,158</b>	
<b>Expenses</b>				
Total expenses	3,786	3,683	3501	
<b>Surplus/Deficit</b>	<b>-168</b>	<b>29</b>	<b>-343</b>	

# Budget forecasting

- Major changes in funding environment will require the ability to respond quickly
- Forecasting sets up process to revisit assumptions regularly, make changes to attain financial goal (original budget), or change the goal

\$ in Thousands	Total Budget	Major Changes	Forecast 1	Major Changes	Forecast 2
<b>Revenue Earned</b>					
Tuition/fees	2,222				
Rental income	1,145				
Other	42				
<b>Revenue Contributed</b>					
Individual	93				
Grants	19				
Net assets released	97				
	0				
<b>Total revenue</b>	<b>3,618</b>				
<b>Expenses</b>					
Total expenses	3,786				
Surplus/Deficit	-168				

# Taking strategic action requires...

- Intuition
- Experience
- Trial and error
- ***Reliable and accurate data!***

# Financial data informs decisions

- Operational: How well is the nonprofit run on a daily basis?
- Programmatic: How effective are program activities?
- Organizational: Who is the nonprofit in the larger world?

# Thank You



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