MODEL

The Financial Sustainability Model

What this is	A four-part model you populate with your own figures: contribution margin by program, operating reserve adequacy, cash runway, and revenue concentration exposure — plus the three scenarios to run against them and the board thresholds that turn a result into a decision.
It assumes	You can produce last year's audited figures and a current budget. You do not need a finance department.
Change before use	Every number. The structure is the deliverable; the figures shown are invented illustrations.

The problem this fixes

Most organizations in this sector can tell you precisely what happened last year and almost nothing about what would happen next year under conditions that are entirely foreseeable. The audit is backward-looking by design. The budget is a plan, not a stress test. Between them sits the question nobody has written down: **how long could we operate, and at what size, if the largest thing we depend on went away?**

That question is not answered by having more money. It is answered by knowing four numbers and having agreed in advance what each one triggers. This model produces those four numbers and those triggers. It does not forecast, and it is not advice — it is arithmetic you perform on your own figures, with the assumptions written down so a board member can argue with them.

WHAT THIS IS NOT

This is not financial, investment, tax, or legal advice, and it is not an opinion on your financial condition. It is a structure for organizing figures you already have. Decisions belong to your board, on the advice of your own auditor and counsel.

It is also not a forecast. A forecast asserts what will happen. This model asks what you could survive — a different and more useful question when your revenue is set by other people.

The four numbers

Number	The question it answers	Why this sector needs it specifically
Contribution margin by program	Which programs pay for themselves once shared cost is included, and which are carried?	Programs are usually funded per unit of service. A unit rate set years ago can quietly stop covering the cost of delivering it, and nothing in the monthly statements says so.
Operating reserve adequacy	How many months of operations could we fund from unrestricted resources we can actually reach?	Most reserve figures on a balance sheet include money that is restricted, illiquid, or already spoken for.

Number	The question it answers	Why this sector needs it specifically
Cash runway	How many weeks could we make payroll if receipts stopped tomorrow?	Government receivables commonly settle on a lag measured in months. An organization can be solvent on paper and unable to pay staff on Friday.
Revenue concentration	What share of revenue rests on the largest single source, and what is its renewal date?	A single county contract, a single grant, or a single funder can be a majority of revenue. Concentration is the risk that actually ends organizations in this field.

Part one — contribution margin by program

The purpose is to stop a program from being described as "self-funding" on the strength of direct cost alone. Build it in four columns, one row per program.

1. **Program revenue.** Everything earned by the program: contract or fee revenue, restricted grants that fund it, and the portion of unrestricted support you deliberately assign to it. Assign nothing arbitrarily — if you cannot state the basis, leave it out and note the omission.
2. **Direct cost.** Costs that would disappear if the program closed. Program staff, direct supervision, participant costs, program-specific licenses and travel.
3. **Allocated shared cost.** The program's share of finance, HR, IT, compliance, executive time, occupancy, and insurance, using the bases in your written cost-allocation methodology. If you do not have one written down, build that first — the Open Shelf has the template and the Allocation Modeler will draft it with you.
4. **Contribution margin.** Revenue less direct cost less allocated shared cost, shown in dollars and as a percentage of program revenue.

Worked illustration — **invented figures, for shape only:**

Program	Revenue	Direct cost	Allocated shared	Margin $	Margin %
Program A	1,200,000	900,000	260,000	40,000	3%
Program B	640,000	520,000	150,000	(30,000)	(5%)
Program C	310,000	180,000	70,000	60,000	19%
Unrestricted / other	150,000	—	—	150,000	—
Total	**2,300,000**	**1,600,000**	**480,000**	**220,000**	**10%**

The reading that matters is not the total. It is that Program B loses money once it carries its share of the back office, and that the organization's overall margin depends on Program C and unrestricted support continuing at their current level. Both facts are invisible in a statement of activities.

What to do with a negative margin

A negative contribution margin is a finding, not a verdict. There are only four honest responses, and the model exists so the board picks one deliberately:

- **Raise the rate.** Take the true cost to the funder with evidence. This is what the True Cost of Service Workbook is for.

- **Lower the cost** without lowering the standard, which usually means changing how the work is organized rather than who does it.
- **Fund the gap on purpose,** from unrestricted support, and say so in the budget as a deliberate cross-subsidy with a named amount.
- **Stop the program,** on a planned timeline, with notice to the people served and the funder.

Carrying a loss without choosing one of these is the fifth option, and it is the one that ends organizations, because it consumes the reserve that the other four depend on.

Part two — operating reserve adequacy

The reserve number on the balance sheet is almost never the reserve you can use. Compute the usable figure explicitly.

Step	Calculation	Note
Start	Total net assets	From the most recent audited statement
Less	Net assets with donor restrictions	Not available for operations
Less	Net investment in property and equipment	Real, but you cannot make payroll with a building
Less	Board-designated funds you would not actually release	Be honest here; designations you would never touch are not reserves
Equals	**Available operating reserve**	The number that matters
Divide by	Average monthly operating expense	Total annual expense divided by twelve
Equals	**Reserve, expressed in months**	The figure the board should know without looking it up

There is no single correct target and this document does not assert one. What the board should do is **adopt a target in writing, with a reason**, and then report against it monthly. A target chosen and reported is a governance act; a target absorbed from a conference talk is not.

> **THE DISTINCTION PEOPLE MISS**
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> Reserve adequacy and cash runway are different questions and can point in opposite directions. An organization can hold a healthy reserve in an endowment-like fund and still be unable to fund payroll in three weeks, because the reserve is not liquid and the receivables are late. Compute both. Report both.

Part three — cash runway

Runway is measured in weeks, from cash and near-cash only, against committed outflows. It is the question the executive director actually loses sleep over, and it is rarely on the board dashboard.

1. **Opening position.** Cash in operating accounts plus lines of credit you have already been approved to draw.

2. **Committed weekly outflow.** Payroll and payroll taxes, rent, insurance, debt service, and the participant costs you cannot ethically suspend.
3. **Receivable timing, honestly stated.** For each major payer, the observed lag between service delivery and receipt — not the contractual lag. Use what actually happened over the last twelve months.
4. **Runway.** Weeks until the opening position is exhausted if receipts arrive on the observed lag and nothing new is committed.

Run this at least three ways: receipts on the observed lag; receipts thirty days later than observed; and receipts from your single largest payer stopping entirely while everything else continues.

Part four — revenue concentration

One row per revenue source above five percent of total revenue.

Source	Share of revenue	Ends	Renewal mechanism	If it went away
Name the payer and the specific contract or award	Percentage of total revenue	Actual end date, not the option year you hope for	Automatic, negotiated, or competitively re-procured	Programs affected, staff affected, months of reserve consumed

Two columns do most of the work. **Ends** forces the organization to look at a date it has been avoiding. **Renewal mechanism** distinguishes a relationship from a procurement — a contract that will be competitively re-bid is not a renewal, however long you have held it and however good the relationship is.

The three scenarios

Populate the four parts with real figures, then run exactly these three. Resist adding more; three that are actually run beat ten that are described.

Scenario	What you change	What you are looking for
Base	Current budget, receipts on observed lag	That the arithmetic reconciles to your budget. This is the control, not a prediction.
Downside	Largest single revenue source ends at its actual end date and is not replaced	Months of reserve consumed before the organization reaches a sustainable size, and the date by which a decision must be made
Stress	Downside, plus receipts from remaining payers arrive thirty days later than observed, plus no new unrestricted support	Whether runway ever goes below the point where payroll is at risk, and in which week

The output of the stress scenario is a **date**, not a dollar figure. A date is actionable: it tells the board when a decision stops being available. That is the single most valuable thing this model produces.

Turning results into decisions

A model that produces numbers nobody acts on is a spreadsheet. Adopt thresholds in advance, by resolution, so that action is triggered by arithmetic rather than by mood.

When this happens	This is triggered	Who acts
Reserve falls below the adopted target for two consecutive quarters	A written recovery plan to the board with a timeline	Executive director, reviewed by finance committee
Projected runway falls below the adopted floor	Immediate notice to the board chair; contingency plan activated	Executive director
Any single source exceeds the adopted concentration ceiling	Diversification objective added to the annual plan	Board
A program shows negative contribution margin two years running	One of the four responses chosen and minuted	Board

Fill in your own thresholds. The specific values matter far less than the fact that they were set before the pressure arrived, by people who were calm, and written where they can be found.

What the board should see monthly

- Reserve in months, against the adopted target, as a single figure.
- Cash runway in weeks, against the adopted floor.
- Contribution margin by program, updated at least quarterly.
- Concentration: largest source as a share of revenue, and its end date.
- Any threshold crossed since the last meeting, named explicitly rather than left to be inferred from a chart.

Five lines. If the board financial pack cannot answer these five in under a minute, the pack is reporting activity rather than supporting decisions — the Monthly Board Financial Pack on the Open Shelf is built to fix exactly that.

Limits of this model

- **It is only as good as the allocation underneath it.** If shared costs are allocated on a basis you cannot defend, every margin figure inherits that weakness. Write the methodology first.
- **It assumes your observed receivable lag continues.** A payer changing its payment system can break that assumption without warning; revisit the lag annually.
- **It does not model growth.** Deliberately. Growth scenarios are easy to make flattering, and an organization that cannot survive its downside should not be modeling its upside.
- **It is not an opinion on going concern.** That determination belongs to your auditor.

How to use it with your auditor

Bring the populated model to the audit planning meeting, not to the exit conference. Auditors assess going concern and are required to consider management's plans; arriving with a documented downside scenario and adopted board thresholds changes that conversation from an interrogation into a review. It is also, in our experience of building these, the fastest way to find out that one of your assumptions is wrong while it is still cheap to be wrong.
