

NONPROFIT BUDGET/FINANCE SERIES

Objective: To offer a funder's point of view, concerning financial management, to elevate nonprofit leaders' (board members and directors) capacity to understand and tell their organization's story through numbers



WORKSHOP SCHEDULE

July 8th	Reading & Understanding Financial Statements
August 12th	Developing Annual Budgets
September 9th	Sustainability



TODAY'S AGENDA

- Introduction
- Reading and Understanding Financial Statements
- Case Study
- Questions



SURVEY RESULTS

Participants

- 6 – Staff Members
- 4 – Volunteer Leadership

Hope to learn

- Better explain financials to board members
- Ensure I am being fiscally responsible
- Budgeting
- How to decode a financial statement



WHY ARE FINANCIAL STATEMENTS IMPORTANT TO FUNDERS?

- Making investments that promote the “greater good”
- Invest in ideas that will eventually lead to better results
- **Trusting relationships** based on transparency and accuracy
 - Funders understand new ideas/initiatives take time to reach financial sustainability



WHY ARE FINANCIAL STATEMENTS IMPORTANT TO THE BOARD? (D. NICOLE)

- Fiduciary Duties: The board is **legally responsible** for managing a nonprofit entity's assets.
 - **Duty of Care**
 - Duty of Loyalty
 - Duty of Obedience
- Board of Directors – 10 Responsibilities
 - 4. Ensure effective organizational **planning**
 - 5. Ensure adequate **resources**
 - 6. **Manage** resources effectively
 - 9. Ensure legal and ethical integrity and maintain **accountability**



GOOD INFORMATION — ACHIEVED THROUGH EFFECTIVE FINANCIAL TOOLS

- Financial Statements
 - Statement of Financial Position (Balance Sheet)
 - Statement of Activity or Comparative Income Statement
 - Annual Audit (depending on size of organization)
- Budget: Annual Financial Plan
- Cash Flow Projection: Monthly cash status forecasts projecting the timing of receipts and disbursements.



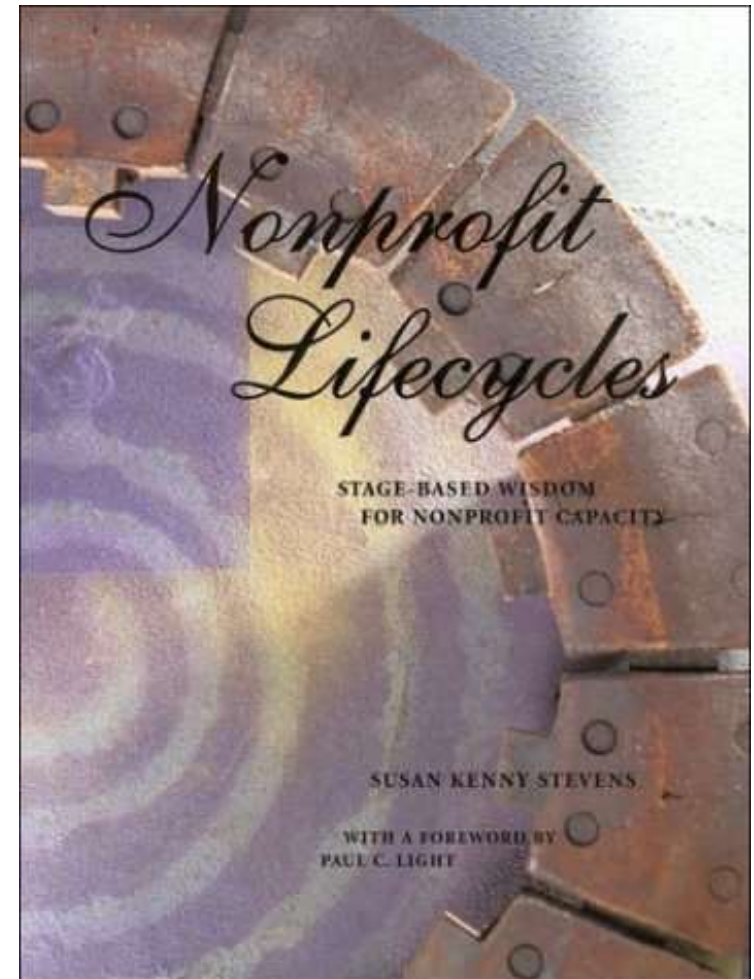
GOOD INFORMATION — ACHIEVED THROUGH EFFECTIVE FINANCIAL TOOLS

- The sophistication of the financial statements should match the needs of the organization based on:
 - The organization's lifecycle stage and
 - The stakeholders it attracts over time



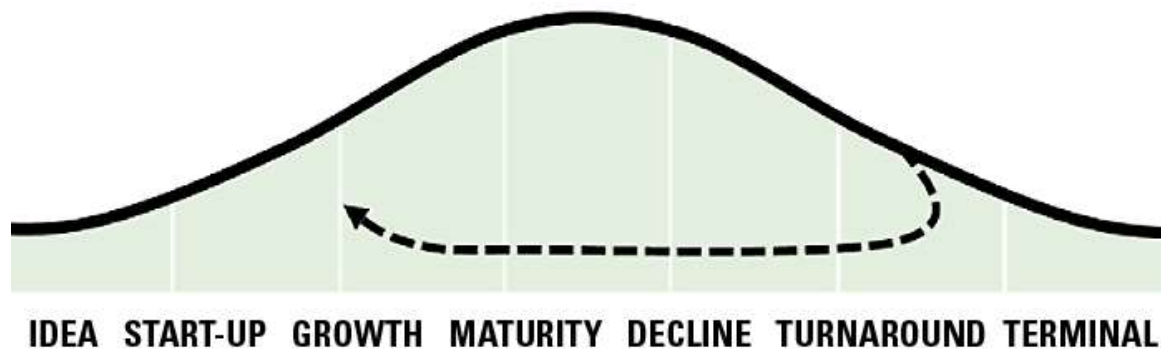
LIFECYCLE APPROACH

- *Nonprofit Lifecycles: Stage-Based Wisdom for Nonprofit Capacity*
- Susan Kenny Stevens, PH.D.



LIFECYCLE STAGES & FINANCES

THE NONPROFIT LIFECYCLE

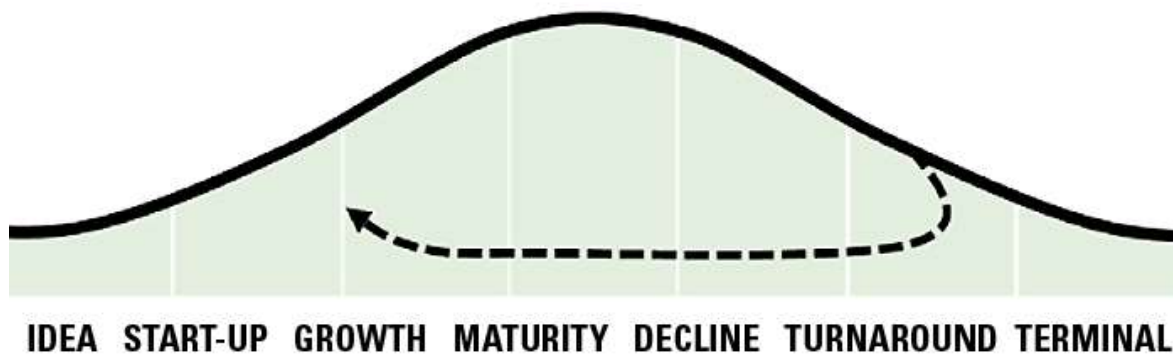


- **Idea Stage** – Attract financial resources and do not spend what you do not have
- **Start-Up Stage** – Learn to manage cash flow and operate at least at break-even
- **Growth Stage** – Operate at a surplus overall each year and diversify income



LIFECYCLE STAGES & FINANCES

THE NONPROFIT LIFECYCLE

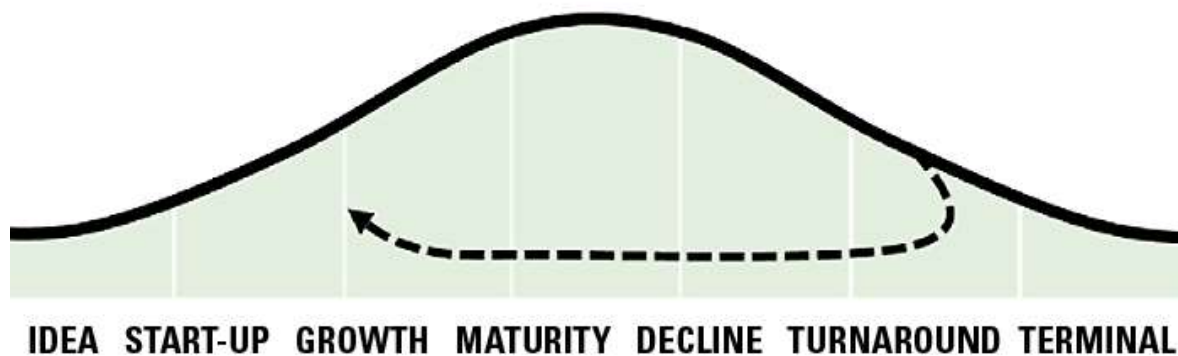


- **Mature Stage** – Build net asset balances, an operating reserve, and diverse funding streams
- **Decline Stage** – Engage in income-based spending, match current income to current expense



LIFECYCLE STAGES & FINANCES

THE NONPROFIT LIFECYCLE



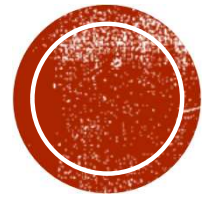
- **Turn Around Stage** – Cut back to minimal expense levels, review budget vs. cash
- **Terminal State** – Establish an orderly way to go out of business



SUMMARY

- “The non-profit organization exists to bring about a change in individuals and in society.” (Managing the Non-profit Organization by Peter Drucker)
- Therefore; money is a means, **not** an end
- In the for-profit sector, money is **both** a means and an end.
- If you would like a complementary copy of this book, please share mailing address with Sarah Larkin in the chat.





READING & UNDERSTANDING FINANCIAL STATEMENTS



FINANCIAL STATEMENT QUESTIONS (SURVEY)

- What are the organization's operating and programming expenses?
- How are we doing financially?
- How do I read the statements to pick up what I need to know quickly?
- Donor perspective – Where does your organization need support primarily?



HOW WOULD YOUR ORGANIZATION USE AN UNEXPECTED \$50,000 UNRESTRICTED GIFT?

- Start a new program?
- Pay off debt?
- Give staff a raise?



OVERVIEW—STATEMENT OF FINANCIAL POSITION

Education, Inc.
Statement of Financial Position
June 30, 2021

Assets

Current assets:

Cash	\$	21,233
Inventories	\$	14,322
Accounts receivable	\$	28,320
Pre-paid expenses	\$	1,500
Other	\$	3,467
Total current assets	\$	68,842

Fixed (non-current) assets:

Property and equipment	\$	83,600
Less accumulated depreciation	\$	(12,675)
Total fixed assets	\$	70,925

Total Assets \$ 139,767

Liabilities and Equity

Current liabilities:

- Snapshot of the organization's "net worth" at a specific point in time
- Key items include cash, fixed assets, and debt
- With nonprofits, equity may be broken down between:
 - Temporarily Restricted
 - Unrestricted



OVERVIEW — STATEMENT OF ACTIVITY

- An account of the organization's activities (expressed in revenue and expense) for a given period of time.
- This will most likely show Unrestricted, Temporarily Restricted, and Total
- If you utilize a “Comparative Income Statement”, this will usually have three columns for Actual, Budget, and Variance. (More operational focus)

Education, Inc.
Statement of Activity
For the Six Months Ending June 30, 2021

<u>Income</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Fee for Service			
Tuition	\$ 157,480	\$ -	\$ 157,480
Text/Material	\$ 25,890	\$ -	\$ 25,890
Assessment Fee	\$ 500	\$ -	\$ 500
Uncollectable Fees		\$ -	\$ -
Other Income			\$ -
Interest Income	\$ -	\$ -	\$ -
Contributions/Gifts			\$ -
Grants	\$ 25,000	\$ 100,000	\$ 125,000
Contributions	\$ 5,400	\$ -	\$ 5,400
Net assets released from restrictions	\$ 75,000	\$ (75,000)	\$ -
Total Income	\$ 289,270	\$ 25,000	\$ 314,270
<u>Expenses</u>			
Personnel			
Wages	\$ 110,000		\$ 110,000
FICA	\$ 8,456		\$ 8,456
Employee Insurance	\$ 12,450		\$ 12,450
Retirement Plan	\$ 7,445		\$ 7,445
Workers Compensation	\$ 210		\$ 210
Instructional			\$ -



OVERVIEW - BUDGET

Education, Inc 2021 Budget			
<u>Income</u>			
Fee for Service		\$	380,500
Tuition	\$	325,000	
Text/Material	\$	55,000	
Assessment Fee	\$	1,500	
Uncollectable Fees	\$	(1,000)	
Other Income		\$	-
Interest Income	\$	-	
Contributions/Gifts		\$	250,000
Grants	\$	240,000	
Contributions	\$	10,000	
Total Income		\$	630,500
<u>Expenses</u>			
Personnel		\$	273,101
Wages	\$	217,000	
FICA	\$	16,601	
Employee Insurance	\$	24,000	
Retirement Plan	\$	15,000	
Workers Compensation	\$	500	
Instructional		\$	222,800
Faculty Fees	\$	155,000	

- Prediction of future activity (expressed in revenue and expense)
- Frames an organization's big picture so you can layout cash flow projections
- Helps set priorities for next year
- More in Session 2...



OVERVIEW — CASH FLOW STATEMENT

- Ensures there is always enough cash to meet obligations
- “Cash-in” and “Cash-out” don’t always match up
- Timing is the critical piece of information
- More in Session 2...

Education, Inc.

2021 Cash Flow Projections

	<u>Jan-21</u>	<u>Feb-21</u>	<u>Mar-21</u>	
Beginning Cash Balance	\$ 21,233	\$ 71,711	\$ 117,189	0

Income

Cash Inflows (Income)

Tuition		\$ 81,250		
Text/Material		\$ 13,750		
Assessment Fee				
Interest Income				
Contributions/Gifts	\$100,000		\$ 3,256	
Uncollectable Fees				
Total Cash Inflows	\$100,000	\$ 95,000	\$ 3,256	0
Available Cash Balance	\$121,233	\$ 166,711	\$ 120,445	0

Expenses

Cash Outflows (Expenses)

Instructional Expenses	\$ 15,567	\$ 15,567	\$ 24,567	0
Administrative Expenses	\$ 33,955	\$ 33,955	\$ 33,955	0
Subtotal	\$ 49,522	\$ 49,522	\$ 58,522	0
Other Cash Outflows				
Capital Purchases				0
Other				



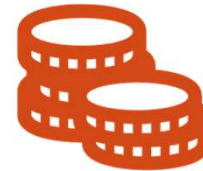
ACCOUNTING METHODS



Cash Accounting



Accrual
Accounting



Modified Cash
Basis



CASE STUDY



STATEMENT OF FINANCIAL POSITION

Education, Inc.

Statement of Financial Position

June 30, 2021

Assets

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Inventories	\$	14,322
Accounts receivable	\$	28,320
Pre-paid expenses	\$	1,500
Other	\$	3,467
Total current assets	\$	68,842

Fixed (non-current) assets:

Property and equipment	\$ 83,600
Less accumulated depreciation	<u>\$ (12,675)</u>
Total fixed assets	\$ 70,925

Total Assets	\$ 139,767
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- What type of accounting method is Education, Inc. utilizing?
- What is the difference between Cash and Accounts Receivable?
- What is the difference between Current and Non-Current (Long-Term) Assets?



STATEMENT OF FINANCIAL POSITION

Liabilities and Equity

Current liabilities:

Accounts payable	\$	3,456
Accrued wages	\$	5,239
Accrued Faculty Fees	\$	4,187
Income taxes payable	\$	1,008
Equipment Lease - Current	\$	6,229
Other	\$	3,200
Total current liabilities	\$	23,319

Long-term liabilities:

Equipment Leases	\$	30,211
Total long-term liabilities	\$	30,211
Total Liabilities	\$	53,530

Equity:

Temporarily Restricted	\$	25,000
Unrestricted (Operating)	\$	51,934
Unrestricted Net Gain/(Loss)	\$	9,303
Total Equity	\$	86,237

Total Liabilities and Equity	\$	139,767
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- What is the difference between Equipment Lease-Current and Equipment Leases?
- What are the total assets of Education, Inc.?
- Your Questions?



TWO WAYS TO LOOK AT OPERATIONS

Statement of Activity

Education, Inc.
Statement of Activity
For the Six Months Ending June 30, 2021

<u>Income</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Fee for Service			
Tuition	\$ 157,480	\$ -	\$ 157,480
Text/Material	\$ 25,890	\$ -	\$ 25,890
Assessment Fee	\$ 500	\$ -	\$ 500
Uncollectable Fees		\$ -	\$ -
Other Income			\$ -
Interest Income	\$ -	\$ -	\$ -
Contributions/Gifts			\$ -
Grants	\$ 25,000	\$ 100,000	\$ 125,000
Contributions	\$ 5,400	\$ -	\$ 5,400
Net assets released from restrictions	\$ 75,000	\$ (75,000)	\$ -
Total Income	<u>\$ 289,270</u>	<u>\$ 25,000</u>	<u>\$ 314,270</u>

Comparative Income Statement

Education, Inc.
Comparative Income Statement
For the Six Months Ending June 30, 2021

<u>Income</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Fee for Service			
Tuition	\$ 157,480	\$ 162,500	\$ (5,020)
Text/Material	\$ 25,890	\$ 27,500	\$ (1,610)
Assessment Fee	\$ 500	\$ 750	\$ (250)
Uncollectable Fees		\$ (500)	\$ 500
Other Income			\$ -
Interest Income	\$ -	\$ -	\$ -
Contributions/Gifts			\$ -
Grants	\$ 100,000	\$ 120,000	\$ (20,000)
Contributions	\$ 5,400	\$ 5,000	\$ 400
Total Income	<u>\$ 289,270</u>	<u>\$ 315,250</u>	<u>\$ (25,980)</u>



COMPARATIVE INCOME STATEMENT

- Provides insight into the day-to-day operations of the organization
- Comparison to Budget provides a diagnostic tool
- How could we explain some of the variances to budget for Education, Inc.?
 - Tuition and Faculty Fees/Text and Materials
 - Staff Development
- Some variance is due to timing



STORYTELLING - INTERNAL

	CURRENT	FUTURE
Board of Directors	“Going Concern”	“Going Concern”
Directors/Managers	Can we pay the bills?	Resource Availability
Staff	Program Continuation	Program Continuation & Expansion

“Going Concern” is an accounting term for a company that has the resources needed to continue operating indefinitely until it provides evidence to the contrary.

Should programs that operate at a loss be discontinued?



STORYTELLING - EXTERNAL

	CURRENT	FUTURE
Funders	Adequate Resources Charitable Intent	Sustainability (Programs/Organization)
Donors	Adequate Resources Charitable Intent	Sustainability (Programs/Organization)
Creditors	Adequate Resources	Ability to make future payments

Sustainability: Does the program/organization have reliable sources of revenue to cover operational expenses



WARNING SIGNS

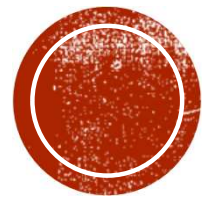
- Consistently spending more than received
- Not paying payroll taxes on time
- Regularly using restricted funds for contracted services
- Lack of money is dominant conversation and leadership does not know where to start
- Upward trend in accounts payable
- Aging accounts receivable



GOOD DECISIONS

- Sound fiscal management results in predictability, which tames the “fear of the unknown” (a.k.a. Risk)





QUESTIONS?



CONTACT INFORMATION

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NONPROFIT BUDGET/FINANCE SERIES

Objective: To offer a funder's point of view, concerning financial management, to elevate nonprofit leaders' (board members and directors) capacity to understand and tell their organization's story through numbers



WORKSHOP SCHEDULE

July 8 th	Reading & Understanding Financial Statements
August 12 th	Developing Annual Budgets
September 9 th	Sustainability



TODAY'S AGENDA

- Reconnect
- Revisit \$50,000 Question
- Budgets and Cash Flow Statements
- Case Study
- Questions



RECONNECT

- Multiple stakeholders with different financial information needs (board, staff, funders, etc.).
 - Telling stories with numbers.
- The common financial instruments are:
 - Statement of Financial Position (Balance Sheet)
 - Statement of Activity or Comparative Income Statement
 - Annual Audit (depending on size of organization)
 - Budget: Annual Financial Plan
 - Cash Flow Projection: Cash status forecasts projecting the timing of receipts and disbursements over a specified time period.



RECONNECT

- The type of financial information and tools needed changes as the organization advances through its lifecycle.
- Nonprofit view of financial assets:
 - Organization exists to bring about change, not to make money or perpetuate its own existence. Therefore, money is only a "means" to an "end", not an "end" itself.
 - Intentionality is required to achieve sound financial positioning.
 - Trusted financial information is a necessary condition for sound financial decisions.
 - Strive to improve your ability to predict future financial performance.



HOW WOULD YOUR ORGANIZATION USE AN UNEXPECTED \$50,000 UNRESTRICTED GIFT?

- Start a new program/expand current program?
- Pay off debt?
- Give staff a raise/grow staffing?
- Create/add to operating reserves?
- Other?

Start Poll.



PLEASE SHARE YOUR ANSWER...

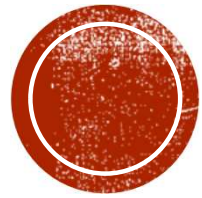
...and explain which financial tools you would use to support your decision to your board and staff members.



BUDGET AND CASHFLOW STATEMENTS

- Understanding liquidity is important when making a decision like the question posed.
- Budgets and cashflow statements are both forward thinking (predictive) tools.
 - Budgets predict the *amount* of inflow and outflow (financial assets).
 - Cashflow predicts the *timing* of cash inflow and outflow.
- How the budget and cashflow statement are used, the benefit they provide, and the format will change as the organization solidifies its financial resources and revenue streams.





DEVELOPING ANNUAL BUDGETS



PURPOSES AND USES (WHY DO I NEED A BUDGET?)

Budgeting is a process that allows you to tell the organization's annual story in dollars and cents.

- **Planning**

- Prompts leaders to envision how they want their story to turn out.
- Provides a roadmap of the intended journey (results in outcomes).
- Opportunity to evaluate the financial impact of proposed actions.

- **Control**

- Provides a baseline to compare actual performance to planned performance.
- Can provide short interval feedback (variance reporting) in order to react to change quicker.





**WHAT ARE SOME OF THE
BENEFITS OF BUDGETING
YOU SEE?**



BUDGETING FORMATS AND APPROACHES (WHAT IS AVAILABLE?)

- **Line-Item Budgets vs. Program-Based (Functional) Budgets (format)**
 - Start-up to Maturity: Evolve from line-item to program-based budgeting.
 - Program-Based: More intentionality when planning and controlling.
 - Program-Based: Better information when making mission related decisions (providing a program at a loss, sustainability, etc.).
- **Income-Based Budgeting vs. Expense-Based Budgeting (content)**
 - Cash: Influences your approach (thus the need for cashflow statements).
 - Income-Based Budgeting: Used during start-up phase out of necessity, used during maturity phase by choice.
- **Capital Budgets**
 - A topic for another time.



Education, Inc

2021 Budget

Income

Fee for Service	\$380,500
Other Income	\$
Contributions/Gifts	\$250,000
Total Income	\$630,500

Expenses

Personnel	\$273,101
Instructional	\$222,800
Administration	\$88,800
Business Expense-Food/Lodging	\$5,000
Travel/Mileage	\$5,000
Advertising	\$42,500
Staff Development	\$10,000
Office Expenses	\$21,500
Insurance	\$4,800
Facility	\$45,555
Office Equipment/Software	\$19,000
Depreciation-Equipment	\$1,455
Rent	\$21,600
Utilities	\$3,500
Total Expenses	\$630,256
Net Gain/Loss	\$244

LINE-ITEM BUDGETS

- Usually consolidated (overall organization).
- Focus on expense elements of the budget (salaries, benefits, utilities, supplies, etc.); approach is typically expense-based.
- High level view of financial activity.
- Less difficult to plan.



	Education, Inc - 2021 Budget				
	<u>Total</u>	<u>Certifications</u>	<u>General - Classes</u>	<u>Fundraising</u>	<u>Administration</u>
<u>Income</u>					
Fee for Service	\$380,500	\$280,500	\$100,000		
Other Income	\$				
Contributions/Gifts	\$250,000	\$150,000	\$25,000		\$75,000
Total Income	\$630,500	\$430,500	\$125,000		\$75,000
<u>Expenses</u>					
Personnel	\$273,101	\$100,000	\$118,000	\$30,000	\$25,101
Instructional	\$222,800	\$122,800	\$100,000		
Bus. Exp-Food/Lodging	\$5,000	\$1,500	\$500	\$2,000	\$1,000
Travel/Mileage	\$5,000	\$1,700	\$1,500	\$1,000	\$800
Advertising	\$42,500				\$42,500
Staff Development	\$10,000	\$1,500	\$500	\$1,000	\$7,000
Office Expenses	\$21,500			\$5,000	\$16,500
Insurance	\$4,800	\$1,200			\$3,600
Office Equipt/Software	\$19,000			\$2,000	\$17,000
Depreciation-Equipt	\$1,455			\$200	\$1,255
Rent	\$21,600	\$7,000	\$5,000	\$2,500	\$7,100
Utilities	\$3,500	\$1,500	\$700	\$300	\$1,000
Total Expenses	\$630,256	\$236,200	\$226,200	\$45,000	\$122,856
Net Gain/Loss	\$244	\$194,300	(\$101,200)	(\$45,000)	(\$47,856)

PROGRAM-BASED BUDGETS

- Focus on programs and program activities.
- Represent activities for which funds are spent.
- Easier to determine each program's contribution to the organization's financial health.
- Provides higher quality information for mission related discussions.
- Higher level of difficulty when planning.



BUDGETING APPROACH (CONTENT)

Expense-Based

- Begin with estimated costs for next year's service delivery, then project income (filling gaps with "other" or "contributions.")
- Growth to Mature phases: Becomes the "norm" as income reliability improves.
- Enables "it's in the budget" spending mentality.

Income-Based

- Begin with realistic income projections, then determine realistic costs for next year's service delivery.
- Start-up phase: Don't spend more than we have!
- Mature phase: Helps maintain balance between focusing on income and expenses.



INCOME-BASED BUDGETING

Education, Inc - 2021 Budget

<u>Income</u>	<u>Total</u>	<u>Certain</u>	<u>Reasonably Certain</u>	<u>Uncertain/Possible</u>
Fee for Service	\$380,500	\$250,500	\$50,000	\$80,000
Other Income				
Contributions/Gifts	\$250,000	\$225,000	\$25,000	
Total Income	\$630,500	\$475,500	\$75,000	\$80,000

- Split income projections into three categories:
 - **Certain:** "Contracts in hand" or high level of confidence.
 - **Reasonably Certain:** Past or current information indicates it is likely.
 - **Uncertain/Possible:** Optimistic we can be successful, but we must be intentional to succeed.
- Discuss and document assumptions.



CONSTRUCTING YOUR BUDGET (HOW DO I DO IT?)

- Start-Up Organizations

- With no prior financial performance, budgeting requires estimations based on comparisons and consulting those who are knowledgeable.
 - Income-based budgeting
 - Line-item budgeting is most common.

- Existing Organizations (Growth to Maturity)

- Start with previous year(s) financial statements to establish a baseline for recurring revenue and expenses.
 - Be sure to make note of unordinary, one-time revenue/expenses when establishing your baseline.
- Adjust baseline for changes in revenue/expenses outlined in your annual plan.
 - New (exiting) programming? Costs associated with the changes?
 - New (exiting) sources of revenue?
- Adjust baseline for anticipated changes in revenue/expenses due to inflation or increased/decreased use.
- Identify expenses you will cut back on if revenue does not materialize.
 - Use the amount in the Uncertain/Possible as a guide for how much in cutbacks to target.



CASH FLOW STATEMENTS

Monthly cash status forecasts projecting the timing of receipts and disbursements.

- **Cash Management** – Process by which management anticipates, plans and balances cash inflow and outflow to ensure both an adequate supply of cash and maximum use of cash.
- **Negative Cash Flow** - When immediate demand for cash is greater than the cash currently on hand (timing issue).
- **Deficit** - When expenses are greater than related income for a given period.
 - Main reasons: expense-based budgeting and budget-based spending.
- **Cash Management Goal:** To always have enough cash to meet obligations.
 - Anticipate sources and timing of cash income and balance this information against a schedule for cash disbursements.



CASH FLOW STATEMENTS

Education, Inc.	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Beginning Cash Balance	\$21,233	\$71,711	\$117,18	\$61,923	\$(2,599)	\$42,879	\$(15,643)	\$(65,165)	\$(19,687)	\$71,791	\$22,269	\$67,747
Cash Inflows (Income)												
Tuition		\$81,250			\$81,250			\$81,250			\$81,250	
Text/Material		\$13,750			\$13,750			\$13,750			\$13,750	
Assessment Fee												\$1,500
Contributions/Gifts	\$100,000		\$3,256						\$150,000			
Uncollectable Fees												\$(1,000)
Total Cash Inflows	\$100,000	\$95,000	\$3,256	\$-	\$95,000	\$-	\$-	\$95,000	\$150,000	\$-	\$95,000	\$500
Available Cash Balance	\$121,233	\$166,711	\$120,445	\$61,923	\$92,401	\$42,879	\$(15,643)	\$29,835	\$130,313	\$71,791	\$117,269	\$68,247
Cash Outflows (Expenses)												
Instructional Expenses	\$15,567	\$15,567	\$24,567	\$15,567	\$15,567	\$24,567	\$15,567	\$15,567	\$24,567	\$15,567	\$15,567	\$24,567
Administrative Expenses	\$33,955	\$33,955	\$33,955	\$33,955	\$33,955	\$33,955	\$33,955	\$33,955	\$33,955	\$33,955	\$33,955	\$33,955
Subtotal	\$49,522	\$49,522	\$58,522	\$49,522	\$49,522	\$58,522	\$49,522	\$49,522	\$58,522	\$49,522	\$49,522	\$58,522
Other Cash Outflows												
Capital Purchases				\$15,000								
Subtotal	\$-	\$-	\$-	\$15,000	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Total Cash Outflows	\$49,522	\$49,522	\$58,522	\$64,522	\$49,522	\$58,522	\$49,522	\$49,522	\$58,522	\$49,522	\$49,522	\$58,522
Ending Cash Balance	\$71,711	\$117,189	\$61,923	\$(2,599)	\$42,879	\$(15,643)	\$(65,165)	\$(19,687)	\$71,791	\$22,269	\$67,747	\$9,725



CASE STUDY — CASH FLOW

- During which months does Education, Inc. experience "negative cash flow?"
- What is Education, Inc.'s largest amount of negative cash flow?
- What might Education, Inc. do to manage their negative cash flow?



Education, Inc

2021 Budget

Income

Fee for Service	\$380,500
Other Income	\$
Contributions/Gifts	\$250,000
Total Income	\$630,500

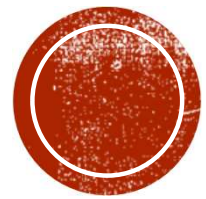
Expenses

Personnel	\$273,101
Instructional	\$222,800
Administration	\$88,800
Business Expense-Food/Lodging	\$5,000
Travel/Mileage	\$5,000
Advertising	\$42,500
Staff Development	\$10,000
Office Expenses	\$21,500
Insurance	\$4,800
Facility	\$45,555
Office Equipment/Software	\$19,000
Depreciation-Equipment	\$1,455
Rent	\$21,600
Utilities	\$3,500
Total Expenses	\$630,256
Net Gain/Loss	\$244

CASE STUDY

- What "format" does Education, Inc. use for budgeting? How might a different type of format be more beneficial?
- In today's environment, which areas of the budget should Education, Inc. make sure they account for inflation? How much?
- Does Education, Inc. "fund depreciation?" What does that mean?
- What happens to education, Inc.'s surplus? How might they use it in the future?





QUESTIONS?



CONTACT INFORMATION

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NONPROFIT BUDGET/FINANCE SERIES

Objective: To offer a funder's point of view, concerning financial management, to elevate nonprofit leaders' (board members and directors) capacity to understand and tell their organization's story through numbers



WORKSHOP SCHEDULE

July 8 th	Reading & Understanding Financial Statements
August 12 th	Developing Annual Budgets
September 9 th	Sustainability



TODAY'S AGENDA

- Reconnect
- The Sustainability Question
- Promoting Sustainability
- Case Study
- Questions

RECONNECT

- Budgets and cashflow statements are both forward thinking (predictive) tools.
 - Budgets predict the *amount* of inflow and outflow (financial assets).
 - Cashflow predicts the *timing* of cash inflow and outflow.
- How the budget and cashflow statement are used, the benefit they provide, and the format will change as the organization solidifies its financial resources and revenue streams.



RECONNECT

Budgeting is a process that allows you to tell the organization's annual story in dollars and cents.

- **Planning:** Provides a roadmap of the intended journey (results in outcomes).
- **Control:** Provides a baseline to compare actual performance to planned performance.

Budgeting Approach:

- **Expense-Based:** Start-Up to Growth
- **Income-Based:** Growth to Mature



SUSTAINABILITY DEFINED

- An orientation that encompasses:
 - **Financial Sustainability** - The ability to generate resources to meet the needs of the present without compromising the future.
 - **Programmatic Sustainability** - The ability to develop, mature, and cycle out programs to be responsive to constituencies over time.

Nonprofit Sustainability: Making Strategic Decisions for Financial Viability

(Bell, Masioka, and Zimmerman; 2010, pg. 13)





**HOW LONG SHOULD YOUR
ORGANIZATION BE
SUSTAINED?**



WHY DO WE EXIST?

- If you exist to bring about a change that addresses a societal issue that should be **eliminated**, then you should work from a **non-permanent mindset** (teen pregnancy, addiction, disease, homelessness, etc.).
- If you exist to bring about change that addresses a societal issue **that cannot be eliminated**, then you should work from a **permanent mindset** (education, health care, faith, fitness, etc.).
- This is meant to be viewed from the 30,000 ft. level and promote organizational introspection – there are no absolutes



FINANCIAL SUSTAINABILITY IS A PRODUCT OF:

- Connecting interested stakeholders with your cause
- Demonstrating you are a well-run organization
 - Consistent revenue streams and predictable expenditures
- How well you tell your story (balance between mission-driven and efficient use of resources)



HOW LONG SHOULD WE BE SUSTAINED?

- Revisit your purpose...
 - What change does your organization exist to bring about?
 - Should your organization approach the issue with a non-permanent mindset or permanent mindset?
 - Why is this change important for the individual and society?
 - What is our role in bringing about the change?
 - Who else is working on this change? What is their role?
 - Do the programs we offer effectively address the change within our role?



HOW LONG SHOULD WE BE SUSTAINED?

- What is the value (in economic terms) of your organization's contribution to the change?
 - Who benefits (economically) from the change and by how much?
 - Participants
 - Community-level beneficiaries
 - Funding sources interested in addressing the change
- Answers will point to potential revenue streams
 - Which streams are most likely to be consistent sources of revenue?
 - How much influence do we have over each source?
- Expenses are the one area you have nearly total control over (not in terms of price, but certainly in terms of use).



HOW WILL WE SUSTAIN IT?

- Program-based budgeting helps you understand which activities are consuming resources and how much.
- Every action either creates impact or supports impact.
 - Increase organization's ability to direct resources toward activities that create impact.
 - Minimize resources consumed by supporting impact.
- Can we answer the following about our programs?
 - How much does it cost to provide this service?
 - How much staff time is consumed to provide this service? (time studies)



SUSTAINABILITY — FINANCIAL RATIOS

- Financial Ratios: Indicators of organization's financial health.
- Examples:
 - IPA Formula: Sustainable Revenue / Operating Expenses = Sustainability number
 - Greater than or equal to 1.0 = Sustainable
 - Less than 1 requires additional fundraising/support/credit
 - Impact/Support Ratio: Program (creating impact) expenses/total expenses – “Put your money where your MISSION is”
 - Current Ratio: Current Assets/Current Liabilities
 - Days in Cash

MAKING PROGRESS TOWARD SUSTAINABILITY

- Slow and Steady wins the race! (crockpot vs. microwave)
- Annual Progress – evolution of budgeting
 - Cash reserve: commit to a specific amount for a specific reason; intentional about annual amount)
 - Capital repair/replacement fund: commit to a specific amount for a specific reason; intentional about annual amount)
 - Funding depreciation
 - Replacement schedule

TOOLS AVAILABLE TO ENSURE SUSTAINABILITY

- Reserve Funds (cash flow, funding depreciation, and planned growth)
- Annual Campaign (percent of revenue: philosophy concerning friendraising)
- Endowments (Planned Giving)

CAPITAL CAMPAIGNS AND SUSTAINABILITY

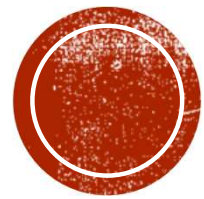
- Campaign should include more than just the cost of the “building”
 - Anticipated increase in operation costs
 - Maintenance Fund or Endowment

SUCCESSION & SUSTAINABILITY

- A succession organization is one that:
 - Identifies, recruits, trains and retains “star” employees
 - Bench Building – succession planning from the bottom up
- Organizations must understand their lifecycle stage:
 - Hire people whose skill and experience are in keeping with the job requirements, AND
 - Whose work personality and expectations are consistent with the organization’s lifecycle state
 - “Hiring for fit”

Nonprofit Lifecycles: Stage-Based Wisdom for Nonprofit Capacity
(Susan Kenny Stevens, PH.D.; 2002, p. 98)





CASE STUDY



Assets	
Current assets:	
Cash	\$21,233
Inventories	\$14,322
Accounts receivable	\$28,320
Pre-paid expenses	\$1,500
Other	\$3,467
Total current assets	\$68,842
Fixed (non-current) assets:	
Property and equipment	\$83,600
Less accumulated depreciation	\$(12,675)
Total fixed assets	\$70,925
Total Assets	\$139,767

Liabilities and Equity	
Current liabilities:	
Accounts payable	\$3,456
Accrued wages	\$5,239
Accrued Faculty Fees	\$4,187
Income taxes payable	\$1,008
Equipment Lease - Current	\$6,229
Other	\$3,200
Total current liabilities	\$23,319
Long-term liabilities:	
Equipment Leases	\$30,211
Total long-term liabilities	\$30,211
Total Liabilities	\$53,530
Equity:	
Temporarily Restricted	\$25,000
Unrestricted (Operating)	\$51,934
Unrestricted Net Gain/(Loss)	\$9,303
Total Equity	\$86,237
Total Liabilities and Equity	\$139,767

EDUCATION, INC.

STATEMENT OF FINANCIAL POSITION

Current Ratio:

= Current Assets/Current Liabilities

$$\$68,842/\$23,319 = 2.95$$

Education, Inc. has almost 3 times more in liquid assets than needed to pay short-term obligations.

What does this tell you about education, Inc.?



Assets	
Current assets:	
Cash	\$21,233
Inventories	\$14,322
Accounts receivable	\$28,320
Pre-paid expenses	\$1,500
Other	\$3,467
Total current assets	\$68,842
Fixed (non-current) assets:	
Property and equipment	\$83,600
Less accumulated depreciation	\$(12,675)
Total fixed assets	\$70,925
Total Assets	\$139,767

Expenses – Through 6 months	
Personnel	
Wages	\$110,000
FICA	\$8,456
Employee Insurance	\$12,450
Retirement Plan	\$7,445
Workers Compensation	\$210
Instructional	
Faculty Fees	\$71,500
Text and Materials	\$22,130
Course Development	\$1,200
Faculty Mileage Reimbursement	\$3,056
Administration	
Business Expense-Food/Lodging	\$866
Travel/Mileage	\$1,876
Advertising	\$10,540
Staff Development	\$2,000
Office Expense	\$7,370
Insurance	\$2,256
Facility	
Office Equipment/Software	\$5,159
Depreciation-Equipment	\$728
Rent	\$10,800
Utilities	\$1,925
Total Expenses	\$279,967

EDUCATION, INC.

STATEMENT OF FINANCIAL POSITION & STATEMENT OF ACTIVITY

Days in Cash:

= Total Cash/(Total Expenses/#
Days)

\$21,233/(\$279,967/183) = **13.88**

Education, Inc. has almost 14 days in
cash to run their operations.

**How many days in cash should
Education, Inc. hold?**

Education, Inc - 2021 Budget					
	<u>Total</u>	<u>Certifications</u>	<u>General - Classes</u>	<u>Fundraising</u>	<u>Administration</u>
<u>Income</u>					
Fee for Service	\$380,500	\$280,500	\$100,000		
Other Income	\$				
Contributions/Gifts	\$250,000	\$150,000	\$25,000		\$75,000
Total Income	\$630,500	\$430,500	\$125,000		\$75,000
<u>Expenses</u>					
Personnel	\$273,101	\$100,000	\$118,000	\$30,000	\$25,101
Instructional	\$222,800	\$122,800	\$100,000		
Bus. Exp-Food/Lodging	\$5,000	\$1,500	\$500	\$2,000	\$1,000
Travel/Mileage	\$5,000	\$1,700	\$1,500	\$1,000	\$800
Advertising	\$42,500				\$42,500
Staff Development	\$10,000	\$1,500	\$500	\$1,000	\$7,000
Office Expenses	\$21,500			\$5,000	\$16,500
Insurance	\$4,800	\$1,200			\$3,600
Office Equipt/Software	\$19,000			\$2,000	\$17,000
Depreciation-Equipt	\$1,455			\$200	\$1,255
Rent	\$21,600	\$7,000	\$5,000	\$2,500	\$7,100
Utilities	\$3,500	\$1,500	\$700	\$300	\$1,000
Total Expenses	\$630,256	\$236,200	\$226,200	\$45,000	\$122,856
Net Gain/Loss	\$244	\$194,300	(\$101,200)	(\$45,000)	(\$47,856)

EDUCATION, INC.

2021 BUDGET

Impact/Support Ratio:

= Program Expenses/Total Expenses

$$\$462,400/\$630,256 = 73.3\%$$

Education, Inc. Budgeted for 73.3% of their expenses to be program related.

Is this the right percentage?

How might Education, Inc. improve their percentage?



Education, Inc - 2021 Budget					
	Total	Certifications	General - Classes	Fundraising	Administration
<u>Income</u>					
Fee for Service	\$380,500	\$280,500	\$100,000		
Other Income	\$				
Contributions/Gifts	\$250,000	\$150,000	\$25,000		\$75,000
Total Income	\$630,500	\$430,500	\$125,000		\$75,000
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Total Expenses	\$630,256	\$236,200	\$226,200	\$45,000	\$122,856
Net Gain/Loss	\$244	\$194,300	(\$101,200)	(\$45,000)	(\$47,856)

EDUCATION, INC.

2021 BUDGET

IPA Ratio:

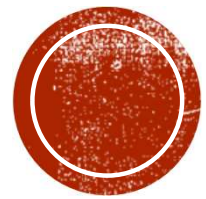
- = Sustainable Revenue / Operating Expenses

$$\$380,500 / \$630,256 = 60.4\%$$

Education, Inc. Budgeted for 60.4% in sustainable revenue.

How might Education, Inc. improve their percentage?





QUESTIONS?

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