

Shambhala
Principles of Financial Sustainability
Version 4
1/17/08

The attached document was prepared as input to the first mandala wide planning meeting, held in November 2007 in Halifax. This version reflects changes based on the discussions at that meeting, and subsequent discussions of the Sakyong's Council. The Sakyong's Council formally adopted these principles in January, 2008.

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Center of the Mandala: Sakyong Support & Core Services

Background

The center of the mandala must be financially stable in order for the mandala as a whole to enjoy financial stability. See appendix B for principles related to this interdependency.

Draft Principles for Sustainability

1. The center of the mandala needs to breakeven each year on a cash basis. This simply means revenue covers expenses.
2. The center of the mandala cannot have a level of debt beyond what it can reasonably service with recurring revenue. Since there is a backlog of unfunded services, this means the center of the mandala should be debt free, so that all revenue can be applied to supporting the Sakyong and providing services, rather than making loan payments.
3. It is preferable to manage cash flow with cash reserves. However, if that is not possible, lines of credit and other forms of short-term debt could be used. These should only be used to manage cash flow, and not become “permanent” debt.
4. Budgets should include two revenue plans, one reflecting a minimum and a second reflecting the target.

Too often in the past we have made an expense decision based on revenue plans that were not met. While the reasons for the shortfalls have varied, including such things as unfavorable changes in currency exchange rates and revenue estimates based on historical experience that did not carry forward, the result is usually incurrence of debt.

Expense budgets need to be based on the minimum revenue plan, ensuring that debt will not be incurred. If the target is met, the additional revenue can then be used for expenses that were placed on hold pending actual revenue numbers.

As we transition to a higher percentage of more predictable and stable revenue sources, e.g. recurring donations, revenue uncertainty will decline, bringing the minimum and target revenue numbers closer together.

5. The center of the mandala cannot underwrite special programs and other sangha wide events unless it either (a) has sufficient reserves to cover any losses, or (b) has reasonable assurance that no losses will be incurred, for example because of pledged donations or underwriters who are willing to cover any losses.

6. The annual budget for the center of the mandala needs to have a provision for the unexpected in the form of a contingency. A good target would be 10%.
7. The center of the mandala should have cash reserves. A good target would be 3 months of base operating expenses.
8. A process is needed for determining the annual expense budget and for approving exceptions to the expense budget. The current process is:
 - a. The Mandala Council makes recommendations regarding priorities. The Sakyong's Council reviews the priorities and provides direction to the Finance Committee. The Finance Committee prepares a recommend budget. The Sakyong's Council approves the budget.
 - b. Exceptions up to \$40,000 can be recommended by the Treasurer and Comptroller and approved by the President. Higher amounts must be approved by the Finance Committee and the Sakyong's Council.

Shambhala Practice Centers

Background

Every practice center goes through periods of growth and periods of financial crisis, and these cycles are often interrelated. Out of crisis may come a plan to grow into financial stability, e.g. if we had a larger facility, or more housing, or more staff, we could generate enough revenue to break even. A growth plan may underestimate the costs of growth or overestimate revenue growth, resulting in operating shortfalls and a financial crisis.

This raises the question of how can we be more skilful in looking at financial stability, particularly when planning expansion and growth?

Base Operations

A good working definition of financial stability for the practice centers is the ability to break even on a cash basis. This simply means the money coming in is enough to pay the bills. For the purposes of this document, the discussion assumes everything on a cash basis, e.g. expenses include mortgage principle payments and do not include depreciation.

Revenue sources fall within the following categories:

- ***Net operating revenue***
 - Net revenue from programs (gross revenue minus direct program expenses)
 - Net store sales
 - Net facilities rentals (gross revenue minus direct costs of rentals)
- Donations (including grants)

Fixed/indirect ***operating expenses*** include all the expenses associated with having the facility, e.g. utilities, mortgage payments, personnel expenses, but does not include direct costs incurred to hold a program or rent out the facility.

Draft Principles for Sustainability of Base Operations at Practice Centers

1. Each practice center should establish a target for their key operating ratio:
net operating revenue/operating expense (as a percentage)

This principle addresses the degree to which a center is dependent on donations to break even. A ratio of 100% means the center brings in enough money to pay all the bills. While this might be desirable, centers will typically need to rely on donations to breakeven. The question is, how much reliance. This could be stated as a percentage, e.g. 15% of operating expenses will be covered by donations, or as an absolute amount, e.g. no more than \$250,000 per year.

Another way to look at this is if we can limit the amount of donations required to fund operations, then donations can be used for other purposes, in particular capital projects for the center, or elsewhere in the mandala.

2. It is preferable to manage cash flow with cash reserves. However, if that is not possible, lines of credit and other forms of short-term debt could be used. These should only be used to manage cash flow, and not become “permanent” debt.
3. Budgets should include two revenue plans, one reflecting a minimum and a second reflecting the target.

Centers are usually able to manage operating expenses to budgeted levels. On the other hand, revenue can be very difficult to predict and may vary considerably from plan. Since even a small shortfall in revenue can create a significant problem, it would be prudent to allow for this in the budgeting process.

The minimum revenue plan would be the lowest net revenue reasonably expected, and the amount needed to break even, given the operating ratio target (described in #1 above).

The target revenue plan would be the goal for the year. If met or exceeded it would typically mean either some discretionary expense could now be incurred, or some portion of donations could be used for capital projects or set aside for future capital projects.

4. Annual budgets must include maintenance expenses sufficient to maintain the physical facility in good condition. For the purposes of calculating the key operating ratio, this would be included in operating expenses.
5. Payments on long-term debt must fall within the envelope defined by #1 and #3 above.

This simply means the center cannot have a level of debt beyond what they can service with their defined key operating ratio, and at the minimum revenue plan.

Draft Principles for Expansion Plans at Practice Centers

Expansion plans usually have well described one time costs and financing plans, but they often do not adequately account for the impact, or the uncertainty of the impact, on base operations. This gives rise to the following principles.

1. Expansion plans need to include a description of the incremental impact the plans will have on base operations. This includes all of the following:
 - Changes in debt service

- Changes in all other fixed/indirect operating expenses, including maintenance, utilities, staffing, technology, etc.
 - Changes in net operating revenue for each category of revenue
 - Changes in donations
 - Standard operating ratios (see attached appendix A)
2. Expansion plans need to include a description of what, if any changes will be made to the sustainability principles described above.

It is reasonable to adjust base operations performance expectations for some set period during and following expansion. For example, the key operating ratio might be lowered to accommodate new expenses coming online sooner than new revenues. There may also be a much larger variance between the minimum and target revenue plans to account for greater uncertainty. But there still should be a plan as to what the targets will be once the transition period is over, with interim goals.

3. Bridge loans and other forms of interim financing need to have clearly described plans for when and how they will be paid off.

Shambhala Centers

Background

A number of Shambhala Centers have gone through the process of buying or building their own space. Some who own are looking at major facility expansion. Other centers are looking to buy or build, still others are looking to move into larger and more expensive rental spaces. In most of these situations, the facilities cost for the center will rise, sometimes substantially. Plans often assume increases in cost will be offset by increased membership and program revenue. For some centers that has been the case; for others revenue plans have not been met and the result has been a scramble to make ends meet.

This raises the question of how can we be more skilful in looking at financial stability, particularly when planning facilities changes or expansion?

Center Operations

A good working definition of financial stability for the Shambhala Centers is the ability to break even on a cash basis. This simply means the money coming in is enough to pay the bills. For the purposes of this document, the discussion assumes everything on a cash basis, e.g. expenses include mortgage principle payments and do not include depreciation.

Revenue sources fall within the following categories:

- ***Net operating revenue***
 - Member dues and unrestricted donations
 - Net revenue from programs (gross revenue minus direct program expenses)
 - Net store sales
 - Net facilities rentals (gross revenue minus direct costs of rentals)
- Restricted Donations (including grants); typically for building projects, but could include other things like a scholarship fund

Base operating expenses include all the recurring expenses associated with having the facility, e.g. rent, utilities, mortgage payments, personnel expenses, transfer payments to Shambhala, but does not include direct costs incurred to hold a program or rent out the facility, or discretionary expenses like buying new cushions.

Draft Principles for Sustainability of Center Operations

1. Shambhala Centers should set a target for their key operating ratio:
member dues and unrestricted donations/base operating expenses (as a percentage)

This ratio measures the degree to which stable revenue – dues and donations – cover fixed expenses. 100% would mean the center is not reliant on program revenue to pay the bills.

Centers in very expensive markets, e.g. New York, and large centers with paid staff, will typically have a much higher reliance on program revenues and a lower operating ratio. This is not a problem as long as the required program revenues are sustainable.

Most centers experience large variations in net program revenue. Some find they cannot “afford” to use calendar space and volunteer resources to hold programs that barely breakeven or even lose money, limiting, for example, the ability to host an acharya visit. They often strain resources to hold more programs simply to bring in enough revenue to break even. This compromises the overall health and wellbeing of the community and can lead to burn out, turnover, loss of membership and erosion of program revenue, and financial crisis.

The main point is that each center needs to think about what makes sense for them, and set a ratio that reflects that.

2. Centers should establish a minimum amount of cash reserves that will be maintained to provide a small cushion and to cover the unexpected. Recommendation: Three months of base operating expenses.

Draft Principles for Major Facilities Changes at Shambhala Centers

Major facilities changes include buying or building, major expansions to existing space, and moving to significantly more expensive rental space.

Facilities plans usually have well described one time costs and financing plans, but they often do not adequately account for the impact, or the uncertainty of the impact, on ongoing operations. This gives rise to the following principles.

1. Expansion plans need to include a description of the incremental impact the plans will have on base operations. This includes all of the following:
 - Changes in rent or debt service
 - Changes in all other fixed/indirect operating expenses, including maintenance, utilities, staffing, technology, etc.
 - Changes in net operating revenue for each category of revenue
2. Expansion plans need to include a description of what, if any changes will be made to the sustainability principles described above.

For example, there may be a greater dependence on program revenue to cover base operating expenses. This may be transitional, since membership growth may lag behind the change, or ongoing if the center reasonably believes it can sustain a higher

level of net program revenue. The center might use all of its cash reserves to cover expenses incurred during the change, but there should be a plan for when the reserves will be replenished.

Appendix A

Financial Performance Indicators – Practice Centers

Definitions:

<i>Net program revenue</i>	Gross program revenue Plus housing upgrades Minus scholarships Minus transfers Minus direct program expenses
<i>Net store revenue</i>	Sales Minus cost of goods sold Minus sales tax
<i>Net rental revenue</i>	Gross revenue from facilities rental Minus direct facilities rental expenses
<i>Net operating revenue</i>	Net program revenue Plus net store revenue Plus net rental revenue
<i>Operating expense cash basis</i>	General expenses Plus principle payments Minus depreciation Accounts Payable/Receivable adjustments to cash basis

Operating Ratios

net operating revenue/operating expense cash basis

operating expense cash basis/participant days

net operating revenue/participant days

program revenue/participant days

net operating revenue/FTE (Full Time Equivalent)

average days per participant

Balance Sheet Ratios

Working capital: $\text{current assets} / \text{current liabilities}$

Equity: $\text{total debt} / \text{net assets}$

Cash days left: $\text{working capital} / \text{daily cash burn rate}$

Appendix B

Balancing Shambhala's resources: the mandala principle

As our global mandala grows, it is important to balance our worldwide outreach with the ability of the centre of mandala to lead and service that growth. Both the centre and the community need to be strong. Both are essential.

At the centre of the mandala is the lineage of Sakyongs, the source of the blessings that radiate throughout the mandala. The centre also includes the Mandala Services that are provided to centres, groups, members and all the other entities of our worldwide network.

Simultaneously, the power of Shambhala emanates from our vibrant community engaged in practicing, propagating the teachings and working to manifest enlightened society.

The development of the mandala as a whole means that these need to be balanced so that both are able to play their complementary and vital roles. That means that there has to be complementarity in the use of resources, so that we are always mindful of strengthening both the centre and the community – in order to strengthen the mandala as a whole.

This complementarity can take a number of forms, such as:

- a) creative collaboration between the central Mandala Services and individual Shambhala Centres and groups to help raise increased funds for their work: the establishment of the Dana Group by the Sakyong's Council is a first step towards helping with this;
- b) mandala-wide planning efforts for major development projects in the mandala as a whole: this is now being done by the Sakyong's Council at the request of the Sakyong; some \$70 million dollars in planned development over the next five years have been identified; the planning would be a collaborative, rather than competitive effort, and embrace the need to strengthen and stabilize the centre of the mandala as well;
- c) establishment of an integrated economic model, based on the success of the European Model, for use throughout the mandala: this relies on recurring donations, both from centres and from individuals, to provide the primary source of funding for the centre of the mandala.

Appendix C

Policy on Financial Transparency and Integrity

Transparency and integrity with regard to the management and reporting of the finances of the organizational entities of the Shambhala mandala is a goal of both policy and practice.

As a matter of financial policy, Shambhala is committed to transparency. This means that all members of Shambhala, on whom the mandala's financial support depends, are invited to receive accurate information, both detailed and summary, about the organization's finances. Both traditional accounting reports and reports designed to make information easier to understand will be provided.

To implement this policy, those who work with the mandala's money, both paid staff and volunteers, pledge to practice principles of transparency and integrity in all aspects of their work, including:

- accurately recording all financial transactions
- assuring that summary and simplified financial reports fully, fairly and accurately reflect the associated financial details
- accepting responsibility and accountability that all solicited funds are applied to the specific projects and activities for which they were raised, unless released for other purposes by the donor
- respecting the wishes of anonymous donors
- disclosing any self-interest or apparent self-interest in a financial transaction to the transaction's approving body
- ensuring that personal loans and debt have a written statement describing:
 - the financial terms of the loan
 - the purpose for which the funds will be used,
 - the plan by which the funds will be paid back
 - the Shambhala entity having legal authority to approve the loan arrangements

This applies to all Shambhala entities, including the center of the mandala, practice centers, Shambhala Centers and other divisions of Shambhala.