Determining Profitability

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Spectrum Nonprofit Services

Today’s Conversation
- Defining Profitability
- Categorizing Expenses
- Allocating Expenses
- Calculating True Program Costs
- Determining Profitability

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

Revenue

Expenses

Profitability

Surplus

Deficit

Determining Profitability

Organization

Surplus
Understanding Your True Program Costs

What goes into the price?
- coffee beans
- gas for roasting
- strategic planning costs
- marketing & advertising
- paper
- water
- accounting
- equipment
- technology

Total Expenses
- Program Expenses
- Fundraising Expenses
- Administration Expenses
- Supporting Services
- OVERHEAD
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

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

Examples

<table>
<thead>
<tr>
<th>Specific Expenses</th>
<th>Shared Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program supplies</td>
<td>Office supplies</td>
</tr>
<tr>
<td>Client transportation</td>
<td>Rent</td>
</tr>
<tr>
<td>Development Director’s Salary</td>
<td>Telephone &amp; utilities</td>
</tr>
<tr>
<td></td>
<td>Liability insurance</td>
</tr>
<tr>
<td></td>
<td>Technology support</td>
</tr>
</tbody>
</table>
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.

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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.

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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

Total Expenses

Supporting Services

OVERHEAD

Allocating Expenses

But this isn’t the TOTAL, TRUE COST
What is allocation?

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

Acceptable Basis

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

#### Education & Awareness Counseling

- **Salaries**: $83,800
- **Benefits**: $12,570
- **Professional Fees**: $19,900
- **Supplies**: $6,800
- **Telephone**: $5,800
- **Postage**: $4,900
- **Occupancy**: $12,100
- **Depreciation**: $6,500
- **Insurance**: $500
- **Technology**: $2,900
- **Travel**: $2,700
- **Printing**: $2,900

#### Consulting

- **Salaries**: $194,800
- **Benefits**: $29,220
- **Professional Fees**: $143,000
- **Supplies**: $1,400
- **Telephone**: $5,800
- **Postage**: $4,900
- **Occupancy**: $12,100
- **Depreciation**: $4,900
- **Insurance**: $6,200
- **Technology**: $1,600
- **Travel**: $11,400
- **Printing**: $1,600

#### Admin

- **Salaries**: $18,300
- **Benefits**: $2,745
- **Professional Fees**: $3,400
- **Supplies**: $1,800
- **Telephone**: $2,600
- **Postage**: $8,000
- **Occupancy**: $12,100
- **Depreciation**: $6,500
- **Insurance**: $6,200
- **Technology**: $3,600
- **Travel**: $3,480
- **Printing**: $3,600

#### Fund-Raising

- **Salaries**: $30,400
- **Benefits**: $4,560
- **Professional Fees**: $3,400
- **Supplies**: $8,000
- **Telephone**: $1,100
- **Postage**: $1,100
- **Occupancy**: $12,100
- **Depreciation**: $6,500
- **Insurance**: $6,200
- **Technology**: $5,500
- **Travel**: $100
- **Printing**: $5,500

#### Shared Costs

- **Salaries**: $33,000
- **Benefits**: $4,950
- **Professional Fees**: $-167,800
- **Supplies**: $200
- **Telephone**: $13,500
- **Postage**: $13,500
- **Occupancy**: $60,795
- **Depreciation**: $-105,950
- **Insurance**: $6,200
- **Technology**: $13,600

#### Total Specific Costs

$127,670

#### Allocation Rate

- Education & Awareness Counseling: 22%
- Consulting: 41%
- Admin: 2%
- Fund-Raising: 18%
- Total: 100%

#### Allocation of Shared Costs

- Education & Awareness Counseling: $23,309
- Consulting: $43,440
- Admin: $2,119
- Fund-Raising: $19,071
- Total: $(105,950)

#### Total Expenses

- Education & Awareness Counseling: $150,979
- Consulting: $424,860
- Admin: $29,944
- Fund-Raising: $67,031
- Total: $732,675

### Calculating True Program Costs

#### Specific Expenses

- $127,670

#### Shared Expenses

- $23,309

#### Administrative Expenses

- $?

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**For the Nine Months Ending September 30, 2019**

**Calculating True Program Costs**

**Expenses**

<table>
<thead>
<tr>
<th>Specific Expenses</th>
<th>Shared Expenses</th>
<th>Administrative Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>$127,670</td>
<td>$23,309</td>
<td>?</td>
</tr>
</tbody>
</table>

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**Allocating Expenses**

**For the Nine Months Ending September 30, 2019**

<table>
<thead>
<tr>
<th>Education &amp; Awareness Counseling</th>
<th>Consulting</th>
<th>Admin</th>
<th>Fund-Raising</th>
<th>Shared Costs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$83,800</td>
<td>$194,800</td>
<td>$30,400</td>
<td>$33,000</td>
<td>$405,300</td>
</tr>
<tr>
<td>Benefits</td>
<td>$12,570</td>
<td>$29,220</td>
<td>$4,560</td>
<td>$4,950</td>
<td>$60,795</td>
</tr>
<tr>
<td>Personnel Expense</td>
<td>$96,370</td>
<td>$224,020</td>
<td>$34,960</td>
<td>$37,950</td>
<td>$466,095</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>$19,900</td>
<td>$143,000</td>
<td>$3,400</td>
<td>$-167,800</td>
<td>$167,800</td>
</tr>
<tr>
<td>Supplies</td>
<td>$5,800</td>
<td>$1,400</td>
<td>$8,000</td>
<td>$200</td>
<td>$30,700</td>
</tr>
<tr>
<td>Telephone</td>
<td>$4,900</td>
<td>$4,900</td>
<td>$1,100</td>
<td>$100</td>
<td>$18,780</td>
</tr>
<tr>
<td>Postage</td>
<td>$2,600</td>
<td>$2,600</td>
<td>$1,100</td>
<td>$100</td>
<td>$5,800</td>
</tr>
<tr>
<td>Occupancy</td>
<td>$12,100</td>
<td>$12,100</td>
<td>$12,100</td>
<td>$12,100</td>
<td>$36,600</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$6,500</td>
<td>$6,500</td>
<td>$6,500</td>
<td>$6,500</td>
<td>$20,500</td>
</tr>
<tr>
<td>Insurance</td>
<td>$500</td>
<td>$6,200</td>
<td>$6,200</td>
<td>$6,200</td>
<td>$15,100</td>
</tr>
<tr>
<td>Technology</td>
<td>$2,900</td>
<td>$2,900</td>
<td>$2,900</td>
<td>$2,900</td>
<td>$5,700</td>
</tr>
<tr>
<td>Travel</td>
<td>$2,700</td>
<td>$11,400</td>
<td>$3,480</td>
<td>$100</td>
<td>$18,780</td>
</tr>
<tr>
<td>Printing</td>
<td>$2,900</td>
<td>$1,600</td>
<td>$3,600</td>
<td>$5,500</td>
<td>$13,600</td>
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<tr>
<td>Total Specific Costs</td>
<td>$127,670</td>
<td>$381,420</td>
<td>$47,960</td>
<td>$41,850</td>
<td>$732,675</td>
</tr>
</tbody>
</table>

**Allocation Rate**

- Education & Awareness Counseling: 22%
- Consulting: 41%
- Admin: 2%
- Fund-Raising: 18%
- Total: 100%

**Allocation of Shared Costs**

- Education & Awareness Counseling: $23,309
- Consulting: $43,440
- Admin: $2,119
- Fund-Raising: $19,071
- Total: $(105,950)

**Total Expenses**

- Education & Awareness Counseling: $150,979
- Consulting: $424,860
- Admin: $29,944
- Fund-Raising: $67,031
- Total: $732,675
### Allocating Expenses

**Administrative Expense Allocation**

For the Nine Months Ending September 30, 2019

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Specific Expenses</th>
<th>Shared Expenses</th>
<th>Administrative Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>127,670</td>
<td>23,309</td>
<td>15,204</td>
</tr>
<tr>
<td>Awareness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fundraising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shared Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>166,183</td>
<td>467,643</td>
<td>32,959</td>
</tr>
</tbody>
</table>

**Allocation Rate**

- Education: 22%
- Awareness: 41%
- Fundraising: 2%
- Shared Costs: 18%
- Administrative: 17%

**Allocation of Specific Costs**

- 23,309
- 43,440
- 2,119
- 19,071
- 18,012

**Expense without Admin.**

- $166,183

**Admin Allocation %**

- Education: 22%
- Awareness: 64%
- Fundraising: 4%
- Shared Costs: -100%
- Administrative: 9%

**TRUE COST**

- $166,183

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### Calculating True Program Costs

**Expenses**

- Specific Expenses: $127,670
- Shared Expenses: $23,309
- Administrative Expenses: $15,204

**TRUE COST = $166,183**

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### Determining Profitability

**Determining Profitability**

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Expenses</th>
<th>Surplus</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Determining Profitability

Allocating Revenue

Specific Revenue
- Restricted foundation grants
- Fee for service money
- Government contracts

Unrestricted Revenue
- Membership fees
- Unrestricted revenue (donations / foundations)

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Education &amp; Awareness</th>
<th>Counseling</th>
<th>Consulting</th>
<th>Program Activities</th>
<th>Supporting Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>215,465</td>
<td>47,460</td>
<td>7,787</td>
<td>121,063</td>
<td>121,063</td>
<td></td>
</tr>
<tr>
<td>Counseling</td>
<td>87,842</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consulting</td>
<td>18,960</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Activities</td>
<td>121,063</td>
<td>121,063</td>
<td>121,063</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supporting Activities</td>
<td>121,063</td>
<td>121,063</td>
<td>121,063</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>232,270</td>
<td>121,063</td>
<td>121,063</td>
<td>121,063</td>
<td>121,063</td>
<td></td>
</tr>
</tbody>
</table>

Net Assets Released from Restriction
- 154,080
- 25,000
- 35,500
- 204,580

Total Income
- 144,080
- 365,000
- 40,200
- 3,965
- 191,300
- 744,545

Personnel Expense
- 96,370
- 224,020
- 21,045
- 34,960
- 37,950
- 51,750
- 466,095

Non-Personnel Expenses
- 31,300
- 157,400
- 6,780
- 13,000
- 3,900
- 54,200
- 266,580

Total Specific Costs
- 127,670
- 381,420
- 27,825
- 47,960
- 41,850
- 105,950
- 732,675

Shared Costs Allocation %
- 22%
- 41%
- 2%
- 18%
- 17%
- 100%

Allocation of Shared 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

Total expenses after allocations
- 166,183
- 467,643
- 32,959
- -
- 65,890
- -
- 732,675

Surplus / (Deficit)
- (22,103)
- (102,643)
- 7,241
- 3,965
- 125,410
- 11,870

Determining Profitability

Surplus
Surplus
Deficit
Surplus
Deficit
Deficit
Surplus
Deficit

Recap

The Art & Science of Budgeting
February 21, 2020

Selling Your Financial Story: Dashboard Driving
March 20, 2020

The Sustainability Mindset
April 16, 2020

Next Webinar

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

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