



An investment that **works.**

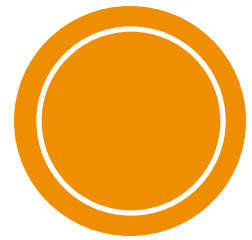
NONPROFIT SUSTAINABILITY & IMPACT: BUDGETING FOR FULL COST

Presented by:

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Executive Director, All Stars Helping Kids
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February 2023

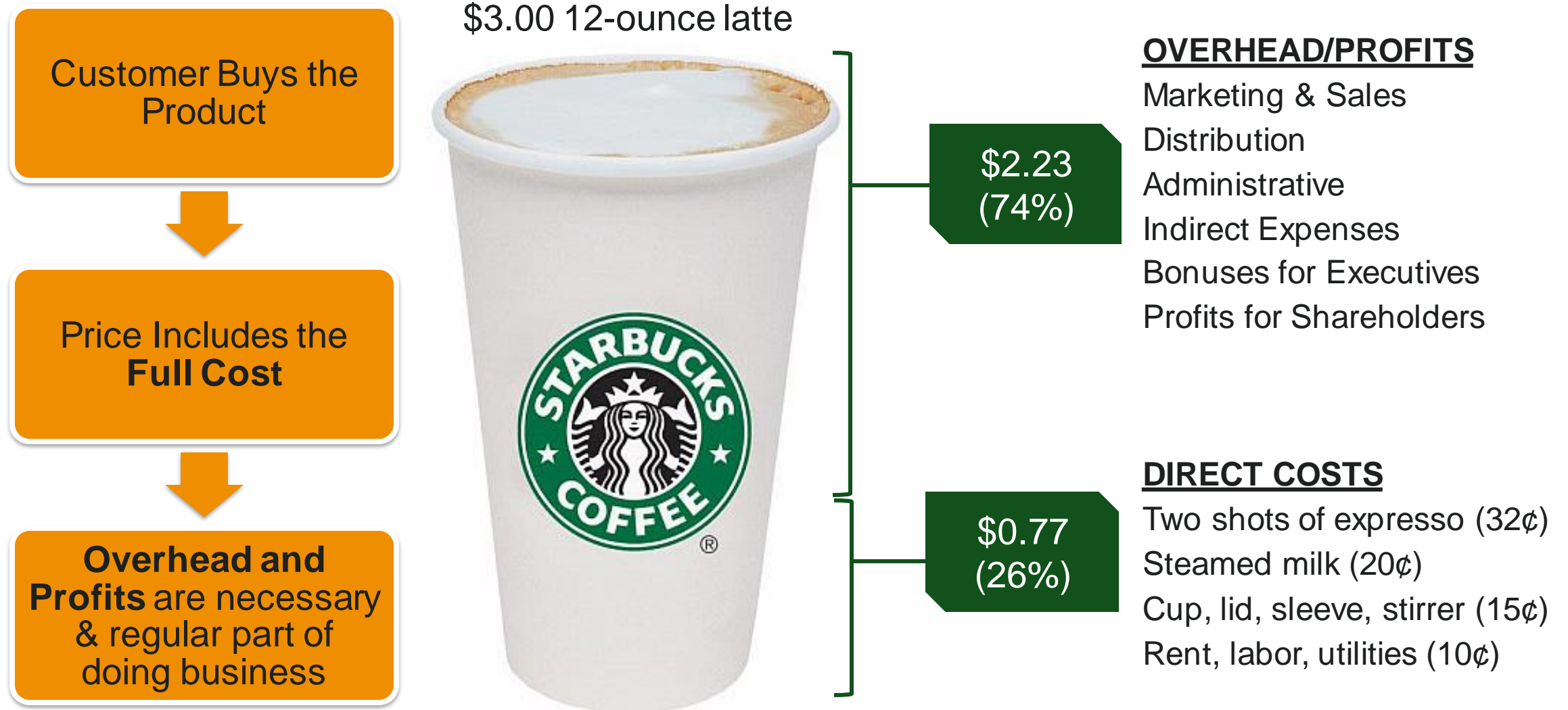




RECAP: FULL COST

It is more than just overhead...

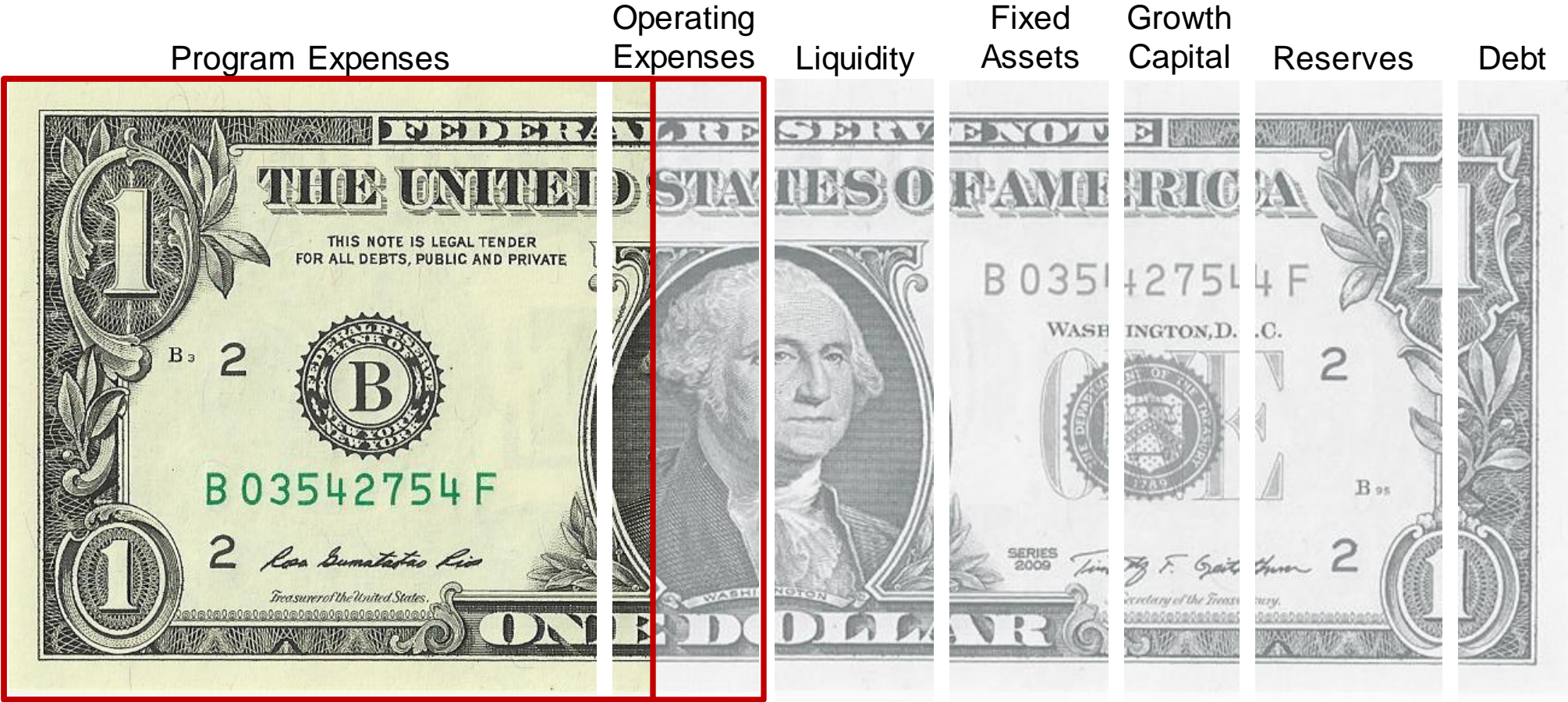
IN THE FOR-PROFIT WORLD...



Source: Matt Milletto, Vice President of the American Barista & Coffee School

NONPROFITS NEED PROFITS TOO...

Like any corporation, nonprofits (a.k.a. for-purpose businesses) and social enterprises need to cover the fully loaded cost of doing business:



ELEMENTS OF FULL COST: REVENUE & CAPITAL

REVENUE NEEDS

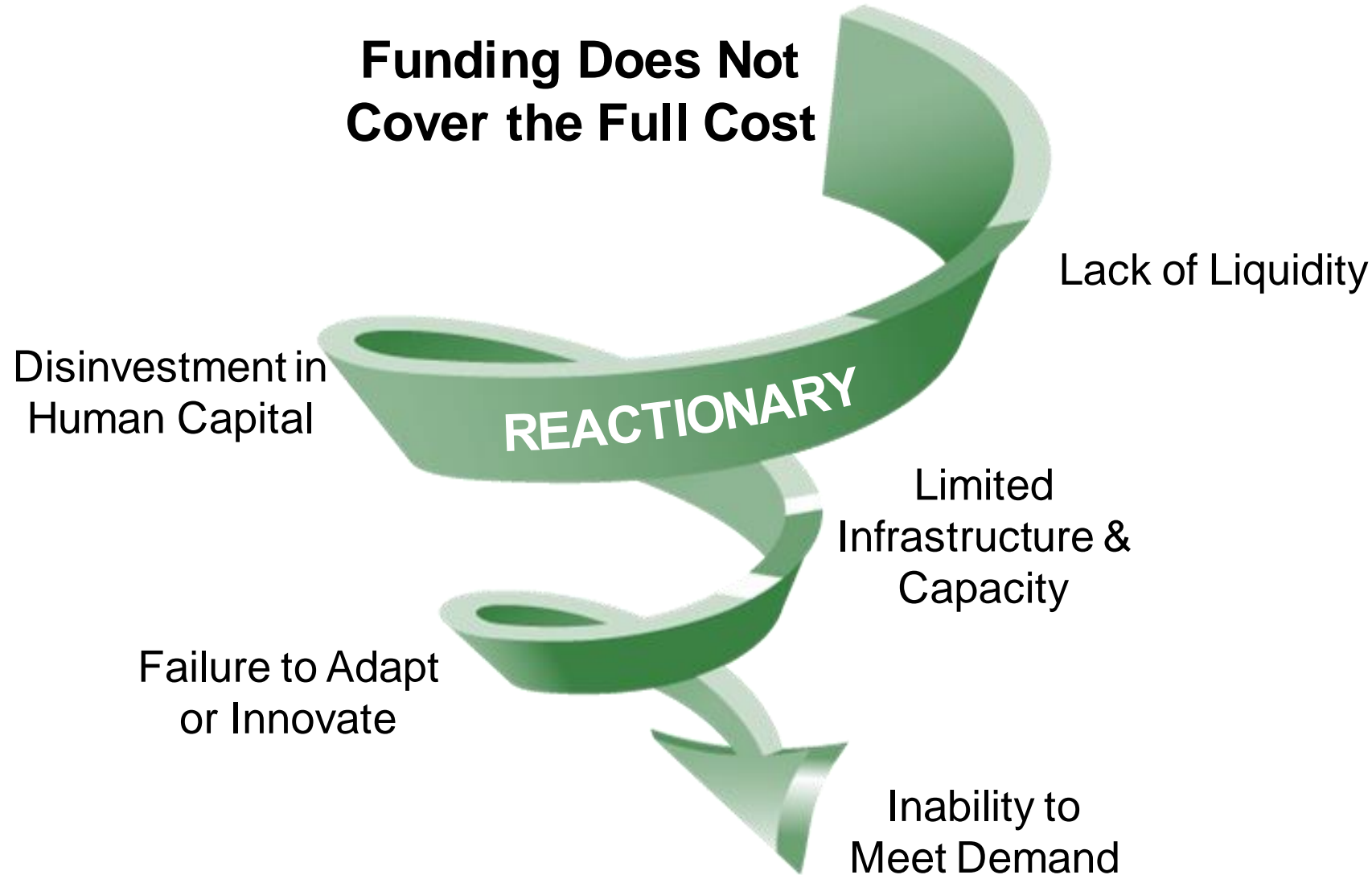
CAPITAL (INVESTMENT) NEEDS

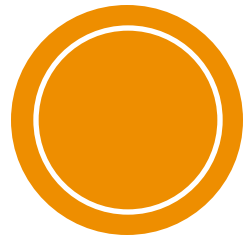
REVENUE NEEDS		CAPITAL (INVESTMENT) NEEDS				
Program Expenses	Operating Expenses	Liquidity	Fixed Assets	Growth Capital	Reserves	Debt
						

This is what the nonprofit will typically focus on
(organizational or program budget)

But remember this is not the full costs! To determine your full
cost, you have to include your investment needs

THE CONSEQUENCES: THE DOOM LOOP (A.K.A. THE STARVATION CYCLE)





FULL COST CASE STUDY: YOUTH ENTERPRISES

ASSESSING OPERATING PERFORMANCE

GROUP CASE STUDY: YOUTH ENTERPRISES

Statement of Activities						
January 1, 2022 to December 31, 2022			January 1, 2021 to December 31, 2021			
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE						
Grants and Contributions	7,264,203	1,761,121	9,025,324	6,757,789	2,531,544	9,289,333
Gov't Contract/Earned	633,673	-	633,673	574,407	-	574,407
Sales	6,045,935	-	6,045,935	4,856,671	-	4,856,671
Other income	507,067	-	507,067	434,431	-	434,431
Total Support	14,450,878	1,761,121	16,211,999	12,623,298	2,531,544	15,154,842
<u>Net Assets Released from Restriction</u>	<u>2,537,935</u>	<u>(2,537,935)</u>	<u>-</u>	<u>2,017,977</u>	<u>(2,017,977)</u>	<u>-</u>
TOTAL REVENUE	16,988,813	(776,814)	16,211,999	14,641,275	513,567	15,154,842
			-			-
EXPENSES						
Management & General	1,975,568	-	1,975,568	2,094,193	-	2,094,193
Fundraising & Marketing	1,508,866	-	1,508,866	1,160,937	-	1,160,937
Program Services	13,025,784	-	13,025,784	11,136,104	-	11,136,104
TOTAL EXPENSES	16,510,218	-	16,510,218	14,391,234	-	14,391,234
CHANGE IN NET ASSETS	478,595	(776,814)	(298,219)	250,041	513,567	763,608
	What YOU want to know		What the IRS wants to know			

MEASURING RISK

Balance Sheet: Months of Cash on Hand

INDICATOR	CALCULATION
Months of Cash on Hand	$\frac{\text{Total Cash and Cash Equivalents}}{\text{Average Monthly Expenses}}$

Balance Sheet: Liquid Unrestricted Net Assets (LUNA)

INDICATOR	CALCULATION
Months of Liquid Net Assets	$\frac{\text{Unrestricted Net Assets} - (\text{P\&E} - \text{Mortgage})}{\text{Average Monthly Expenses}}$

For more information on understanding LUNA:

“The Key to Long Term Financial Health: Liquid Unrestricted Net Assets (LUNA)” by Hilda Polanco, Fiscal Management Associates

CALCULATING MONTHS OF CASH

ASSETS	December 31, 2022	December 31, 2021
CURRENT ASSETS		
Cash and Cash Equivalents	2,332,266	2,047,080
Accounts Receivable	801,504	394,623
Contributions Receivable	300,000	496,500
Other Current Assets	89,697	86,265
Prepaid Expenses and Deposits	110,448	70,617
Inventory	126,242	128,539
TOTAL CURRENT ASSETS	3,760,157	4,124,524
Long-Term Receivable	262,500	386,000
Land, Building and Equipment, Net	8,646,738	7,528,359
TOTAL ASSETS	12,669,395	12,038,883
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	625,897	984,499
Notes Payable, Current	18,389	-
Accrued Payroll and Benefits	908,752	695,382
TOTAL CURRENT LIABILITIES	1,553,038	1,679,881
Notes Payable, Less Current Portion	1,183,041	700,000
Other Long-Term Liabilities	1,490,533	918,000
TOTAL LIABILITIES	4,226,612	3,297,881
NET ASSETS		
Without Donor Restrictions	6,577,820	6,099,225
With Donor Restrictions, Purpose or Timing	1,864,963	2,641,777
TOTAL NET ASSETS	8,442,783	8,741,002
TOTAL LIABILITIES AND NET ASSETS	12,669,395	12,038,883

AVERAGE MONTHLY EXPENSES (\$ In Thousands)

Total Operating Expenses* **\$16,510**

Divided by 12 months **÷ 12**

= Average Monthly Expenses **\$1,376**

*From Income Statement

MONTHS OF CASH (\$ In Thousands)

Total Cash/ **\$2,332**

Average Monthly Expenses **\$1,376**

= Months of Cash **1.7**

UNDERSTANDING LUNA

“How much water is in our bucket?”



CALCULATING LUNA

<u>ASSETS</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
CURRENT ASSETS		
Cash and Cash Equivalents	2,332,266	2,947,980
Accounts Receivable	801,504	394,623
Contributions Receivable	300,000	496,500
Other Current Assets	89,697	86,265
Prepaid Expenses and Deposits	110,448	70,617
Inventory	126,242	128,539
TOTAL CURRENT ASSETS	3,760,157	4,124,524
Long-Term Receivable	262,500	386,000
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<u>LIABILITIES AND NET ASSETS</u>		
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TOTAL NET ASSETS	8,442,783	8,741,002
TOTAL LIABILITIES AND NET ASSETS	12,669,395	12,038,883

LIQUID NET ASSETS

(\$ In Thousands)

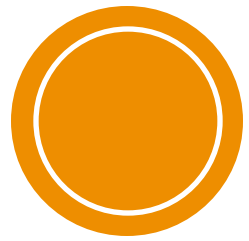
Total Unrestricted Net Assets	\$6,578
– Unrestricted P&E	\$7,464
= Liquid Net Assets	(\$886)

To calculate 'unrestricted P&E' you only want to include the portion of the asset the organization owns. That means you subtract any facility-related debt:

P&E (Net)	=	\$8,647K
- Mortgage	=	\$1,183K
Unrestricted P&E		\$7,464K

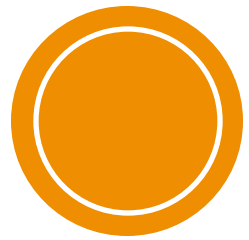
YOUTH ENTERPRISES: THE FULL COST

	2021	2022	2023	TOTAL
OPERATING COSTS				
Existing Programs (per 2020 Audit)				
Existing Management & Fundraising (per 2020 Audit)				
TOTAL OPERATING COSTS				
CAPITAL				
Recovery Capital				
Working Capital (3 months of expenses)*				
Debt Repayment (balloon payment of \$623K due in 2020)				
Facilities Reserve (est. based on annual depreciation)				
Contingency Reserve (est. at one month of program costs)				
Other needs?				
TOTAL CAPITAL				
THE FULL COST				



BREAK

Coffee Time!



CASE STUDY

Your Turn!

GROUP EXERCISE:

CENTER FOR HEALTHY FAMILIES

Congratulations! You have just been named Executive Director of the **Center for Healthy Families** – a social service organization whose mission is women, children, families and individuals whose lives have been impacted by HIV/AIDS to take charge of their health and well-being. It is the only social service organization in its county dedicated to serving women, children and families living with HIV/AIDS. And your programs and services often win awards for innovation and excellence.

The organization is looking to launch a new advocacy program to provide leadership training and skills-building to women living with HIV to become active participants at the planning and decision-making levels within their communities as well as organize and mobilize a network of women that is projected to cost \$525,000 a year. The Center has received a grant \$350K/year for 5 years – which means it must raise an additional \$175K each year to fund the new program.

As the new Executive Director, you want to get a handle on the organization's financial health. What you know:

- We are currently in the beginning of your new fiscal year (January 1) and your **2023** budget shows a breakeven budget (basically the 2022 Budget + this new program).
- The Center bought a building utilizing \$450K in debt financing. In **2025** (three years from now), the organization will need to make a balloon payment of \$300K.

GROUP EXERCISE: ASSESSING FINANCIAL HEALTH

Operating Performance (Income Statement):

➡ What changed between 2021 and 2022?

➡ What is the main revenue driver?

➡ How much do they spend on programs, management and fundraising?

Programs _____% Management _____% Fundraising _____%

➡ What is their **unrestricted** surplus/(deficit)?

➡ How large an increase would this new program represent compared to 2020 Expenses?

_____ / _____ = _____ %
(Total New Program Costs) (2022 Expenses)

CENTER FOR HEALTHY FAMILIES:

EXAMINING THE STATEMENT OF ACTIVITIES

Statement of Activities

January 1, 2022 - December 31, 2022

2021

	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
SUPPORT:				
Foundations	-	35,000	35,000	-
Corporate	-	-	-	-
Special Events	35,697	-	35,697	55,626
Individuals	7,066	-	7,066	10,515
Total Support	42,763	35,000	77,763	66,141
REVENUE:				
Gov't Contract/Earned	658,926	-	658,926	734,553
Investment Income	-	-	-	-
Tickets, Dues, Other	9,167	-	9,167	17,930
Net Assets Released from Restriction	10,079	(10,079)	-	-
TOTAL SUPPORT AND REVENUE	720,934	24,921	745,855	818,624
EXPENSES				
Program Services	668,092	-	668,092	752,283
Management & General	63,697	-	63,697	102,102
Development	-	-	-	-
Total Expenses	731,790	-	731,790	854,385
INCREASE (DECREASE) IN NET ASSETS	(10,856)	24,921	14,066	(35,761)

GROUP EXERCISE:

ASSESSING FINANCIAL HEALTH (RECAP)

Operating Performance (Income Statement):

- ➔ What changed between 2019 and 2020?
 - Expenses decreased by \$122,795 or about 14% and Revenue decreased by about the same, resulting in another deficit
- ➔ What is the main revenue driver?
 - Earned (Gov't Contracts)/Revenue: $678,171/720,934=94\%$
- ➔ How much do they spend on programs, management and fundraising?

Programs: 91% Management: 9% Fundraising: 0%
- ➔ What is their **unrestricted** surplus/(deficit)?
 - Unrestricted Surplus/(Deficit) = $(10,856) = 1.5\%$ deficit
- ➔ How large an increase would this new program represent compared to 2020 Expenses?

New Program (\$525,000) / 2020 Expenses (\$731,789) = 71.7% → 2021 Expenses = \$1,256,789

GROUP EXERCISE:

ASSESSING THE BALANCE SHEET

Statement of Financial Position (Balance Sheet):

- ⇒ What changed from 2021 to 2022?
- ⇒ Calculate months of cash for 2022.
- ⇒ Calculate LUNA for 2022? (Hint: debt is facility-related)
- ⇒ BONUS: How might The Center be managing cash flow?*

*The Center does **not** have a line of credit.

GROUP EXERCISE:

THE BALANCE SHEET

Center for Healthy Families Statement of Financial Position

	2022	2021
ASSETS		
Cash	43,552	3,671
Grants Receivable	42,856	88,845
Accounts Receivable	7,027	7,829
Deferred Loan Fee	2,160	2,520
Other Assets	1,575	1,323
Property and equipment, net	646,041	655,041
TOTAL ASSETS	743,211	759,229
LIABILITIES		
Accounts Payable	96,854	114,795
Trust deed note payable, secured by real estate	391,009	403,152
TOTAL LIABILITIES	487,863	517,947
NET ASSETS		
Without Donor Restrictions	211,847	222,703
With Donor Restrictions		
Restricted for a specific purpose	43,501	18,580
Restricted to passage of time		
Held in perpetuity	-	-
TOTAL NET ASSETS	255,348	241,282
TOTAL LIABILITIES AND NET ASSETS	743,211	759,229

ASSETS: Everything the organization has or owns. Typically listed from most liquid to least liquid.

LIABILITIES: Everything the organization owes to others.

NET ASSETS: What the organization has or owns, free and clear of any liabilities.

GROUP EXERCISE:

CALCULATING MONTHS OF CASH

Center for Healthy Families Statement of Financial Position

	2022	2021
ASSETS		
Cash	43,552	3,671
Grants Receivable	42,856	88,845
Accounts Receivable	7,027	7,829
Deferred Loan Fee	2,160	2,520
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Restricted for a specific purpose	43,501	18,580
Restricted to passage of time		
Held in perpetuity	-	-
TOTAL NET ASSETS	255,348	241,282
TOTAL LIABILITIES AND NET ASSETS	743,211	759,229

AVERAGE MONTHLY EXPENSES

Total Operating Expenses*	\$731,789
Divided by 12 months	÷12
= Average Monthly Expenses	\$60,982

**From Statement of Activities (Income Statement)*

MONTHS OF CASH

(\$ In
Thousands)

Total Cash/	\$43,552
Average Monthly Expenses	\$60,982
= Months of Cash	.71

GROUP EXERCISE:

CALCULATING LUNA

Center for Healthy Families Statement of Financial Position

	2022	2021
ASSETS		
Cash	43,552	3,671
Grants Receivable	42,856	88,845
Accounts Receivable	7,027	7,829
Deferred Loan Fee	2,160	2,520
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Restricted to passage of time		
Held in perpetuity	-	-
TOTAL NET ASSETS	255,348	241,282
TOTAL LIABILITIES AND NET ASSETS	743,211	759,229

LIQUID NET ASSETS

Total Unrestricted Net Assets	\$211,847
– Unrestricted P&E	\$255,032
= Liquid Net Assets	(\$43,185)

To calculate 'unrestricted P&E' you only want to include the portion of the asset the organization owns. That means you subtract any facility-related debt:

P&E (Net)	=	\$646,041
– Mortgage	=	\$391,009
Unrestricted P&E		\$255,032

GROUP EXERCISE:

THE BALANCE SHEET

- What changed from 2021 to 2022?
 - Decrease in assets, liabilities and net assets
 - Increase in cash but decrease in receivables
- Calculate months of cash for 2022
 - Months of Cash: $43,551 / (731,790 / 12) = .71$ months
- Calculate LUNA for 2022
 - LUNA: $(43,185) = -.71$ months
- BONUS: How might the organization be managing cash flow?

A REVIEW: CENTER FOR HEALTHY FAMILIES

- GROWTH: Center for Healthy Families is looking at 72% growth due to the new challenge grant
- PAST PERFORMANCE: Expenses decreased by \$122,795 or about 14% and Revenue decreased by about the same, resulting in another deficit
- UNRESTRICTED OPERATING RESULTS: Small deficit (10,856)
- HEALTH OF THE BALANCE SHEET: Decrease in assets, liabilities and net assets; Increase in cash but decrease in receivables
- LIQUIDITY
 - 2022 Months of Cash: .71 months
 - 2022 LUNA: -.71 months
- LIQUID UNRESTRICTED NET ASSETS (LUNA): (43,185)

STEP 1: DETERMINING EXISTING OPERATING REVENUE NEEDS

1

STEP 1 – Determine Operating Revenue Needs: What is the amount of revenue needed to cover existing program and operating expenses? For this case study, we will assume that existing programs and operating expenses will stay at current levels.

	YEAR 1	YEAR 2	YEAR 3	TOTAL
OPERATING COSTS				
Existing Programs (per 2022 financials)				
Existing Operating Expenses (per 2022 financials)				
TOTAL OPERATING COSTS				

STEP 2: DETERMINE NEW PROGRAM AND OPERATING REVENUE NEEDS

2

STEP 2 – Determine NEW Program and Operating Expenses: What is the amount of revenue needed to cover NEW program and operating expenses? For this case study, the new program is estimated to cost \$525,000/year and we will assume a 15% indirect costs.

	YEAR 1	YEAR 2	YEAR 3	TOTAL
NEW/EXPANDED PROGRAMS				
NEW Program Expenses				
NEW Support Infrastructure (IT, HR, Recruiting, Legal, etc.)				
Development/Fundraising Manager (includes salaries, benefits, taxes, etc.)				
TOTAL NEW PROGRAM/OPERATING COSTS				

STEP 3: DETERMINE INVESTMENT & CAPITAL NEEDS

3

STEP 3 – Determine Investment & Change Capital Needs: What is the amount of money needed to invest in the business and balance sheet needs?

	YEAR 1	YEAR 2	YEAR 3	TOTAL
CAPITAL				
Recovery Capital	\$50,000			\$50,000
Working Capital (3 months LUNA)	\$100,000	\$100,000	\$100,000	\$300,000
Debt Repayment	\$100,000	\$100,000	\$100,000	\$300,000
Facilities Reserve (est.)	\$25,000	\$50,000	\$50,000	\$125,000
Contingency (Rainy Day) Fund (est. one month of program costs)	\$100,000	\$100,000	\$100,000	\$300,000
TOTAL CAPITAL	\$475,000	\$500,000	\$500,000	\$1,475,000

THE FULL COST BUDGET

	YEAR 1	YEAR 2	YEAR 3	TOTAL
OPERATING COSTS				
Existing Programs (per 2022 financials)	\$668,092	\$668,092	\$668,092	\$2,004,276
Existing Operating Expenses (per 2022 financials)	\$63,697	\$63,697	\$63,697	\$191,091
TOTAL OPERATING COSTS	\$731,790	\$731,790	\$731,790	\$2,195,370
NEW/EXPANDED PROGRAMS				
NEW Program Expenses	\$525,000	\$525,000	\$525,000	\$1,575,000
NEW Support Infrastructure (IT, HR, Recruiting, Legal, etc.)	\$78,750	\$78,750	\$78,750	\$236,250
Development/Fundraising Manager (inc. salaries, benefits, etc.)	\$125,000	\$125,000	\$125,000	\$375,000
TOTAL NEW PROGRAM/OPERATING COSTS	\$1,256,790	\$1,256,790	\$1,256,790	\$3,770,370
CAPITAL				
Recovery Capital	\$50,000			\$50,000
Working Capital (3 months LUNA)	\$100,000	\$100,000	\$100,000	\$300,000
Debt Repayment	\$100,000	\$100,000	\$100,000	\$300,000
Facilities Reserve (est.)	\$25,000	\$50,000	\$50,000	\$125,000
Contingency/Rainy Day Fund (est. one month of program costs)	\$100,000	\$100,000	\$100,000	\$300,000
TOTAL CAPITAL	\$475,000	\$500,000	\$500,000	\$1,475,000
THE FULL COST	\$2,463,580	\$2,488,580	\$2,488,580	\$7,440,740

DOUBLE BOTTOM LINE

	TOTAL
OPERATING COSTS	
Existing Programs (per 2022 financials)	\$2,004,276
Existing Operating Expenses (per 2022 financials)	\$191,091
TOTAL OPERATING COSTS	\$2,195,370
NEW/EXPANDED PROGRAMS	
NEW Program Expenses	\$1,575,000
NEW Support Infrastructure (IT, HR, Recruiting, Legal, etc.)	\$236,250
Development/Fundraising Manager (inc. salaries, benefits, etc.)	\$375,000
TOTAL NEW PROGRAM/OPERATING COSTS	\$3,770,370
CAPITAL	
Recovery Capital	\$50,000
Working Capital (3 months LUNA)	\$300,000
Debt Repayment	\$300,000
Facilities Reserve (est.)	\$125,000
Contingency/Rainy Day Fund (est. one month of program costs)	\$300,000
TOTAL CAPITAL	\$1,475,000
THE FULL COST	\$7,440,740

[illegible]

QUESTIONS?

CONTACT INFORMATION

DISRUPTION & INNOVATION: OUR PLAYBOOK

Driving real change takes more than just money. It takes a network of strong, impactful nonprofits working across boundaries to ensure that all youth are able to thrive regardless of where they live. Our program utilizes our Four C's to accelerate growth and outcomes for emerging nonprofits in the Bay Area:

CASH:

3 Years of General Operating Support

CAPACITY BUILDING:

Education, Training & Workshops

COACHING:

One-on-One Coaching & Technical Assistance

CONNECTION:

Peer Network & Strategic Partnership



David Greco

Executive Director

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