

# GRANTEE FINANCIAL RESILIENCE: A FRAMEWORK

March 26, 2021



BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



BDO FMA

# Today's Presenter



**HILDA POLANCO**

Managing Director, BDO FMA

# Meeting Norms: Participate Authentically



Respect each other - judge ideas, not people



Avoid multi-tasking



Be present & engaged



Be patient with tech



Expect confidentiality



Be prepared to use video



Expect active participation



Mute your microphone (unless you want to speak)

# Where Are You Joining Us from Today?

Outside of NYC:



# Applied Financial Analysis for Program Officers: A Three-Part Series



## SESSION 1

**Grantee Financial Resilience**  
A Framework



## SESSION 2

**Grantee Financial Resilience**  
Building the Planning Muscle



## SESSION 3

**Grantee Financial Resilience**  
Reframing Your Financial Due Diligence Process

# Poll: What kind of grants do you make? (check all that apply)

1	Restricted grants (project-based grants)
2	Unrestricted / general operating grants
3	Permanently restricted grants (endowments)
4	Capital grants
5	Single year grants
6	Multi year grants

# Poll: What size grants do you make? (check all that apply)

1	Up to \$100K
2	\$100K-250K
3	\$250K+

## Poll: What is your position?

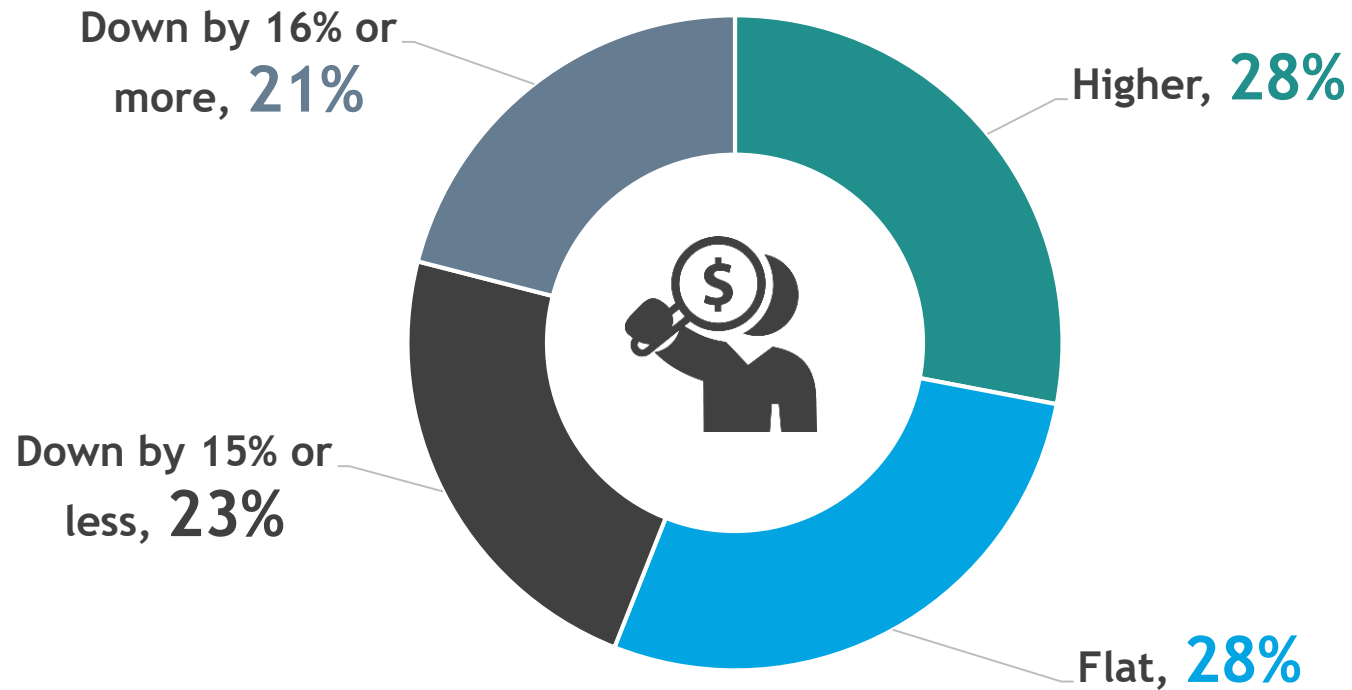
1	Program Officer or Grants Officer
2	Grants Manager
3	Program Assistant
4	Finance or Operations Staff
5	Consultant or Advisor
6	Other



# Impact to the Sector

## IMPACT TO THE SECTOR

# 2020 Revenue

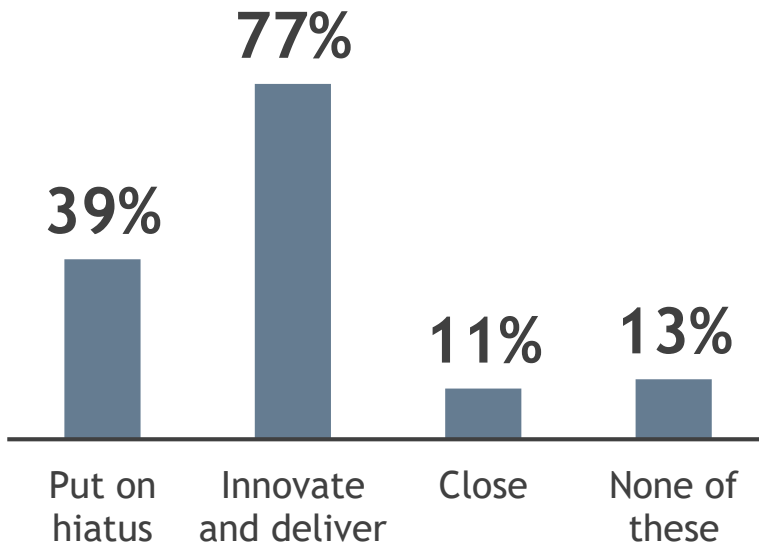


Source: **Welcome to the Financial Commons**, a presentation by the Nonprofit Quarterly, FMA, and Propel Nonprofits in December 2020

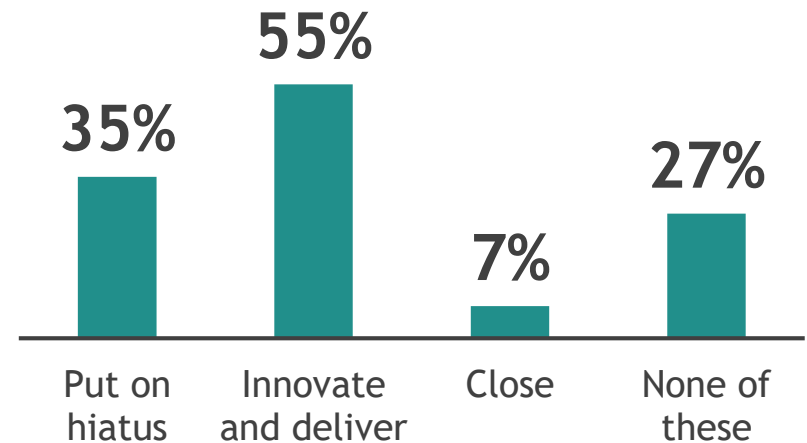
## IMPACT TO THE SECTOR

# Widespread Change & Innovation

### PROGRAMS



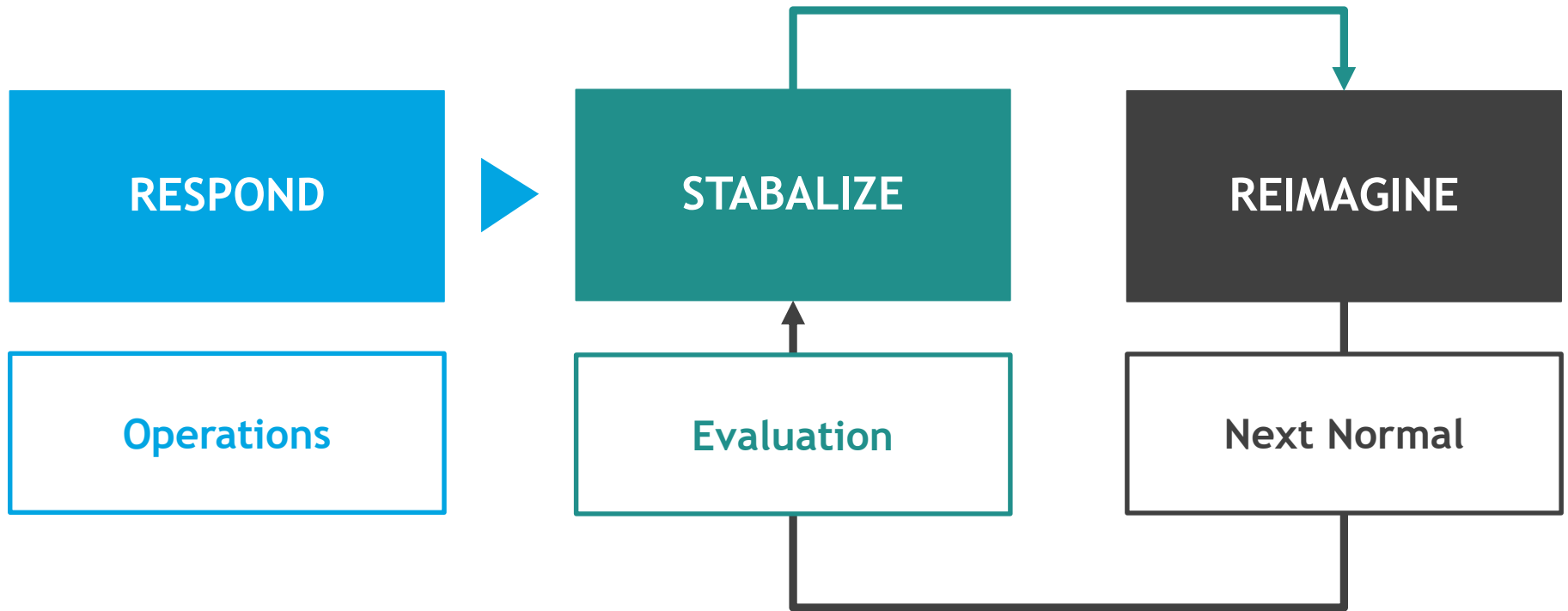
### FUNDRAISERS



Source: **Welcome to the Financial Commons**, a presentation by the Nonprofit Quarterly, FMA, and Propel Nonprofits in December 2020

# Phases of Change

# Phases of Change



# Financial Resilience



## Wordcloud Activity

What does financial  
resilience mean to you?

# Financially Resilient Organizations...



Stay focused on the  
**long-term**



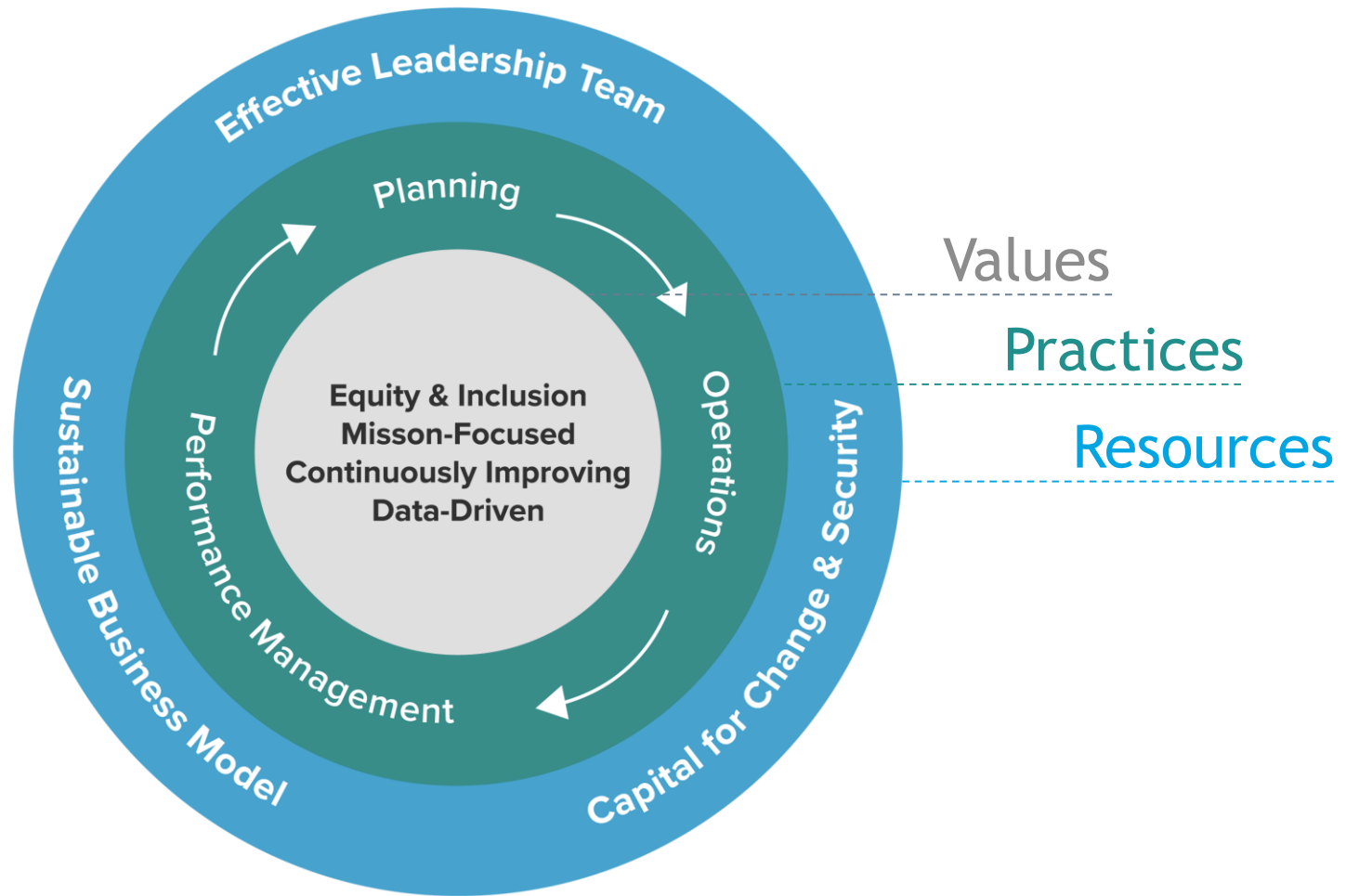
Continually assess  
and respond to  
**current needs**



Understand and are  
able to tell their  
**financial story**



# Financial Resilience





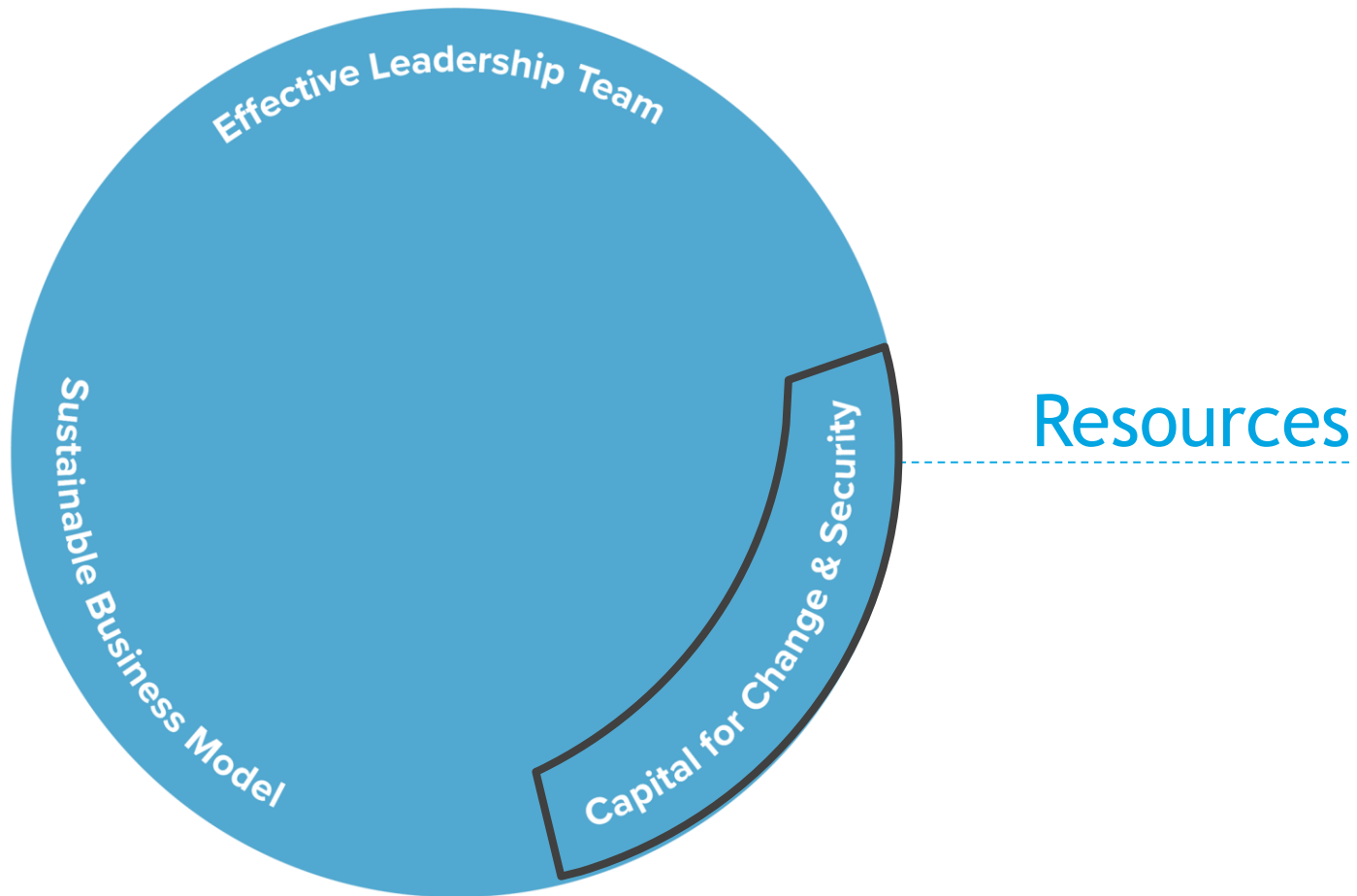
# Values

# Financial Resilience: Values



# Resources

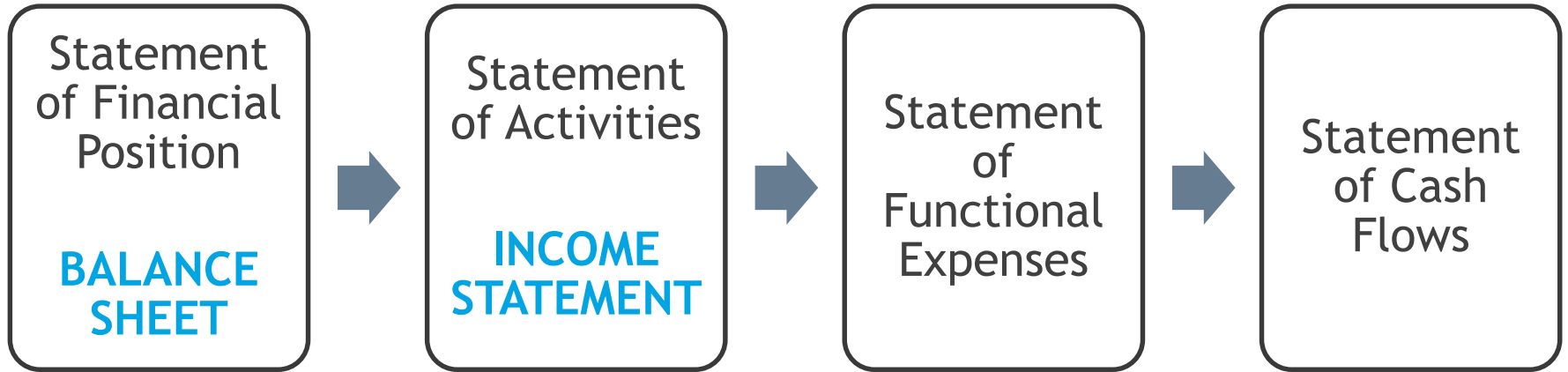
# Financial Resilience: Resources



## Poll: What financial information do you request when assessing financial health? (check all that apply)

1	Audited financial statements
2	Internal financial statements (if audit not available)
3	Interim financial statements throughout the year
4	IRS Form 990
5	Budget (for full organization)
6	Project / program budget

# Audited Financial Statements



---

Opinion Letter

Notes

Management Letter (if applicable)

# Statement of Financial Position (Balance Sheet)

## What is Owned

## What is Owed

## Net Worth



- Cash
- Receivables
- Investments
- Fixed Assets



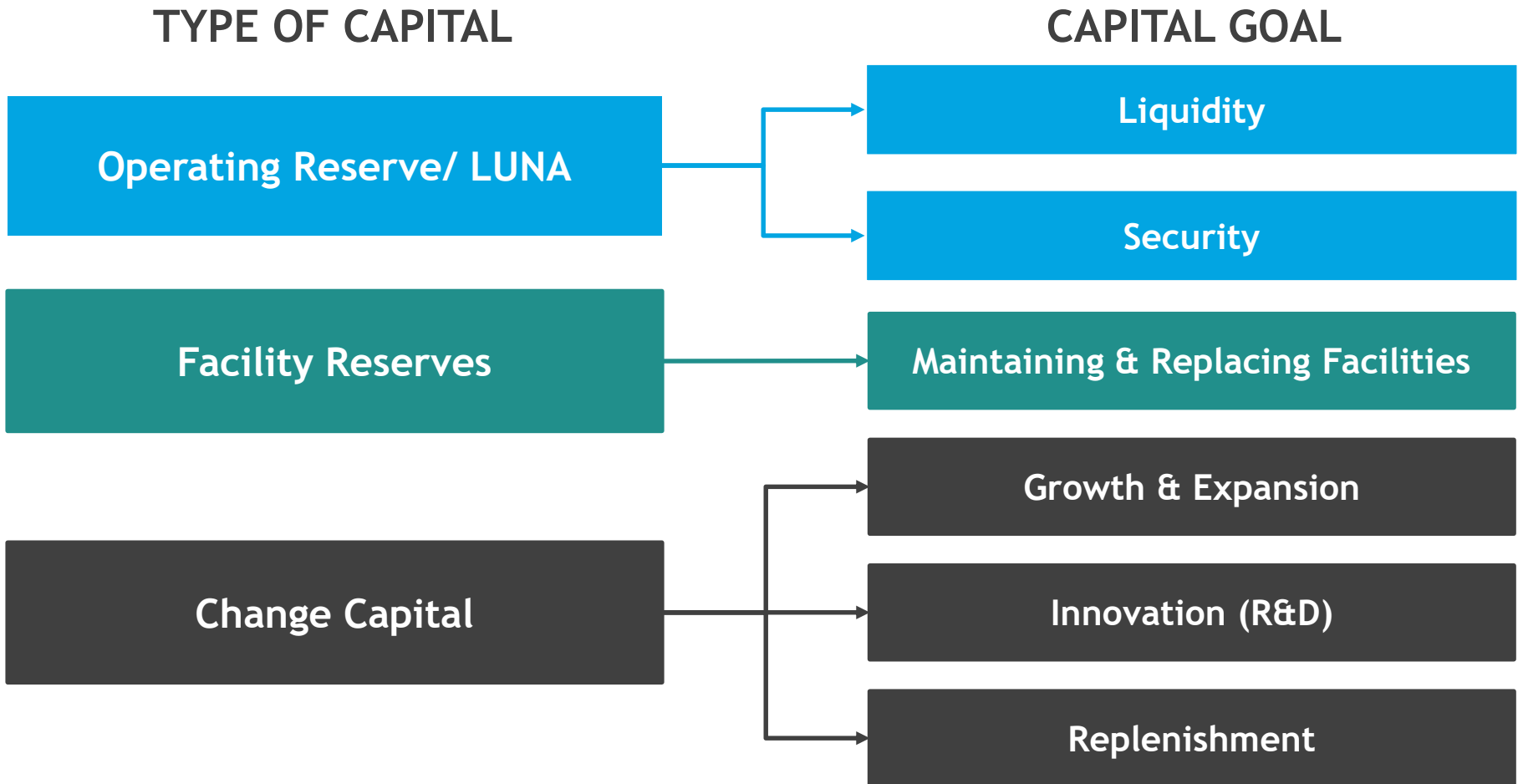
- Bills Due
- Line of Credit
- Deferred Revenue
- Debt



- Without Donor Restriction
  - Board Designated
  - Fixed Assets
  - Other
- With Donor Restriction
  - Temp restricted
  - Perm restricted



# Capital for Change & Security



# Liquid Unrestricted Net Assets (LUNA)

Our Unrestricted  
Net Worth

Unavailable Net  
Worth

Operating  
Reserves



# Months of LUNA

Operating  
reserves

What is spent on  
average per  
month

Months of LUNA



# Calculating LUNA

Assets	Jun 30, 2020
Cash	1,103,580
Receivables	563,000
Fixed assets, net	47,875
Total assets	1,714,455
<b>Liabilities and Net Assets</b>	
Liabilities:	
Accounts payable	340,000
Fixed Asset debt	16,000
Total liabilities	356,000
Net assets:	
Without donor restrictions	
Operations	354,455
Board designated	250,000
Total unrestricted	604,455
With donor restrictions	754,000
Total net assets	1,358,455
Total liabilities and net assets	1,714,455

	Jul 19 - Jun 20
Revenue	
Individual Contributions	176,000
Foundations	1,478,400
Other	105,600
Total Revenue	1,760,000
Expenses	
Personnel	1,749,997
Other Than Personnel	749,999
Total Expense	2,499,996
Monthly Expense (total ÷ 12)	208,333

Unrestricted Net Assets	604,455
- Board designated	250,000
- (Fix assets, net-Fixed asset debt)	31,875
= LUNA	322,580
÷ Monthly Expense	208,333
= Months of LUNA	1.5

# Months of Cash on Hand

Money in  
the Bank

What We Spent  
on Average Per  
Month

Operating  
Runway



# Calculating Months of Cash

Assets	Jun 30, 2020
Cash	1,103,580
Receivables	563,000
Fixed assets, net	47,875
Total assets	1,714,455

	Jul 19 - Jun 20
Revenue	
Individual Contributions	176,000
Foundations	1,478,400
Other	105,600
Total Revenue	1,760,000
Expenses	
Personnel	1,749,997
Rent	300,000
Supplies	449,999
Total Expense	2,499,996

YTD Expenses	2,499,996
÷ Number of Months	12
= Monthly Expense	208,333
Cash	1,103,580
÷ Monthly Expense	208,333
= Months of Cash	5.3

# Thoughts & Questions





# Break



**Community Arts Organization, Inc.**  
**Statement of Financial Position**  
**As of June 30, 2020 and 2019**

<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
<u>Current Assets</u>		
Cash	\$ 257,590	\$ 286,052
Accounts Receivable	82,482	67,697
Prepaid Expenses	21,200	17,259
Total Current Assets	<u>361,272</u>	<u>371,008</u>
<u>Non-Current Assets</u>		
Property and Equipment, Net	<u>1,506,326</u>	<u>1,545,689</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,867,598</u></b>	<b><u>\$ 1,916,697</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 104,434	\$ 101,369
Current Portion of Mortgage Payable	36,442	31,573
Deferred Revenue	917	1,084
Total Current Liabilities	<u>141,793</u>	<u>134,026</u>
<u>Non-Current Liabilities</u>		
Long-Term Mortgage Payable	<u>1,028,713</u>	<u>1,065,155</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 1,170,506</u></b>	<b><u>\$ 1,199,181</u></b>
<b>NET ASSETS</b>		
Net Assets without Donor Restriction	492,947	576,734
Net Assets with Donor Restriction	204,145	140,782
<b>TOTAL NET ASSETS</b>	<b><u>\$ 697,092</u></b>	<b><u>\$ 717,516</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,867,598</u></b>	<b><u>\$ 1,916,697</u></b>

**Community Arts Organization, Inc.**  
**Statement of Activities**  
**For The Year Ended June 30, 2020**  
**With Comparative Totals for 2019**

	<b>2020</b>			<b>2019</b>
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>	<u>Total</u>
<b>REVENUES</b>				
Government Grants & Contracts	\$ 978,042	\$ 77,162	\$ 1,055,204	\$ 1,108,731
Foundations and Corporations	389,319	272,500	661,819	569,379
Individuals	98,389	2,048	100,437	43,885
Fundraising Events (Net of Expenses)	80,978	3,868	84,846	100,061
Interest	220	-	220	34
Miscellaneous Earned Revenue	32,473	-	32,473	10,100
In-Kind	21,785	-	21,785	37,366
Net Assets Released from Restrictions	292,215	(292,215)	-	-
<b>TOTAL REVENUES AND PUBLIC SUPPORT</b>	<b><u>\$ 1,893,421</u></b>	<b><u>\$ 63,363</u></b>	<b><u>\$ 1,956,784</u></b>	<b><u>\$ 1,869,556</u></b>
<b>EXPENSES</b>				
Program Services	\$ 1,419,559	\$ -	\$ 1,419,559	\$ 1,396,897
Management & General	339,190		339,190	221,264
Development	218,459		218,459	162,946
<b>TOTAL EXPENSES</b>	<b><u>\$ 1,977,208</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,977,208</u></b>	<b><u>\$ 1,781,107</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ (83,787)</b>	<b>\$ 63,363</b>	<b>\$ (20,424)</b>	<b>\$ 88,449</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b><u>576,734</u></b>	<b><u>140,782</u></b>	<b><u>717,516</u></b>	<b><u>629,067</u></b>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 492,947</u></b>	<b><u>\$ 204,145</u></b>	<b><u>\$ 697,092</u></b>	<b><u>\$ 717,516</u></b>

# Breakout Activity

1. Download the Excel tool dropped in the chat
2. Once you are in your group, assign a group member to manage the Excel tool and share their screen
3. Using the sample financials provided, calculate LUNA
4. Discuss the 2-year LUNA trend with your group
5. If you complete the activity with time to spare, try your hand at months of cash and operating results!



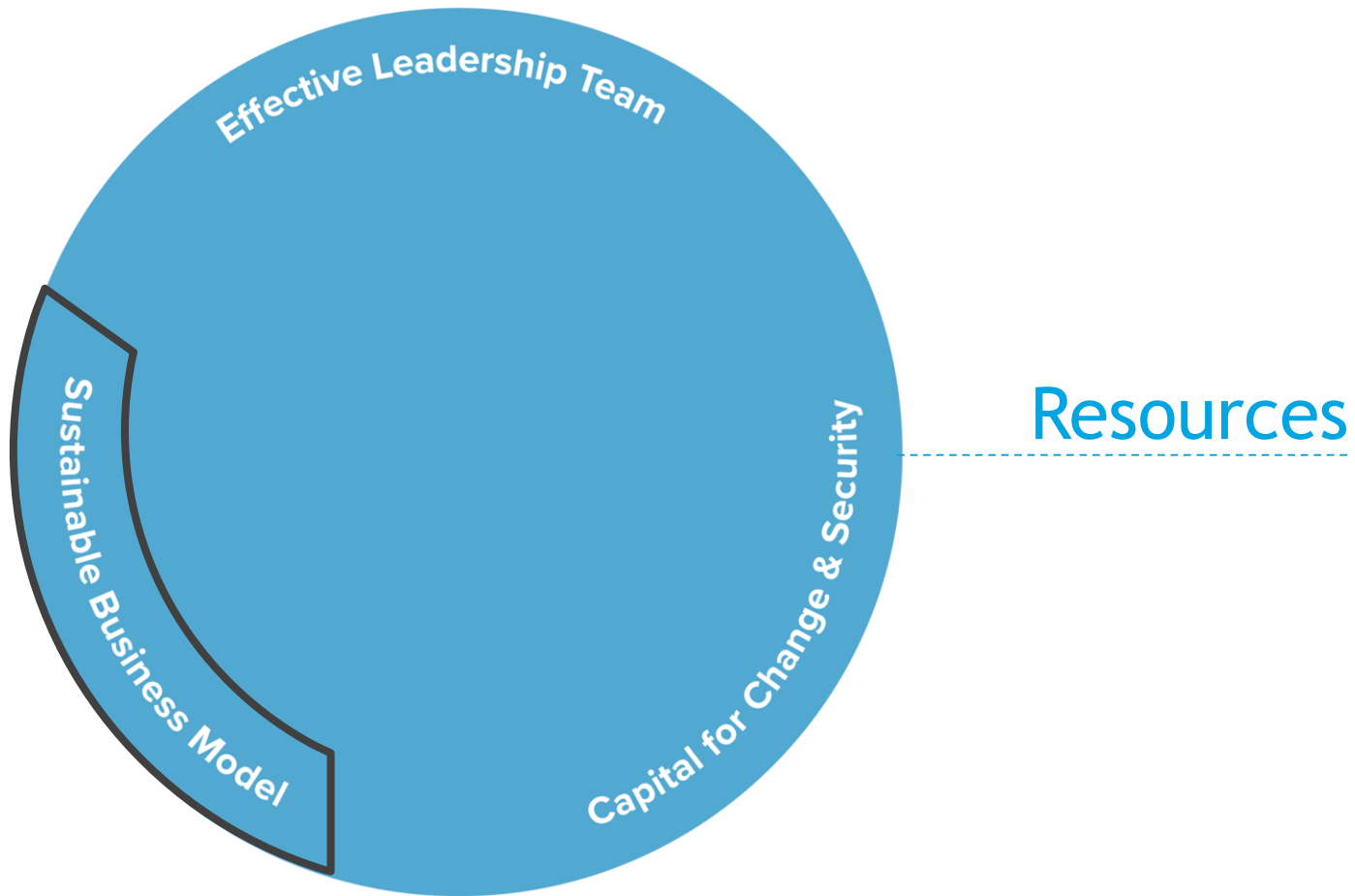
# Calculating Months of LUNA

Liquid Unrestricted Net Assets (LUNA)			
	Year:	2020	2019
	Source of Data:	Audit	Audit
Net Assets without Donor Restriction		\$ 492,947	\$ 576,734
Fixed Assets, Net		\$ 1,506,326	\$ 1,545,689
Less: Mortgages or Other Debt Related to Fixed Assets		\$ 1,065,155	\$ 1,096,728
Fixed Assets less Mortgages		\$ 441,171	\$ 448,961
Liquid Unrestricted Net Assets (LUNA) (A - B)		\$ 51,776	\$ 127,773
Average Monthly Expenses (Annual Expenses / 12)		\$ 164,767	\$ 148,426
Months of LUNA (C / D)		0.31	0.86

# Poll: How Many Months of LUNA Should an Organization Have?

1	Less than a month
2	1-3 months
3	3-6 months
4	6+ months

# Financial Resilience: Resources



# Sustainable Business Model: Revenue



## CONTRIBUTED REVENUE

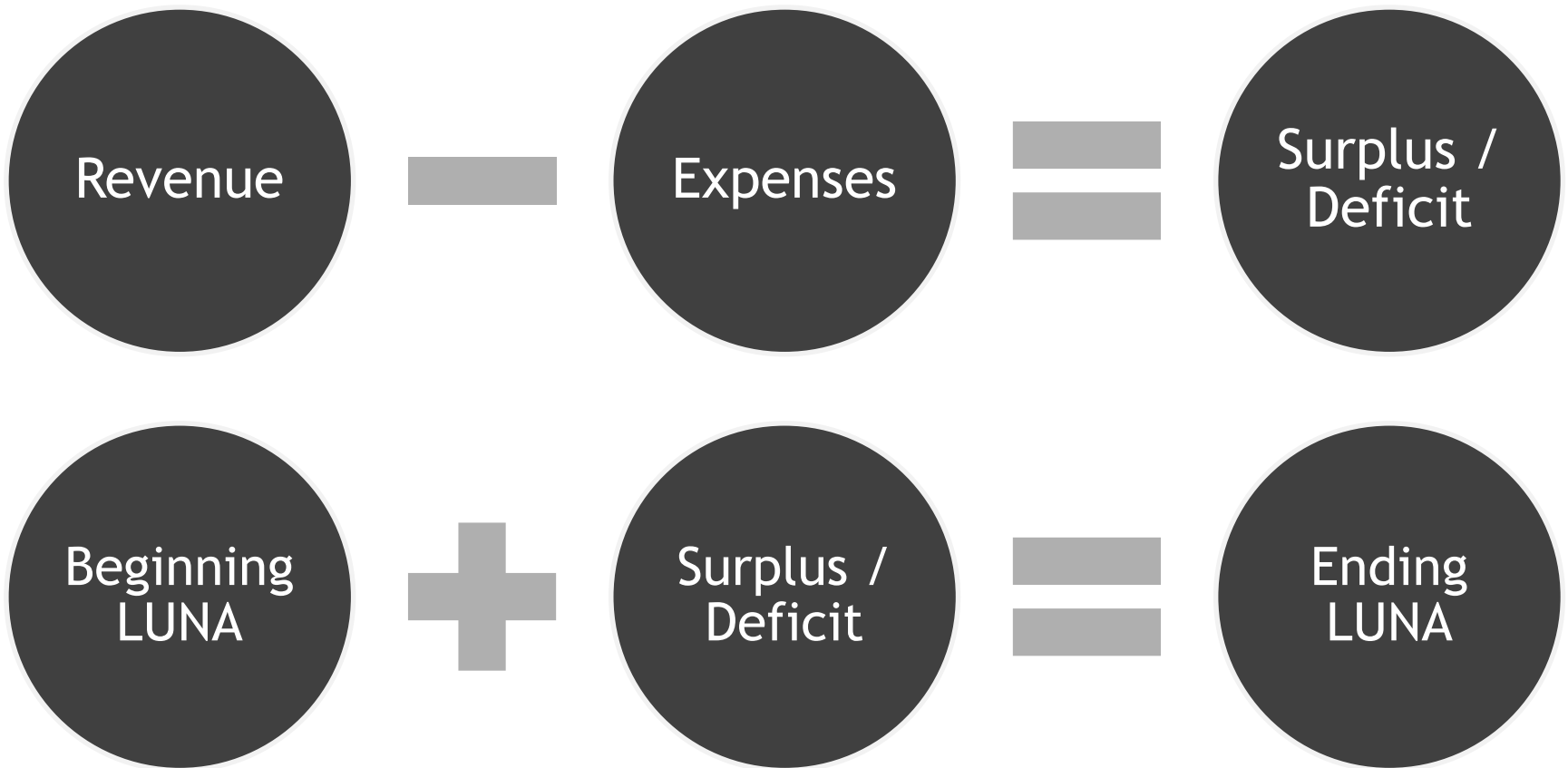
- ▶ Individual Donations
- ▶ Foundation / Corporate
- ▶ Government
- ▶ Special Events
- ▶ In-kind Donations



## EARNED/OTHER REVENUE

- ▶ Program Service Fees
- ▶ Endowment Income
- ▶ Other (interest income, unrelated business income, etc.)

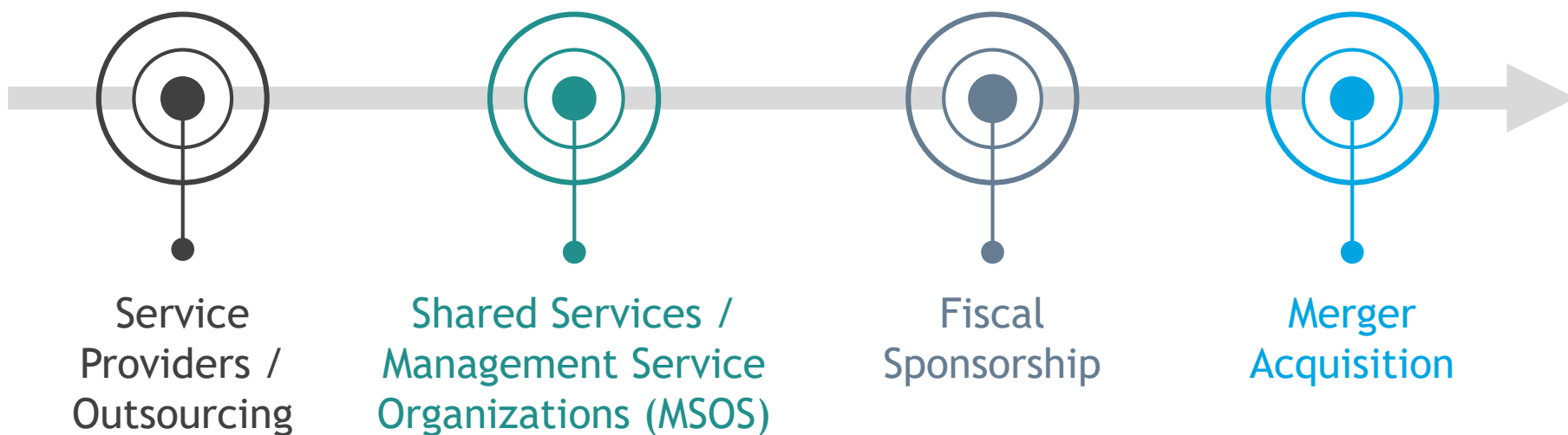
# Sustainable Business Model





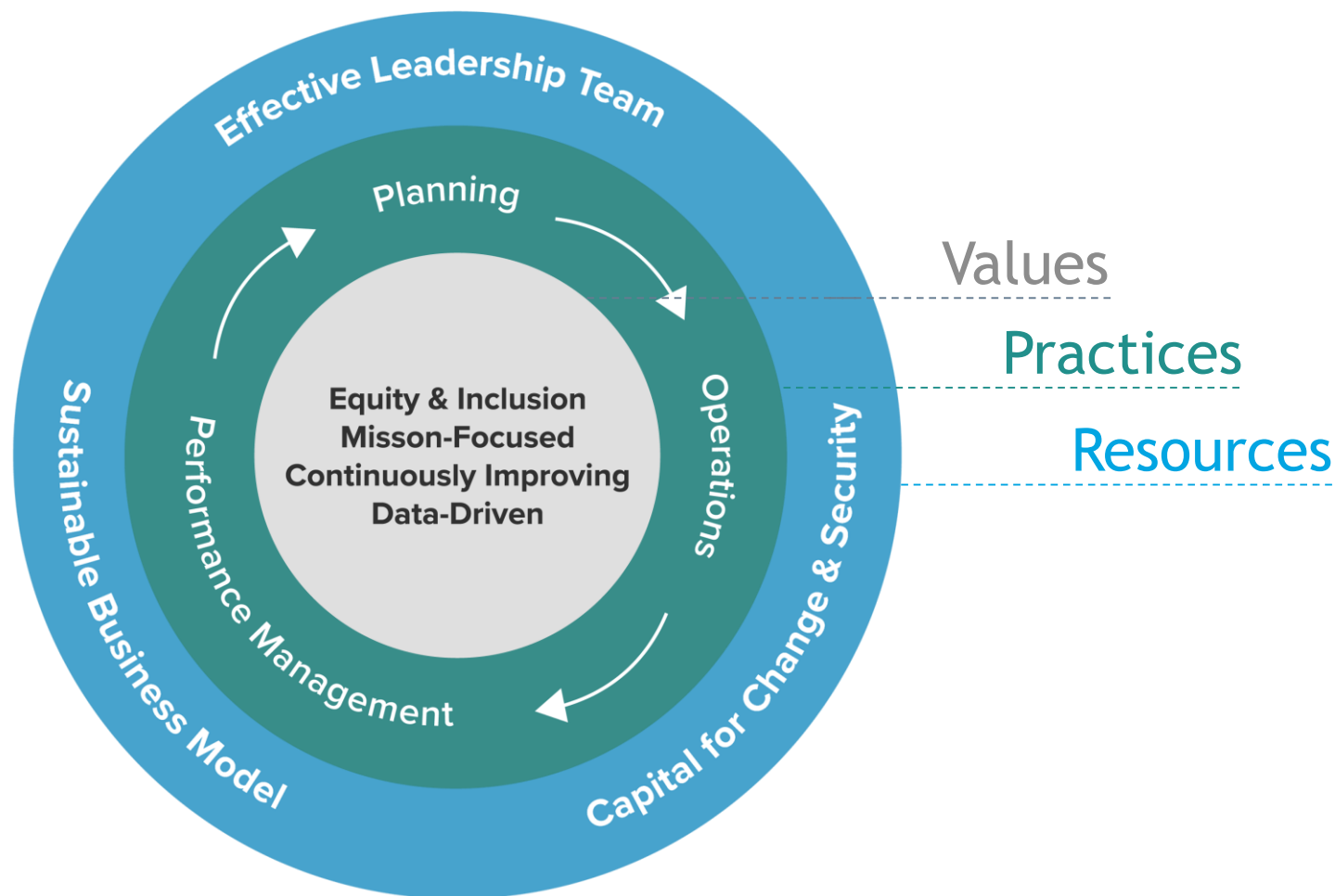
# Alternative Operating Models

## LEVEL OF INTEGRATION



# Financial Resilience

# Financial Resilience





# Supporting Financial Resilience

## Potential Ways to Support Your Grantees:

- ▶ Fund the **true cost** of programs you support
- ▶ Provide **unrestricted** grants
- ▶ Provide **multi-year** grants
- ▶ Provide capital for **change and security**
- ▶ Invest in **infrastructure**
- ▶ Fund **capacity building**

# Thoughts & Questions



# Resources & Wrap Up

## Up Next: Part 2

### Grantee Financial Resilience: Building the Planning Muscle

April 9th, 10:00am to 12:00pm

#### Prior to attending part 2:

- ▶ Select a past or current grantee
- ▶ Use the LUNA Tool to calculate key metrics for that grantee
- ▶ Collaboration is encouraged!



# Financial Health Analysis Tool

## *Less is More: How Grantmakers are Using Simple Financial Metrics*

Hilda Polanco and Luther Snow,  
The Foundation Review, June 2018

Access the article here:  
<https://scholarworks.gvsu.edu/cgi/viewcontent.cgi?article=1414&context=tfr>





# BDO FMA Toolkit for Grantmakers

AREA	AVAILABLE TOOLS
Audit	▶ Financial Metrics Calculator (for use with audit data)
IRS Form 990	▶ Assessing Organizational Capacity Using the Form 990 ▶ Financial Health Analysis Tool (for use with Form 990 data)
Financial Due Diligence	▶ Refining your Financial Due Diligence Process: Questions to Consider

Website Address: [fmaonline.net/toolkit-for-grantmakers](https://fmaonline.net/toolkit-for-grantmakers)

# Leap of Reason Ambassadors Community: Funding Performance Campaign

What Grantees Need  
From Funders at This  
Time of Tumultuous  
Change

*Hilda Polanco and  
Deborah Linnell, BDO FMA*

Rising to Our Times:  
The Five Habits of  
Highly Effective  
Funders

*Lowell Weiss, Cascade  
Philanthropy Advisors Inc.*

Helping Your Grantees  
Succeed—Or Trying to  
Catch Them Messing  
Up?

*Sam Cobbs, Tipping Point  
Community*

If Not Now, When?  
From Virtue Signaling  
to Self Examination

*Hilary Pennington, Ford  
Foundation*

We Depend on Well-  
Led and Well-Managed  
Grantees

*Daniel Stid, William & Flora  
Hewlett Foundation*

Accelerating the  
Movement Toward  
Funding Practices That  
Strengthen Nonprofits

*Jeri Eckhart Queenan  
and Jeff Bradach, Bridgespan*

<https://leapambassadors.org/funding-performance-monograph>



## Articles

***Keeping it in Reserve: Grantmaking for a Rainy Day.*** Hilda Polanco and John Summers, Nonprofit Quarterly, May 2016:  
<https://nonprofitquarterly.org/2016/05/02/keeping-it-in-reserve-grantmaking-for-a-rainy-day/>

***Cash Flow in the Nonprofit Business Model: A Question of Whats and Whens,*** Hilda Polanco and John Summers, February 2020:  
<https://nonprofitquarterly.org/cash-flow-nonprofit-business-model-question-whats-whens/>

***Project Grants Need Not Be the Enemy.*** Rodney Christopher, The Center For Effective Philanthropy Blog, February 2021:  
<https://cep.org/project-grants-need-not-be-the-enemy/>

# Resources for Your Grantees

In collaboration with the Wallace Foundation, FMA created a library of free tools and resources to help organizations become “fiscally fit”.



# StrongNonprofits.org

- ▶ Online Tutorials for [StrongNonprofits.org](https://StrongNonprofits.org)
- ▶ Complimentary one-hour orientation webinars that feature an overview of the website and drill down on some of its key resources
- ▶ To register and see upcoming webinar dates: [fmaonline.net](https://fmaonline.net)



# About BDO FMA

**BDO FMA exists to build a community of individuals with the confidence and skills to lead organizations that change the world.**

- ▶ Established in 1999 to serve not-for-profit organizations around the country – combined with BDO in 2021
- ▶ Provides customized financial management, accounting, software, organizational development, and other consulting services
- ▶ Works directly with organizations or through funder-supported management and technical assistance programs



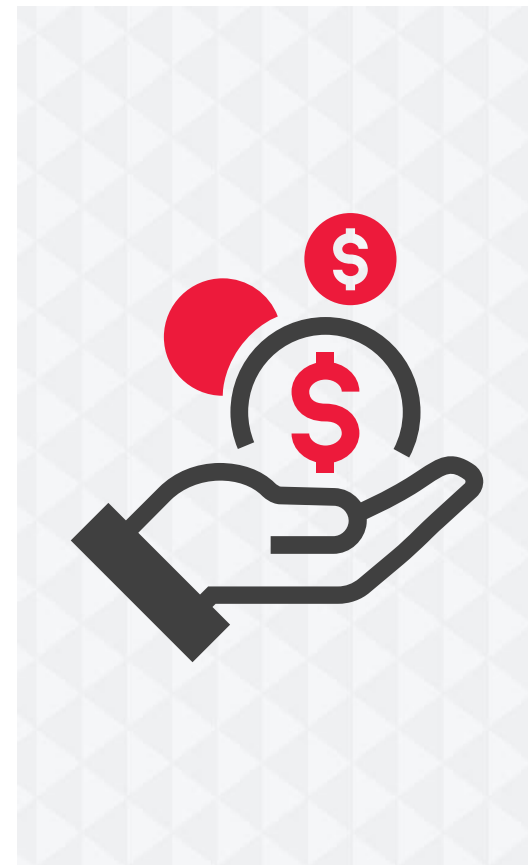
@FMA4Nonprofits



fmaonline.net/linkedin

New York/Chicago/Oakland/Providence/Washington DC

[www.fmaonline.net](http://www.fmaonline.net)



BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of nonprofit organizations and publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 65 offices and over 700 independent alliance firm locations nationwide.

As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 88,000 people working out of more than 1,600 offices across 167 countries and territories.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

[www.bdo.com](http://www.bdo.com)

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2021 BDO USA, LLP. All rights reserved. [www.bdo.com](http://www.bdo.com)



BDO FMA