



Directions

The digest of the Association of Nature Center Administrators

Break-even Budgeting and Financial Management of Residential Centers

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America's urbanization, while providing many benefits for our society, has unfortunately created a condition wherein its children and adults are increasingly distanced from *experiencing* nature. Pristine wilderness environs have become digitized abstractions and family outdoor recreation is something that people "used to do". In our present time of critical environmental decision-making, how does our nation's citizenry make wise choices without an experiential standard to use as a reference?

The National Audubon Society (NAS) knows that positive environmental values are built on a solid foundation of positive, hands-on experiences in the natural world. In a technological society, the challenge becomes one of providing opportunities for children and adults regardless of their economic class.

To meet this challenge, NAS has decided to increase the number of its residential and day-visit centers throughout the United States. The goal is to create a communicating, cooperating network of centers throughout the nation that can involve more of our citizenry in hands-on environmental education programs. As a part of this effort, NAS wanted to review the

operation of residential centers from a business point of view - to look at funding patterns and provide a common base for our regional boards and staff to use in strategic planning.

What Was the Purpose of This Study?

Residential camping programs nationwide are experiencing a decline in enrollment. Some Centers are experiencing difficulty in making financial ends meet without increasing their dependency on contributions and grants. Others have chosen not to operate on a year around basis.

This situation requires reflective consideration of several questions:

- Do the financial operations of residential centers need review and revision to optimize their potential for survival?
- Should a residential center operate only during those times of the year when potential revenues can make it substantially self-supporting?
- Are residential centers budgeting adequately, and effectively communi-

cating the value of participating in this type of program?

Our survey of the residential centers participating in this study addresses the quantitative aspects of the questions above. The resulting evaluation of survey data returned was used to develop a preliminary model that residential center managers can use to make some aspects of their operations more visible for strategic planning purposes.

Other relevant questions include:

- How do other residential centers around the country compare to the centers participating in this survey?
- Do children of this generation have different priorities? Why?
- Do parents view the value of a residential experience for their children differently than before? Why?
- Why are Elderhostel programs popular while traditional adult camping programs are declining?
- Why do teachers decline to enroll their classes in residential environmental programs?

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Why Residential Centers?

NAS is one of the organizations that pioneered the concept of providing opportunities for people to live and learn in natural settings through school programs and summer camping. We have a long tradition of residential camping programs that:

- Explore interrelationships in natural communities and interaction between natural and social systems;
- Provide an alternative setting to urban environs that creates an opportunity for immersion learning;
- Bring participants into contact with practicing professionals in resource management; and
- Nurture the development of positive environmental values by direct involvement in outdoor activities.

Why Break-Even Planning?

Audubon Center of the North Woods recently completed a major campus expansion to increase our ability to provide residential adult and school programs. We participated in a \$25 million capital development program with four other residential centers that were also expanding their facilities to meet the increased demand for more residential capacity in Minnesota. This expansion was led by \$7.5 million lead grants from the Blandin Foundation and the Minnesota State Legislature – a model effort of cooperation between the private and public sectors.

Break-Even Planning was integral to our expansion program. It was an important first step in providing our Board with a basis for setting policies that would guide ACNW staff during the development

of our five-year Business and Program Strategy Plans. It also provided a framework whereby we could monitor and forecast our progress toward achieving substantial self-support through earned revenue.

Many organizations, for-profit as well as nonprofit, do not regularly conduct quantitative reflective exercises to examine earned revenue in relation to operating costs in terms other than “We need more business or contributions.” Nonprofit organizations usually respond by increasing their efforts to solicit additional supporting contributions to augment their operating revenues, supplemented by modest fee increases.

Nonprofit residential centers are businesses. As our survey found, respondents characteristically fell into two general categories:

- Substantially self-supporting (0–20%);
- Moderately self-supporting (21–60%).

There is no “right” or “wrong” implication in belonging to either of these categories. Each center’s operating style merely reflects the philosophy and operational mandate of its founding and current directors’ policies. The question raised by this study is that perhaps Centers might want to quantitatively re-examine some of these founding principles in terms of modern business practices. Might there be indicated a revision of these policies in terms of what the break-even process shows?

The break-even planning method provides a systematic and quantitative method of enabling a residential institution to reflect on:

- Earning potential based on marketable beds during any given (seasonal) reporting period;
- Contribution of other operations-generated revenue to meeting operations costs;
- How fee structures contribute to the financial

- success of the institution,
- How operations costs compare to similar residential businesses, and
- How vulnerable an institution might be in relation to changing priorities of individual donors and charitable organizations.

It was the intent of our study to provide the beginnings for this reflective process.

The Break-Even Planning Model

The break-even model begins by determining a unit figure that is the average revenue per participant per day. Groups that pay more would be a multiple of the base unit. Those who pay less would be represented by a percentage of the base unit.

Total expenses are then calculated – both fixed and variable expenses. To calculate the break-even point means dividing the total expense by the unit figure. The resulting number tells you how many units (people-days) a center must sell in order to break even.

If that basic unit price does not meet the expenses, then there are several alternatives to consider.

The obvious options are the following:

- Increase prices
- Decrease fixed costs
- Decrease variable costs
- Increase capacity
- Eliminate money losers
- Increase support (outside funding)

More detail on each of these options will be covered later in this article.

The Study

NAS contracted with us to identify residential centers that would volunteer financial information about their operations to help us answer the

following questions:

- What are the expected revenue and expense patterns of our residential centers? Are there major regional differences in these patterns?
- What is the role of charitable giving in support of our residential program centers?
- Are modern business practices practical or even applicable to the management of our residential education centers?
- Can we provide a common method for our regional boards and staff to use in their financial strategic planning to meet the changing needs of their clients?

We created a team comprised of the ACNW Director, our certified public accountant, a professional business planner and a retired director of a residential center to conduct the study on behalf of the NAS. Tamar Chotzen from the NAS national office and Joanna Warren Smith of Camp Consulting Services, Ltd. helped us identify 14 residential centers across the country to participate in the study. The regional diversity represented by the participating centers contributed significantly to the development of our generalized planning model.

The Participating Organizations:

- Audubon Center of the North Woods – Minnesota
- Audubon Center in Greenwich – Connecticut
- Cispus Learning Center – Washington
- Crow’s Neck Learning Center – Mississippi
- Great Smoky Mountains (Tremont) – Tennessee
- Hunt Hill – Wisconsin
- Hog Island – Maine

- North Cascades Institute – Washington
- Vermont Audubon Camp – Vermont

Provided by Camp Consulting:

- Camp C – New England
- Camp D – New England
- Camp M – Midwest
- YMCA – West Coast
- YMCA – Mid-Atlantic

Survey Results - Profiles of Participating Centers

The participating organizations provided answers to a questionnaire to give us an over all picture of the industry that might supplement our analysis of the financial reports. The following summary draws from the responses that were given in the questionnaire and should provide the reader with a picture of both the fourteen sample institutions and the residential field that they represent. Not all participants filled our questionnaires.

There is a large variation in services and staffing provided with programs. For example, Cispus does not provide programming except for the challenge course. Teachers bring their own lessons. By contrast, the Audubon Center of the North Woods provides all the programming and has a full time professional teaching staff. Staffing in summer is much higher than the school year as a ratio to participants because of the 24-hour coverage that is required without the help of teachers and chaperones that accompany the school groups.

Only a few of these organizations operate residential programming for less than the full year, on the order of 3-6 months. Considering the efforts by camps in Minnesota to extend their seasons through rental of facilities to schools, it appears that it is financially difficult to operate a summer-only facility. Coeducational camps were the

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norm in this sample. The Audubon related organizations were the only ones to show adult-only camps. The Audubon Center of the North Woods is the only one to have a large amount of senior programming in the summer.

The number of summer program weeks:

- Audubon Center of Greenwich 5
- Audubon Center of the North Woods 13 (more than one program per week)
- Cispus 12
- Great Smoky Mountains 9
- Hog Island 15 (more than one program per week)
- Hunt Hill 8
- YMCA 10

Summer capacity ranges from 50 to 90. Only two indicated that their summer capacity is reached and one of them indicated it was at capacity in children, but not adults. Participants from within 100 miles varied from 60% to 95%. In non-summer months the participant audience is primarily youth and schools.

Capacity of centers in the non-summer months goes up to 70 to 400 beds. None of the centers surveyed are operating at full capacity.

Only Hunt Hill showed a large volunteer labor force.

Year round staffing:

- Audubon Center of the North Woods 31
- Cispus 14
- Great Smoky Mountains 20
- Hog Island 2
- Hunt Hill 3
- North Cascades 12
- YMCA 49

Seasonal staff:

- Audubon Center of Greenwich 12

- Audubon Center of the North Woods 3
- Cispus 8
- Hog Island 40 (short-term guest instructors)
- Hunt Hill 12
- North Cascades 3
- YMCA 60

Half of the respondents state that they use both revenue and grants for capital expenditures. Based on both the financial statements and the questionnaire it appears that grants and gifts fund major capital expenditures. Both earned revenue and grants fund annual repairs that qualify for capitalization.

Only one center indicated increased growth in all areas. The most common trend was toward shorter visits.

Reported advertising costs varied in format from \$10,000 annually to \$15 - \$43 per bed.

The most effective marketing techniques were:

- Professional conferences and word of mouth;
- Local publications and word of mouth;
- Conferences, publications – articles, and word of mouth;
- Brochure and word of mouth;
- Mailer to schools and paid ads;
- Direct mail and regional newspapers;
- Multiple data bases for selected mailings, newsletters, recruiter, and word of mouth.

Partner or parent organizations cover many costs – up to \$90,000 annually in one case. The Audubon Center of the North Woods has no parent organization (even though the name might imply it). Other Audubon Centers are part of the National Audubon Society accounting system and some of the costs are covered in the state or national budget. The

comparison of financial statements in the non-profit world is affected by the large variations in accounting.

To cover capital expenditures, several strategies were reported. One institution schedules one day per staff member for the development of grants. Two institutions borrow money. One program has a five-year capital fund raising cycle and another treats capital costs as a cash expenditure for that year and then transfers these costs to fixed assets in the financial audit.

Half of the respondents state that they use both revenue and grants for capital expenditures. From our review of the financials and the questionnaire, we determined that grants and gifts most commonly funded major capital expenditures, while annual repairs that qualify for capitalization were probably a function of both revenues and grants.

We found that the majority of institutions did not handle their capital depreciation in the normal business manner, so we removed this from the study summary. This practice, however, understates the actual costs of operations and assumes that grants, gifts, and donations will cover all capital costs.

Conclusions

When financial information was put through the break-even model, it was found that none of the centers is operating at a break-even level. Those in the study vary from 28 % to 99% of breaking even, with a mean of 78 % and the median of 77 – 82 %.

The purpose of break-even analysis is to provide the basic tool for a business plan. It creates the target for growth, management, and realignment within the organization. Even a non-profit must operate as a business. It is important to realize that in all relevant decision-making. A center's currency is both cash and mission. If a residential center is not operating at the break-even point, there are several strategies for the center to pursue.

Increase Price: If the basic unit does not match expenses, it could be that the programs are underpriced. Price increase is limited by the marketplace, both by competitors and clients. Looking at significantly increasing price means analyzing the niche – examining the quality of the program, staff and facility and the organization’s ability to sell the perception that the programs are worth more.

Increase Capacity: Increasing capacity is another place for increased revenue. In the retail world, many companies turn a profit by selling in bulk. Increased numbers mean increased costs, but if managed well the increase will add an incremental income over expenses. Capacity can be increased by adding beds (a capital expenditure) or adding program days. In an average school year there are approximately 160 days with potential for occupancy. If you can add week-ends, holidays and summer sales the overall capacity goes up.

Eliminate, Subsidize, or Stack Money Losers: All programs have a break-even point. In the non-profit world we have an additional measurement – mission – that might cause us to subsidize programs that cannot support themselves. When the budget requires adjustment, a center can eliminate a money-losing program, subsidize it, or explore the option of stacking. All institutions have a critical minimum number that is needed to cover fixed costs. If a program cannot be subsidized and it does not reach that minimum number, it might be stacked with other programs so that the collective fixed costs remain the same but the revenue for those days is increased.

Increase Support: We can also adjust budgets by increasing support. This can be in the form of scholarships, grants, endowment income, memberships, or special fundraising. It is important to remember that all of these sources of income have associated costs in development staff, time away

from teaching, and the material costs of fundraising work and sustaining membership. It is important to realize that small grants might actually cost centers money if the grant proposal budget is not realistic.

All of the approaches listed above are part of revenue adjustment. Be careful not to equate revenue and profit. Profit is revenue minus expense. It is possible to bring in a lot of money and still go broke. Another option is to look at adjustments of expenses.

Fixed costs represent the costs that exist whether a client comes or not. These are the costs of buildings, insurance, equipment, office, and support staff that must be in place to bring in the programs and provide the base of operations. It is the first building block in a budget. There can, however, be ways to tweak fixed costs. Determine whether there are services that can be contracted. In a tight cash-flow situation, it might be important to shift costs to high-revenue months, and here contracting might be an option.

Variable costs are those that increase with every participant. For example, food costs rise with every person you feed. Other costs, like heating, are less adjustable to small shifts in attendance. A dormitory must be heated for comfort whether it is full or half-full. But obviously the expense per person declines as you approach capacity in a building. Depending on the staffing setup, some teaching staff may be a variable expense while permanent teaching and office staff would be considered fixed expenses.

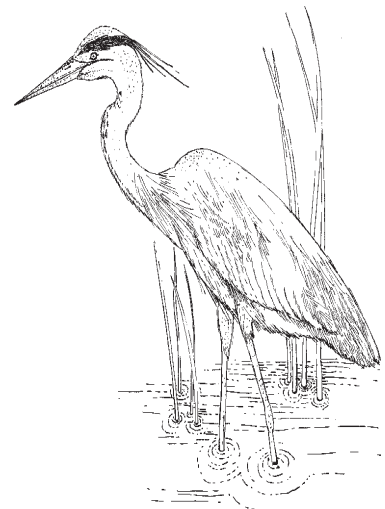
It is also important to realistically look at staff costs. Their daily cost is their salary plus benefits divided by actual work days (365 minus week-ends, holidays, sick leave, vacation, etc. for year-round staff). Each staff person is also responsible for a percentage of overhead and this cost must be included in determining how we assign the cost of employees assigned to programs or projects.

If you use the break-even model,

you can then analyze new programs to see if they are a good financial fit. Mission must be evaluated separately. On a financial basis, the break-even process makes one answer the following question about new programs. How many units are needed to break even with the associated fixed and variable costs? That will determine the minimum attendance needed or define the subsidy requirements. At what point in attendance do you need to increase your variable expenses substantially with another staff person, van or similar high expense? That may determine your maximum, though demand may indicate that higher levels of variable costs will be covered.

The details of our study provided tools for the participating organizations. We hope the concept of the study provides food for thought for other center managers.

For further information on break-even budgeting, contact Mike Link at the address shown at the beginning of the article. 🌿



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