



FINANCIAL MANAGEMENT Basics & Budgeting

VITAL:

Management Training and Technical
Assistance Project

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Why Talk About Financial Management?

- Every organization needs money to sustain or advance its mission.
- Every decision made by an organization has a financial impact

Why Talk About Financial Management?

“Money is Power”

- Greater value
- More employment opportunities
- Better able to ensure your organization's (and your own) success

Money And Mission

There are three ways that an entity can be formally (legally) created or recognized in the U.S.:

- ▶ As a for-profit;
- ▶ Public/government;
- ▶ Nonprofit organization



Purpose Is Primary

The primary difference that sets nonprofit organizations apart from the other sectors is that they exist to advance the community welfare, not for personal gain.

The success of a nonprofit lies in the extent to which its mission is infused into all that the organization is.

Good Financial Management

Good financial management is especially important to nonprofits because:

- NPOs meet a particular need; stand for a particular cause.
- The community entrusts dollars to NPO's; poor management compromises that trust.
- May result in services being compromised - affect the lives many in such important ways.
- Key to continued support from funders.
- At best, most nonprofits break even financially, leaving little room for error.



Financial Management and Mission

QUIZ!

Management of Mission Based Organizations

Given the mission statements of the nonprofits listed below, which would be MOST concerned with the following issues of financial management?

My Sister's Place Safehouse

To provide safe shelter, support and advocacy for battered women and their children, and end domestic violence through community education and social change.

Louisville Shelter for the Homeless

To provide safe shelter, food, support services and an avenue to self-sufficiency for homeless adults in Louisville County.

Alpert County Aids Project

To provide support, advocacy and education to those in our community who are infected with or affected by the Human Immunodeficiency Virus (HIV); and, to serve as an outreach and information center to prevent further transmission of HIV and the resulting acquired immunodeficiency syndrome (AIDS).

The YWCA of Greater Peoria

To protect children, to empower women and girls and eliminate racism.

Make the Match!

1. Maintaining a high percentage of the budget for employee health benefits.
 2. Establishing a compensation structure that recognizes the value of lived experience on par with graduate level education.
 3. Significantly reducing the dollars going toward counseling services provided by the agency in lieu of educational programs in the schools.
 4. Debating the benefits of hosting a conference featuring a highly respected researcher in the field of child protection whose tour is being sponsored by Phillip Morris and Denny's Restaurants.
- a. My Sister's Place Safehouse
 - b. Louisville Shelter for the Homeless
 - c. Alpert County Aids Project
 - d. YWCA of Greater Peoria

Who Is Involved?

- Board of Directors – Finance Committee; Treasurer
- Executive Director (CEO)
- Finance Director (CFO)
- Bookkeeper
- Program/Department Manager

BUDGETING

There are, most always, operational and human costs associated with achieving goals, objectives and tasks.

Identifying those costs (and resources to pay for them) is the process of budgeting.

Budgeting Is:

- A prediction of how money will be spent to achieve an organization's mission
- A policy expressed in numbers
- A plan for getting and spending money to reach specific goals by a certain time

Budgeting Should Be:

- Thoughtful and Deliberate
- Inclusive
- Ongoing

Budgeting is a year round process that involves an ongoing cycle of preparing, creating, implementing and evaluating.

Budgeting Cycle

1. Preplanning – time frame and deadlines; who is involved; establish policies
2. Launch – income and expense targets; format; mission
3. Creating a Plan – Goals; Objectives; Activities
4. Preparing and Testing the Budget
5. Modifying the Budget
6. Adopting the Budget
7. Implement, Monitor, Modify
8. Back to the Beginning

Preparing the Budget - Forecasting

Each goal and objective of an organization requires a series of tasks or activities that must be accomplished.

- ▶ Determining the expenses and revenues associated with each objective is the process of forecasting.
- ▶ Forecasting is predicting qualitatively or quantitatively what might happen under a given set of circumstances.

Six Forecasting Steps

1. Determine the “what” and the “needs” of the forecast
2. Establish a period for the projections
3. Select a forecasting technique
4. Gather the data and develop the forecast.
5. Identify assumptions made in preparing the forecast
6. Monitor results. How closely did you guess?

Forecasting Techniques

- Historic patterns
- Comparison to like organizations
- Reports from government agencies
- Executive opinions
- Delphi method
- More complex methods - Naive Models; Moving Averages; Exponential Smoothing; Regression Analysis

Building An Income Budget

Some things to consider:

- Diversification in funding sources is critical to the stability of a nonprofit
- A minimum of five funding sources is good place to start.
- It is wise to be conservative (underestimate income; overestimate expense)

The Food Bank of Peanuckle County

Mission (Fiscal Year July – June)

The Food Bank of Peanuckle County seeks to end hunger by providing access to well balanced meals and education on nutrition to people in need throughout Peanuckle County.

Goal I: All residents of Peanuckle County have daily access to a well balanced and nutritious meal.

Objective 1: Provide one hot meal each weekday (180 days) of the coming school year to a total of 200 children in need in Peanuckle County's four elementary schools

Objective 2: Provide one hot meal to 80 home bound seniors in Peanuckle County each Monday through Saturday throughout the year (312 days).

Goal II: All residents of Peanuckle County are informed regarding nutrition and healthy meal preparation

Objective 1: Provide a four week nutrition class for 30 residents of Peanuckle County per class; offer the full course twice by June 30th

Objective 2: Distribute a brochure on nutritional meal planning to 3000 Peanuckle residents by June 30th



The Food Bank of Peanuckle County

Brainstorm...

Common sources and types of income
available to a nonprofit organization

FOOD BANK OF PEANUCKLE

Possible Expense Items

Category

Line

Item/Expense

Amount

Justification

Individual Gifts

Government

State

County

Foundations

Special Events

Fill In The Grid

Category (Special Events)

Line Item/

Source

Amount

Justification

Bake Sale

\$5000

*To be held 11/5/14;
Raised \$4500 last
year; we will have
more product this
year*

TOTAL

\$ _____

Expense Budget

Forecasting expenses is essentially the same process as forecasting income.

It begins by identifying a thorough list of organizational expenses - what the organization will need to spend money on in order to carry out their strategic plan.

FOOD BANK OF PEANUCKLE

Possible Expense Items

Category

Line Item/Expense

Amount

Justification

Salaries and Benefits

Facilities

Rent

Utilities

Phone

Maintenance

Supplies

Office

Program

Postage

Copying

Printing

Subscriptions

Dues

Travel

Staff Development

Insurance

Accommodation

Equipment

Audit

TOTAL EXPENSES

Cost Behavior

Not all costs "behave" in the same way. There are three different ways that costs may behave:

- A Fixed Cost - Is a cost that doesn't change regardless of activity
Example: Rent on an office facility. Monthly rent cost does not change no matter how many people use your services.
- A Variable Cost - Costs change with the level of activity
Example: Labor costs. A nonprofit hires 3 social workers and then finds their caseload exceeds worker capacity, hiring additional social workers may be necessary.
- A Mixed or Semi-Variable Cost - Change some of the time. Contain both a fixed element and a variable one.
Example: Maintenance on a copy machine. Fixed contract plus replacement costs

Personnel Costs

Salaries

- Personnel costs typically begin with identifying the job positions in the organization: how many in what positions; and amount each is paid.
- Salaries may be fixed (e.g. professional, exempt staff) or variable (paid hourly).
- Employees must be paid on an hourly basis unless they meet the criteria to be exempt.

NOTE: Labor law is specific and complicated. It is critical to know the personnel law regulating staff positions for your organization. Consultation with an employment attorney or employers' advocacy group can be helpful in sorting out your obligations.

Personnel Costs

Peanuckle Food Bank Example:

Executive Dir. (1FTE)	\$ 60,000	Exempt
Admin. Asst. (1FTE)	\$ 35,360	Hourly
		\$17 X 2080
Meals Coord. (1FTE)	\$ 45,000	Exempt
Volunteer Coord. (.5FTE)	\$ 22,500	Exempt
Kitchen Prep (1.5FTE)	\$ 46,480	Hourly
		\$15 X 2080
Total Salaries	\$209,340	

Personnel Costs

Additional things to consider when determining salaries:

- Relief or Overtime
- Employee Start Date
- Raises

Personnel Costs

Fringe Benefits

Other personnel related costs – some mandated by law; others the choice of the employer:

- Insurance – Health; Disability; Life; Dental; Pension
- Worker's Compensation – Required by federal law and determined by each State as a percentage of payroll; typically determined by a formula
- Unemployment Compensation – Required by federal law for the majority of nonprofit organizations.
- FICA (Social Security and Medicare) - Required by law through the Federal Insurance Contributions Act; 7.65% x first 100K of each employee's salary; 1.45% is Medicare and is not capped.

Other Cost Categories

Other cost categories include such items as:

- Facilities - Rent, Utilities, Phone, Maintenance
- Supplies - Office, Program, Postage, Copying, Printing
- Subscriptions
- Dues
- Travel - in and out of State
- Staff Development
- Insurance - Directors and Officers Liability Insurance, Professional Liability, Property
- Equipment - Capital purchases would not be included in an operations budget ; items like a desk top printer or fax machine would be included

Determine the costs of these items using the forecasting techniques described earlier in this chapter

Making Adjustments

Bringing the overall budget into compliance with board and leadership policies:

- Balanced
- Surplus
- Deficient budget

Making Adjustments

Decrease Expenses

- Calculate salary increases at anniversary vs. start of the year
- Use competitive bidding (ask 2 or 3 vendors to bid)
- Negotiate service agreements
- Take advantage of economies of scale
- Analyze administrative costs; consider out-sourcing
- Defer or eliminate purchases
- If deeper cuts are necessary, consider:
 - Postpone filling new or vacant positions
 - Delay starting a new activity
 - Eliminate a proposed program
 - Reduce programs and services

Making Adjustments

Increase Income:

- Organize an additional fundraiser
- Boost the income capacity of a fundraiser
- Investigate additional grant sources
- Do an additional direct mail
- Increase fees for service

Finalizing the Budget

A final budget should include:

- A written summary of budget assumptions and highlights
- A narrative providing a brief description of the logic behind each line item decision.
- Review and approval by the Board of Directors

A Review

Five Steps:

1. Brainstorm Costs
2. Forecast Costs (Remember cost behaviors)
3. Identify Income Sources
4. Forecast Income
5. Make Adjustments



QUESTIONS?

Thank You!

Resources:

- VITAL Website (www.vitalprojectcolorado.org):
 - Webinar PowerPoint and Recording
 - Technical Assistance
- Advocacy and Action Conference – June 2-4th; Speed TA Session
- Future Webinars:
 - July 15: Financial Statements: Determining Your Organization's Financial Health
 - September 16: Three Indispensable Tools for Good Financial Management