

# Financial Analysis

**NASCSP State CSBG Monitors Training**

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# CAA Financial Health- Whose Business is It?

Why should CSBG Monitors, State Agencies, or the Feds care about the **financial health** of Community Action Agencies (CAAs)???

# Community Action Today

## Best of times

- ARRA influx of \$\$\$
- Head Start expansion \$
- Opportunities for mergers & acquisitions
- More “customers” than ever before

## Worst of times

- ARRA wrapping up
- More intense compliance pressures
- State & local budget crises
- Smaller nonprofits failing
- Needs growing faster than resources

# Recession Realities for CAA

- Individual giving
- Corporate support
- Foundations
- State & local budget crises
- Program fees
- Access to credit
- Investment losses
- Increased community needs

# Continuing CAA Challenges

- Intense pressure for compliance, transparency, & accountability
- Managing multiple funding agreements
- Lack of funding for infrastructure and management systems
- Use-it-or-lose-it funding agreements impair efforts to build reserves

# Key Organizational Goals for CAAs

- Achieve Mission
- Maintain Viability
- Build Sustainability
- Maintain & Demonstrate Integrity

# Boards & Management Must:

- Assess resiliency
- Identify trends
- Evaluate options
- Make timely decisions

# Financial Resiliency Factors

- Cash position
- + Net Worth
- Diversified income streams
- Tools for analysis
- Strategic leadership

# Strategic Leaders Understand

- 3 Cash position
- 3 Net assets
- 3 Sources & uses of resources
- 3 Relationship between income & expenses
- 3 Impact of compliance requirements

# Cash is King



# Cash???

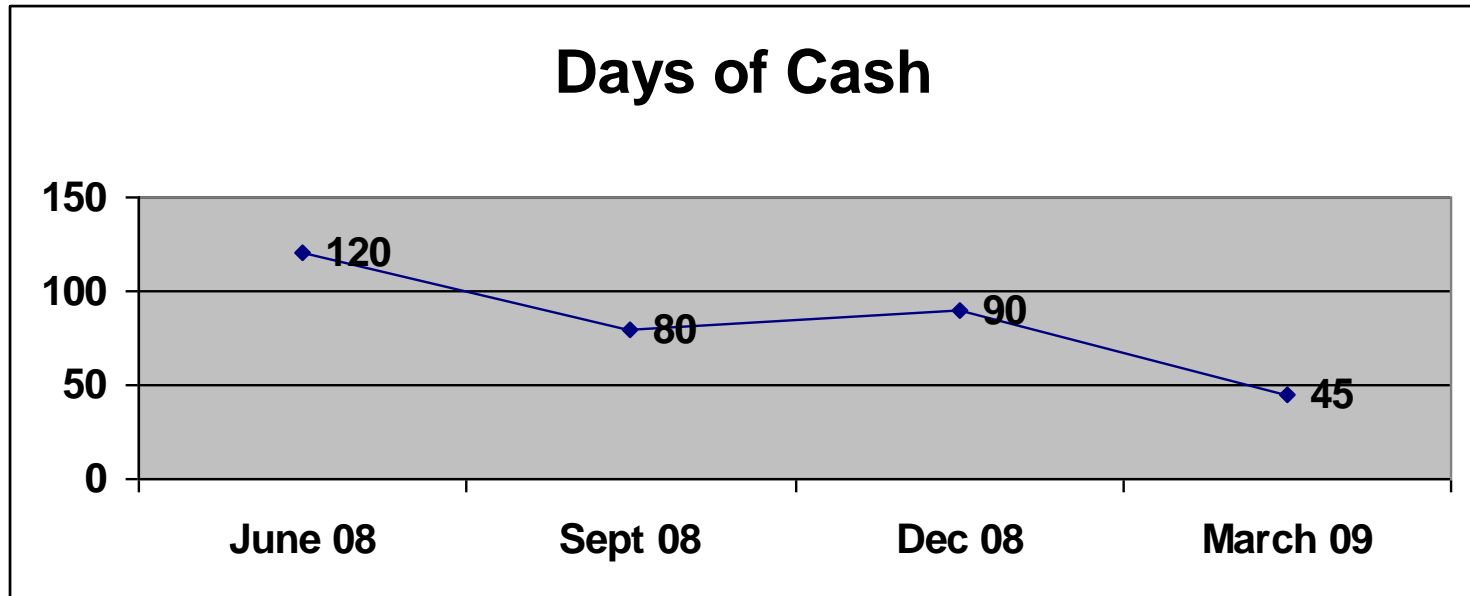
- Why does it matter?
- How much does a CAA need?
- What could go wrong?
- What can CAAs do to strengthen their cash position?

# Cash Realities

- Federal cash management requirements
- Impact of State budget pressures on CAA cash
- Banking crisis impacts CAA Lines of Credit
- Recession impact of fee collection & donor behavior

# {Trends to Watch }

## Cash



# Cash Flow Problems: Timing is Everything

True cash flow problems exist when an organization is **breaking even** or **generating a profit** but **lacks access to cash when needed** to meet obligations

# Typical Causes of Cash Flow Problems

- **Delays** in receiving payments on cost reimbursement agreements
- Funder **recovery of cash advances** in the final months of a contract
- Major **program growth** or significant purchases required use of cash but funding agreements are all **cost reimbursement** based

# What Isn't a Cash Flow Problem

- **Accrual basis revenues** (what we are entitled to receive based on our performance on an agreement) **do not equal or exceed** what it really **costs** to meet the terms of the agreement
- Funding source **limitations on administrative expenses** are **below what it really costs** to manage the organization & **insufficient unrestricted \$\$** are obtained to close the gap

# Strategies to Improve Cash Flow

- Accelerate submission of reimbursement requests
- Request advances
- Accelerate asks for contributions
- Negotiate partial payment of obligations
- Line of credit

# Line of Credit Realities

- Must be **repaid fully** at least once per year
- Obtain **before** it's need
- May be reduced or cancelled

# Strategic Leaders Understand

- Cash position

## **3Net assets**

- Sources & uses of resources
- Relationship between income & expenses
- Compliance requirements

# Net Assets Provide:

- **Ability to continue** to operate despite experiencing losses
- **Capacity to take risks** and innovate

# Nonprofit Net Worth

$$\begin{aligned} & \text{Assets} \\ & - \text{ Liabilities } \\ & = \text{Net Assets} \end{aligned}$$

# ↑ Growing Net Assets ↑

Revenues – Exp. = Net Income

Opening Net Assets

+ Net Income

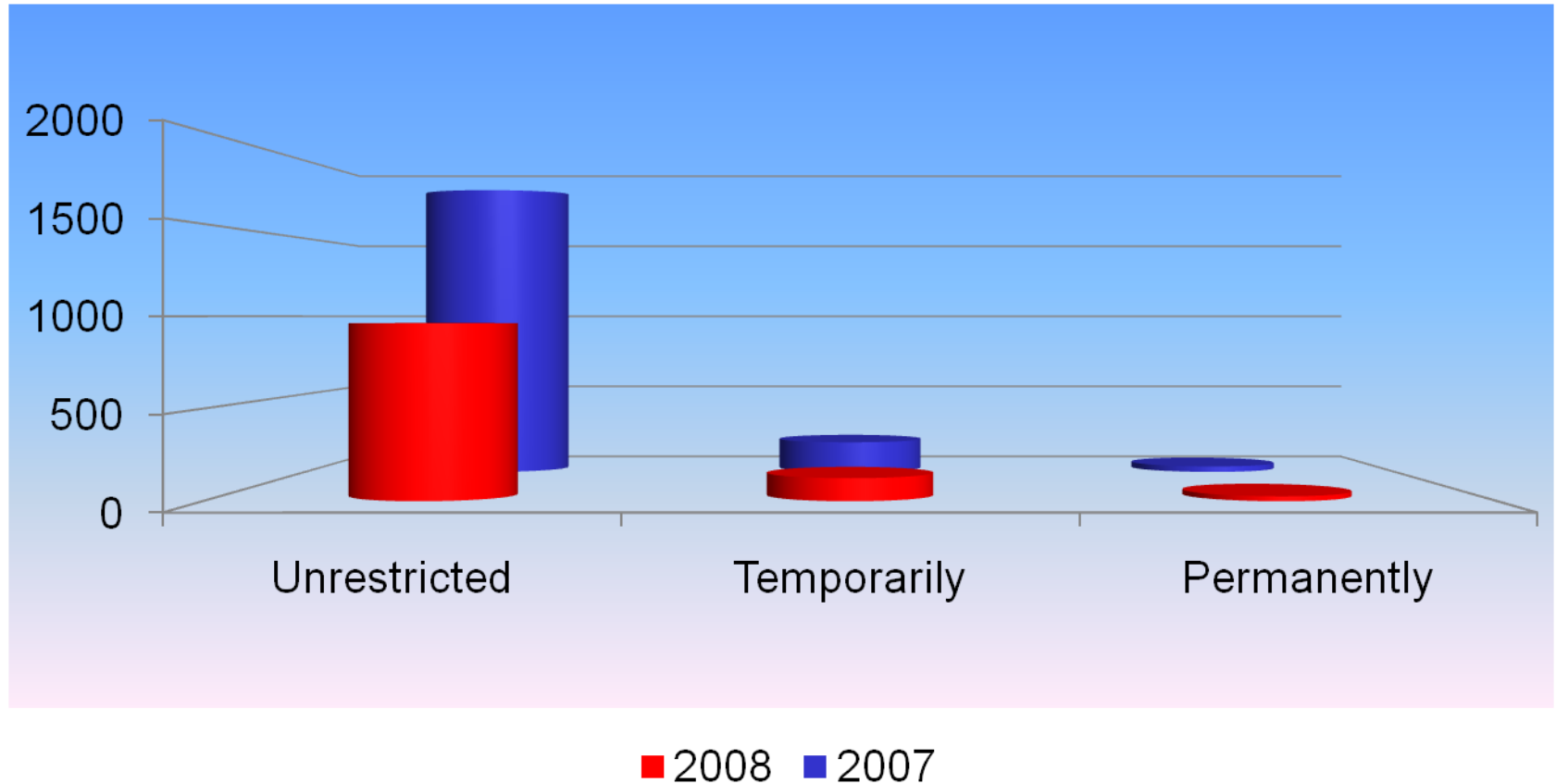
= Ending Net Assets

# Nonprofit Net Worth: 3 Distinct Components

- Unrestricted Net Assets
- Temporarily Restricted Net Assets
- Permanently Restricted Net Assets

# {Trends to Watch }

## Net Assets



# Unrestricted Net Assets

- Available for operations
- May be board designated for specific purpose
- May include investments in fixed assets
- Board has authority to direct use

# Temporarily Restricted Net Assets

- Purpose restriction
  - Donor restricts use of gift
- Time restriction
  - Limited by when donor will pay
  - Donor restricts period in which resources may be used

# ***Temp. Restricted Net Assets* are like a *Cookie Jar***



# Temp. Restricted Net Assets *like* *a Cookie Jar*

- Intended to be eaten. . .
- Need to know the ingredients/restrictions...
- “Mission- focused” cookies can keep you going. . .
- Need to refill the jar. . .

# Temp Restricted Net Assets ???

- Restricted to future use for core functions of the NPO??
- Restricted for uses outside core mission?
- Function as “**available for operations**” for **future periods?**



# Net Assets ??? for CAA Boards

- Target **ratio** of Net Assets Available for Operations to Operating Expenses?
- Is the Board willing to accept operating **losses** in order to **invest** in future development or sustain services?
- If we had to, could we recover at least the amount reported as **Net Assets Invested in Fixed Assets?**

**Sample Nonprofit  
Statement of Financial Position  
June 30,2008 and August 31, 2008**

	9/30/2008	6/30/2008
<b>Assets</b>		
<i>Current Assets</i>		
Cash	160,000	300,000
Accounts Receivable	60,100	30,000
Grants Receivable	200,000	0
Contracts Receivable	140,000	50,000
Prepaid Expenses	1,000	1,100
<b><u>Sub-total Current Assets</u></b>	<b><u>561,100</u></b>	<b><u>381,100</u></b>
<i>Fixed Assets</i>		
Equipment,land, buildings	2,000,000	2,000,000
Accumulated depreciation	-500,000	-490,000
<b><u>Sub-total Fixed Assets</u></b>	<b><u>1,500,000</u></b>	<b><u>1,510,000</u></b>
<b><u>Total Assets</u></b>	<b><u>2,061,100</u></b>	<b><u>1,891,100</u></b>
<b>Liabilities and Net Assets</b>		
<i>Liabilities</i>		
Salaries and taxes payable	100,000	95,000
Accounts Payable	30,000	20,000
Deferred Revenue	50,000	55,000
Mortgage payable	500,000	500,000
<b><u>Total Liabilities</u></b>	<b><u>680,000</u></b>	<b><u>670,000</u></b>
<i>Net Assets</i>		
<i>Unrestricted Net Assets</i>		
Available for operations	31,100	11,100
Invested in Fixed assets	1,000,000	1,010,000
Board designated reserves	100,000	100,000
<b><u>Sub-total Unrestricted Net Assets</u></b>	<b><u>1,131,100</u></b>	<b><u>1,121,100</u></b>
<i>Temporarily Restricted Net Assets</i>	250,000	100,000
<b><u>Total Net Assets</u></b>	<b><u>1,381,100</u></b>	<b><u>1,221,100</u></b>
<b><u>Total Liabilities and Net Assets</u></b>	<b><u>2,061,100</u></b>	<b><u>1,891,100</u></b>

## **{Trends to Watch }**

# **CAA Business Model**

- Sources of income
- Uses of resources
- Impact of contractual and compliance requirements on costs, income generation, & cash flow
- Contributions to overhead
- Capacity to generate unrestricted income

# Contribution to Overhead

	<b>Admin</b>	<b>FR</b>	<b>Prog A</b>	<b>Prog B</b>
<b>Income</b>				
<b>Direct Expense</b>				
<b>Contribution to Overhead</b>				

# Barriers to Building Financially Healthy CAAs

- Grants budgeting & accounting focus distracts from comprehensive organizational planning
- Structuring budgets to meet funder restrictions & limitations may distort understanding of financial model
- Cost reimbursement model prevents building reserves

# Comprehensive Financial Plan

- Projects **all resources** the org will obtain and use during the **fiscal year**
- Focus on **income earned** and **expenses incurred** during year
- Ties to all grant/contract budgets & agreements
- Includes impact of **debt** & **investment** in **fixed assets**

# Organization-wide Budgeting

Distinguish costs & income associated with

- **Programs**
- **Management**
- **Fund Raising**

# Sample Functional Budget

EXPENSES			Monthly		TOTAL ADMIN	F.R.	PROG A.	PROG B.	PROG C. GENERAL	PROG C. GRANT 1	
Salaries: Positions	# Positions	% FTE	Salary	# Months							
Executive Director	1	1	3000	12	36000	27000	9000	0	0	0	
Fiscal Manager	1	1	2300	12	27600	27600	0	0	0	0	
Program Director	1	1	2500	12	30000	0	0	7500	7500	7500	
Prog A & B Supervisor	1	1	2000	12	24000	0	0	12000	12000	0	
Prog C Coordinator	1	0.75	2100	12	18900	0	0	0	9450	9450	
Case Manager	4	1	1800	12	86400	0	0	43200	21600	0	
Specialist	3	1	1500	9	40500	0	0	0	13500	13500	
Clerical Assistant	2	0.5	1300	9	11700	2925	2925	0	0	0	
<b>Subtotal: Salaries</b>					<b>275100</b>	<b>57525</b>	<b>11925</b>	<b>62700</b>	<b>54600</b>	<b>30450</b>	<b>57900</b>
Payroll Taxes (13%)					35763	7478	1550	8151	7098	3959	7527
Fringe Benefits (15%)					41265	8629	1789	9405	8190	4568	8685
<b>Subtotal: Personnel</b>					<b>352128</b>	<b>73632</b>	<b>15264</b>	<b>80256</b>	<b>69888</b>	<b>38976</b>	<b>74112</b>
Professional Services					16000	4000	8000	1000	500	500	2000
Occupancy					40000	8364	1734	9117	7939	4427	8419
Supplies					15000	1000	5000	4000	2000	1000	2000
Transportation					4000	500	600	0	1200	800	900
Other Expenses					20000	2000	4000	2000	3000	4000	5000
<b>TOTAL EXPENSES</b>					<b>447128</b>	<b>89496</b>	<b>34598</b>	<b>96373</b>	<b>84527</b>	<b>49703</b>	<b>92431</b>
Allocation of Admin					0	-89496	8658	24117	21153	12438	23129
<b>EXPS W/ ALLOCATED ADMIN</b>					<b>447128</b>	<b>0</b>	<b>43256</b>	<b>120490</b>	<b>105680</b>	<b>62142</b>	<b>115560</b>
<b>SUPPORT AND REVENUE</b>					<b>TOTAL</b>	<b>UNDESIGNATED</b>	<b>PROG A</b>	<b>PROG B</b>	<b>PROG C GENERAL</b>	<b>PROG C GRANT 1</b>	
Government Grants/Contracts					160560		0	20000	25000	0	115560
Foundations					40000		0	5000	20000	15000	0
Individual Donations					85000		77000	5000	1000	2000	0
Special Events					50000		50000	0	0	0	0
Program Service Fees					115000		0	70000	40000	5000	0
Investment Income					4000		4000	0	0	0	0
<b>SUBTOTAL: SUPPORT &amp; REVENUE</b>					<b>454560</b>		<b>131000</b>	<b>100000</b>	<b>86000</b>	<b>22000</b>	<b>115560</b>
<b>REVENUE - EXPENSES</b>					<b>7432</b>		<b>87744</b>	<b>-20490</b>	<b>-19680</b>	<b>-40142</b>	<b>0</b>
Allocated Undesignated Amounts					0		-80312	20490	19680	40142	0
<b>NET INCOME</b>					<b>7432</b>		<b>7432</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

# Modeling Requires Identification of:

- Meaningful **cost centers**
- **Relationships** between funding source(s) & revenue streams and cost centers
- Impact of funder **restrictions** or **requirements**

## Exhibit 11

### *Organization A - Program A by funding source with multiple caps and limitations*

	Program A			Total
	Gov't. grant	Private grant	General ops.	
<i>Expenses:</i>				
Salaries and wages	\$ 5,000	—	13,613	18,613
Employee benefits	—	—	2,792	2,792
Materials and supplies	2,600	—	2,600	5,200
Postage and shipping	—	605	—	605
Printing and publications	—	1,000	—	1,000
Telephone	115	—	641	756
Occupancy	400	—	1,819	2,219
Depreciation	—	—	684	684
<b>Total direct expenses</b>	<b>8,115</b>	<b>1,605</b>	<b>22,149</b>	<b>31,869</b>
<b>Allocation of indirect costs</b>	<b>243</b>	<b>106</b>	<b>1,763</b>	<b>2,112</b>
	<b>\$ 8,358</b>	<b>1,711</b>	<b>23,912</b>	<b>33,981</b>

1. Government grant caps salaries at \$5,000, benefits and depreciation at 0, and indirect costs at 3%.
2. Private grant pays only postage and shipping, and printing and publications, but accepts the 6.6% indirect cost rate.

# Impact of Grant Requirements

- Consequences for overestimating or underestimated costs?
- Consequences for variations in volume of services?
- Potential for recovering the full cost of compliance?

# Info for Modeling

- **Payment method** – is payment contingent on achieving specific service **volume targets**?
- What resources will be needed to achieve those targets?
- Limitations on total funding or **per unit cost**
- Relationship between **volume** & unit cost

# Identify Lose/lose contracts:

- Delivering services at **costs below** contract budget results in **reduced** payment
- Delivering services at **costs above** contract budget results in **no additional** payment

# Impact of Growth/Contraction

- Indirect costs generally rise/fall more slowly than direct costs
- Methods in Cost Allocation Plan still valid
- Use of out-of-date allocation formulae to apply methods can result in unsubstantiated costs

# ??? During Rapid Increase

- How will Admin or other Indirect costs change as % of Direct costs?
- Do new funding sources have **Admin cost limits** lower than fair share?
- Does org have **other sources of unrestricted funds** to cover Admin gap?

# ???? During Constrictions

- How will admin or other indirect costs change as % of direct costs?
- Does **revised calculation** of share of admin costs **exceed admin limits** of any source?
- Does org have other sources of funds to cover admin gap?

# Core Financial ???

- Organizational resiliency
- Reserve levels
- Strategy to build net assets
- Capacity to generate unrestricted support
- Capacity to identify & manage risks

# Risk & Capacity???

- Underinvestment in management capacity increases risk of compliance failures & limits capacity for growth
- Underinvestment in fund development limits access to contributed resources
- Need to establish criteria for evaluating return on investment in capacity building?

# Indicators: Management Capacity

- Timeliness: financial reports, A/R, A/P
- Reduced/no audit/monitor findings
- Staff retention
- Productivity
- Increased resiliency

# Indicators

## Program Capacity

- Volume of services
- Program outcomes
- Participant feedback
- Compliance
- Recognition & support

# Must-have Financial Info

- Balance Sheet
- Comprehensive Income & Expense Statement including comparison to annual budget
- Year-end projections

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**Sample Nonprofit  
Statement of Activities  
for the period 7-1-08 - 9-30-08**

	September 2008	Yr-to date 7/1/08 thru 9/30/08	Annual Budget	% of budget realized
<b>Unrestricted Support and Revenues</b>				
Foundation grants	5,000	5,000	30,000	0.17
Government contracts	40,000	140,000	630,000	0.22
Individual gifts	10,000	15,000	60,000	0.25
Events net of expenses	0	5,000	50,000	0.10
Investment Income	300	1,300	5,000	0.26
Released from Temp Restrictions	50,000	140,000	225,000	0.62
<b>Total Unrestricted Support and Revenue</b>	<b>105,300</b>	<b>306,300</b>	<b>1,000,000</b>	<b>0.31</b>
<b>Unrestricted Expenses</b>				
Personnel	90,000	200,000	720,000	0.28
Prof Services	30,000	35,000	40,000	0.88
Occupancy	4,400	11,300	45,000	0.25
Supplies	2,000	5,000	10,000	0.50
Other expense	10,000	15,000	40,000	0.38
Depreciation expense	10,000	30,000	120,000	0.25
<b>Total Unrestricted Expenses</b>	<b>146,400</b>	<b>296,300</b>	<b>975,000</b>	<b>0.30</b>
<b>Increase (decrease) in Unrestricted Net Assets</b>	<b>-41,100</b>	<b>10,000</b>	<b>25,000</b>	<b>0.40</b>
<b>Temporarily Retriected Support</b>				
Foundation Grants				
Grants restricted by purpose	0	90,000	160,000	0.56
Grants restricted by time	200,000	200,000	200,000	1.00
<b>Sub-total foundation grants</b>	<b>200,000</b>	<b>290,000</b>	<b>360,000</b>	<b>0.81</b>
Released from Temp Restrictions	-50,000	-140,000	-225,000	0.62
<b>Increase (decrease) in Temp Restricted Net Assets</b>	<b>150,000</b>	<b>150,000</b>	<b>135,000</b>	

**Sample Nonprofit  
Changes in Net Assets  
3 Months ending September 30, 2008**

	Unrestricted	Temp. Restricted	Total
Total Net Assets: June 30, 2008	1,121,100	100,000	1,221,100
<u>Increase for the 3 months ending 9/30/08</u>	<u>10,000</u>	<u>150,000</u>	<u>160,000</u>
<u>Total Net Assets: September 30, 2008</u>	<u>1,131,100</u>	<u>250,000</u>	<u>1,381,100</u>

# Know the past – Focus on the future

	Yr-to-date	Annual Budget	Actual as % of budget	Projected year end
<b>Income</b>				
<b>Expense</b>				
<b>Net Income</b>				

# Project Impact of Operating Results on Resiliency

	Prior Year End	Current Period	Projected Year End
Cash			
Key Liabilities			
Net Assets			

# Board Leadership Role

- Ensure financial viability
- Determine risk tolerance
- Support Management
- Increase personal giving and support for fund development efforts

# Executive Director Leadership Role

- Understand resiliency & Board tolerance for risk
- Manage cash flow
- Monitor progress & update projections
- Support Board engagement

# CSBG Monitor Role

- Encourage the development of financially healthy CAAs
- Encourage agency-wide financial planning & reporting
- Understand impact of cash flow problems & operating losses
- Encourage investment in infrastructure

# Your Next Steps?

- Evaluate financial resiliency?
- Discuss Board & Executive Director roles in building resiliency
- Ask about key indicators?
- Check out red flags and support efforts to address them