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## How to Be a Supportive Funder When the Economy Is Down

Web-based Seminar  
July 23, 2009

Presented by Hilda Polanco, CPA, CCSA®  
Managing Director  
Fiscal Management Associates, LLC

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### Who Are You?

- ▶ Where are you from?
- ▶ Which aspects of your grantees' operations do you fund?

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## Critical Considerations When Communicating With Your Grantees

- ▶ Are they preparing for a sustained economic crisis?
- ▶ Do they understand their balance sheet and assess their liquidity?
- ▶ Have they quantified the challenge ahead?
- ▶ Do they communicate with all stakeholders?
- ▶ Have they developed an organizational response?

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## Critical Considerations For Grantmakers

- ▶ Acknowledge that nonprofits need funding to cover the full costs of their programs
- ▶ Provide grantees flexibility in handling financial challenges
- ▶ Award funding that builds organizational balance sheets
- ▶ Recognize that nonprofit leaders are at various points on the learning curve about their own finances and business needs

*Greater financial understanding by the grantmaker leads to more meaningful support for the grantee*

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## Balance Sheet: An Organization's Strength

- ▶ You should be prepared to discuss the following components of their balance sheet:
  - 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 core programs?
  - Reserves – Do you have them? Suitable to your needs?

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## Months of Cash: Rule of Thumb

Right amount for an organization? In this environment?

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

Courtesy: Nonprofit Finance Fund

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## Cash Flow Management

Grantees should:

- ▶ 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 will be needed to access for the extra difficult months.
- ! Distinguish between “**cash flow**” issues (timing of receipts) and “**cash**” issues (shortage of revenue to cover expenses).

## Cash Flow Template



Cash Flow Template

	Proposed Budget	Beginning Cash	JULY	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE
<b>REVENUES</b>														
Restricted														
Foundation Grant 1														
Foundation Grant 2														
Government Contract														
Unrestricted														
Foundations														
Corporations														
Individual Contributions														
Investment Income														
Other unrestricted revenue														
<b>TOTAL REVENUE</b>														
<b>EXPENSES</b>														
Personnel														
Full-time employees														
Part-time employees														
Mandatory payroll taxes & insurances														
Medical benefits														
Pension plan contributions														
Other than Personnel Expenses														
Rent														
Utilities														
Consultants														
Conferences, conventions, meetings														
Travel														
Food														
Printing														
Technology														
Other OTPS expenses														
<b>TOTAL EXPENSES</b>														
Less Depreciation														
<b>CASH BASIS EXPENSES</b>														
<b>EXCESS of Revenue over Expenses</b>														
(before Capital Considerations)														
Capital Considerations														
<b>NET CASH EXCESS/SHORTFALL</b>														
<b>ROLLING CASH BALANCE</b>														

## Maximizing Access to Debt Financing

- ▶ Your grantees' conversation with their banker must be **ongoing, deep, and fully transparent** in today's tightening credit environment
- ▶ They need to 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 Board-Designated Reserves: Tools for Supporting Organizations

- ▶ Rainy Day (emergency) Reserve
  - For the unexpected and unbudgeted (i.e. to replace lost income)
- ▶ Cash Reserve for Operations
  - Internal line of credit to bridge funding delays
  - NOT to replace lost income or cover ordinary expenses
- ▶ Facility Reserve
  - Building maintenance, systems replacements, etc.
- ▶ Investment Reserve
  - A "self-governed" endowment with board authority to use the principal for other purposes if necessary

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## Tools for Effective Scenario Planning and Modeling



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## Grantees Should 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
- ▶ Consult with outside professionals around legal and other implications

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## Grantees Should Establish A Process for Decision Making

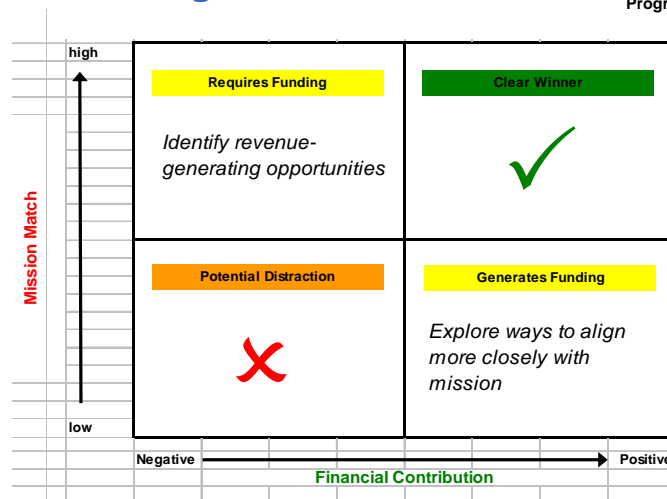
- ▶ Look at their own program economics
  - Understand revenues and expenses by program
  - Quantify unfunded mandates requiring investment
- ▶ Look at components of remaining temporarily restricted net assets
  - Ensure most strategic use to support core program activities
  - Take action in communicating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

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## Prioritize Programs



Program Prioritization



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

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## Prioritize Investments

Segregate activities into:

- ▶ Funding for capital replacement
  - What will be the implications if you don't fund depreciation?
- ▶ Growth-oriented investments
  - Is now the time to expand?
- ▶ Current Operations
  - Core
  - Supplemental- how can these activities be redirected externally?

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## Strategic Cost Reduction Strategies Grantees Can Implement

- ▶ 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 Responses



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## Making It Real...For Your Grantees

- ▶ 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
- ▶ **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

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## Making It Real...For Grantmakers

- ▶ Acknowledge that nonprofits **need funding** to cover the **full costs** of their programs
  - Organizations need flexible funding, including support for general operations, overhead, and infrastructure
- ▶ Allow nonprofits **flexibility in handling common financial challenges**
  - Be accommodating in providing grantee support to acquire new equipment, make needed capital repairs, pay off debt or handle slow receivables
- ▶ Provide funds to help high-performing organizations **build their balance sheets**
  - Your grantees need funding to grow their cash reserves, infrastructure reserves (for building and equipment) and long-term operating reserves
- ▶ Recognize that **nonprofit leaders** are at various points on the **learning curve** about their own finances and business needs
  - Offer appropriate training and support to grantee leadership so they can grow strong, effective organizations



## Questions?



## About the Speaker



**Hilda H. Polanco, CPA, CCSA®** is Managing Director and founder of Fiscal Management Associates, LLC (FMA), a specialized consulting practice helping not-for-profit organizations to create and maintain effective fiscal systems and policies, cost-efficient technology systems, and a human resource infrastructure that supports program, fiscal and operating demands. Most recently, in order to address a critical need for the professional development of leaders in the nonprofit sector, she spearheaded the creation and launch of the FMA Institute.

A recognized expert in the independent sector, Hilda was invited by the New York Times Company to serve on the selection committee for the NYT Nonprofit Excellence Awards. She is an adjunct professor in Columbia University's Department of Health Policy and Management and regularly conducts fiscal workshops for Columbia's Institute for Not-for-Profit Management and numerous other local and national funding organizations.

Hilda serves on the Board of Directors of Governance Matters, is past president of the Not-for-Profit Services Association, and is a member of Metro NY Better Business Bureau Foundation's Hispanic Advisory Committee. Other memberships include the American Institute of CPAs, New York State Society of CPAs and its Not-for-Profit Organizations Committee.

Honored with the 2008 Social Entrepreneur Award from the National Association of Women Business Owners-New York City, recognizing the successful impact made by a woman who uses business methods to find practical ways to solve social problems or needs related to the not-for-profit sector. Her previous honors include an award from WHEDCO in 2004 for outstanding leadership in the field of nonprofit finance and the 2003 Latina Excellence Award in Community Service from *HISPANIC Magazine*.

Hilda graduated from New York University with a B.A. in Accounting. She is a CPA and holds the Certification in Control Self-Assessment, conferred by the Institute of Internal Auditors to practitioners who have proven their knowledge and are able to provide guidance on risk, controls, and business objectives.

Tel: 212.931.9240    hpolanco@fmaonline.net  
Fax: 212.931.9241    www.fmaonline.net

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## Other Resources:

- ▶ “More Than Money: Making a Difference with Assistance Beyond the Grant”, The Center for Effective Philanthropy

[http://www.effectivephilanthropy.org/images/pdfs/CEP\\_More\\_than\\_Money.pdf](http://www.effectivephilanthropy.org/images/pdfs/CEP_More_than_Money.pdf)

- ▶ “Good Governance Guide”, Governance Matters

[http://governancematters.org/index.cfm?organization\\_id=56&section\\_id=1086](http://governancematters.org/index.cfm?organization_id=56&section_id=1086)

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