Commons Management: The fiscal sponsorship resource model

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A tool for fiscal sponsors and their projects to think about scaling to “right size”, which could influence decisions to:

- Scale up and down.
- Spin in and out.

The four dimensions of this rubric are relational: a decision made in one dimension will affect decisions in another.

Dimensions leading growth decisions will vary in weighting across organizations over time.
Financial Model & Capitalization

❑ How diversified and forecastable, sustainable, or renewable is your overall revenue profile and portfolio?

❑ What are your whole costs-to-deliver the services that you offer?

❑ Do you have sufficient working capital (net assets or philanthropy) to innovate, take risks, or grow?
A **commons**: managing resources with intention for the benefit of a defined but open community.

How do we *manage* our existing commons resources and how do we *build* new or additional resources?

- **Money**: from funders, donors, customers, investment, and lenders.
- **Legal Structures**
- **People & Relationships**
- **Systems & Processes**
- **Real & Tangible Property**: created, purchased, and contributed.
Determinants of Financial Health

Revenues

- Philanthropic Investments
- Approach to Cost Recovery
- Portfolio: No. and Type of Sponsees and Kinds of Services

Costs

- Management Infrastructure Space, Staff, Tech, and Systems
- Indirect Costs (Fixed)
- Direct and Allocable Costs (Variable)
What do you know about your portfolio?

### Overall Portfolio
- Total # of projects supported
- Total revenues under management
- Total expenses managed
- Total fees collected
- Total beginning and ending net assets
- Average effective rate charged

### Organizations within the Portfolio
- # of sponsees by mission type
- # of sponsees by supports
- # of sponsees by financial activity (revenues, expenses, fees contributed)
- Liquidity (Available Cash)
- LUNA (Available Net Assets)
- Largest and smallest contributors

### Changes in Portfolio Over Time
- Growth in overall revenues and # of revenue streams
- Growth within projects
- Growth in expenses and # of contracts, # of employees
- # of sponsees staying static or becoming insolvent
• 88% operate below $500k in annual expenses.
• 30% of the country’s nonprofits have lost money over a three-year period.
• Nearly 50% of all nonprofits (including fiscal sponsors!) have less than 30 days cash on hand.
• Candid has recently predicted that we may lose between 3% and 38% of our nearly 1 million nonprofits as a result of economic and other stresses of COVID.

How can we use this information?

Understanding Your Costs

**True costs** = all costs of running a program, not simply those that are directly associated with its production

- Direct
- Allocable
- Indirect

**Data to summarize:**
- All organizational costs, both program specific (direct) and overhead (indirect)
- Expenses incurred by each program, as reported by program heads
- Estimates of how staff members spend their time, by program, by services
- Estimates of infrastructure usage (e.g. facilities, equipment, IT licenses) by program
Additional Planned Costs: Capital and Program Investments

- Intentional growth in net assets
- Reserves (i.e. Loss reserve)
- Programmatic investments
- Innovation
- Intentional growth
- Changes needed in infrastructure
Approach to Cost Recovery

Some approaches in practice:
- Fees are consistent for all (same % applied on all revenues and expenses);
- Fees depend (vary) based on the services rendered;
- Minimum annual fee (plus % allocation);
- Fixed annual fee for services;
- Fees are based on field practices (what others charge);
- Fees are based on true costs to deliver services;
- Fees are based on most recent past financial and operational performance (i.e., budget size).

How do you define the fair share?
Centering Financial Health

When we understand revenue and cost drivers, we can:

- Identify and prioritize cost-saving opportunities;
- Fundraise from donors to cover the true costs of delivering the program;
- Set fees at a level that covers the true costs of providing services;
- Report the true costs of a program when claiming government reimbursements;
- Establish “average cost per fiscal sponsee”;
- Plan for additional resources and meet intended growth.
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