

Emerging from Uncertain Financial Times: A Preliminary Cohort Analysis of Domestic Violence Service Providers in 2010

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Part I.



Introductions

NFF's Work with Domestic Violence Providers in California



Nonprofit Finance Fund (NFF) works to create a strong, well-capitalized and durable nonprofit sector that connects money to mission effectively, supporting the highest aspirations and most generous impulses of people and communities. Since 2008, NFF has been actively working to examine and improve the financial position of domestic violence (DV) service providers in California.

NFF's work with the DV subsector has included group learning opportunities, field knowledge building, and customized capacity building support for over 1/3 of the state's DV agencies. In doing so, we are working to achieve our long-term goal of creating a more adaptive, well-capitalized, and sustainable community of DV service providers across the state of California. We continue to work to identify areas of strained capacity and need in order to create a comprehensive strategy that enables DV leaders to uncover and understand their financial condition. Strategic financial management is critical to making improved, data-driven decisions that enhance the long-term viability of organizations and, in turn, will have a positive impact on the DV sector as a whole.

Our work in the field has been made possible through generous support from Blue Shield of California Foundation, and has included:

- A multi-year "sector scan" that analyzed 70 shelter-based organizations and the characteristics of their capital structure
- Numerous workshops, board & staff trainings, webinars and case studies
- Continued financial capacity-building projects and customized engagements with nearly 1/3 of the DV agencies in the state

What Have We Seen So Far?

Key Presenting Issues



Through our research and our work with DV service providers in California, we have seen that organizations are undercapitalized, with more than half of those reviewed in the sector scan reporting negative unrestricted liquid net assets before the recession (FYs 2005-07). Additionally, these organizations are often facility intensive with issues of deferred maintenance at the center of their current financial position.

On an operating basis, the heavy reliance on government funding has rendered organizations particularly vulnerable given the nature of restrictions, the volume of distinct contracts, and the reporting and match requirements to which organizations must adhere. Agencies often lack the internal infrastructure to develop and utilize the necessary financial planning tools for continued sustainability.

Similar to other "safety net" organizations in California, including child care agencies, food banks and homeless shelters, the global recession and prolonged State budget crises have triggered a dramatic increase in demand for services, while also hampering both the reliability and availability of government and foundation dollars.

The Premise: Financial Analysis of the 2010 Cohort



Having worked directly with over 45 agencies and developed anecdotal observations of the sector, NFF has aggregated a portion of the data that has served as the basis for our work in order to create a one-year comparative analysis of 11 various DV agencies. This analysis is preliminary and will be enhanced in future reports to include a greater number of organizations as well as additional quantitative and qualitative support. While many of our observations are supported by the financial data of the 11 organizations in the cohort, we've observed them to be representative of the domestic violence agencies NFF has worked with thus far.

In this initial report we have sought to capture a high-level perspective of the better-than-expected 2010 fiscal year, provide a caveat to the apparent "good results" seen in 2010, and consider what the next few years may look like for the sector.

The organizations included in the sample group are depicted anonymously and exhibit significant diversity, both in geography as well as business model and core programmatic activities.

- Certain organizations are shelter-based and/or operate DV, Counseling, Sexual Assault and Prevention programs;
- Some are located in metropolitan areas (urban) or rural areas;
- Agencies from Northern California (48 counties located between the northern border of the State and Monterey, Kings, Tulare and Inyo counties) and Southern California (10 counties located south of Monterey, Kings, Tulare and Inyo counties) are included.

Types of Data Used:

- Fiscal year 2010 financials, with 6/30 fiscal year-end

Part II.



Heard and Observed: Initial Takeaways

Heard and Observed: Increased Profitability in 2010



Many DV organizations, both in the cohort and outside of it, ended 2010 on an unexpectedly strong note. Most organizations ended the year with a surplus, despite the recession and the State budget crisis. However, the positive operating performance in that year was reliant upon a number of factors:

- Surpluses were achieved through a combination of expense reductions in anticipation of government revenue shortfalls, the eventual restoration of the majority of state funding, the flexible use of restored funds and increased fundraising efforts in anticipation of the loss of state funds.
- Personnel expenses remained low as a result of layoffs and furloughs, conservative budgeting, scenario planning, and resistance to rehiring uncertain staff positions with restored CalEMA funds.

In considering the profitability only at a surface-level, it is easy to overlook the difficult actions driving these year end results:

- Doing more with less: The majority of the organizations that NFF worked with reported serving more clients with fewer staff, as a result of layoffs, furloughs and unfilled vacant positions. In most cases, this was achieved by curbing personnel expenses and deepening the dependence on “sweat equity,” volunteers or underpaid staff. Staff are even more under-paid than before and some organizations are exploring how to cost effectively train volunteers (such as college students) to provide direct services.
- Cutting administrative support: Many organizations chose to cut administrative support before programmatic. Thus DV organizations have been finding short-term staffing solutions to manage increased demand—the Executive Director that covers the reception desk one afternoon a week, or the Director of Finance that now manages Human Resources and development. More Boards became “working” Boards, assuming staff-level functions.

Heard and Observed: A Deepened Commitment to Transformation



In the recent years of economic hardship, many organizations experienced first-hand the effects of insufficient or even nonexistent cash cushions. Now, more than ever, leadership in the sector is recognizing and acting to counteract the fallacies of break-even operating budgets as “good enough,” thin or negligible operating reserves that are insufficient to mitigate risk, and unmaintained facilities that are the norm.

For some, this is an ideal time for transformative planning:

- We have observed several organizations that have significantly downsized and re-thought their business model as a result of near insolvency, pre-recession.
- Other groups have emerged from the recession with an increased commitment to seeking out strategic partnerships, developing earned income ventures and experimenting with new programs in service of their clients.
- Transformation requires an assessment of core mission and programs; an evaluation of staff and Board competencies and internal systems; and an external analysis of opportunities, including areas for collaboration, among other considerations.

Heard and Observed: A Lack of Fundraising Capacity



In NFF's ongoing interactions with DV leadership since 2009, fundraising has emerged as an area of underdevelopment across the sector. The reliance on government funding renders restricted programmatic dollars the norm. The inability to charge clients for services and the challenges securing other types of earned revenue further limits options for revenue diversification. Thus, fundraising is the primary conduit to unrestricted operating dollars.

- In general, fundraising improvements take considerable time to implement and reap rewards, in the ballpark of 2-3 years. Organizations need to prepare for this lag between increasing fundraising capacity and the actual receipt of new dollars.
- Increased activities are needed not only to support long-term fundraising for deliberate capitalization (the construction of a new building, for example) but also to support regular operations (the building of a programmatic risk reserve). That said, NFF has observed that more often organizations with existing reserves built them with one time bequests or a large one time gift.
- NFF's conversations with DV leadership teams revealed that fundraising success is often related to several key elements:
 - Access to succinct and compelling financial and programmatic information;
 - The presence of at least one "cheerleader" on the Board;
 - An Executive Director that is comfortable asking for money and dedicates time on a regular basis to donor cultivation;
 - At least one staff person that dedicates the majority of his or her time to managing the daily fundraising functions, such as writing proposals and follow-up with major donors;
 - Internal systems (e.g. software) to monitor, report and manage donors (individual and institutional);
 - Clear visibility into the pipeline of new prospects, with varying degrees of likelihood frequently assessed and communicated to senior management.

Heard and Observed: Rural Challenges



Rural, isolated organizations faced more challenges in fundraising and improving capital structure.

- In some communities, the lack of local fundraising “culture” and understanding of nonprofits, and general distrust of government and government-supported programs contributed to this.
- The dearth of local foundations and corporations creates high competition for available resources.
- Interestingly, local banks in rural communities may be more willing to establish a business relationship with nonprofit organizations than in congested urban areas. Thus in many cases, rural organizations maintained access to debt with more success than their urban counterparts.
- Rural organizations could especially benefit from increased access to technical assistance, peer networking opportunities, and non-local funders.

Part III.



The Numbers in 2010: A Comparative Analysis

The Numbers in 2010: A Comparative Analysis



- This next section presents a comparative analysis of 11 organizations, from across California, all of whom NFF worked with in 2010. Certain organizations are shelter-based and/or operate DV, Counseling, Sexual Assault and Prevention programs. Some organizations are located in metropolitan urban centers, other are in rural areas.
- The charts presented have been generated from the audited financial statements of the 11 organizations and explore several indicators of financial health, listed in greater detail on slide 13.
- In the graphs that follow, the X-axis refers to the 11 organizations, A-R anonymously. These labels have been used consistently throughout the analysis. The Y-axis most often refers to dollars in thousands, and in some cases when specified, percentages (slides 19, 21, 27) or units of time (slide 29).
- Page and graph titles indicate the main points of the data.
- Text boxes on the bottom of the page highlight key definitions and other relevant notes.

Indicators of Financial Health



Profitability & Savings: Are costs covered? Are surpluses sufficient to pay for debt principal payments and facility or equipment purchases? Is the sector generating adequate savings?

Revenue Dynamics: Where does the sector's money come from? Are revenue streams reliable or at risk?

Expense Dynamics: How is the sector spending its money? Are expenses predictable? How well does the sector understand what is fixed vs. variable? Is the sector's management responsive to operating changes and prepared to make difficult decisions?

Health of Balance Sheet: Are the size, nature and distribution of assets, net assets and liabilities appropriate to support the sector's business and programs over the long term?

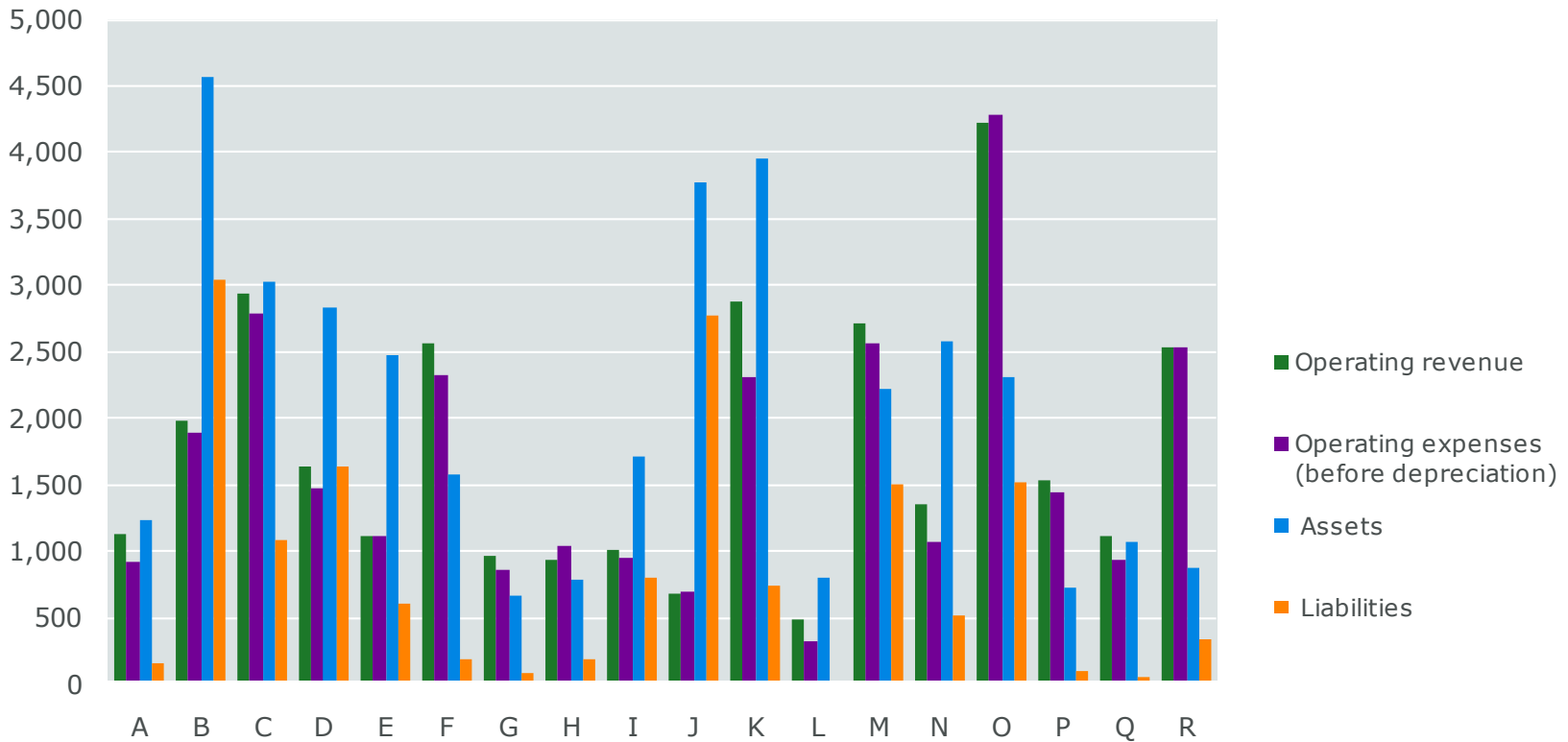
Liquidity: Is there enough cash available to cover current obligations? How quickly can organizations convert receivables to cash? How liquid are net assets? Is some cash restricted or spoken for?

2010 Financial Picture at a Glance



Income Statement & Balance Sheet Overview

(\$ in thousands)



Profitability & Savings



Nonprofits need profits. Surpluses are necessary to fund debt, facilities, equipment, savings and growth. NFF encourages nonprofits to budget and manage to annual surpluses appropriate to meet their short- and long-term needs. Breaking even is rarely enough.

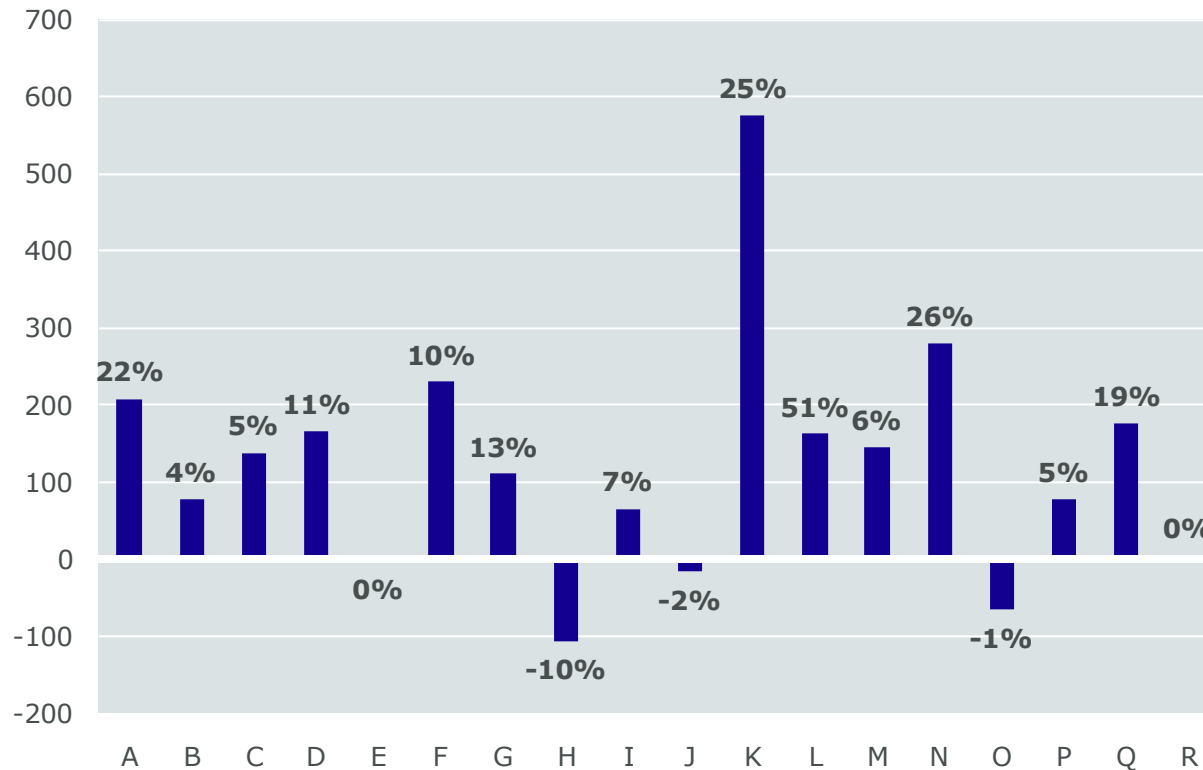
'Profitability & Savings' focuses on the cohort's trends in revenue relative to expenses.

Most organizations generated surpluses in 2010 ...



Operating Surplus (Deficit) Before Depreciation

Surplus/deficit as a % of expenses (\$ in thousands)



... as a result of expense-cutting, restored state funding and increased (possibly unsustainable) fundraising efforts. Many organizations do not have financial health to sustain break-even (+/- 3%) operating results.

Depreciation is a non-cash expense associated with reducing a fixed asset's book value due to general wear and tear over its defined accounting or useful life. Depreciation is only an approximation of the amount needed to replace fixed assets.

Revenue Dynamics



The degree of predictability and reliability of revenue often is an indicator of financial health.

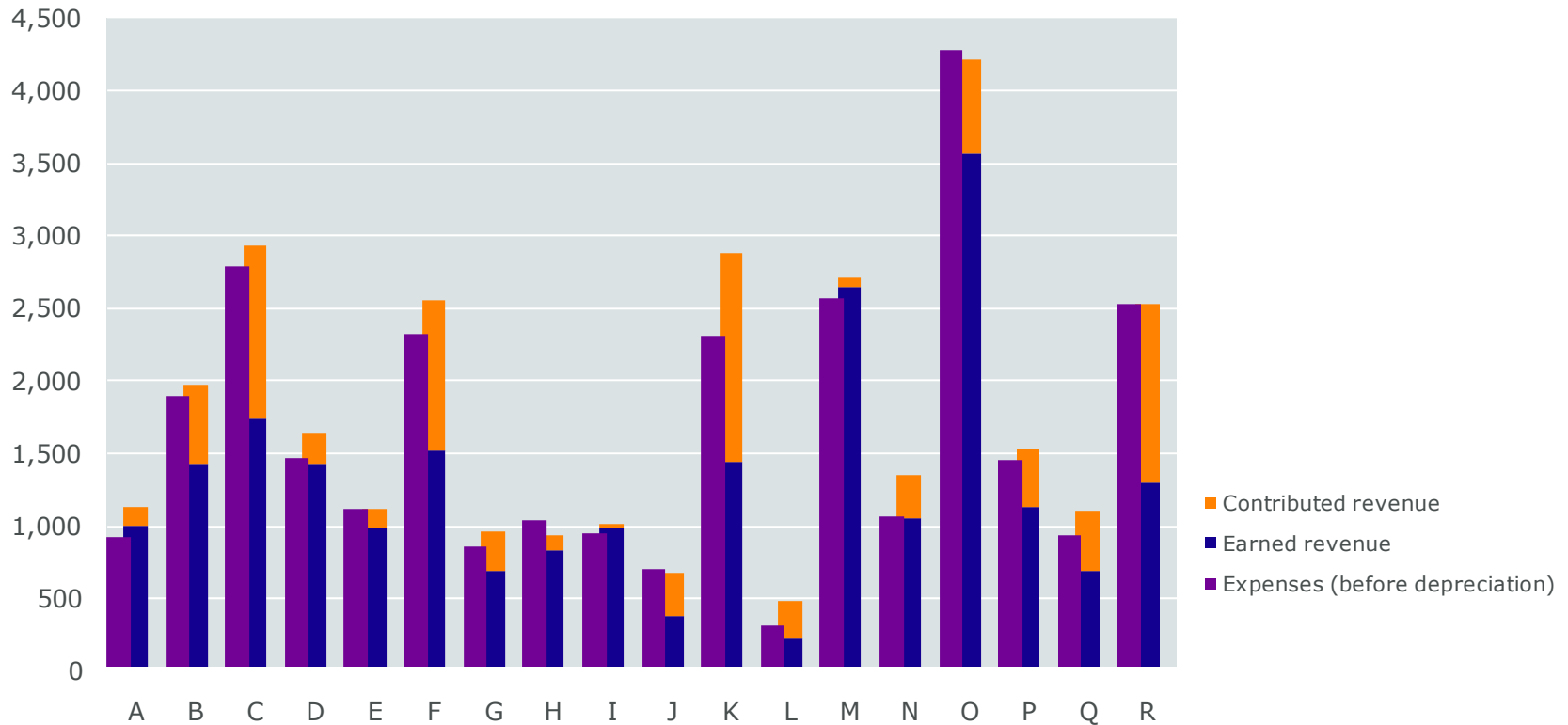
Revenue includes payments for services, donations from individuals, foundations and corporations, contributions and contract payments from government agencies, income from investments and other activities (for example, rentals).

'Revenue Dynamics' focuses on the patterns in sources of revenue and examines the impact of restrictions.

Did the Cohort Raise Enough to Cover the Gap Between Earned Revenue and Expenses?



Total Operating Expenses Covered by Earned and Contributed Operating Revenue (\$ in thousands)



Contributed revenue is received from individual, foundation, corporate, or government donations with no products or services provided by the organization in direct exchange for the funds.

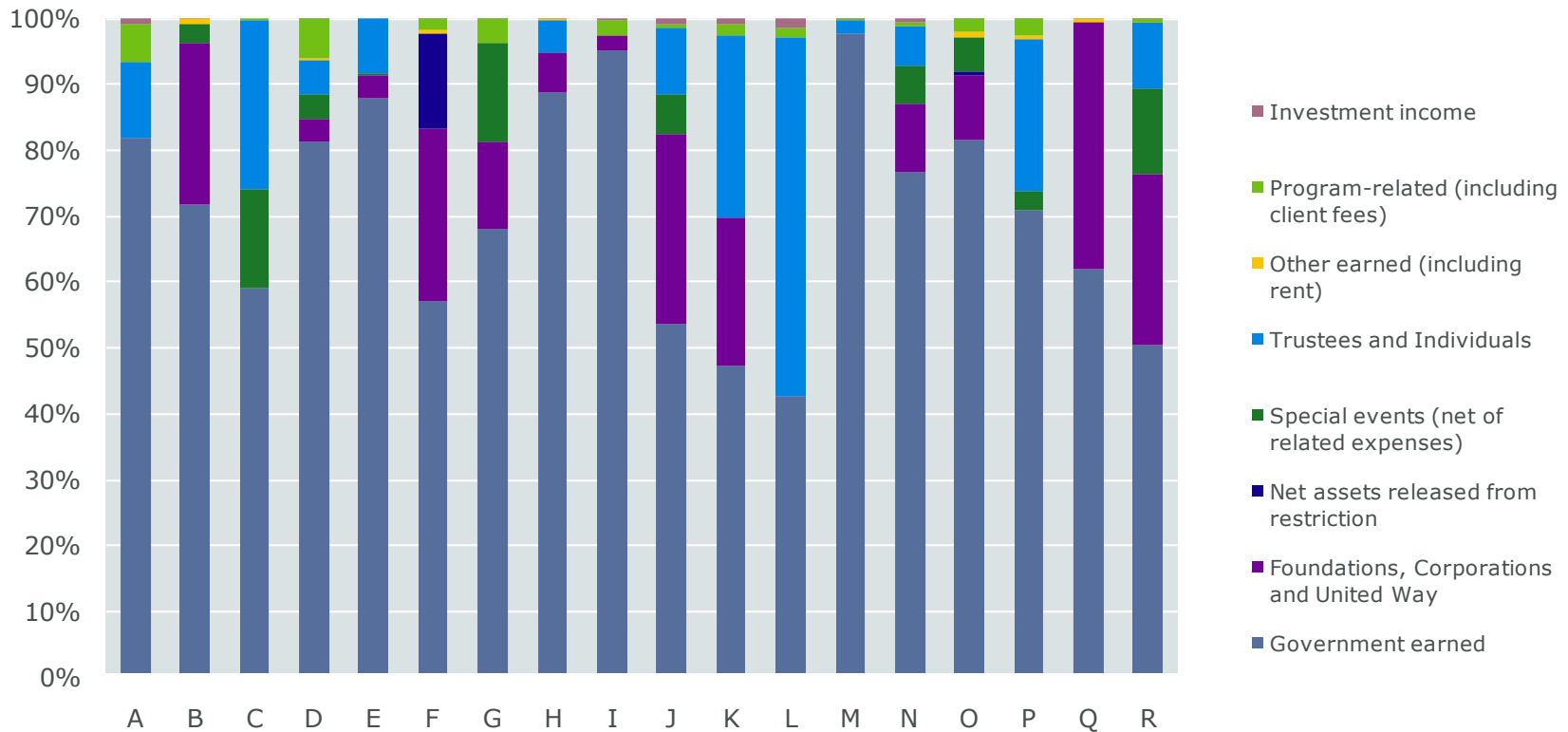
Earned revenue is received by an organization in exchange for its products or services, e.g., tuition or performance-based government contracts.

Operating expenses are regular costs of doing business. Excluded are one-time, extraordinary or capital items such as funds passed through to other agencies, losses from sale of property, realized/unrealized investment gains or payments of debt principal.

Government Funding is the Most Significant Source of Revenue



Operating Revenue



Net assets released from restrictions refers to the transfer of funds from restricted net assets to unrestricted net assets due to the satisfaction of donor-imposed stipulations with respect to timing or purpose of the contribution.

Expense Dynamics



Nonprofits that run into financial challenges are often uncomfortable bringing expenses in line with their revenue reality.

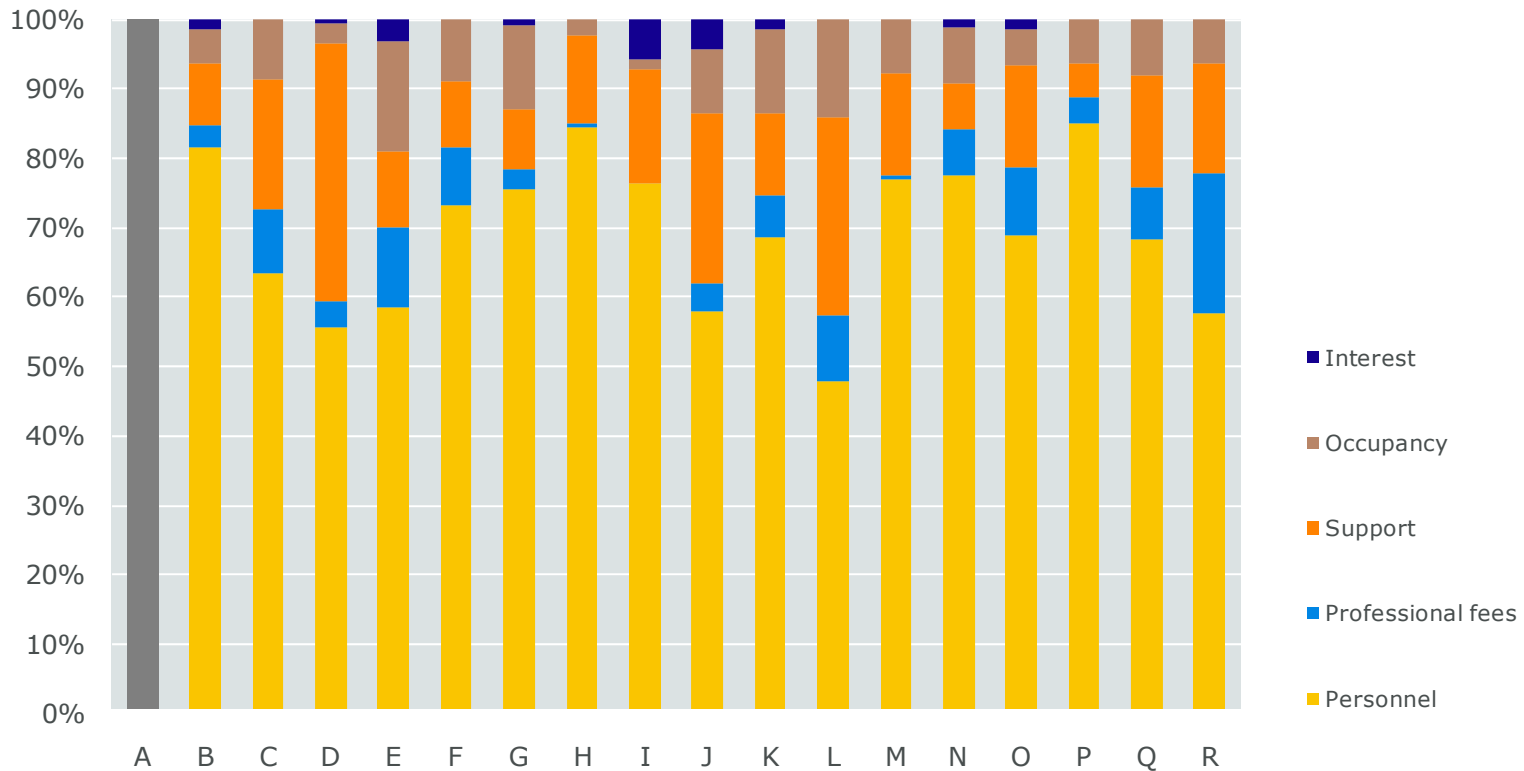
There are costs beyond day-to-day operations that include debt principal payments, capital expenditures, and funds set aside each year for future use. Budgeting to the full cost of doing business is essential for sustained financial health.

'Expense Dynamics' examines the cohort's full cost of doing business, including operating expenses.

People Costs Were By Far the Largest Expense



Operating Expenses



Personnel expenses include all salary, payroll taxes, benefits and related staffing costs.

Professional fees are all contract professionals, such as teachers, artists, musicians, lawyers, accountants, architects. These individuals may not have their taxes withheld by the organization or receive benefits.

Occupancy expenses are all costs relating to the rent, utilities, insurance and maintenance of program and office space.

Support expenses are costs unrelated to personnel, professional fees, interest and occupancy (e.g., postage, office supplies, program expenses).

Health of Balance Sheet



The balance sheet reveals an organization's ability to manage risk and pursue growth or other opportunities. It is a summary of an organization's financial condition at a specific point in time – in the case of this report, each fiscal year end.

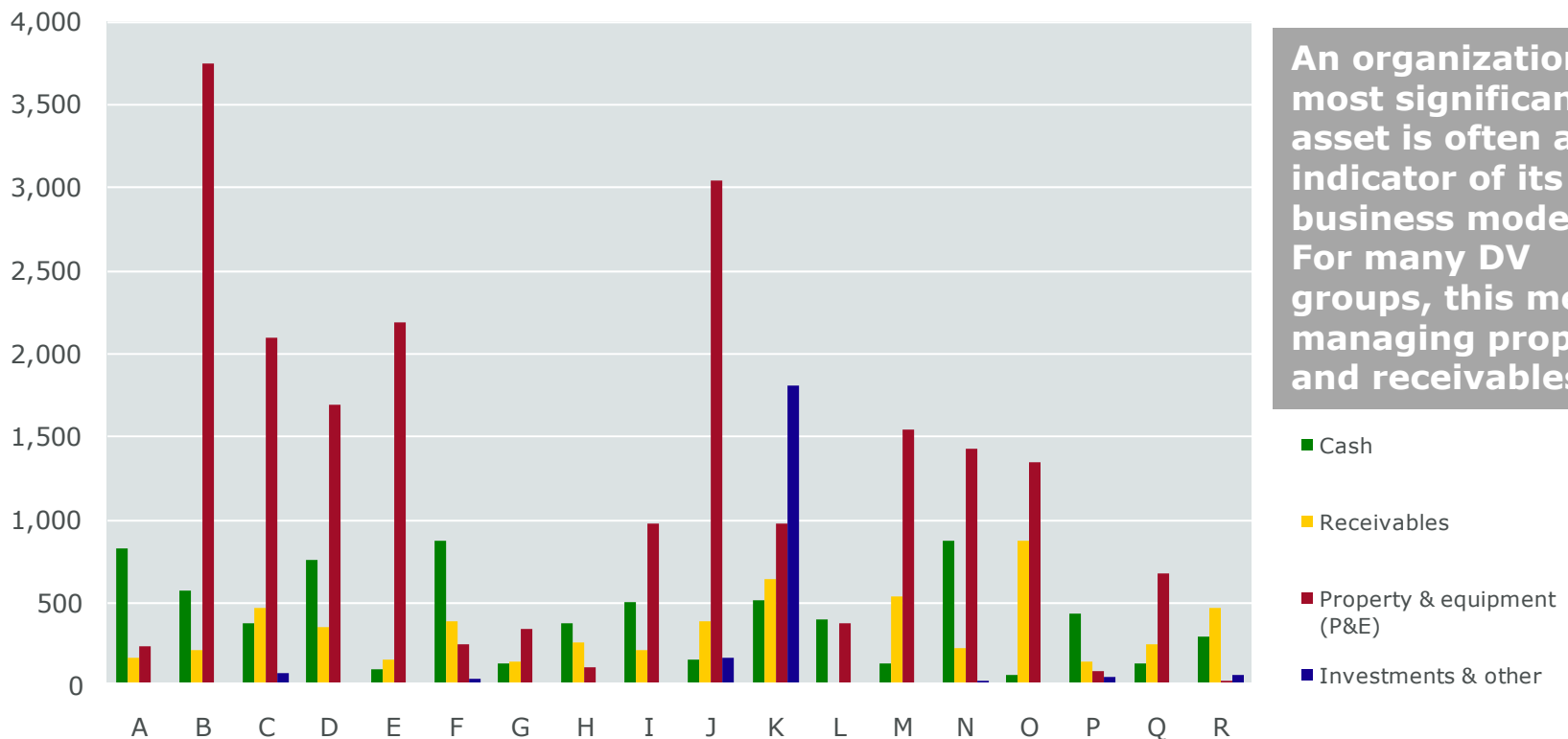
Included on the balance sheet are an organization's assets, liabilities and net assets. In the nonprofit sector there are restrictions on assets and net assets which can impact an organization's flexibility.

'Health of Balance Sheet' focuses on trends from the cohort's balance sheet, examining the magnitude, nature and distribution of each component.

P&E Comprised a Sizable Portion of Most Organization's Assets



Total Assets (\$ in thousands)



An organization's most significant asset is often an indicator of its business model. For many DV groups, this means managing property and receivables.

Receivables are funds owed to an organization, for goods and services it has provided or that have been committed as a grant or donation. The funds have been booked as revenue, but the cash has not yet been received.

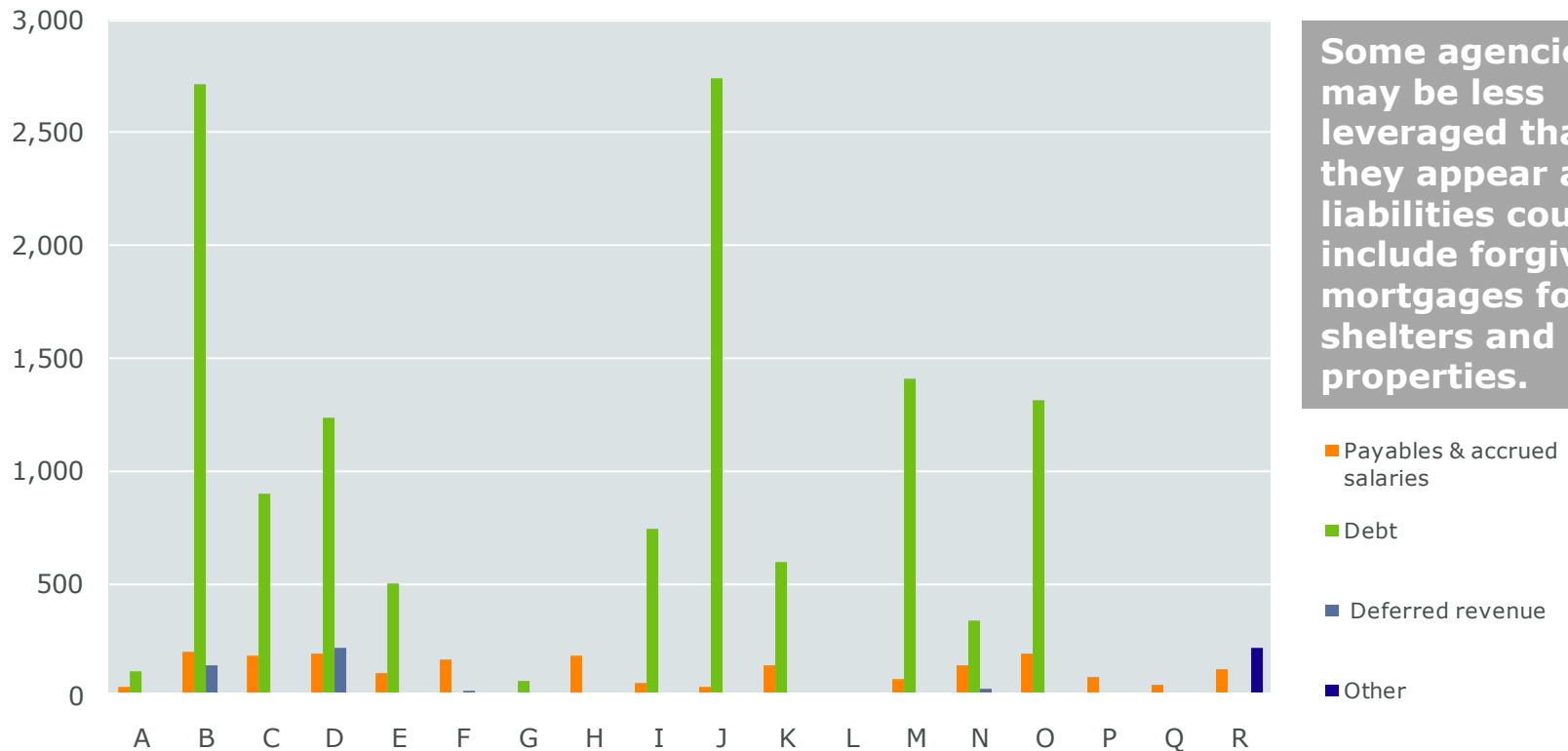
Property & equipment (P&E), often called **fixed assets**, are physical items an organization owns (e.g., property, building, equipment, improvements), and cannot easily be converted to cash.

What Kind of Liabilities Did the Cohort Have?



Total Liabilities

(\$ in thousands)



Some agencies may be less leveraged than they appear as liabilities could include forgivable mortgages for shelters and other properties.

Payables are funds owed by an organization to its vendors for goods or services purchased.

Accrued salaries are wages due to employees for work to-date.

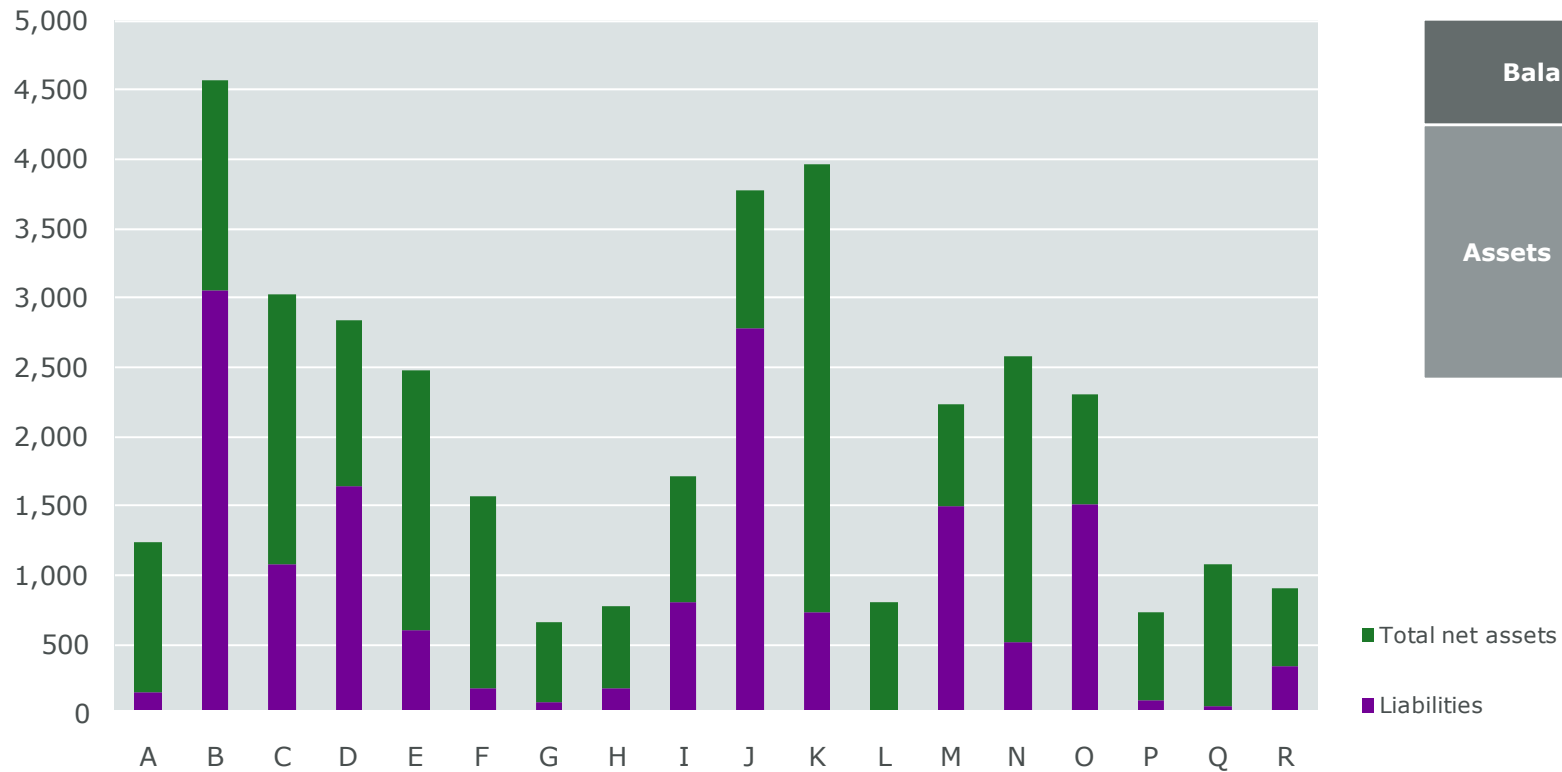
Deferred revenue refers to payment received from a client for a transaction that has not yet occurred (e.g., subscription purchase for performances held on future dates). This situation creates an obligation, and thus a liability, for the organization to provide goods or services in the future.

How Were Assets Financed?



Capital Structure

(\$ in thousands)



Balance Sheet	
Assets	Liabilities
	Net Assets

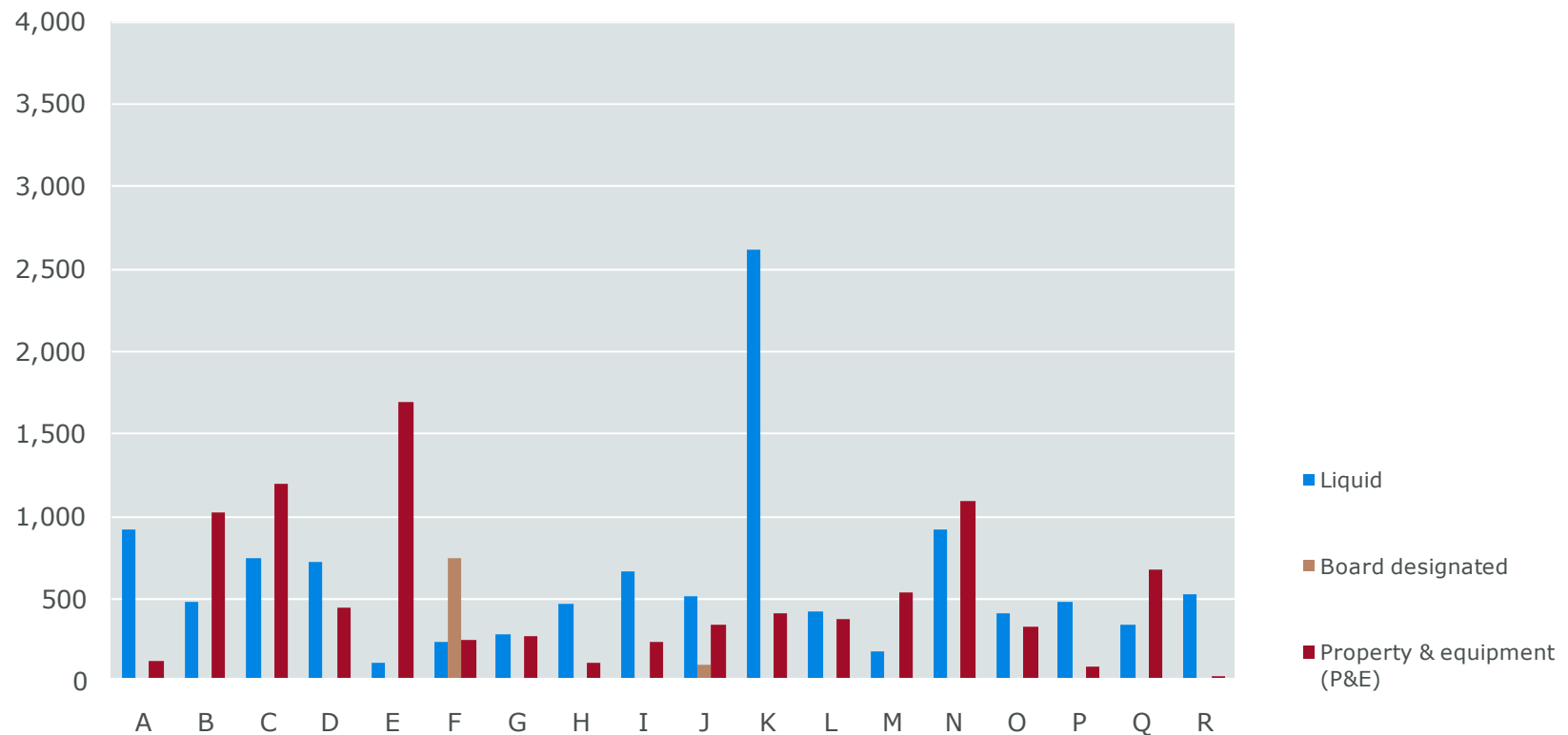
Total net assets refers to the difference between total assets and total liabilities as seen on the balance sheet. Net assets are categorized as unrestricted, temporarily restricted, or permanently restricted.

What Was the Composition of Unrestricted Net Assets? How Much Was Available to Support Operations?



Unrestricted Net Assets

(\$ in thousands)



Note: P&E is assumed unrestricted; it is net of depreciation and related debt.

Liquid net assets, also called **unrestricted undesignated net assets**, represent the estimated amount of unrestricted net assets NOT invested in P&E or board-designated reserves. Essentially this is the liquid amount of unrestricted net assets available to support operations.

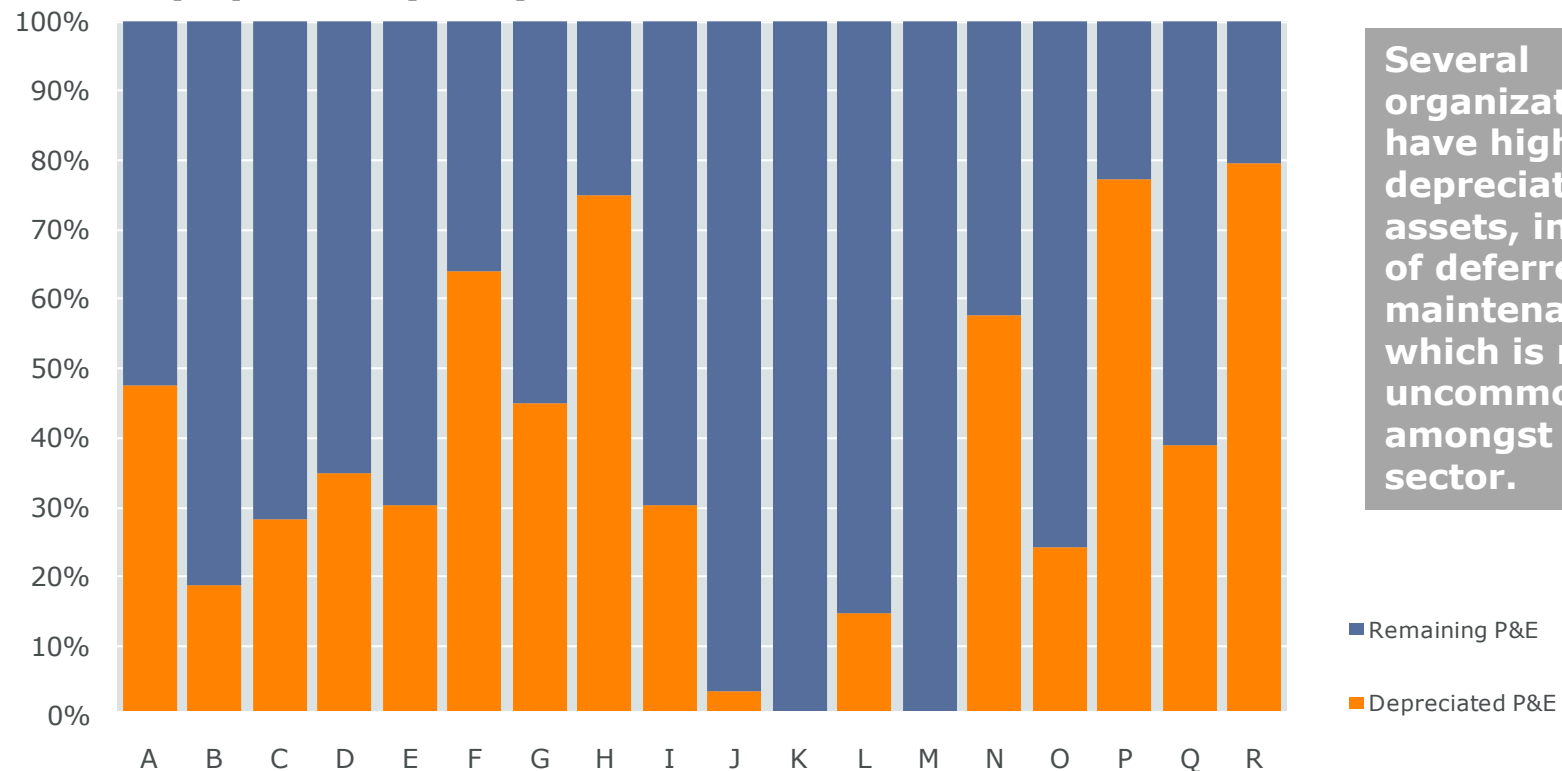
Board-designated net assets or reserves are unrestricted net assets that have a defined use or purpose, as determined by an organization's board of directors.

Property & equipment (P&E), often called **fixed assets**, are physical items an organization owns (e.g., property, building, equipment, improvements), and cannot easily be converted to cash.

How Much of the Cohort's Fixed Assets Have Been Depreciated?



Accumulated Depreciation as a % of Property & Equipment (P&E)



Several organizations have highly-depreciated assets, indicative of deferred maintenance which is not uncommon amongst the sector.

Accumulated depreciation is the total amount the value of fixed assets has decreased to date due to general wear and tear or obsolescence.

Liquidity



Liquidity is a measure of how much cash is available to an organization. Marketable securities, undrawn lines of credit and receivables are liquid if they can be turned into cash within one year.

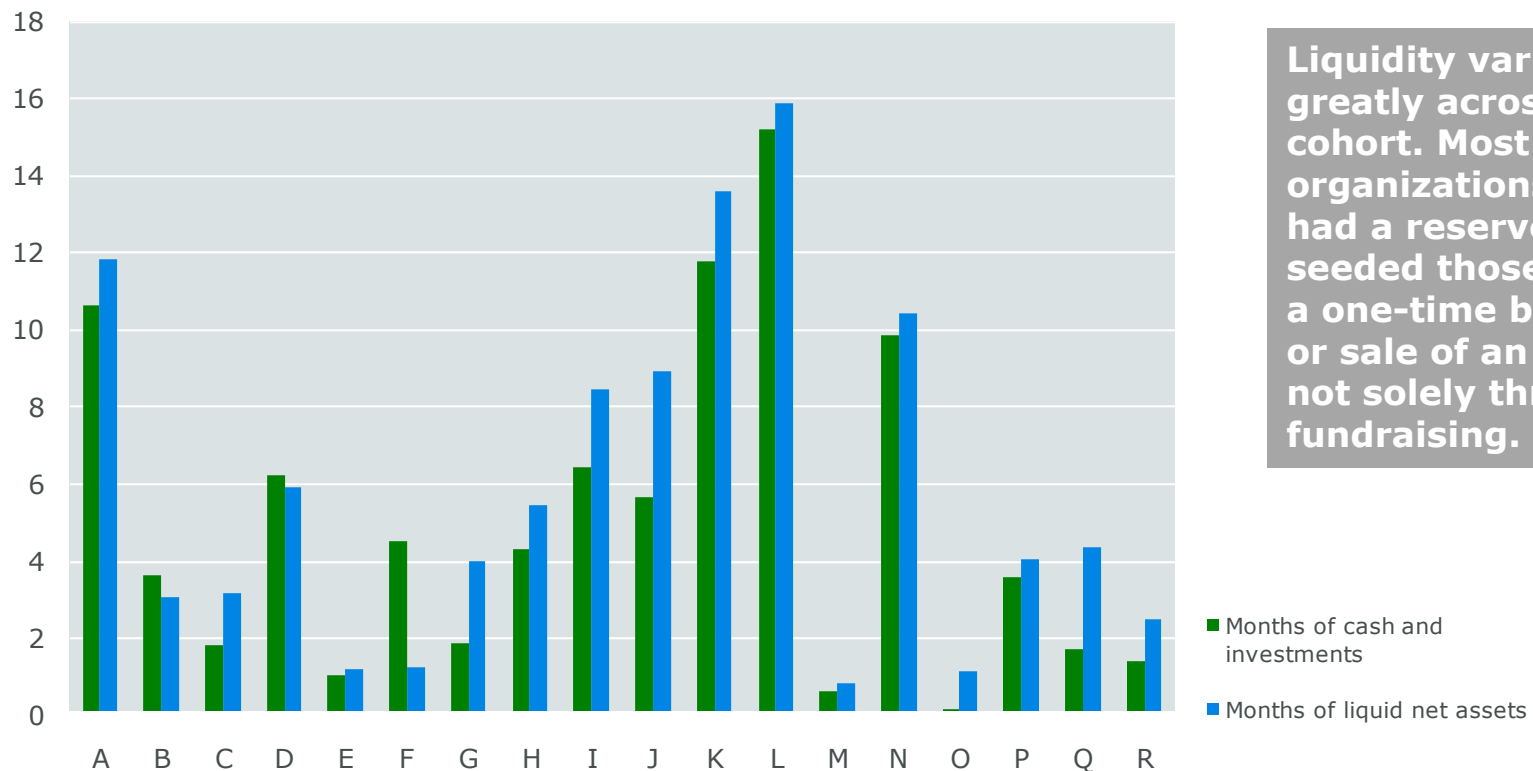
Determining liquidity is often complex for nonprofit organizations. Cash and investments in the nonprofit sector are not always liquid, often creating the false impression that a nonprofit is flush even when it may be dealing with a cash crisis. Cash is only liquid when donor restrictions or board designations have been met.

'Liquidity' examines the amount and flexibility of cash and liquid net assets readily available to an organization.

How Much Cash and Liquid Net Assets Did the Cohort Have Available to Support Operations?



Months of Cash and Investments vs. Liquid Net Assets



Liquidity varied greatly across the cohort. Most organizations who had a reserve seeded those funds a one-time bequest or sale of an asset—not solely through fundraising.

Months of expenses covered by cash and investments is a measurement of how long the organization could operate at current expense levels using current cash reserves or investments.

Months of liquid net assets refers to the number of months the organization could operate at current expense levels using liquid net assets.

Part IV.



NFF's Response to the Sector: Next Generation Tools and Assistance

NFF's Response to the Sector: Next Generation Tools and Assistance



In a continued effort to strengthen the financial capacity of the leadership of the DV sector, and in response to a number of presenting issues across the sector, NFF is continuing to develop new tools for its clients, including:

Full Cost Funding Analysis: DV service providers, along with many types of human service organizations, typically receive the majority of their funding from government grants and contracts, on a cost reimbursement basis. Using feedback from finance directors in the field, NFF has developed a new tool to help analyze how specific restricted funding sources cover programmatic and administrative expenses (including funding sources that cover expenses for multiple programs, like CalEMA funds), and where they do not. With this information, staff has enough detail about the “gaps” to make more informed fundraising asks and expense reductions.

Systems Replacement Planning and Facility Maintenance: Owning or leasing a building, let alone more than one, creates significant complexity for most nonprofit organizations. Buildings require investments of financial and human capital, even when they are obtained through favorable government or otherwise below-market financing. During the recession many organizations have strategically deferred maintenance projects out of basic survival. Others moved, acquired or refinanced, or are contemplating new facilities projects. As the recession starts to abate over the next few years, NFF recommends organizations to take a comprehensive view of their facilities, related to financing, fundraising, and appropriate capitalization. NFF can help analyze these issues, and frame them in the context of long-term financial health.

Appendix:



About NFF

Nonprofit Finance Fund: Where Money Meets Mission



Fundamentally improving the getting, giving and using of money in the nonprofit sector

Serving thousands of nonprofit and funder clients since 1980

- \$205 million in loans; total value of financing leveraged by loan dollars exceeds \$1 billion
- 1000+ consulting engagements; 250+ workshops on nonprofit finance
- Dozens of strategic funder partnerships to improve financial sustainability of effective nonprofits

Experts in nonprofit finance

- Nearly 30 years lending as a 501(c)(3) Community Development Financial Institution (CDFI)
- Sharing our wisdom and advocating on behalf of a strong and effective nonprofit sector

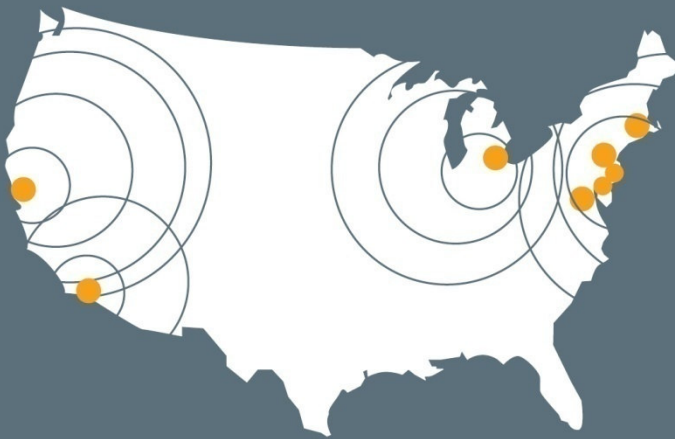
NFF:
“...arguably the most influential voice in the ongoing effort to reshape thinking and practice about nonprofit capitalization.”

–The NonProfit Times

Where We Are and Who We Serve



Where You'll Find Us



Northeast	Mid-Atlantic	Midwest	West Coast
New York Boston	New Jersey Philadelphia MD DC VA	Detroit	San Francisco Los Angeles

Who We Serve



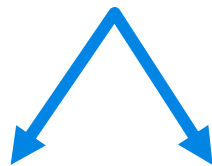
NFF Helps Keep Nonprofits in Balance and in Business



Establishing and maintaining a balance among these three critical components is essential to an organization's long-term health and viability

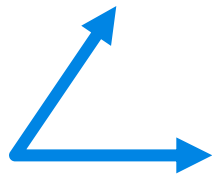
Mission and Program

What you do and why you do it



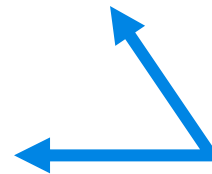
Capacity

Your ability to do what you do:
Management and Processes



Capital

What you have, what you owe
and how it is distributed: Assets,
Liabilities and Net Assets



NFF: What We Do



Financing	Financial Consulting
Loans and Lines of Credit New Markets Tax Credits Program-Related Investment Services	Situation Analysis & NBAs Program Profitability Modeling Scenario Planning Financial Reporting Assistance Strategic Collaboration Planning Clinics and Workshops Growth Capital Services
Long-Term Facility Management	Thought Leadership & Partnership
Systems Replacement Plans Building For the Future Facilities Planning Workshop	Nonprofit advocacy Studies of the nonprofit economy Tips and resources