



AAFCPAs

RETHINKING YOUR BUDGET:

Leading Your Organization Through a
More Comprehensive Financial Planning Process



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Slides Available Now!

Slides from Today's Workshop are available at:

<http://info.aafcpa.com/mnn-budgeting-workshop-2017>



“State of the Sector” Survey

- 47% NFPs survey respondents ended the year with a surplus
- 13% ended with an unplanned deficit
- 53% had 3 months or less of cash on hand
- 32% said their top challenge was pursuing long-term financial sustainability.

Source: Nonprofit Finance Fund’s “State of the Sector” NFP Survey



The solution
to these challenges
must include
strategic financial
planning and
budgeting!



Budgeting Strategically

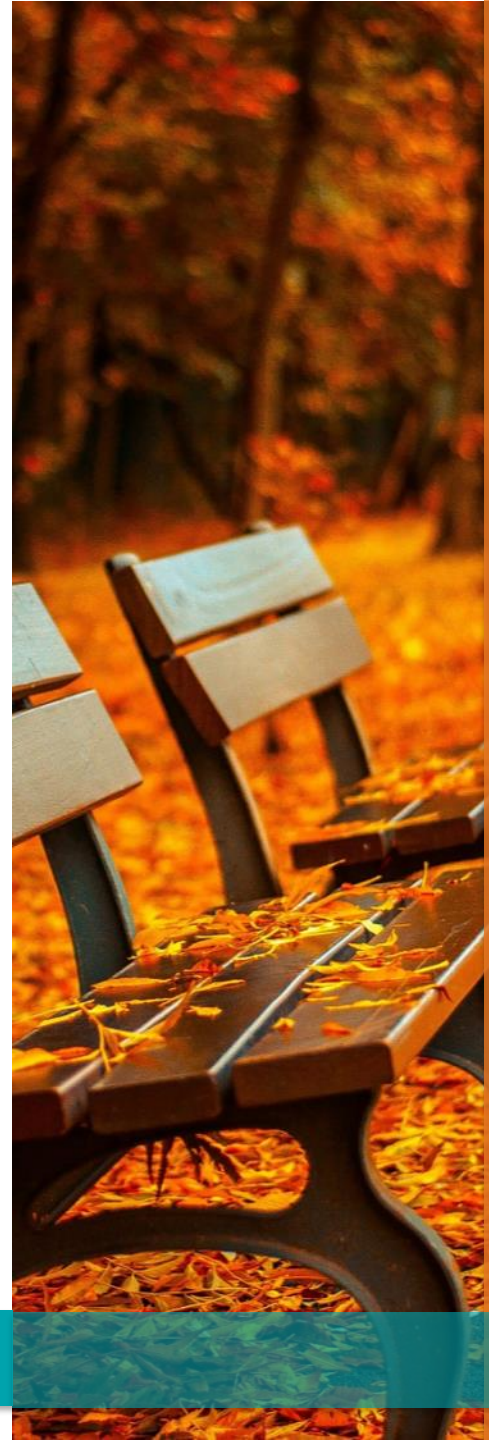
- *Budget to support your vision.*
- NFPs have to balance their “business reality” with their community purpose/mission
 - You still need to make a profit/build reserves – to “give your surplus a purpose”
- Many donors don’t want to fund NFPs who are in a weak financial position and have no reserves
- NFPs also want some independence from funders



Three Budgets All Businesses Should Have

- Operating
- Cash flow
- Capital

Businesses should have all three, and think about each strategically.



Operating Budget



Operating Budget

Budgeting Strategically

This is a financial reflection of your program plan.

What are you going to do, and solve in your programs?

- What goals do you want to achieve, and how much is it going to cost?
- A budget allows for best use of limited resources.
- A budget “tells the story.”



Operating Budget

Budgeting Strategically

First – Step back and assess your financial position and your “baseline”

- *How can we make our financial picture look better?*
- *What are our funders seeing?*

Operating Budget

Budgeting Strategically

Look at key ratios and trends over the last 3-5 years, such as:

- Operating results (“profits”) as a percentage of operating revenue
- Level of operating reserves (without property and equipment, Board-designated, and donor-restricted net assets)
 - What is the number of months of operating expenses, excluding depreciation, in operating reserves?
 - Trends in operating results, reserves over time
- Liquidity – such as current ratio, cash trends, collectability of receivables
- Leverage – such as debt/equity ratio



Operating Budget

Budgeting Strategically

If past trends continue, what will the impact be?

Determine if any trends need to be “corrected,” and make this part of the financial plan.



Operating Budget

Budgeting Strategically

Second - Look at each program/activity

Communication is key!

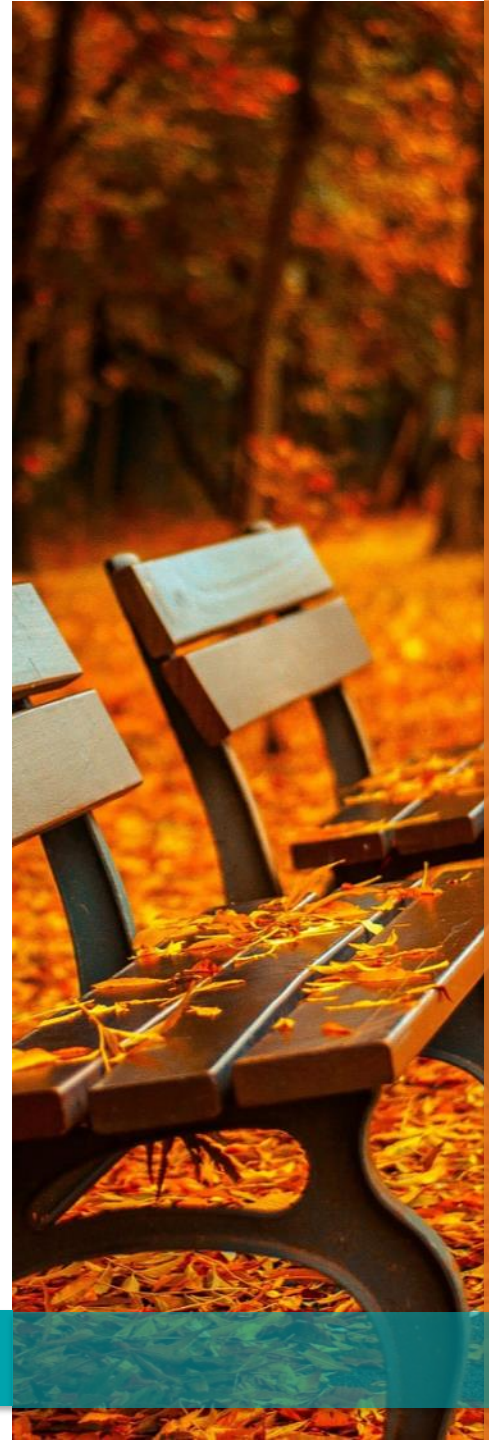
Program, finance departments need to be “thought partners,” and consider program nuances and future changes.



Operating Budget

Budgeting Strategically

- Which are “core” mission programs?
- How are programs performing financially? How can we improve performance?
 - Which are covering direct costs?
 - Which are contributing to overhead?
- Will proposed new program(s) fit within our core mission, and what’s the financial impact? *Can we afford it?*



Operating Budget

Budgeting Strategically

Look at overhead, infrastructure costs (IT upgrades, staff development, etc.)

- Avoid the “nonprofit starvation cycle” of never having enough to invest resources in infrastructure
- Is our overhead “too lean?”

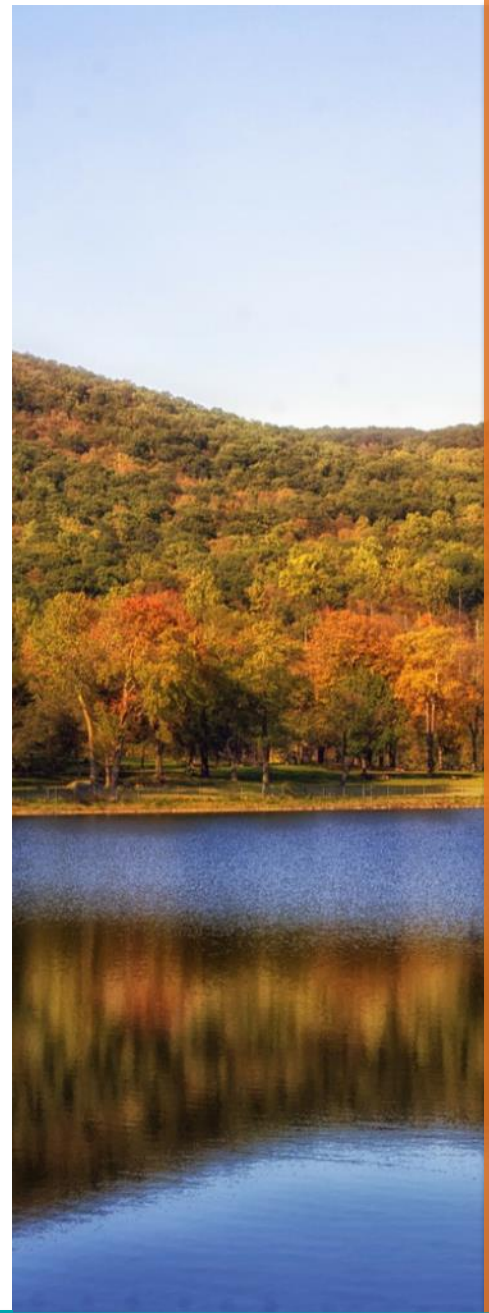


Operating Budget

Budgeting Strategically

- Understand revenue concentrations and related risks: *What is the right “mix” of revenue for you?*
- Understand “fixed” costs, obligations (such as leases)
- Identify “risks,” and what you can do to mitigate them

A good budget needs to be “real.”



Operating Budget

Budgeting Strategically

Then – Develop short and long-term financial plans that align with your strategic plan, and put the plans into action!

- *3-5 year financial plan and budget*

Operating Budget

Budgeting Strategically

Best Practice: 3-5% “profit” annually to grow operating reserves.

- How much of a safety net do we need?



Operating Budget

Budgeting Strategically

- What strategies do we need to incorporate into our financial plans to meet our short and long-term goals?
- Think about building different types of reserves, such as working capital/operating, stability funds, program expansion reserves, innovation funds.



Operating Budget

Budgeting Strategically

Closely monitor actual results,
and communicate with
program staff & development.

Is the financial plan viable?



Operating Budget

Budgeting Strategically

Compare budget-to-actual, YTD results monthly.

- Always refer back to your original budget. Avoid reforecasting.

Once budget is established, work within the plan.

- As needed, ask: Why do results differ from the plan?

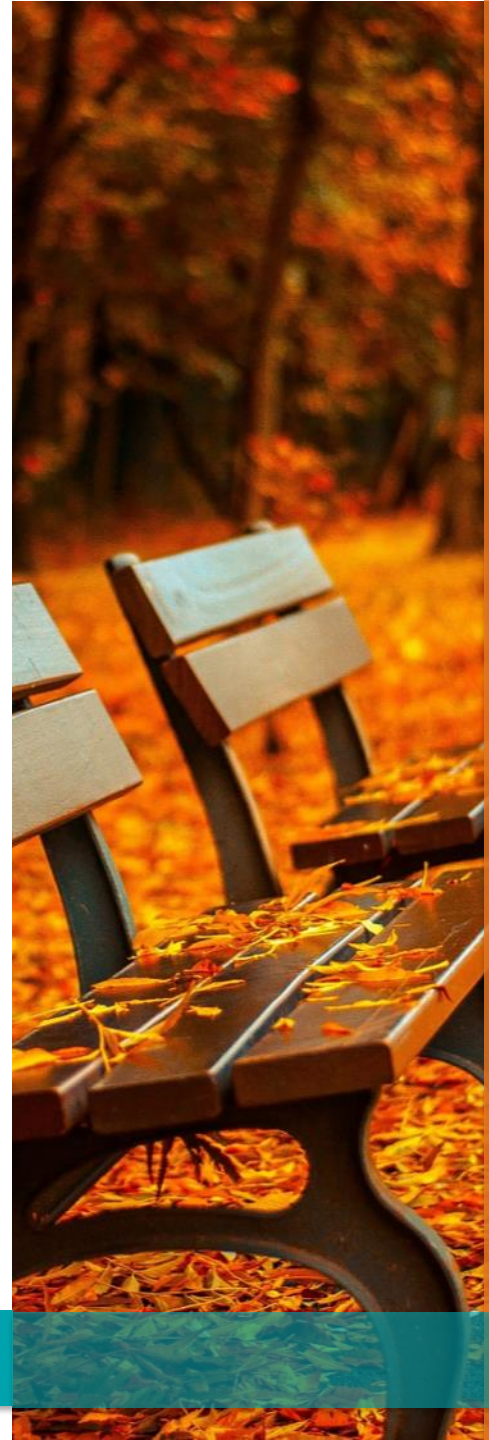


Cash Flow Budget



Cash Flow Budget

- How does your operating budget match up to your cash flow needs? *Consider timing differences.*
- When is cash coming in/going out? *Need to have a cash management plan to keep you solvent all year long.*



Cash Flow Budget

- Look at key cash flow ratios, trends over the last 3-5 years (e.g. cash trends, # months of expenses in operating cash)

Best Practice: 3-6 months of unrestricted current assets on hand



Capital Budget

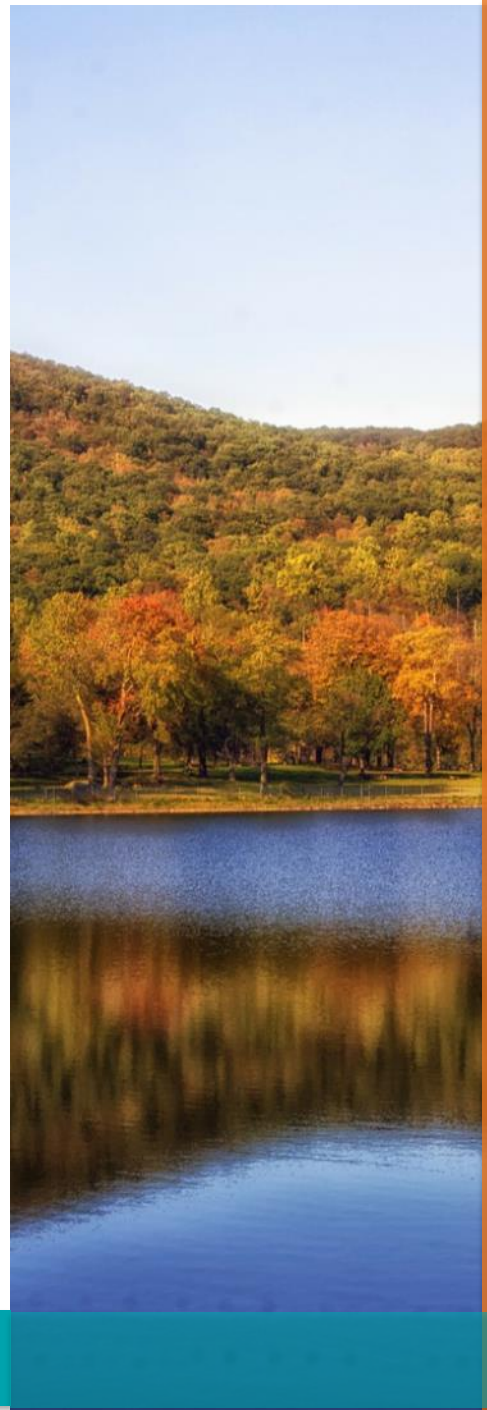


Capital Budget

What are your future capital needs, and how are you going to pay for them?

- Capital expenditures can quickly wipe out reserves
- What needs are an “immediate” priority?
- Consider capital “sources” and “uses”

Consider a capital needs study...

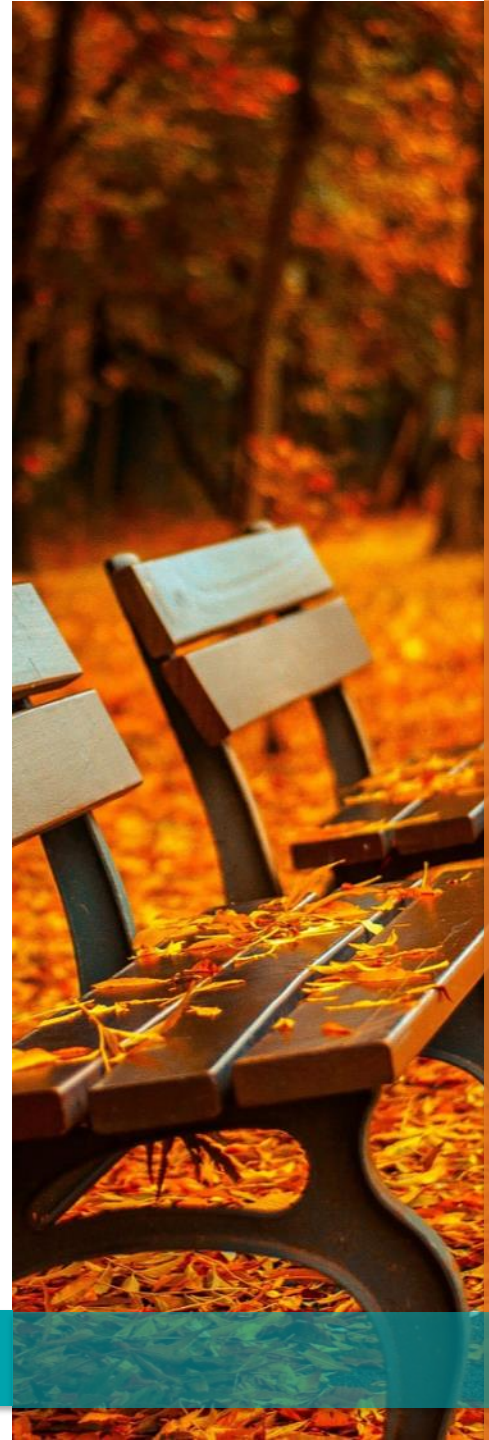


Capital Budget

- It's important to “cover” depreciation expense as part of your operating budget
- It can also be important to build a capital reserve

Budgeting Strategically

Integrate all 3 budgets together



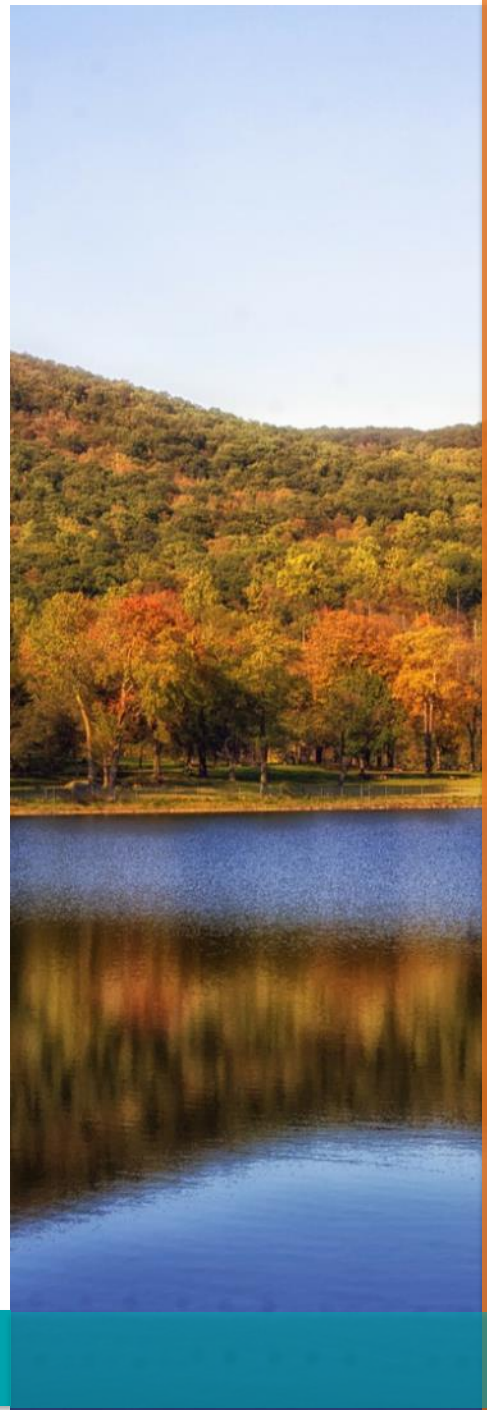
Ask Yourself...

- ☐ Do we ask for funding that covers full costs of programs?
- ☐ Are we budgeting to build surpluses?
- ☐ Can we collaborate with other NFPs to increase our operational efficiency?



Ask Yourself...

- ☐ Do we have the financial adaptability necessary to implement the growth or change that we are pursuing?
- ☐ Can we influence policy to improve our funding?



Helpful Resources

National Center for Charitable Statistics –
Operating Reserve Policy Toolkit for
Nonprofit Organizations

http://www.nccs2.org/wiki/images/d/df/Operating_Reserves_Policy_Toolkit_1st_ED_2011-07-28.pdf

The Wallace Foundation – Resources for
Nonprofit Financial Management

<http://www.wallacefoundation.org/knowledge-center/Resources-for-Financial-Management/Pages/Planning.aspx>



Helpful Resources

Best Practices in Managing Your
Nonprofit Operating Budget | AAFCPAs
<https://www.aafcpcpa.com/2017/07/03/best-practices-managing-nonprofit-operating-budget/>

AAFCPAs' Podcast Series Recorded LIVE
at our Nonprofit Educational Seminar,
May 2017

<https://www.aafcpcpa.com/podcasts/>



Questions & Comments



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