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# Assessing Financial Health & Diversifying Funding

**2017 Community Action Partnership Conference**

**Workshop Leader: Kay Sohl**



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# Workshop Plan

- **Financial health assessment**
- **Health monitoring tools**
- **Financial muscle building options**
- **New Year's resolutions**

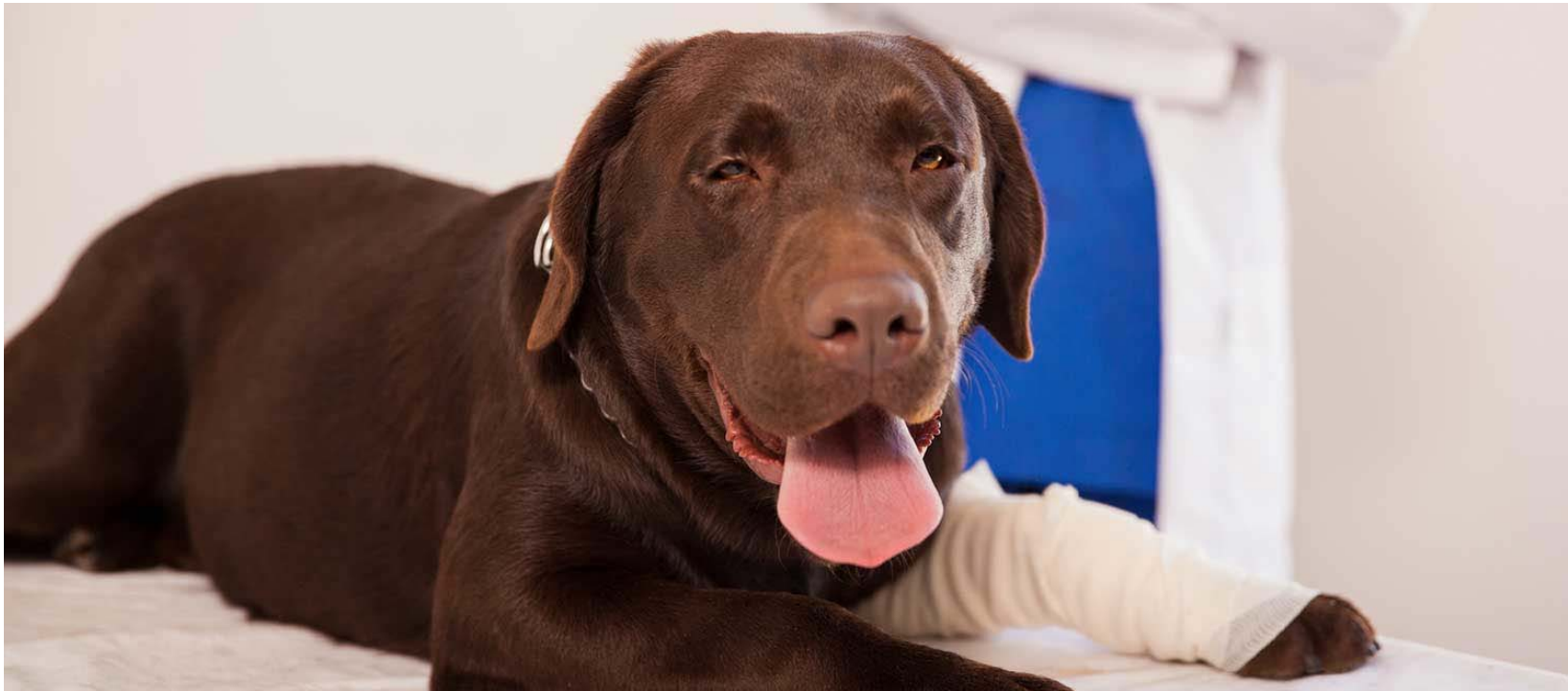


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# Time for a financial health check-up ???



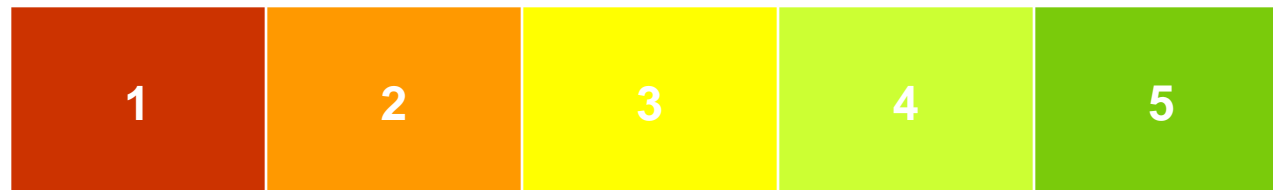
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# Sustainability???

**Your CAA's financial health  
on a scale of 1 to 5**



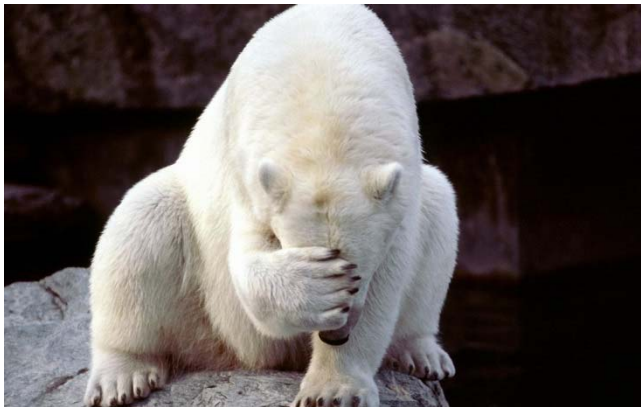
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# Signs of a Financial Health & Sustainability

- Achieve **mission**
- Liquidity – **cash** when needed
- Positive **Net Assets**  
Especially Liquid Net Assets
- **Compliance**

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# Quick Assessment Exercise



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# Case Scenario: Sample CAA

- **How would you rate the financial health of this CAA ?**
- **Strengths & weaknesses?**
- **What other info do you need?**

**Community Action Agency**  
**Balance Sheet - Statement of Financial Position**

**September 30, 2014**

with comparative totals as of June 30, 2014

	<b>9-30-14</b>	<b>6-30-14</b>
<b>Assets</b>		
Cash	30,000	100,000
Awards & Contracts Receivable	150,000	50,000
Fixed Assets net of Accum. Deprec.	500,000	505,000
<b>Total assets</b>	<b><u>680,000</u></b>	<b><u>655,000</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts Payable	50,000	0
Accrued Vacation Payable	30,000	35,000
Accounts PR Taxes Payable	25,000	5,000
Deferred Revenue -advance payments	100,000	0
<b>Total liabilities</b>	<b><u>205,000</u></b>	<b><u>40,000</u></b>
<b>Net Assets</b>	<b><u>475,000</u></b>	<b><u>615,000</u></b>
<b>Total liabilities and net assets</b>	<b><u>680,000</u></b>	<b><u>655,000</u></b>



# More Sample CAA Info

	<b>Current Year</b>	
	<b>9/30/14</b>	<b>1 6/30/14</b>
<b>Total annual expenses</b>	<b>3,000,000</b>	<b>2,700,000</b>
<b>Net Income</b>	<b>-140,000</b>	<b>25,000</b>
<b>Net Assets</b>	<b>475,000</b>	<b>615,000</b>

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# Financial Health & Sustainability Indicators

- **Cash position**
- **Net assets**
- **Net income**
- **Income diversification**
- **Compliance**

# CAA Days of Cash on Hand

	9-30-14	6-30-14
Month End Cash Balance	30,000	100,000
÷		
Est. Daily Cash Demand*	8,219	7,397
=		
Days of Cash	3.65	13.5

\*Est. Daily Cash Demand = Annual Expenses/365

# Ratio of BCA Net Assets to Annual Expenses

	2009	2010
Net Assets ÷ Annual Expenses	0.15	0.22

Note: 1 month = .0833 of 1 year

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# What Financial Info Do CEO's & Boards Need ??

- **Balance Sheet**
- **Statement of Activities**
  - Organization-wide
  - Year-to-date
  - Compared to budget
  - Projected year-end
- **Statement of Cash Flows**

# ↑ Growing Net Assets ↑



**All Good Things**  
**Statement of Financial Position**  
**September 30, 2011**  
with comparative totals as of June 30, 2011

	<u>9-30-11</u>	<u>6-30-11</u>
<b>Assets</b>		
Cash	\$160,000	\$300,000
Receivables	401,100	81,100
Land, buildings, equipment, net	<u>1,500,000</u>	<u>1,510,000</u>
<b>Total assets</b>	<b><u>2,061,100</u></b>	<b><u>1,891,100</u></b>
<b>Liabilities and Net Assets</b>		
<i>Liabilities</i>		
Accounts payable	180,000	170,000
Mortgage payable	<u>500,000</u>	<u>500,000</u>
<b>Total liabilities</b>	<b><u>680,000</u></b>	<b><u>670,000</u></b>
<i>Unrestricted Net Assets</i>		
Available for oper.	31,100	11,100
Invested in fixed assets	1,000,000	1,010,000
Board designated reserves	<u>100,000</u>	<u>100,000</u>
<b>Sub-total - Unrestricted net assets</b>	<b><u>1,131,100</u></b>	<b><u>1,121,100</u></b>
<i>Temporarily restricted net assets</i>	<u>250,000</u>	<u>100,000</u>
<i>Total Net Assets</i>	<u>1,381,100</u>	<u>1,221,100</u>
<b>Total liabilities &amp; net assets</b>	<b><u>\$2,061,100</u></b>	<b><u>\$1,891,100</u></b>

**All Good Things**  
**Statement of Activities**  
**Quarter Ending 9-30-11**

Exhibit 26-6

	<u>1st Quarter</u>	<u>Annual Budget</u>	<u>% Budget Realized</u>	<u>Projected Year End</u>
<b>Unrestricted Support &amp; Revenues</b>				
Foundation and corporate grants	\$5,000	\$30,000	\$0	\$20,000
Governmental grants & contracts	140,000	630,000	0.22	620,000
Contributions from individuals	15,000	60,000	0.25	50,000
Events net of expenses	5,000	50,000	0.10	50,000
Investment income	1,300	5,000	0.26	3,000
	<u>166,300</u>	<u>775,000</u>	<u>1.00</u>	<u>743,000</u>
Net assets released from restrictions	140,000	225,000	0.62	225,000
<b>Total support and revenue</b>	<u>306,300</u>	<u>1,000,000</u>	<u>0.31</u>	<u>968,000</u>
<b>Unrestricted Expenses</b>				
Personnel	200,000	720,000	0.28	700,000
Prof Services	35,000	40,000	0.88	40,000
Occupancy	11,300	45,000	0.25	45,000
Other expenses	50,000	170,000	0.29	165,000
<b>Total unrestricted expenses</b>	<u>296,300</u>	<u>975,000</u>	<u>0.30</u>	<u>950,000</u>
<b>Increase in Unrestricted Net Assets</b>	<u>10,000</u>	<u>25,000</u>	<u>0.40</u>	<u>18,000</u>
<b>Temporarily Restricted Support</b>				
New TR Grants Received	290,000	360,000	0.81	325,000
Released from Temp Restrict	(140,000)	(225,000)	0.62	(225,000)
<b>Increase in TR Net Assets</b>	<u>150,000</u>	<u>135,000</u>	<u>1.11</u>	<u>100,000</u>
<b>Increase in Total Net Assets</b>	<u>\$160,000</u>	<u>\$160,000</u>	<u>1.0</u>	<u>\$118,000</u>



# What's wrong with this picture?

	Grant 1	Grant 2	Grant 3	Unrestricted
Grant/contract	100,000	300,000	500,000	
Unrestricted income				60,000
<b>Total Income</b>	<b>100,000</b>	<b>300,000</b>	<b>500,000</b>	<b>60,000</b>
Expenses	100,000	300,000	500,000	200,000
<b>Net Income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-140,000</b>

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# Solutions?

- **Ignore – all reported grant expenses are allowable?**
- **Renegotiate with gov. funders?**
- **Reduce expenses to level grants/contracts will fund?**
- **Increase unrestricted income?**

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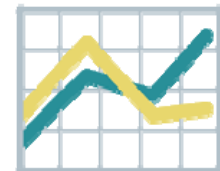
# **Improve Governmental Contract Financial Outcomes**

- **Obtain new governmental sources to spread overhead**
- **Improve recovery of administrative & overhead costs**
- **Obtain NICR**
- **Explore pay for performance**

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# Find new customers or services: **Expand or Shift Lines of Business**

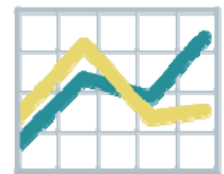
- **Find new “customers” to pay for existing services**
- **Develop new services for:**
  - Consumers who can pay
  - Consumers attractive to underwriters / customers



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# Market Current Expertise to New Customers

- **Employers**
- **Health care systems**
- **Donors**
- **Other nonprofits**



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# Earned Income Ideas from CAA's

- **Energy audits & weatherization**
- **Administrative services**
- **Food service, janitorial, lawn maintenance services**
- **Home health aides**
- **Transportation**

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# Goals of Earned Income Strategies?

- **Full or partial support of cost of services?**
- **Contribution to overhead?**
- **“Profit” above fully loaded costs?**

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# Bigger Earned Income ???

- **Market**
- **Cost and price constraints**
- **Management capacity**
- **Capitalization**
- **Opportunity costs**



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# Financial Modeling

- **Start-up costs**
- **Fixed and variable costs**
- **Management requirements**
- **Break even analysis**
- **Cash flow**

# Program Net Income

	Admin	Prog A	Prog B	Prog C
Income				
Direct Expense				
Gross Margin				
Allocated Expense				
Net Income				

# Contribution to Overhead

	Admin	A	B	C
Income				
Direct Expense				
Contribution to Overhead				

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# Opportunity Costs

- **Time & \$\$ devoted to one strategy is not available to pursue others**
- **Implication: compare potential impact of investing in alternate strategies**

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Alternative strategy:

# Expand Contributed Income

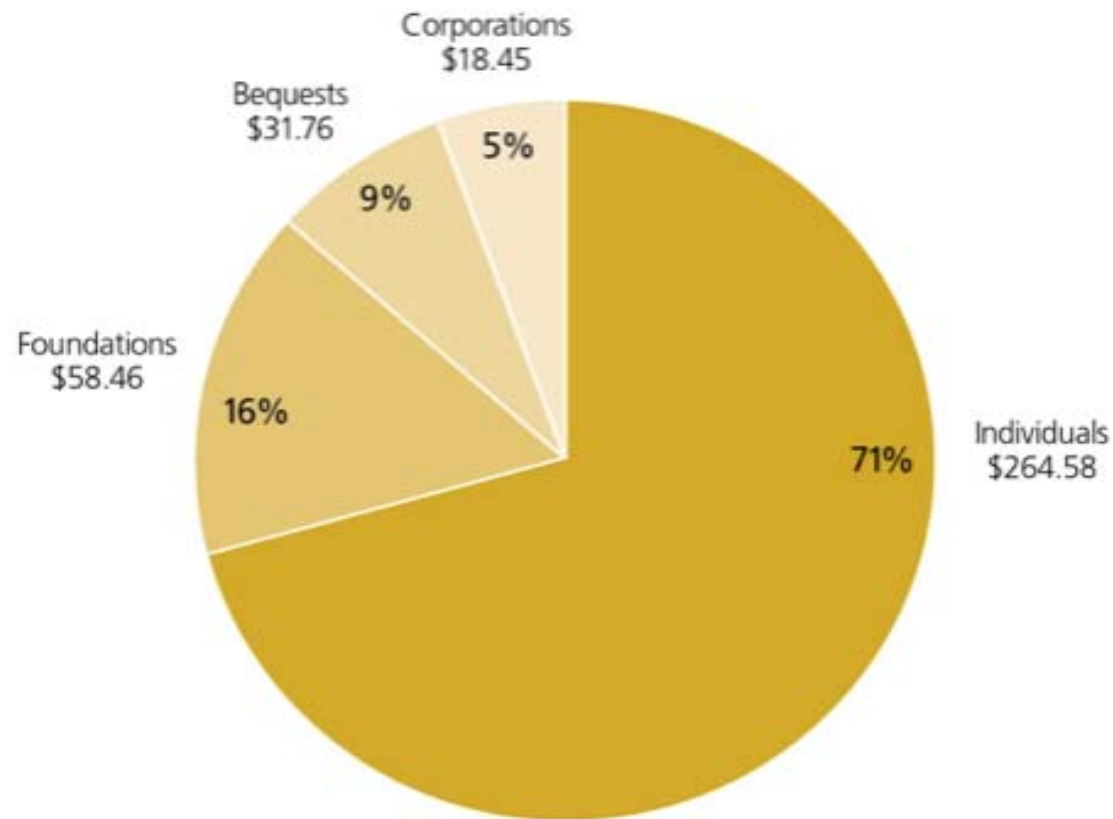
- **Foundations**
- **Business, civic, faith**
- **Individuals**



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2015 contributions: \$373.25 billion by source  
(in billions of dollars – all figures are rounded)



SOURCE: Giving USA Foundation | *GIVING USA 2016*

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# 2015 Contributions by Source

- **71% living individuals**
- **9% dead individuals**
- **5% corporations**
- **16% foundations**

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# Expanding Individual Giving Requires:

- **Compelling Case**
- **Prospects**
- **Askers**
- **Systems**



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# CAA Case

- **Unmet needs impact community as well as individuals & families**
- **CAA benefits whole community:**
  - School success
  - Reducing criminal justice costs
  - Stronger work force
  - Reduced health care costs

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# ABC's of Contributions

- **A**bility to give
- **B**elief in the cause
- **C**ontact with donor

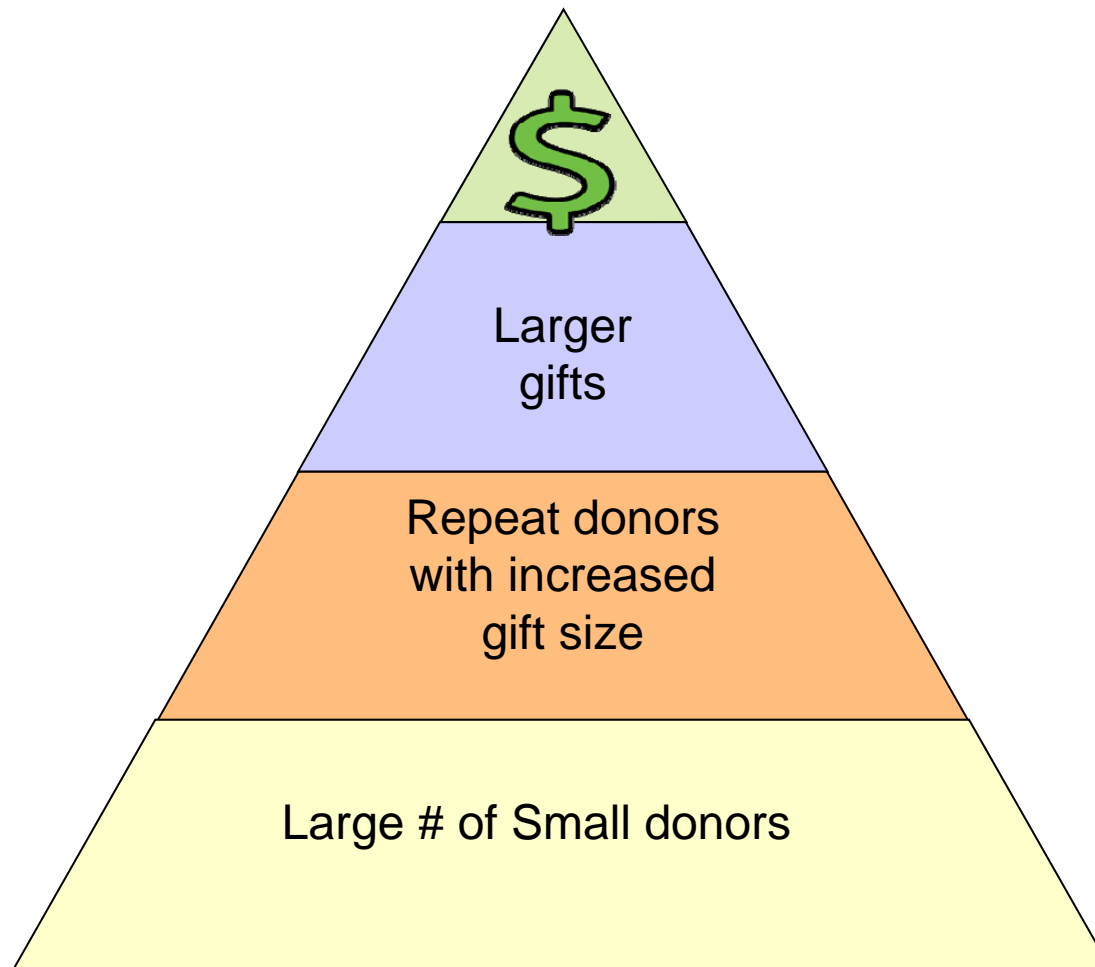
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# Individual Donor Realities

- **Relationship + ask = gift**
- **No ask = no gift**
- **Preparing & sustaining “askers” is key to success**

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# Donor Pyramid



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# Donor Pyramid

- **Base = large # of small donors**
- **Each level = larger gifts from smaller numbers**
- **Top tier = small # of large donors**
- **Top 20% give 80% of \$\$\$**

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# Increasing Individual Contributions

- **Sustained effort brings results**
- **Progress indicators**
  - # of donors
  - Average gift size
  - % of donors retained

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# Fund Raising Event Realities

- **Labor intensive**
- **Net \$\$\$ generally low in relation to actual investment**
- **Opportunity costs**

Time & \$\$\$ spent on events is not available for other strategies

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# Accessing Foundation \$\$\$

- **Projects grants**
- **Operating support**
- **Capital**
- **Capacity Building**





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# CAA Foundation Barriers

- **Unknown – low profile**
- **Governmental identity**
- **“drop in the bucket”**
- **“bottomless pit”**

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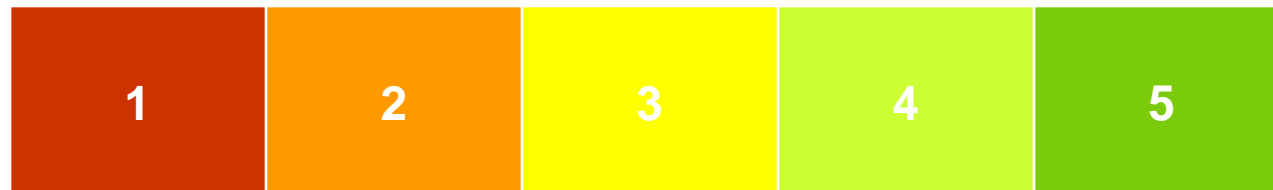
# CAA Foundation Entry Points

- **Collaboration with known nonprofits**
- **Board relationships**
- **Small initial asks**
- **Community visibility**

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# Sustainability???

**Your CAA's financial health  
on a scale of 1 to 5**



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## Next Steps?

- **Your own check-up?**
- **Missing monitoring tools?**
- **Financial muscle building strategies?**
- **Evaluate financial models**
- **Test – revise -test**