

Determining Profitability

Steve Zimmerman
Spectrum Nonprofit Services

spectrum nonprofit services

@SpectrumSteve

NH Center for NONPROFITS

Today's Conversation

- ✓ Defining Profitability
- ✓ Categorizing Expenses
- ✓ Allocating Expenses
- ✓ Calculating True Program Costs
- ✓ Determining Profitability

Financial Leadership

Financial Leadership Model

Ensuring Accuracy

Financial Literacy

Assessing Financial Health

Planning and Communicating

Organizational Sustainability

Financial Health



Do we have enough cash to pay its bills?

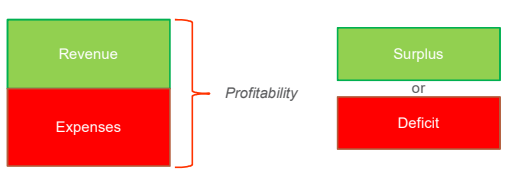
How does our cash flow projection look?

Do we have an adequate reserve?

How are our programs performing financially?

Determining Profitability

Determining Profitability



Revenue

Expenses

Profitability

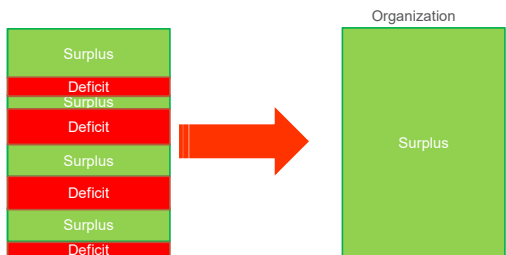
Surplus

or

Deficit

Determining Profitability

Determining Profitability



Surplus

Deficit

Surplus

Deficit

Surplus

Deficit

Surplus


Deficit

Organization

Surplus


Categorizing Expenses

Understanding Your True Program Costs



Categorizing Expenses

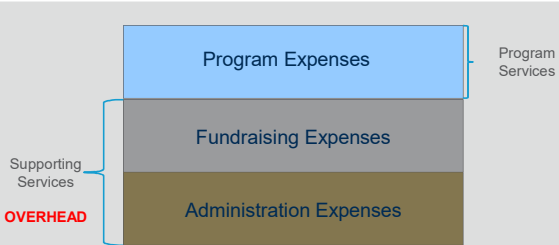
What goes into the price?

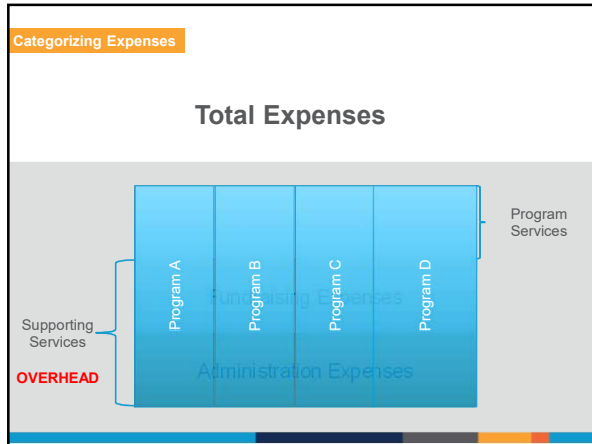


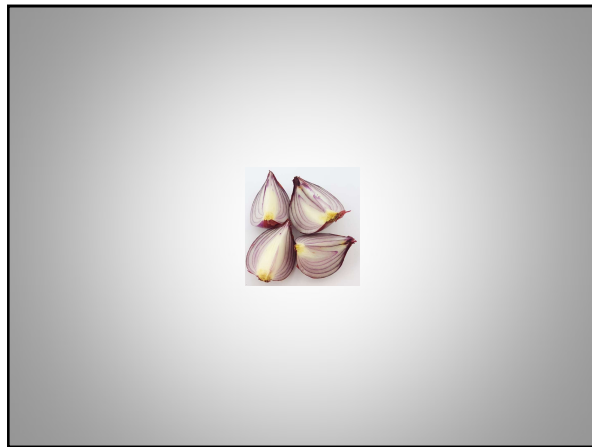
- coffee beans
- gas for roasting
- strategic planning costs
- marketing & advertising
- paper
- water
- accounting
- equipment
- technology

Categorizing Expenses

Total Expenses









Categorizing Expenses

True Program Costs

Specific Expenses	Those expenses that relate directly to the initiative or activity.
Shared Expenses	Those expenses split between multiple activities such as occupancy and technology.
Administrative Expenses	Those expenses related to time spent with the board, finance and overall structure and function.

Categorizing Expenses

Shared Expenses

Expenses are categorized by HOW THEY FUNCTION, NOT by what they are. If an expense serves more than one program or activity it is considered a shared expense.

For example:

- Pens and paper for classrooms
- Pens in the office supply cabinet

Categorizing Expenses

Examples

Specific Expenses	Shared Expenses
<ul style="list-style-type: none">• Program supplies• Client transportation• Development Director's Salary	<ul style="list-style-type: none">• Office supplies• Rent• Telephone & utilities• Liability insurance• Technology support

Categorizing Expenses

True Program Costs

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Categorizing Expenses

Administration

Expenses associated with organization function and management.

- Board expenses and other costs associated with oversight and general management.
- Legal, accounting, finance, budgeting, general record keeping.
- Salary of ED except what's allocable to programs & fundraising.

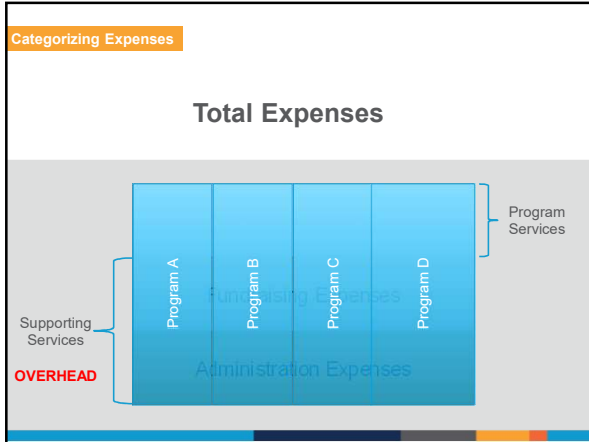
DOES NOT necessarily include:

- Rent, telephone, utilities, office supplies, postage.
- Receptionist's salary.
- All of the ED's salary.

Categorizing Expenses

True Program Costs

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Allocating Expenses

Bottom Line Allocation
For the Nine Months Ending September 30, 2019

	Program Activities			Supporting Activities		Shared Costs	TOTAL
	Education & Awareness	Counseling	Consulting	Admin	Fund-raising		
Salaries	83,800	194,800	18,300	30,400	33,000	45,000	405,300
Benefits	12,570	29,220	2,745	4,560	4,950	6,750	60,795
Personnel Expense	96,370	224,020	21,045	34,960	37,950	51,750	466,095
Professional Fees	19,900	143,000	1,500	3,400	-	-	167,800
Supplies	5,800	1,400	1,800	8,000	200	13,500	30,700
Telephone						4,900	4,900
Postage						2,600	2,600
Occupancy						12,100	12,100
Depreciation						6,500	6,500
Insurance				500		6,200	6,700
Technology						2,900	2,900
Travel	2,700			1,100		100	18,780
Printing	2,900	1,600			3,600	5,500	13,600
Total Specific Costs	\$ 127,670	\$ 381,420	\$ 27,825	\$ 47,960	\$ 41,850	\$ 105,950	\$ 732,675

But this isn't the TOTAL, TRUE COST

Allocating Expenses

Bottom Line Allocation
For the Nine Months Ending September 30, 2019

	Program Activities			Supporting Activities		Shared Costs	TOTAL
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Telephone						4,900	4,900
Postage						2,600	2,600
Occupancy						12,100	12,100
Depreciation						6,500	6,500
Insurance				500		6,200	6,700
Technology						2,900	2,900
Travel	2,700	11,400	3,480	1,100		100	18,780
Printing	2,900	1,600			3,600	5,500	13,600
Total Specific Costs	\$ 127,670	\$ 381,420	\$ 27,825	\$ 47,960	\$ 41,850	\$ 105,950	\$ 732,675

Allocating Expenses

What is allocation?

Allocation is the systematic process of splitting certain expenses between activity centers (cost centers) based on several factors.

Allocating Expenses

Acceptable Basis

- Full time equivalents (FTE's)
- Payroll expenses
- Square footage
- Specific expenses



Allocating Expenses

Position	Staffing Plan						Shared Costs
	Program Activities			Supporting Activities			
	Education & Awareness	Counseling	Consulting	Admin	Fund-raising		
Executive Director	100%	5%	10%	15%	35%	35%	
Admin Assistant	100%	15%	5%	5%	45%	30%	
Finance Director	100%				100%		
Development Director	100%				100%		
Director of Counseling	100%	100%					
Director of Education	100%						
Counselors	400%		400%				
Teachers	150%	150%					
Director of Technology	100%						100%
Receptionist	100%						100%
Custodian	20%						20%
Bookkeeper	50%				50%		
Development Coordinator	50%						
Total FTE's	14.70	2.70	5.15	0.20	2.30	2.15	2.20
Total FTE's w/o Shared	12.50						
Shared Allocation %		22%	41%	2%	16%	17%	

Allocating Expenses

Bottom Line Allocation For the Nine Months Ending September 30, 2019							
	Program Activities			Supporting Activities		Shared Costs	TOTAL
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Telephone						4,900	4,900
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Insurance						6,200	6,700
Technology						2,900	2,900
Traavel	2,700	11,400	3,480	1,100	100		18,780
Printing	2,900	1,600			3,600	5,500	13,600
Total Specific Costs	\$ 127,670	\$ 381,420	\$ 27,825	\$ 47,960	\$ 41,850	\$ 105,950	\$ 732,675
Allocation Rate	22%	41%	2%	18%	17%		100%
Allocation of Shared Costs	23,309	43,440	2,119	19,071	18,012	(105,950)	-
Total Expenses	\$ 150,979	\$ 424,860	\$ 29,944	\$ 67,031	\$ 59,862	\$ -	\$ 732,675

Calculating True Program Costs

Expenses

Specific Expenses	\$127,670
Shared Expenses	\$23,309
Administrative Expenses	?

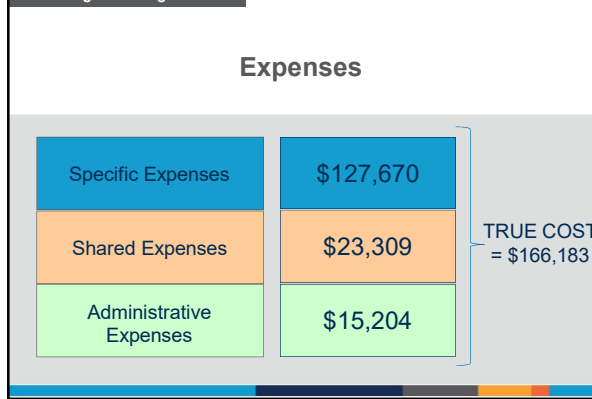
Allocating Expenses

Administrative Expense Allocation For the Nine Months Ending September 30, 2019							
	Program Activities			Supporting Activities		Shared Costs	TOTAL
	Education & Awareness	Counseling	Consulting	Admin	Fund-raising		
Salaries	83,800	194,800	18,300	30,400	33,000	45,000	405,300
Benefits	12,570	29,220	2,745	4,560	4,950	6,750	60,795
Personnel Expense	96,370	224,020	21,045	34,960	37,950	51,750	466,095
Professional Fees	19,900	143,000	1,500	3,400	-	-	167,800
Supplies	5,800	1,400	1,800	8,000	200	13,500	30,700
Telephone						4,900	4,900
Postage						2,600	2,600
Occupancy						12,100	12,100
Depreciation				500		6,500	6,500
Insurance						6,200	6,700
Technology						2,900	2,900
Traavel	2,700	11,400	3,480	1,100	100		18,780
Printing	2,900	1,600			3,600	5,500	13,600
Total Specific Costs	\$ 127,670	\$ 381,420	\$ 27,825	\$ 47,960	\$ 41,850	\$ 105,950	\$ 732,675
Allocation Rate	22%	41%	2%	18%	17%		100%
Allocation of Specific Costs	23,309	43,440	2,119	19,071	18,012	(105,950)	-
Expense without Admin.	\$ 150,979	\$ 424,860	\$ 29,944	\$ 67,031	\$ 59,862	\$ -	\$ 732,675

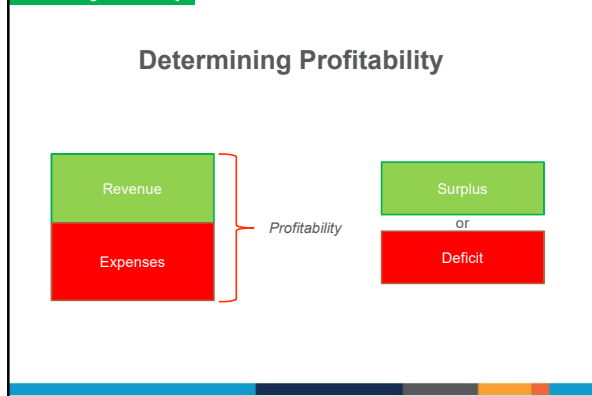
Allocating Expenses

Administrative Expense Allocation For the Nine Months Ending September 30, 2019							
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	Education & Awareness	Counseling	Consulting	Admin	Fund-raising		
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Supplies	5,800	1,400	1,800	8,000	200	4,900	30,700
Telephone						2,600	2,600
Postage						12,100	12,100
Occupancy						6,500	6,500
Depreciation				500		2,900	2,900
Insurance						1,100	1,100
Technology						3,600	3,600
Travel	2,700	11,400	3,480	1,100	100	19,780	28,460
Printing	2,900	1,600				5,500	13,600
Total Specific Costs	\$ 127,670	\$ 381,420	\$ 27,825	\$ 47,960	\$ 41,850	\$ 105,950	\$ 732,675
Allocation Rate	22%	41%	2%	18%	17%		100%
Allocation of Specific Costs	23,309	43,440	2,119	19,071	18,012	(105,950)	-
Expense without Admin.	\$ 150,979	\$ 424,860	\$ 29,944	\$ 67,031	\$ 59,862	\$ -	\$ 732,675
Admin Allocation %	23%	64%	4%	-100%	9%		
Admin Allocation	15,204	42,784	3,015	(67,031)	6,028		
TRUE COST	\$ 166,183	\$ 467,643	\$ 32,959	\$ -	\$ 65,890		\$ 732,675

Calculating True Program Costs



Determining Profitability



Determining Profitability

Allocating Revenue

Specific Revenue

Unrestricted Revenue

Restricted foundation grants
 Fee for service money
 Government contracts

Membership fees
 Unrestricted revenue
 (donations / foundations)

Determining Profitability

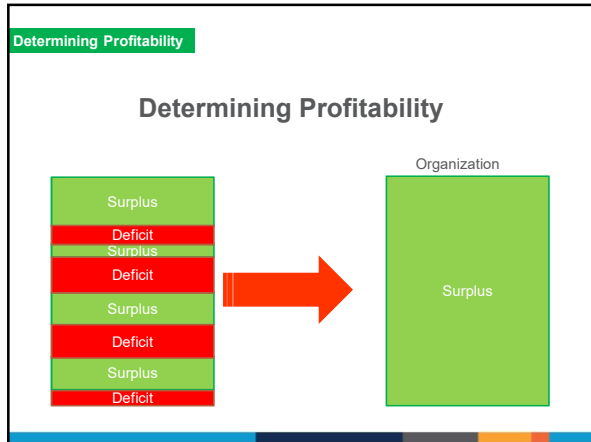
Questions to Ask

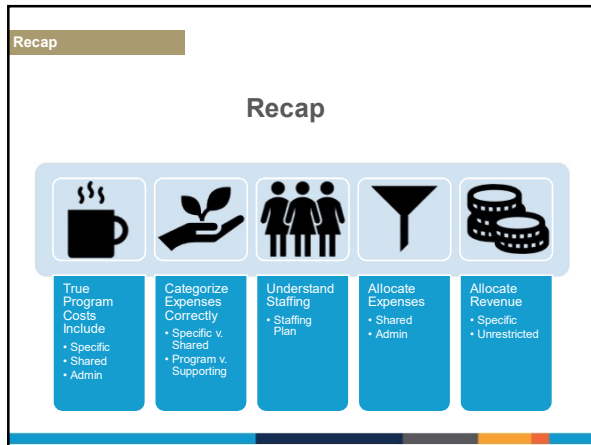
- Does this activity generate the revenue?
- Would we get this revenue if the activity went away?



Determining Profitability

Summarized Statement of Functional Income & Expenses For the Nine Months Ending September 30, 2019							
Program Activities				Supporting Activities		Shared Costs	TOTAL
Education & Awareness	Counseling	Consulting	Admin	Fund-raising			
Contributions				90,000			90,000
Foundation grants				25,000			25,000
Fundraising events, net				76,300			76,300
Total Support				191,300			191,300
Government contracts	340,000						340,000
Fee For Service		4,700					4,700
Investment Income			3,965				3,965
Total Revenue	340,000	4,700	3,965				348,665
Net Assets Released from Restriction	144,000	25,000	35,500				204,500
Total Income	\$ 144,000	\$ 368,000	\$ 40,200	\$ 3,965	\$ 191,300	\$ -	\$ 744,545
Personnel Expense	96,370	224,000	21,045	34,960	37,950	51,750	466,095
Non-Personnel Expenses	31,300	157,400	6,780	13,000	3,950	54,200	266,580
Total Specific Costs	127,670	381,400	27,825	47,960	41,850	105,950	732,675
Shared Costs Allocation %	22%	41%	2%	18%	17%		100%
Allocation of Shared Costs	23,369	43,440	2,119	19,071	18,012	(105,950)	-
Expense without Admin.	130,679	424,860	29,944	67,031	59,862		732,675
Admin Allocation %	23%	64%	4%	100%	9%		
Admin. Allocation	15,264	42,784	3,015	(67,031)	6,028		
Total expenses after allocations	\$ 166,123	\$ 467,643	\$ 32,959	\$ -	\$ 65,890		\$ 732,675
Surplus / (Deficit)	\$ (22,103)	\$ (102,643)	\$ 7,241	\$ 3,965	\$ 125,410		\$ 11,870





Next Webinar

- ✓ **January 17, 2020**
- ✓ **Revenue Strategy**
 - Characteristics of sustainable revenue
 - Aligning revenue and impact
 - Considering revenue generating capacities
 - Making investments

Subsequent Topics	Date
The Art & Science of Budgeting	February 21, 2020
Telling Your Financial Story: Dashboard Driving	March 20, 2020
The Sustainability Mindset*	April 16, 2020

Follow Up

- ✓ A recording of this session will be available for 2 weeks.
- ✓ You will receive a link by email to key slides and templates.
- ✓ Please complete our evaluation so we can continue to improve our sessions.

Allocating Expenses

$$\text{Shared Allocation \%} = \frac{\text{Program FTE's}}{\text{Total FTE's} - \text{Shared FTE's}} = \frac{2.70}{(14.70 - 2.20)} = 22\%$$

Position	Program Activities				Supporting Activities		Shared Costs
	Education & Awareness	Counseling	Consulting	Admin	Fund-raising		
Executive Director	100%	5%	10%	15%	35%	35%	
Admin Assistant	100%	15%	5%	5%	45%	30%	
Finance Director	100%				100%		
Development Director	100%					100%	
Director of Counseling	100%	100%					
Director of Education	100%	100%					100%
Counselors	400%		400%				
Teachers	150%	150%					
Director of Technology	100%						100%
Receptionist	100%						100%
Custodian	20%						20%
Bookkeeper	50%				50%		
Development Coordinator	50%					50%	
Total FTE's	14.70	2.70	5.15	0.20	2.30	2.15	2.20
Total FTE's who Shared	12.50						
Shared Allocation %		22%	41%	2%	18%	17%	

Allocating Expenses

$$\text{Admin Allocation \%} = \frac{\text{Program+Share Expense}}{\text{Total Expenses} - \text{Admin Expenses}} = \frac{127670+23309}{732675-670} = 23\%$$

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Telephone						4,900	4,900
Postage						2,600	2,600
Occupancy						12,100	12,100
Depreciation						6,500	6,500
Insurance				500		6,200	6,700
Technology	2,700	11,400	3,480	1,100	100	2,900	18,780
Travel	2,900	1,800				3,600	8,300
Printing						5,500	18,600
Total Specific Costs	\$ 127,670	\$ 391,420	\$ 27,825	\$ 47,860	\$ 41,850	\$ 106,950	\$ 732,675
Allocation Rate	22%	41%	2%	18%	17%		100%
Allocation of Specific Costs	23,309	43,440	2,119	19,011	18,012	(105,950)	-
Expense without Admin.	\$ 104,361	\$ 424,860	\$ 25,706	\$ 28,849	\$ 23,838	\$ -	\$ 732,675
