

Adapting to the New Normal (What is it Anyway?)



John Tauer, CPA, Principal
Chad Lassen, CPA, Manager

LarsonAllen's 17th Annual Nonprofit & Foundation
Conference—May 6, 2010

LarsonAllen[®]
LLP

CPAs, Consultants & Advisors

Today's Learning Objectives

At the end of this session, you will be able to:

- Assess your situation and develop smart strategic responses to the economic downturn
- Apply new tools and approaches to respond to changes in your environment



Dealing With Today's Economic Landscape

Business as usual won't do anymore. It's time to **adapt and transform**.

Active engagement with today's challenges increases your likelihood of emerging from the recession with important services in place.

Going it alone won't work. It is in **working with others** that leaders find the best ways to generate solutions and hope for the future.



What's Happening

Combination of Events

- Credit markets seized
- Stock markets plummeted
- Employment rate falling
- Housing and real estate markets in decline

THE CHRONICLE OF PHILANTHROPY
NEWS UPDATES

Feeling the Squeeze: Charities and the Economy

Impact on Nonprofit Organizations

- Downward pressure on government and philanthropic funding
- Protectionist behaviors and general cost increases
- Limited and/or more expensive access to credit
- The bottom may take longer to reach for nonprofits

All compounded by an increased need for services



What's Happening

How Organizations Are Responding Today

- Reducing operating budgets
- Putting expansion plans on hold
- Eliminating staff positions
- Merging or dissolving
- Dramatically transforming their business models

StarTribune.com | MINNEAPOLIS - ST. PAUL, MINNESOTA

Museum of American Art to close -- for now

By TIM HARLOW and MARY ABBE , Star Tribune staff writers

November 24, 2008

THE CHRONICLE OF HIGHER EDUCATION

Recession May Drive More Adult Students to Take Online Courses

©2010 LarsonAllen LLP



How Is or Will This Affect You?

TRANSACTIONAL Changes: Revenue, Expenses, Assets, Liabilities

- Government funding levels
- Individual / institutional contributions and fundraising events
- Fees from those who use your services
- Investment performance and endowment spending
- Increases and cost pressures on many line items
- Collection of outstanding receivables
- Fulfilling debt obligations
- Reduction in force costs



How Is or Will This Affect You?

TRANSFORMATIONAL Changes

Restructure, Reorganize, and Engage

- Mission-based decisions
- Strategic, operational, and cultural
- Alternative...
 - **Service delivery strategies**
 - **Staffing models**
 - **Business models**

What is happening in your Organization?



Tool #1 - Understand Your Starting Position

Start With an Honest Self-Assessment

Define what financial crisis looks like for your organization in objective, concrete, and practical terms...

...so that your organization's leaders have a **shared understanding** about what must be avoided...

...and so that they **buy into the need to mobilize** to avert problems



Financial Self-Assessment

Ask Yourself the Following Questions

- What has our financial **track record** been?
- Are we operating from a **position** of strength or weakness?
- What are our organization's **income sources** and **cost structures**?
- What kind of financial **flexibility** do we have?
- How financially **sophisticated** is our board and staff?



Tool #2 - Revisit Fundamentals About Income

Financial health depends on having **sufficient resources** to fund **stable programming**.

What does this mean?

- Income **fully covers** program expenses
- Income is **renewable**: reasonably expected to continue into the future
- Income is received from **diverse sources** to reduce risk

Who is in control of your income model?

- Self-Funding
- External Support
- Independent Sources



Is This the Right Mix for Your Organization?

Is it reasonable to expect this mix will adequately **sustain you in the future**?

Are you reasonably comfortable with the **degree of control** you have over program funding?

Which sources do you **want to grow**?

Do you have the ability to **convince your funders** that your programs deserve their support?

Do your proposal budgets make the **best possible use** of the funds available through each funding source?



Strategies to Maintain or Increase Income

Stay in close touch with customers, donors, and other key constituents

List in brainstorm fashion all the options available to you for protecting and/or increasing **current income streams**...

...and all the options for **developing new ones**

Articulate the **principles** that will guide your choices about options for further research

Research and select the best options: **cost / benefit analysis** and **return on your investment**



Tool #3 - Revisit the Fundamentals About Cash

Financially healthy organizations have **adequate internal cash** – or access to cash – in times of shortfalls.

Use your **balance sheet** to figure out what your cushion is:

- Cash
- Receivables
- Line of Credit
- Reserves

If Your Balance Sheet Has...

- No cash or receivables
- A fully drawn line of credit
- Little or no reserves available

...then there is nothing to draw on in challenging times



It's Time to Rethink Your Reserves

In objective, explicit, risk-based and data-driven terms

- **General Operating Risks:** Funds ongoing operational expenses during interim periods of economic disruption (less than twelve months)
- **Capital Investment or Improvement:** Funds the repair, replacement, or expansion of major technological infrastructure and facility needs
- **Business Model:** Funds operations over a three-year period during which your organization must make a significant change in its business model



Additional Reserve Uses

- **Uninsurable Legal Risks:** Funds uninsurable costs associated with litigation
- **Market Volatility:** Funds unanticipated investment losses caused by market volatility
- **Initiative or Opportunity:** Funds business initiatives that require significant development or start-up costs
- **Leadership Transitions:** Funds to costs associated with bringing aboard new leadership



Tool #4 - Make the Most of What You Have

Protect your existing assets

- Cash and investments are insured
- Receivables are current
- Property and equipment are adequately insured
- Strong internal controls are in place and functioning properly

Activate underused assets

- Invest excess cash appropriately
- Sublease excess space
- Assign the right people to the right tasks and challenges
- Galvanize and use volunteers efficiently

Maximize existing income streams

- Collect every dollar you're owed
- Make sure your services / reimbursement rates are priced right



Tool #5 - Build a Smart Portfolio of Projects

Each project fits with your **mission and culture**

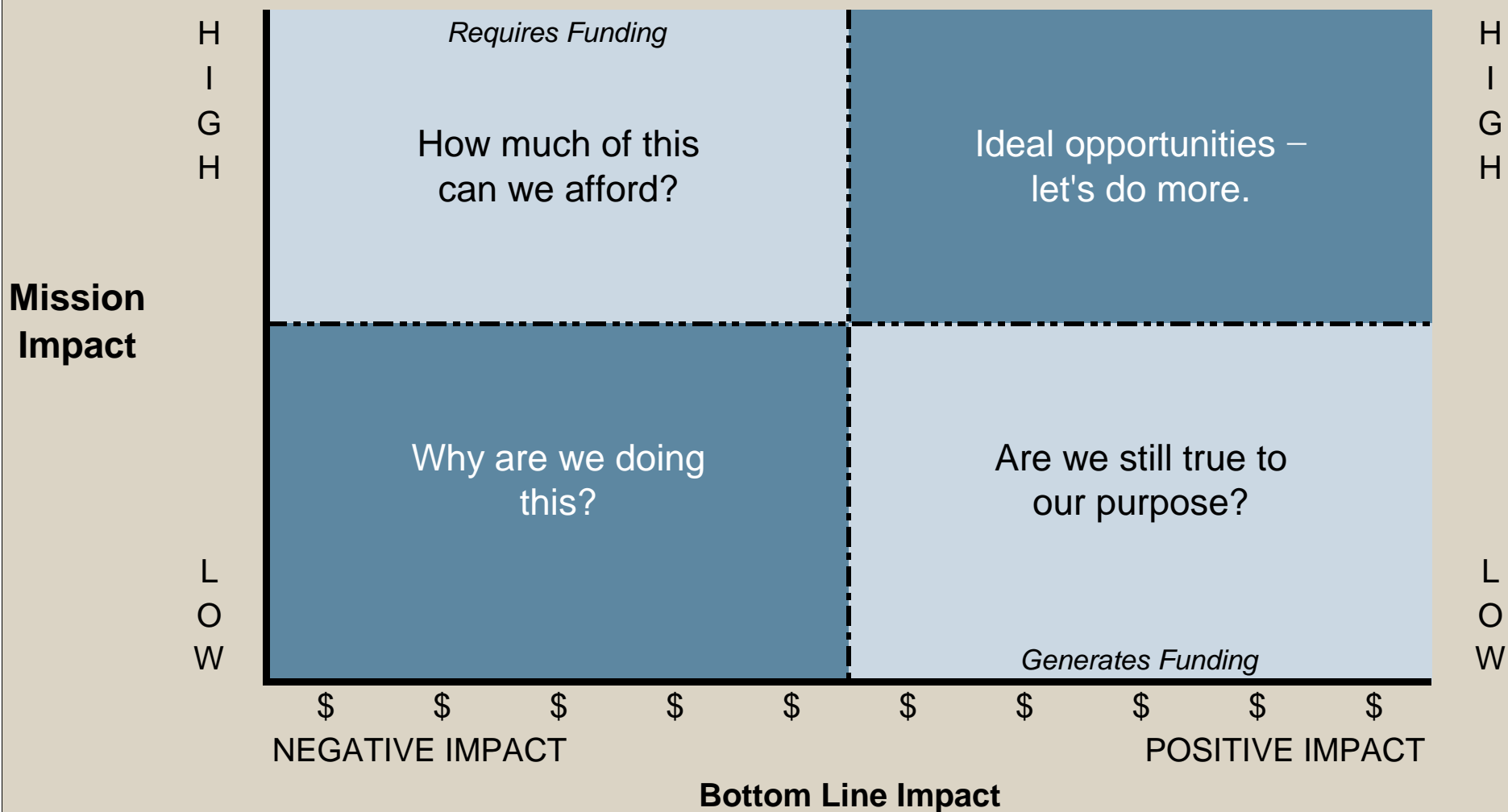
You have the **skills and knowledge** required to implement this activity

Your portfolio presents a **sustainable mix of bottom lines**

You have sufficient infrastructure to manage the **administrative load** that comes with your chosen mix of funding



Programming: A Portfolio Approach



©2010 LarsonAllen LLP



Tool #6 - Generate and Act on Sound Information

Anticipation is one of the keys to financial stability.

What does this mean?

It means that you as managers need **time to adjust** if income is not coming in according to plan

- Figure out what, exactly, is the problem
- Articulate and monetize the issues
- Consider carefully how to address budget variances
- If necessary, take adequate time to implement adjustments

Develop dashboard or key metrics to evaluate progress quickly



Tool #7 - Always Have a Contingency Plan

Make them **easy to implement quickly** if there is a major shift in funding or other event

Create **several versions or scenarios** of your operating budget

Consider **dollar-for-dollar** cost reductions (or prioritized “add-backs” in the case of better-than-expected results)

Know whether funding should be cut vertically or horizontally

Articulate the **trigger points** that will cause you to activate the contingency plan

Decide whether you can afford to incur an **intentional** deficit



Tool #8 - Look for Cost Savings

You're already lean, but chase the low-hanging fruit first...

...using **cost containment strategies**...

Renegotiate vendor contracts (they want to keep you in business!)

- Health and other insurance
- Printer, web hosts, phone / internet, landlord

Go digital if it means savings

- Reduce the need for print materials and mailings
- Some constituents may read an online newsletter or appeal more readily than print

Consider refinancing debt if it conserves cash or decreases interest expense



Cost Containment Strategies

Clean up your contact databases and “perks” policies

- Focus on your best customers
- Shorten your list of comp tickets, media kits, other freebies

Explore cheaper input sources

- Consider hard costs (fees) and time (process)
- Poses quality and mission compromise

Evaluate Benefit Packages

- Vacation payout and accruals
- High deductible health plan

Do more with less, or do less with less

- Focus on staff efficiency and system improvements
- Automate bottlenecked areas

What other opportunities are you considering?



Tool #9 - Engage and Communicate

Engage and communicate with all stakeholders in an ongoing, deep, and transparent manner

Funders

Staff

Board of Directors

Financial Institutions



Tool #10 - Know When the Basics Won't Do It

Many nonprofits have already spent years cutting expenses in response to funding cuts.

For these organizations it will be impossible to continue doing what they do in the same way with fewer resources. With no fat left to cut...

...they need to find new ways of operating; waiting it out until things get back to normal is not an option...

...recognize that you may have to **restructure, reorganize, and engage**...



Restructure, Reorganize, and Engage

Restructure

- Consider spinning off activities that don't truly **fit the mission** or that require a level of **subsidy** your organization can no longer afford

Reorganize

- Merge with an organization that has a **vision, mission and values** similar to yours
- Often seen as the last resort, this strategy must be **viewed through the eyes of those who benefit from your work**
- Merger may be the best way to keep vital services in place for the community you were founded to serve – to **maintain your mission**

Engage

- Identify peer organizations that are more **efficient** than yours in certain aspects of the work you do and deliver
- Explore how to **restructure and combine forces** so that your customers get the best of all efforts within the resources available



Contact Information:

John Tauer

612 / 397-3068 or tauer@larsonallen.com

Chad Lassen

612 / 397-3078 or lassen@larsonallen.com

LarsonAllen LLP

220 South Sixth Street, Suite 300, Minneapolis, MN 55402

Main 612/376-4500, Fax 612/376-4850, www.larsonallen.com

LarsonAllen is a member of Nexia International, a worldwide network of independent accounting & consulting firms.



NOTICEABLY DIFFERENT

**17th Annual
Nonprofit and
Foundation
Conference**



LarsonAllen
LLP
CPAs, Consultants & Advisors

©2010 LarsonAllen LLP

