EVANS SCHOOL OF PUBLIC AFFAIRS
UNIVERSITY of WASHINGTON
Electronic Hallway

PINEVILLE HEARING & DEAFNESS CENTER (A)

Ellie Bradshaw, CEO of the Pineville Hearing & Deafness Center (PHDC), was preparing for yet another uncertain meeting with the board finance committee. It was March 2011, and PHDC was approaching the end of its fiscal year on June 30. The organization faced continued cash flow issues, significant debt, and what many believed to be underperforming programs. The board finance committee had put a lot of pressure on Bradshaw this spring to make some big changes that would address several financial concerns. Bradshaw and the organization's CFO, Doug Wilson, had been working hard on the new budget for months but would need to discuss their options with the finance committee and get their approval before taking the next step.

Looking out of her office window on that first sunny spring morning of 2011, Bradshaw knew that they had to make some difficult decisions in today's budget meeting in order to improve the organization's long-term financial sustainability. However, she was hopeful that the next fiscal year would be the first that the organization would achieve a surplus since before the Great Recession, which began late in 2007 and carried over well into 2009 and 2010.

Background

With a mission to strengthen the community by promoting effective communication, PHDC provides a full continuum of services for individuals who are deaf, deaf-blind (which is defined as those persons with severe impairment of both hearing and vision), hard of hearing, or facing speech-language and learning challenges. Because anyone can be born with hearing loss or experience hearing loss later in life, PHDC's customers range from newborns to the elderly, and from the homeless to the wealthy. PHDC has

The Northwest Area Foundation provided funding, which enabled the Evans School to prepare this case, along with two others, evaluating nonprofit management challenges. This case was prepared by Laura Ciotti and Elizabeth McNeilly while they were MPA students at the Evans School of Public Affairs at the University of Washington, in collaboration with Ken Smith, Senior Lecturer at the Evans School. The case is inspired by actual organizations, though several aspects have been modified. This case is designed to present a situation involving a nonprofit responding to financial challenges during and after the great recession and provide an opportunity for discussion.

maintained a commitment to provide services regardless of a client's ability to pay since the organization's beginning. Programs include Audiology & Hearing Aids; Speech, Language & Literacy; Preschool and Early Learning; and Deaf & Hard of Hearing Services.

The greater Pineville area has one of the largest deaf communities in the country, and PHDC serves about 5,000 individuals each year. PHDC also employs about 35 staff between its three offices in Pineville, Birchwood, and Tanoak. About a third of staff members are deaf or hard of hearing, and about half of the board members were, or are currently, PHDC clients. PHDC is a fully signing agency—all staff members are required to learn American Sign Language (ASL) and are taught the language by other fluent staff members.

Founded in 1937 at a time when deaf and hard of hearing people faced enormous social isolation, PHDC began as partnership between the Pineville Lip Reading Club and the Pineville Area Child Hearing League. In its early years, the newly formed organization sought to gather the deaf and hard of hearing as friends and allies, and to provide preschool services for deaf children.

In 1957, with a meager $35,000 annual budget, Charles Moore, PHDC's then executive director, led the organization on an asset expansion initiative. Moore instated an organizational goal of acquiring a significant amount of local land and establishing permanent ownership of that property without accruing debt. In 1963, after PHDC outgrew its original facility in the western region of Pineville, the board sold the offices for $25,000 and used the money as a down payment on the Maple Street Hospital. The new facility was located about two miles from downtown along Maple Street, the thoroughfare that had operated Pineville's former cable car linking Maple Park to downtown until 1940. Through a fundraising campaign, the board of directors was able to raise the additional $75,000 to pay off the outstanding loan within a year. By the end of the 1960s, PHDC had acquired 1.75 acres of buildings and property along Maple Street with capital supplied almost exclusively by the board's fundraising capacity. PHDC leased out its buildings when possible to create additional revenue sources for programs.

As the organization grew and incorporated more sign language training into its programs, the deaf community became more and more involved in PHDC. As a result, PHDC extended its deaf programs to include job training programs and independent living skills programs, and in the 1970s helped establish the region's only deaf student community college program through Pineville Community College. In 1988 it created the PHDC Store, the region's first nonprofit store where clients and the public could purchase assistive signaling, communication, and listening devices, including hearing aids.

Argan Communication Center

In 2000, having long outgrown its Maple Street main facility, PHDC's board conducted a $2.5 million capital campaign to construct a mixed-use building along Maple Street, just one block away from its current location. Former CEO Jack Argan and his wife, Jane, contributed a substantial $1 million gift, and PHDC agreed to name the first two floors of the new facility the Argan Communication Center in their honor. The building's total cost was $22 million. Aside from the capital campaign, it was primarily financed by debt.

By 2001, PHDC broke ground on this new 42,000-square-foot mixed-use building. In addition to the Argan Communication Center, the building included 96 units of affordable housing on the top five stories. PHDC signed a contract to occupy space rent-free in the building while it managed the limited liability company (LLC) that managed the apartments, which it called Maple View Apartments. The expectation was that the property management LLC would take care of the day-to-day issues that arose with the housing units, while PHDC would operate its own programs in the Center and receive income from the units as they were rented or sold.

In 2006, Bradshaw and the board took on a second capital campaign to raise an additional $2 million in hopes of growing PHDC's education services, which could generate additional revenue. In 2008, the board received two major donations from Dan Benton and the Riviera Family, which would be used to open two preschools in their names. When PHDC constructed the new building, the board had decided to leave two 3,000-square-foot spaces on the second floor undeveloped for future needs, so PHDC already had space available for the schools.

Since the building's construction, it has been one of the biggest drivers affecting PHDC's finances. From the outset, the property management function has taken significant time away from PHDC's hearing and deafness services. Financially it has always operated at an accounting loss. "From an accounting perspective all of the assumptions made during the due diligence process were first class, with the exception of utilities, which the City of Pineville raised in the last few years," said Wilson. On the other hand, Bradshaw stated, "What my predecessors thought would help underwrite the mission has, in reality, been a distraction from the mission."

Bradshaw's Leadership Style

Originally trained in theater, Bradshaw had a 25-year career in social services management prior to joining PHDC. She has infectious energy, great enthusiasm, and a persistently positive attitude. "There are three things I have a passion for," Bradshaw said. "Seeing and supporting the potential in all people, connecting donors and their passions to create meaningful and lasting change, and supporting the nonprofit sector's leadership and importance in our communities."

When Bradshaw became the leader and took the title of CEO in 2002 she inherited a board that she felt was not engaged with the budget. Bradshaw sought to build a board that could look at the same problem from different perspectives, and would bring extensive knowledge about best practices from their own companies to PHDC. Most importantly, Bradshaw wanted a board that would "bring their business brains" so she sought out board members from National Motors, Price Tech Corp., and other prominent local businesses. Over time, Bradshaw built a diverse board, which she felt had strong governance skills (see Attachment 1 for a list of board members in 2012). "They are not a fundraising board, because they don't throw events," said Bradshaw. "But they do provide strategic oversight and open doors for PHDC."

In 2007, Bradshaw graduated in the very first class of the Midwestern Nonprofit Leadership Institute (MNLI) offered through Midwest University. "My experience with the program had a profound effect on my leadership style," she said.

> I became aware of myself as a leader through the program. The most salient lesson I learned and ingrained throughout the two-week long course was the difference between intuitional vs. intentional leadership. Prior to MNLI, I was a very intuitional leader. While I could read situations well and could respond with what I thought were the best choices, MNLI prepared me to think more about what kind of leader the situation needs, rather than what kind of leader the individual people need. Now, along with intentionally adjusting my leadership style to fit the situation, I also encourage staff to be leaders and regularly ask of

> themselves, "How did I lead today?"

Many staff attribute PHDC's positive atmosphere to Bradshaw's dynamic leadership. Said Josh Bourque, PHDC's Center Support Specialist:

> Ellie is a breath of fresh air for everyone who works or is a client here. She is such a kind-hearted person, and empowers people to help themselves. She tries as often as she can to visit a different department each week to talk with each employee. She is also very optimistic and is really good at getting everyone to feel the same way. I feel like I know her not just as a boss but also as a friend.

While Bradshaw was universally seen as upbeat and positive, her efforts at being open and transparent were not always successful. "When I first arrived," said Charlise McConnell, PHDC's Director of Development, "It was a top-down budget. I wasn't comfortable with that. So I talked with Ellie about the whole notion of the leadership team being responsible for developing and managing their own budgets. Most of the other people on the leadership team didn't know how to prepare or manage a budget because they didn't have management experience prior to PHDC." Wilson added:

> The organization has lacked a clear financial discipline and transparency. This has meant that over time it has been difficult for staff to make hard decisions because the CEO has wanted to isolate them and help them not feel the effects of financial troubles. However, when you isolate staff and don't give them the whole story, they make up their own story.

Bradshaw worked to create a shared leadership team model among the senior leaders. She said of the process:

> We are thinking about the purpose of the leadership team, exploring what shared leadership models mean, and working on writing a leadership team job description. Our human resource consultant has been leading us through this process, and we recently completed a SWOT analysis of the team, looking at how they function, communicate, and how the staff sees them. If we're interested in this shared leadership model, which we are, we should look at how we shape the world, and not just respond to crisis.

Optimistic Budgeting and the Overall Financial Situation

Each year PHDC's board meets to approve the annual budget that the finance committee and Bradshaw propose. As is the case with many budget meetings, there are often disagreements over which parameters within the budget should have standing in managerial decisions and which should be altered to pass a balanced budget. One point of contention surrounds the measure called Earnings Before Interest, Taxes, Depreciation, Depletion, and Amortization (EBITDDA), the largest of these costs being depreciation. Most members of the finance committee believe that the "bottom line" of the budget was the EBITDDA. "We're passing a balanced budget for the things that matter. Why would we include depreciation in our budgeting if we aren't actually writing a check for it?"

Wilson has a different philosophy about depreciation. "If we have debt on those buildings that are depreciating, we need to include depreciation in our budget, unless we don't plan on paying our lenders back. I don't believe our budget is actually balanced using the board's approach." Despite being the CFO, Wilson works under the board's management; therefore his argument can only go as far as it is received. It is evident in the PHDC budget which argument wins year after year (see Attachments 2 and 3). Once the fiscal year closes, PHDC compares its budget with its audited financial performance. Although the budget looks to be improving over the years, the discrepancy between it and the audited performance is growing larger.

Compounding the budgeting issues are other challenges that the accumulation of the mixed-use property has led to. First, the building has a complicated debt structure with seven different long-term notes payable, all with different terms, some of which are maturing soon (see Attachment 4). In addition, PHDC staff does not have the core competency for managing the LLC as landlords of a mixed-use building. Third, "The depreciation on the buildings is very large, and makes PHDC look asset rich but cash poor in our financial statements," said Bradshaw. Lastly, although PHDC does not have to pay rent, it owes over $20 million in Common Area Maintenance (CAM) charges. Thus far, PHDC hasn't seen any net income from the units since it was built. "This brings down operating reserves, is a drain on the top leadership's manpower, and keeps the apartments from operating in a functioning way. It was an unrealistic expectation that low income subsidized housing would increase revenue," said Wilson.

PHDC's overall financial picture has been mixed since before the Great Recession. The balance sheet shows big assets, primarily from the buildings' property values; however, the operating statement shows losses. There has always been enough cash flow to meet current obligations, yet cash flows appear to be draining with each passing year. Depreciation seems to wipe out any positive change in net assets, and PHDC's debt payments do not cover much more than interest payments (see Attachment 2 for consolidated financial statements from 2006–2010).

In addition to the building, "One of our biggest financial problems is the volatility of business lines," said Bradshaw. She added:

> We rely heavily on government contracts, including client advocacy, case management, and 911 training, for about one-third of our revenue. Donations are another one-third of our revenue. We also rely on earned income from our services and audiology equipment. Hearing aid sales are PHDC's biggest earned-income revenue, but sales are unpredictable, not to mention competitive. To top it off, hearing aids are not generally covered by health insurance, making sales particularly sensitive to the economy.

Of PHDC's earned income potential, Wilson said, "Audiology can return 40 percent or more on a gross margin basis, which provides significant funding for overhead and mission-centered programs." However, area retailers like Walmart and Costco have begun offering hearing aids and other products that used to be sold almost exclusively by PHDC, locally.

Several years after moving into the new building, PHDC was relying on its reserves and line of credit to meet payroll and to help support mission-driven programs that were not self-sustaining. Facing increasing cash flow issues, the board's asset committee decided in 2006 to sell a $2 million real estate investment to help offset deficits and build reserves to sustain the organization into the future. However, when the building sold in 2007, PHDC used most of the money to pay off debts and subsidize cash flow, and the increased cash reserves ultimately did not materialize. Said Wilson:

> Rather than put the money from the sale of the building into reserves, the board paid off the existing bills and subsidized operations. They had more services than operating revenue coming in. When that money ran out, for the first time in

several years the board was in a position where there were no more quick fixes.

Amidst the real estate sale and the capital campaign, in late 2007 Bradshaw noticed issues with internal controls and, as a result, fired then CFO, David Williams. “I accepted full responsibility for the poor performance of one of my employees,” said Bradshaw of the dismissal. “I was paying attention to the overall agency performance to plan, but not providing enough oversight to the Finance Department performance.” Bradshaw brought in a temporary CFO to help restructure financial reporting and improve financial controls. Since then, PHDC’s CFO position has turned over twice. Anna Berg, Director of Deaf and Hard of Hearing Services, commented on the recent turnover:

> Each CFO has a different style that you have to get used to. It was hard at first because of their different styles. We have to relearn how to read their financial statement. Now we have Doug Wilson, and it took time to get used to his style as well.

ROMP for Risk and Opportunities

When the Great Recession began in late 2007, PHDC’s revenue streams took a big hit. Donors cancelled or delayed pledged gifts. Because insurance does not cover hearing aids, the recession resulted in a drop in hearing aids sales. In response, Bradshaw worked with the board to create a Risk and Opportunity Management Plan (ROMP).

The original ROMP identified the realities of the time: economic stability was in question, government and foundation support was down, and consumer confidence was in decline. At the same time, the organization prided itself in its stable 72-year history, a solid donor base, and excellent services. Bradshaw’s goal was to prepare for and effectively manage both potential risks and opportunities for the agency during this time of financial crisis. An excerpt from the ROMP plan reads:

> We celebrate one day at a time and we plan for the short- and long-term. We discriminate between “Adaptive Worry” and “Toxic Worry.” Adaptive worry is like a car alarm—if it goes off when it needs to, it is an ally. Toxic worry is when it goes off and doesn’t need to. It becomes worry that paralyzes you and causes you to freeze up. At PHDC, we focus on anticipating and planning for risk, not fearing it.

The plan identified three risk areas, in order of priority: 1) fiscal performance, 2) workforce, and 3) clients. Bradshaw hoped these priorities would help PHDC focus its energies on revising its budget, producing more productivity and accountability of staff, retaining key personnel, and maintaining its quality of service. The plan also identified three opportunity areas, in order of priority: 1) resource development, 2) business/client acquisition, and 3) retention and stewardship. To mitigate PHDC's risk and take advantage of its opportunities, Bradshaw added a number one goal to the ROMP: Project and demonstrate visibility, stability, agility and unique services offered by PHDC. By managing both risks and opportunities, Bradshaw hoped the organization would be able to anticipate challenges and proactively seek solutions (see Attachment 7 for an outline of the ROMP).

However, some leaders do not think the ROMP plan got to the heart of the problems. Commenting on the plan, Wilson said:

> Even with ROMP in place, the organization was slow to react to financial troubles. The plan was not well defined, and was mostly about cutting or reducing expenses. For example, if we couldn't pay bills, the trigger plan would go into effect.

Cutting Costs and Increasing Revenues

Because of the organization's persistent cash flow issues, Bradshaw and the board felt they needed to find ways to mitigate losses in revenue caused by the recession. In late 2008, Bradshaw laid off several staff members and reduced the hours of a few others. Bradshaw also took a 15 percent reduction in salary. Bradshaw said of the situation:

> I have been meeting with the leadership staff about being at a crossroads with our challenges with cash flow and the economy. We've taken on a really aggressive approach including staff layoffs, and reductions in staff hours and salary. There is something about the energy that is sparked when you circle the wagons. We are covering the laid off positions with existing staff. We've released all but two of our contractors, and staff is covering their positions. The reductions in staff and hours have already made some difference. We have cut monthly expenses by approximately $20,000 a month so far. I am feeling optimistic.

Of the layoffs, Berg said:

> When the economy changed, we had to let go of "overhead" staff that was not providing direct services, because government contracts were in place to provide direct services. People understood because of the economy, but it was hard because "overhead" positions support direct services.

In early 2009 Bradshaw downsized the Birchwood and Tanoak offices to realize some additional monthly savings. At this point they were receiving about $9,000 per month in rent from tenants in their rental properties and within the Center, but they found it still wasn't enough to offset the costs of the building. The March 2010 board meeting included a "State of the Agency" address, where Bradshaw announced that all full-time employees would be reduced to .8 FTE until the financial situation improved. At that time Bradshaw also took an additional 5 percent reduction in salary. She assured the Board that everyone at PHDC understood and appreciated the severity of the situation they were facing. "Don't let our positive attitudes be confusing," she said. "We get it. We live it every moment of every day. But a positive, can-do attitude is how we choose to deal with it while we make the hard and strategic choices. It is our entire focus as a team and it will take all of us to make it happen."

Bradshaw and the board also explored reductions in services, renegotiating deliverables on government contracts, renting out empty space in the building, adding public ASL classes, and contracting out IT and HR services. One program in particular that Bradshaw was looking at cutting was its speech program. "Speech is not our niche," said Bradshaw. "It's a good service, but our niche is deaf and hard of hearing. There are also a lot of other organizations providing speech therapy in the community."

As these options were being considered, some in the leadership team were still not as involved with the organization's finances as they wanted to be. Said McConnell,

> When the recession hit, we were in crisis mode. The leadership team went to Ellie and said we don't want to be in crisis mode. We want to be involved quarterly and monthly, and not just once a year. Ellie is lucky to have a leadership team that wants to be involved and be accountable.

Joining Forces

In the new economic reality, Bradshaw also sought to create greater economic efficiencies. Bradshaw's collaborative nature, along with the realities of the recession, mobilized and encouraged the board to support increased collaboration. One direct outcome of the ROMP was the creation of the Communal Services Network (CSN).

Hand-picked by Bradshaw, the partners in the CSN initially included six local nonprofits representing a wide variety of issue areas, and later adopted a seventh. Most were her classmates from MNLI. "The key to its success," said Bradshaw, "is that the organizations in the coalition are non-mission aligned, which helps build trust among the members." Bradshaw hoped they would be able to achieve economies of scale by sharing back office services and intellectual capital.

Bradshaw's goal was to share with the rest of the nonprofit sector what the coalition learned by working together, and colleagues at other organizations seemed to be interested in hearing results. Bradshaw began writing a workbook to tell the coalition's story, guide other nonprofits on the coalition's process, and also generate some additional income. There seemed to be a lot of momentum around the coalition, especially from funders.

More Setbacks

By May 2009, it appeared PHDC was starting to see benefits from the cutbacks and revenue generation activities. Cash flow was starting to improve. Hearing aid sales were hitting or exceeding targets, and the CSN received $20,000 in external grant funding to support the exploration of possible shared services.

However, the second half of 2009 once again brought reduced hearing aid sales and increased cash flow troubles. By the end of June 2010, PHDC had only $80,000 in cash reserves, and by the end of September it had diminished to only $37,000. Its goal was to be at $600,000, or 3 months' worth of cash reserves. Despite the continued financial turmoil, Bradshaw and the board returned staff to full pay on October 1, 2010, after experiencing the loss of several staff members to higher-paying jobs and fearing the loss of several more. That same month the board's finance committee converted PHDC's $100,000 line of credit to a fixed-rate business loan and began a five-year repayment plan, making its line of credit no longer available for additional borrowing.

PHDC also started seeing financial trouble with one of the two new preschools it had opened in 2008 with funds raised by the capital campaign. The preschools provided children ages 3- to 5-years-old with two different approaches to early education. The Dan Benton Preschool was based on using oral communication, while the Riviera Family Preschool taught using ASL. While the Benton Preschool had experienced a growth in students and was at capacity for all of its classes, the Riviera Preschool had only three or four students attending. One reason for this drop in attendance was that, in the wake of the recession, school districts had decided to take back government contracts for teaching ASL in the schools, and families followed so they could keep their children in schools that they could afford.

Bradshaw was considering suspending the Riviera preschool for a year in order to assess the need for the program within the community. However, the suspension of the preschool would leave several thousand square feet of office space unused, a problem for an organization whose square footage is a major cost driver (see Attachment 5 for information on space utilization). Bradshaw then considered providing a language-rich daycare in its place or another line of business that would be close to the original purpose. Closing the preschool altogether and renting the space out would be in conflict with the wishes of the donor. “Even though the idea of expanding our programs to include education sounded good at the time,” said Bradshaw, “we didn’t receive enough in donations to sustain the operating costs. Unfortunately there are legal and moral complications to completely closing the program and renting out the space because of our commitment to the donors.”

Clear Sign

Still struggling with cash flow issues, Bradshaw and the board were approached in the winter of 2010 with an opportunity to acquire an organization called Clear Sign, a Pineville-based, for-profit organization that provided ASL interpreting services nationwide. The board created an acquisition committee in early March, and Bradshaw and Wilson were still in the initial phases of working with them on the due diligence process. Clear Sign needed a decision by June 1, and, if acquired, would move into the Center by July 1.

The anticipated price for the acquisition was $400,000 which PHDC had the option of paying in cash up front or in installments of $10,000 per month over the course of 3 to 4 years. Unfortunately PHDC's cash reserves were too low to pay the full price up front without a capital campaign or selling part of their mixed-use property, and there was not time to pursue either of those options. The acquisition had the potential to increase PHDC's revenue by a third, although income would be variable, particularly in the summer months, and they would not realize the profits from the business until it was fully paid off. It would also make PHDC the only nonprofit interpreting agency in Pineville.

Bradshaw felt the acquisition was a great fit with PHDC's mission and an opportunity to improve cash flow. However, board member and former chairman Rick Meadows was feeling cautious. "There is a concern about how fast we are moving with acquiring Clear Sign and we need to be sure things are done correctly. PHDC does not have the means to support a misstep on this decision." Additionally, board member Adam Nichols, a certified public accountant, expressed that "I would like to see Clear Sign's detailed monthly cash flow for the startup period plus 12-months before making a decision."

Where to Go from Here

As Bradshaw looked out of her window in the early spring of 2011, she knew that PHDC was running out of options. The organization had already completed two capital campaigns in the last 10 years, maxed out its line of credit and sold off its unused property. Current revenue was down 20 percent from historical levels. Cash reserves were approaching zero and Bradshaw had already made several personal loans to ensure that they made payroll.

PHDC had not seen any net income from the Maple View Apartments in over 10 years, and the liabilities were hurting its balance sheet. The Center itself felt especially quiet on some days, with its empty classrooms and a 1,600 square foot conference space that went unused most days. PHDC was considering selling the building and renting back its office space, or just selling the apartments. "Unfortunately for us, the 96 apartments included subsidized units as well as full-price units," says Wilson. "All of the apartments are mixed by design, so there is no clear delineation and no way to sell off individual apartments because assets are tied up in the market rate apartments."

"We also need to understand our options in terms of honoring the intent of the donors," says Bradshaw. “But we’re laying everything out on the table and looking at all the options so we can make an informed decision. The middle of the housing crisis may not be the best time to sell anyway.”

Bradshaw and the finance committee faced some difficult fiscal, operational, and programmatic decisions that would greatly affect the organization’s 2011–12 strategies and budget. PHDC would celebrate its 75th anniversary in 2012 and Bradshaw was optimistic that PHDC’s programs would remain relevant and necessary for another 75 years, but how could they help improve cash flow and ensure long-term financial and structural stability? Should they sell the building and rent the Center space back? Close the speech department or either of the preschools? Maximize partnerships with the coalition to reach greater economies of scale? Acquire Clear Sign? What aspects of the budget should the board finance committee pay close attention to? How should they define a balanced budget? Should the CEO train the leadership team on how to develop and manage their budgets? Which options, if any, would best increase current cash flow and long-term sustainability?

Attachment 1
PHDC Board of Directors 2012–13

Ina Bell, Chair
Principal Scientist
Premier R&D, Inc.

Nathan Gonzalez, Vice Chair
Managing Director
Digital Media

Bill Lawson, Treasurer
Executive, Retired
National Motors

Janey Lowe, Secretary
Program Manager
Price Tech Corp.

Rick Meadows, Past Chair
Executive, Retired
National Motors

Patricia Andrews
Attorney
Andrews & Anderson, LLP

Samuel Arnold
Executive, Retired
National Motors

Kurt Banks
Chairman
Commerce & Co.

Richard Byrd
Executive, Retired

Adam Nichols
Certified Public Accountant

Matthew Robinson
President
Management Savvy LLC

Lisa Riviera
Community Volunteer / Deaf Educator /
Speech-Language Pathologist

Attachment 2
2006–10 Pineville Consolidated Financial Statements

INCOME STATEMENT Consolidated Total (Pleasant Valley & Maple View)	2006	2007	2008	2009	2010
Total Public Support	878,634	1,035,251	432,215	407,043	294,246
Total Revenues	2,462,962	3,939,746	2,863,472	2,820,508	2,808,315
Net Assets Released from Restriction	166,643	532,874	704,568	371,170	404,412
Total Expenses (Program, Admin, Fundraising)	4,556,693	4,743,181	4,831,086	4,585,656	4,107,262
Total Change in Net Assets & Members' Equity	(1,047,454)	971,185	(705,192)	(1,009,774)	(783,824)

BALANCE SHEET Consolidated Total (Pleasant Valley & Maple View)	2006	2007	2008	2009	2010
Assets					
Current Assets	1,020,485	2,547,319	1,127,761	901,008	658,372
PP&E	21,964,460	21,048,320	20,493,384	19,809,670	19,128,942
Total Assets	23,109,705	23,798,638	22,623,717	21,496,534	20,529,834
Liabilities					
Current Liabilities	1,171,365	1,064,229	818,462	918,029	948,363
Long-term Debt	14,331,407	14,156,291	13,932,329	13,715,353	13,515,345
Total Liabilities	15,502,772	15,220,520	14,750,791	14,633,382	14,463,708
Total Net Assets & Members' Equity	7,606,933	8,578,118	7,872,926	6,863,152	6,066,126
Total NA & L	23,109,705	23,798,638	22,623,717	21,496,534	20,529,834

Attachment 2
2006-2010 Pineville Consolidated Financial Statements (continued)

CASH FLOWS Consolidated Total (Pleasant Valley & Maple View)	2006	2007	2008	2009	2010
Net Cash Provided (Used) by Operating Activities	(203,580)	90,776	(615,946)	(102,487)	211,890
Net Cash Provided (Used) by Investing Activities	82,204	1,564,139	(615,498)	97,951	(67,255)
Net Cash Provided (Used) by Financing Activities	253,943	(260,773)	(57,967)	(145,490)	(176,813)
Changes in Cash and Cash Equivalents	132,567	1,394,142	(1,289,411)	(150,026)	(32,178)
Cash and Cash Equivalents-end of year	254,125	1,648,267	356,918	206,892	174,714

RECONCILIATION OF CHANGE IN NET ASSETS TO CASH FLOWS FROM OPERATING ACTIVITIES Consolidated Total (Pleasant Valley & Maple View)	2006	2007	2008	2009	2010
Change in Net Assets	(1,047,454)	971,185	(705,192)	(1,009,774)	(783,824)
Net Cash Provided (Used) by Operating Activities					
Depreciation & Amortization	818,045	793,545	803,854	745,035	751,477
Accrued Interest	33,173	34,770	(25,226)	(10,469)	21,061
Decrease (Increase) in					
Receivables	(20,313)	(59,916)	(103,432)	60,799	53,140
Promises to Give	41,984	(114,045)	(212,178)	51,086	199,476
(Decrease) Increase in Accounts Payable	(43,481)	71,846	(216,112)	156,590	103,076
Net Cash Provided (Used) by Operating Activities	(203,580)	90,776	(615,946)	(102,487)	211,890

Attachment 3
2006–2010 Pineville Budget to Actual

BUDGET

	2006		2008		2010
Total Public Support	852,856.00		1,300,201.00		1,648,642.00
Fees & Sales (Net COGS)	1,367,705.00		1,595,779.00		1,065,672.00
Total Expenses (Before Int and DD&A)	2,460,443.00		2,778,173.00		2,471,321.00
EBITDDA	43,566.00		217,581.00		356,489.00
Interest Expense	70,380.00		66,872.00		66,872.00
Depreciation	272,542.00		276,292.00		330,472.00
Change in Net Assets	(299,356.00)		(125,583.00)		(40,855.00)
ACTUAL					
Total Public Support	1,046,277.91		1,823,600.21		1,246,240.39
Fees & Sales (Net COGS)	1,159,112.13		904,258.03		767,367.06
Total Expenses (Before Int and DD&A)	2,657,963.88		2,986,591.39		2,328,879.50
EBITDDA	(147,220.05)		8,534.36		(70,726.45)
Interest Expense	161,365.04		148,111.91		133,206.68
Depreciation	367,472.26		360,730.31		334,998.40
Change in Net Assets	(676,057.35)		(500,307.86)		(538,931.53)
DIFFERNCE (Actual-Budget)					
Total Public Support	193,421.91	-	523,399.21	-	(402,401.61)
Fees & Sales (Net COGS)	(208,592.87)	-	(691,520.97)	-	(298,304.94)
Total Expenses (Before Int and DD&A)	197,520.88	-	208,418.39	-	(142,441.50)
EBITDDA	(190,786.05)	-	(209,046.64)	-	(427,215.45)
Interest Expense	90,985.04	-	81,239.91	-	66,334.68
Depreciation	94,930.26	-	84,438.31	-	4,526.40
Change in Net Assets	(376,701.35)	-	(374,724.86)	-	(498,076.53)

Attachment 4
Excerpt from NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C—NOTES PAYABLE

Notes payable consist of:

	2011	2010
Promissory note with Midwestern Department of Commerce for $893,993 maturing in December 2052. The note bears annual interest of 1% and principal and interest are payable in annual installments. The note is collateralized by PHDC's 25 units of 80% market rate housing.	779,087	793,875
Promissory note payable to Midwestern Community Reinvestment Association (MCRA) for $6,680,000 maturing in October 2018. The note bears annual interest of 6.75% and principal and interest are payable in monthly installments. The loan is secured by a deed of trust on PHDC's 80% market rate housing.	5,989,433	6,100,944
Long-term note payable to a commercial bank maturing in August 2014. The loan bears an annual interest rate of 2.78% over the United States Treasury Securities (TCM) 5 year index rate (5.26% at June 30, 2011) and principal and interest payments are payable monthly. The loan is collateralized by a deed of trust for one of PHDC's properties and does not contain financial covenants.	920,952	966,426
Promissory note payable to MCRA for $1,150,000 maturing in October 2013. The note bears annual interest of 6.875% and principal and interest are payable in monthly installments. The loan is secured by a deed of trust on PHDC's Maple Non-profit Center Building (MNC Building).	1,033,399	1,052,298
$100,000 revolving line of credit was converted on November 19, 2010 to a fixed rate business loan maturing in November 2017. The note bears annual interest of 5.25% and principal and interest are payable in monthly installments. The loan is collateralized by a security interest on all assets.	92,799	82,000

Attachment 4

Excerpt from NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont.)

Promissory note payable to the City of Pineville for $1,533,770 maturing in June 2052. The note bears annual interest of 1% and principal and interest are payable in annual installments. The loan is secured by a deed of trust.	1,521,445	1,521,445
Promissory note payable to the Pineville Housing Authority for $826,106. The note bears annual interest of 1% and principal and accrued interest are payable in full in December 2042. The loan is secured by a deed of trust.	826,106	826,106
Total Notes Payable	$11,163,221	$11,343,094

Maturity of long-term debt is as follows:

2012	$218,309
2013	230,628
2014	1,212,259
2015	1,035,884
2016	212,202
Thereafter	8,253,939
	$11,163,221

Attachment 5

Pineville Hearing & Deafness Center Property Utilization

Floor	Square Footage	Type	Purpose
1	2,000	Office	Pineville Operations
	2,000	Retail	Pineville retail store
	1,600	Office	Conference/Meeting Room
	400	Office	Rented out
2	3,000	Preschool	Oral communication
	3,000	Preschool	American sign language
3-5	6,000	Residential	Mixed-use: Market rate and low income apartments

Attachment 6
Excerpt From ROMP

Pineville Hearing & Deafness Center

Risk Management Plan

Goal #1	Project/Demonstrate visibility, stability, agility and unique services offered by PHDC
Goal #2	Demonstrate increasing need focusing on children with disabilities
Goal #3	Align expenses with income
Goal #4	Explore and implement creative/alternative solutions to mission-driven activities
Goal #5	Explore non-traditional income resources

Due to the volatile nature of the economy and the market, in addition to limited reserves and cash options and the underperformance in income generation, PHDC leadership is focused on risk management and mitigation. At the same time, this plan includes an action category should mitigation be unsuccessful.

In this document, key areas of risk are identified with steps to mitigate negative impact. Implementation of this plan includes the following 7 components and considerations:

- Strategy - anticipating possible future scenarios and risk areas, balancing short- and long-term agency needs, and clear priorities and course of action for the staff.
- Alignment - ensuring that all staff are focused on the right priorities.
- Communication – both internal and external. Developing positive messaging about how PHDC is strong, creative, and a winner.
- Investment - rewarding and motivating the best in our staff, focus on retention of these key employees.
- Agility - being nimble and agile to respond quickly to whatever challenges or opportunities present themselves.
- Activity – focusing on activities that are positive cash flow, back up for potential scenarios, and focused on our core services.
- Collaboration – Exploring opportunities for collaboration around group purchasing for insurance, benefits, equipment, and other areas to reduce and control costs. In addition, exploring potential partnership in service and product delivery. Funders will gravitate to the nonprofits that are solid, strategic and particularly delivering services that are not duplications and are not readily available through other nonprofits. Added to this, PHDC currently has good visibility, long history of services, and exceptional “reviews” of services by funding entities, clients and community. Situation is further stabilized by credibility and influence of major donors.