

Turning Red Ink Into Black

A Chicago settlement house commits to fiscal responsibility—and wins grants

By Maura Webber

CHICAGO

IT'S NEVER EASY for a new administrator to take over a financially struggling organization—and doubly hard if that charity hasn't kept in touch with its donors. Ivan Medina, executive director of Onward Neighborhood House, a Chicago social-services group, juggled such challenges when he went last fall to introduce himself to the Lloyd A. Fry Foundation, a Chicago grant maker and Onward donor.

That's when Mr. Medina learned that Onward Neighborhood House had never submitted a required report after receiving a \$10,000 grant from the foundation for a computer resource center back in 2000. But, says Dimitra Tasiouras, a Fry program officer, he quickly moved to make things right.

"He took responsibility for correcting the oversight and didn't spend time blaming previous leadership," says Ms. Tasiouras, noting that she had the report in hand by November 2002 and was then able to approve a new \$10,000 grant for an Onward youth program in February. "That goes a long way toward boosting confidence."

The move toward greater fiscal responsibility is just one of a series of steps taken in the last year by Mr. Medina and the board of Onward Neighborhood House, which provides day care and other programs to low-income immigrants in a Chicago neighborhood that is in the midst of gentrification.

In addition to soliciting foundations in order to reduce its reliance on government funds, the group also revamped its accounting and budgeting systems and trimmed costs. The settlement house, founded in 1868, posted deficits for seven of the 10 years before Mr. Medina arrived in 2002. However, in the fiscal year ending in June, the charity had a surplus of about \$3,337 on a budget of \$1.9-million, says Frank Arredondo, Onward's director of finance. A massive leap in Onward's foundation grants—up more than ninefold in the 2003 fiscal year—is largely responsible for closing the gap.

The turnaround garnered an award for financial-management excellence from the Nonprofit Financial Center, a Chicago group that helps charities improve their management. Onward distinguished itself by adopting a new budgeting system with good financial reporting and accounting controls, says Kenneth Tornheim, a director at the Chicago accounting

firm of Ostrow Reisin Berk and Abrams, which sponsored the award. Such solid financial management, Mr. Tornheim says, is particularly important in today's difficult economic times. "If organizations are watching expenses and budgeting properly," he says, "they can stay on course."

Tightening the Belt

It was the increasingly troubled stock market, starting in 2000, that finally made it clear to the Onward Neighborhood House board that its finances were off course. Although the group had posted deficits in earlier years, it had previously counted on gains from its invested reserves to carry it during the lean times, says Jon Clopton, Onward's board president and a senior director of business analysis in the Chicago offices of Allegiance Telecom, a Dallas telecommunications company. Onward's growing investment portfolio in the roaring '90s had essentially masked the financial problems.

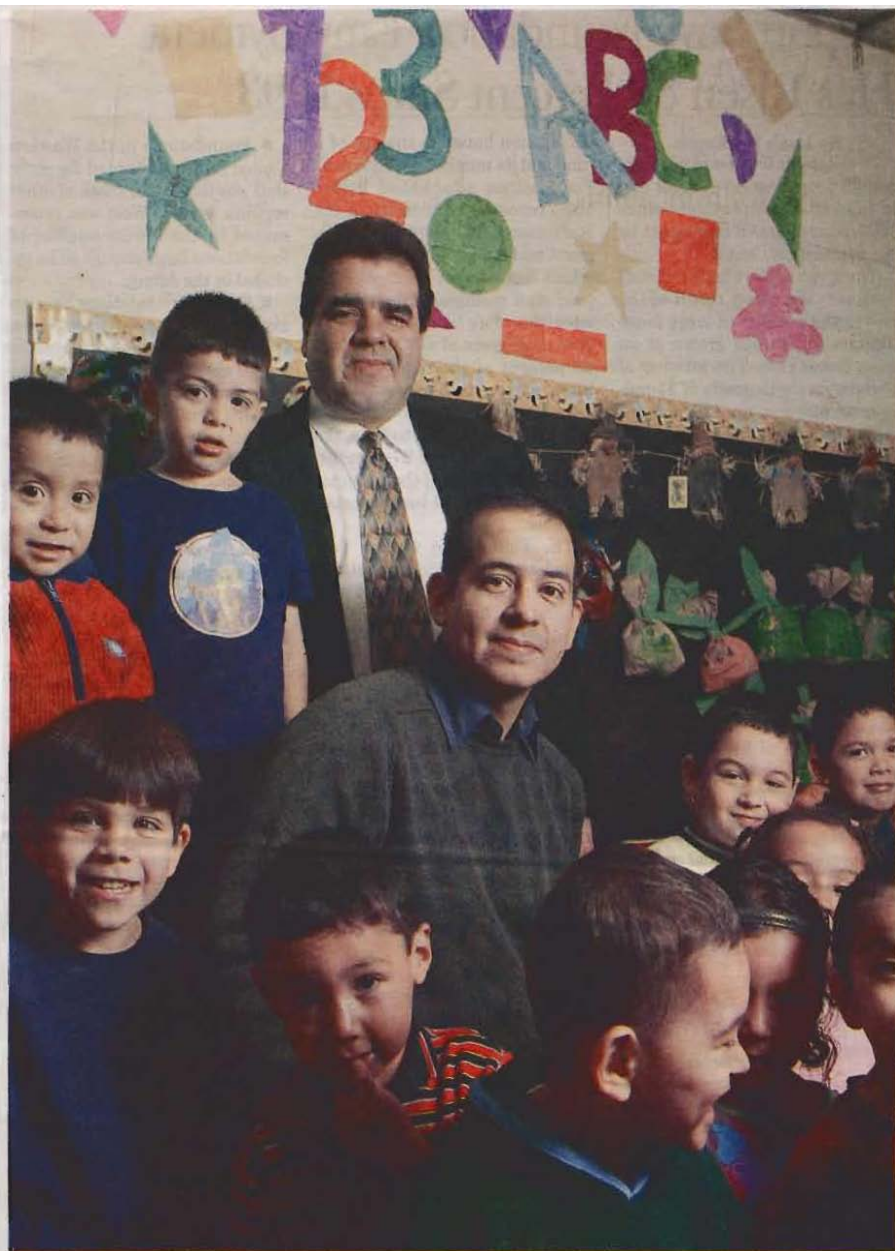
All that changed as the group's portfolio lost market value in the plummeting stock market, Mr. Clopton says. The trustees decided that Onward needed a change of direction. "It brought the issue to life because we were talking about operating deficits," Mr. Clopton says. The board opted to make some hard decisions rather than continue to bleed cash.

After an extensive search to replace the previous executive director, who had left in January 2002, the board chose Mr. Medina, who had spent most of his career developing and overseeing programs in Chicago-area settlement houses.

"Ivan really stood out as being able to accomplish tasks, and he

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had a history of sustained growth with associations," Mr. Clopton says. After joining the charity in April of last year, Mr. Medina took three or four months to evaluate the programs before starting the overhaul.



TODD BUCHANAN, FOR THE CHRONICLE

Onward Neighborhood House's Ivan Medina (top), with Frank Arredondo, the charity's finance director, overhauled the organization's finances and fund raising.

The new boss cut costs by trimming the staff size from 42 employees to 38, and by making more strategic purchasing decisions. To accomplish this, he laid off a program director, and eliminated three other positions through attrition. In addition, he lowered expenses. He took on the duties of the former program director and began purchasing items for Onward's programs from several businesses rather than one. Among the results: The charity's annual day-care food budget dropped by \$8,000 to about \$80,000.

In addition, Mr. Medina says, Onward added about \$180,000 to its budget in the current fiscal year by winning a city contract to provide its day-care-related services, such as family-support workshops, to local Head Start programs.

Onward also adopted a decentralized budgeting system that solicited information from department heads. Mr. Medina added to the staff by hiring an accountant to help move the organization from ledger-based, by-hand accounting to an automated system

that offers better record keeping, making it easier to track spending habits and produce monthly reports. This transformation was aided in part by guidance from the Illinois Facilities Fund, a nonprofit financial institution in Chicago that helps Illinois charities with facilities planning.

sory Group, in Chicago, whom the Facilities Fund hired to assist Onward with its budgeting.

"You know you have to cut, but you don't have to say, 'We're going to cut salaries and that's it,'" says Mr. Arredondo. "It's important to give them options."

Fund-Raising Success

Another key element of the organization's turnaround was an aggressive fund-raising push. Onward turned its focus to foundations because, Mr. Medina says, he felt his work during previous jobs at other local settlement houses had created trust with grant makers, and he also felt that they would be a quicker source of revenue than reaching out to wealthy people, relationships that often take more time to nurture. He set out to introduce, or in some cases reintroduce, the group to foundations that might offer support. With the help of a part-time employee, Mr. Medina built a list of potential donors and conducted research on them by talking with peers from other charities, scanning annual reports of similar organizations for sympathetic grant

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Changing the budget structure also helped supervisors understand the comparative importance of various programs and supplies and improved their ability to make financial decisions, says Beth E. Saks, an accountant at SFA Advi-

makers, and searching the Internet for more leads.

Once in a grant maker's door, he described the internal changes going on at Onward Neighborhood House and asked how his group might best position itself for inclusion in the next giving cycle.

As a result: Onward increased the amount it raised from foundations from \$27,000 in the 2002 fiscal year to about \$249,000 the next fiscal year. That total included a \$180,000 gift from the Marguerite Casey Foundation, in Seattle, a three-year grant beginning at the end of 2002.

David Brotherton, a spokesman for the Casey Foundation, says the grant maker understood the challenges Onward Neighborhood House faced and was impressed by the staff's high retention rate (less than 4 percent of employees leave each year, says Mr. Medina), the group's deep roots in the neighborhood it serves, and the promising makeup of its board, which, he says, includes a healthy mix of both new and veteran members.

"With any grant we make to any organization there's always a

risk," Mr. Brotherton says, "but we determined that this was a group whose work was important enough to make the grant."

Facing the Future

If Onward Neighborhood House had to revamp its fiscal practices again, neither Mr. Medina nor Mr. Clopton says he would do anything differently. But both acknowledge that swifter action on some fronts might have been helpful.

Perhaps one of the most challenging aspects of all the changes for Mr. Medina was convincing a staff that included many veterans that new systems were needed. He is now aiming to help employees come to terms with the institutional overhaul through workshops.

"There are morale issues because changes occurred so quickly," says Mr. Medina. In retrospect, he says, he might have reached out sooner.

For Mr. Clopton one of the bigger risks the group undertook was dismissing its program director and having Mr. Medina take on dual roles. In addition, he says, it seemed counterintuitive initially

to pay for an accountant at a time when finances were tight. Though the results appear to have validated the decisions, he says, the group might not have needed to take such drastic steps as the staff cuts if it had acted sooner.

Of course, despite the improvements, the future still won't be easy for Onward Neighborhood House. Ms. Saks recalls how she met this past spring with Mr. Medina and Mr. Arredondo and learned from them that Onward's budget projections indicated that the organization would suffer from a cash-flow problem later in the year.

Yet, she says, she was heartened by the realization because she believes that the ability to predict potential rough spots is the key to good financial management because it enables an organization to prepare a strategy for solving its problems. (Onward is seeking to increase its line of credit to bridge the shortfall.)

She recalls extending her congratulations to Mr. Arredondo on his prediction: "I said, 'That's not great. But do you know how great it is that you know that?'"

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