Thinking Beyond the Annual Budget

Financial & Multi-Year Planning

John Summers, Director
Rebecca Coker, Lead Consultant
September 15, 2016

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STRATEGIC FINANCIAL MANAGEMENT
Something for the accountants to handle?

Something we do to keep funders and auditors happy?

Something that distracts us from delivering programs and serving our clients?
A core strategic function, focused on the central question of how best to use limited resources to carry out your organization’s mission.
Approach financial planning with a “sustainability orientation” that ensures focus on your organization’s long-term financial health

1. Establish annual operating budget; incorporate multi-year planning
2. Understand (and fund) the full costs of delivering programs and services
3. Establish operating reserves and set policies on their use
4. Ensure capital needs are considered when planning for the future
5. Establish mechanisms for monitoring financial performance, incorporating effective forecasting tools
6. Assess and manage risk
StrongNonprofits.org

In collaboration with the Wallace Foundation, FMA has created a library of tools and resources to help organizations become “fiscally fit”

Four Topic Areas:  Planning  |  Monitoring  |  Operations  |  Governance
Join the Conversation

Have your cell phone ready to answer our poll questions throughout the presentation.

Text **SOBRATOFDN** to **22333** to join the conversation.
You will receive text confirmation that you’ve joined the session and can then respond to multiple polling questions.
You may also reply via web at PollEv.com/sobratofdn

Join us on twitter at #SobratoFMA
Polling Results: Is there anything you would like to ask today?

“What are key takeaways to share with our board?”
5 days ago

“How long should we plan for? How long of a multi-year plan is too long?”
5 days ago

“What’s the best document to show a funder to demonstrate planning and financial health?”
5 days ago

“How do we engage program staff in financial planning?”
5 days ago

“How do you do multi year planning when the majority of finders don’t fund in multi year cycles?”
Polling Results: What is your role in your organization?

- Executive Director: 30%
- Finance: 27%
- Program: 3%
- Development: 21%
- Other: 18%
Polling Results: What is your budget size?

- Under $1 million: 18%
- $1-5 million: 52%
- $5-10 million: 12%
- Over $10 million: 18%
MULTI-YEAR PLANNING
Planning should look to the past as well as to the future

The Past
- Financial position
- Recent trends
- Strengths and weaknesses

The Future
- Programmatic goals
- Financial goals
- Risks and uncertainties
Liquid Unrestricted Net Assets (LUNA)

- Indicator of an organization’s level of “true” reserves
  - Unrestricted net assets available in liquid or near-liquid form
  - Does not include fixed assets, property or other assets difficult to convert into cash

- Positive LUNA
  - Assets available to cover operating expenses, guard against financial downturns, and pursue new opportunities

- Negative LUNA
  - Indicates *borrowing* from restricted funds and/or external sources
  - Signals lack of financial flexibility
### 2015

#### ASSETS

**Current Assets**
- Cash: $257,590
- Accounts Receivable: 82,482
- Prepaid Expenses: 21,200
- **Total Current Assets**: $361,272

**Non-Current Assets**
- Property and Equipment, Net: 1,506,326

**TOTAL ASSETS**: $1,867,598

#### LIABILITIES AND NET ASSETS

#### LIABILITIES

**Current Liabilities**
- Accounts Payable: $104,434
- Current Portion of Mortgage Payable: 36,442
- Deferred Revenue: 917
- **Total Current Liabilities**: $141,793

**Non-Current Liabilities**
- Long-Term Mortgage Payable: 1,028,713

**TOTAL LIABILITIES**: $1,170,506

#### NET ASSETS

- Unrestricted Net Assets: 492,947
- Temporarily Restricted Net Assets: 204,145

#### Liquid Unrestricted Net Assets (LUNA)

**Year 2: 2015**

**Total Unrestricted Net Assets**: $492,947

- **Subtract Board Designated Net Assets**: $-
- **Subtract Net Fixed Assets**: $1,506,598
- **Add Mortgages**: $1,065,155

**TOTAL LUNA**: $51,504

**Average Monthly Expenses**
- Total annual expense divided by 12: $164,767

**MONTHS OF LUNA**
- Total LUNA divided by avg. monthly expenses: 0.3

**TOTAL EXPENSES**: $1,977,208
Facilitates the integration of operational and strategic planning

Provides a forum to address significant long-term issues

Increases focus on financial sustainability

Creates a space for planning around multi-year grants and programs
What are critical questions to answer for long-term planning?

Are there **funder cutbacks or policy changes** on the horizon, and how will they impact our **business model** (revenues and expenses)?

What are the costs associated with **improving program outcomes or expanding scope of services**?

Is a **lease** expiring that may require a move?

What are the facility and other **capital requirements** of our plans?

Have **multi-year grants** committed us to **projects** in the future?

Have we made any **decisions** in this year’s plan that will **impact future years**?
Polling Results: Does your organization have a strategic plan?

Yes: 73%
No: 27%
Polling Results: If yes, does your plan have a financial component?

Yes: 45%
No: 55%
Strategy specifies the set of actions required to achieve desired goals.

Resource requirements reality-test the strategic plan, and allow for further refinement.

Financial planning forces focus on the “how” – e.g. relevant operational decisions.

How do strategic and financial planning interact?
Strategic planning should align goals and finances

• Are our strategic goals achievable with our financial resources? If not,
  – Can we access additional resources? How large is the gap that needs to be made up?
  – Will we re-think our goals and strategies? What can we scale back without sacrificing mission-critical results?
Double Bottom Line Matrix

Adapted from “Double Bottom Line Matrix”, Bell & Schaffer, Financial Leadership for Nonprofit Executives, 2005
Financial Impact

Adapted from “Double Bottom Line Matrix”, Bell & Schaffer, Financial Leadership for Nonprofit Executives, 2005
BUDGETING
A budget is your organization’s plan expressed in financial terms
# Types of Budgets

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Operating Budget</strong></td>
<td>1-year plan for revenues and expenses that includes the departments and programs of an organization and may incorporate plans for accumulation of reserves.</td>
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<tr>
<td><strong>Program Budget</strong></td>
<td>1-year plan for revenue and expenses related to a specific program, with the goal of covering true cost of delivery.</td>
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<td><strong>Grant Budget</strong></td>
<td>A plan for specific revenue and expenses related to a grant or contract.</td>
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<tr>
<td><strong>Cash Budget</strong></td>
<td>6-12 month plan for cash inflows, cash outflows, and the amount and duration of cash shortages or shortfalls.</td>
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<td><strong>Capital Budget</strong></td>
<td>A plan for fixed asset outlays within a 1-5 year period.</td>
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<tr>
<td><strong>Strategic Budget</strong></td>
<td>3-5 year plan for revenues and expenses, encompassing an organization’s strategic goals.</td>
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The budget development process should:

- Connect to the organization’s long-term plans, goals and strategies
- Include key decision-makers from across the organization
- Be multi-dimensional
  - i.e. address natural and functional expense and revenue categories
- Indicate financial impact on a program-by-program basis
- In most cases, work toward an overall financial surplus
Polling Results: Which scenario below best describes who is involved in your budgeting process?

- Executive Director, Development, Finance, and Program: 92%
- Executive Director and Finance: 6%
- Executive Director only: 3%
- Finance only: 0%
- Other: 0%
Budget Development: A Five Step Process

1. Assemble a budget team
2. Create a budget calendar
3. Prepare for the budget process
4. Build the budget
5. Obtain board approval
Natural and Functional Expenses

Natural Expenses
• Expenses classified by the *nature* of the expense such as salaries, rent, utilities, supplies, etc.

Functional Expenses
• Expenses classified by the *type of activity* for which the expense was incurred: programmatic, management and general, or fundraising
Specific and Shared Expenses

**Specific expenses:** Expenses that can be specifically assigned to one or more program(s) or function(s), based on time or money spent directly in each program or function

- Salaries for program personnel
- Salaries for fiscal staff
- Fundraising expenses

**Shared expenses:** Expenses that are shared among some or all programs and functions. These expenses must be allocated among functional areas on the basis of an appropriate methodology

- Rent and utilities in a common space
- Office supplies
- Depreciation
Funders and contracts are often more likely to fund “Tier 1” expenses than “Tier 2,” and “Tier 2” than “Tier 3”.

- **Tier 1**: Specific Program Expenses
- **Tier 2**: Shared Program Expenses
- **Tier 3**: Management & General and Fundraising Expenses ("Overhead")
Translating Cost Categories

How we see our costs

Specific Program Expenses

Tier 1

Shared Program Expenses

Tier 2

“Overhead”

Tier 3

How contracts define our costs

Program

Indirect
### Program-Based Budget Builder

#### 1. Employee Level of Effort by Function

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<tr>
<th>Full Time</th>
<th>Program 1</th>
<th>Program 2</th>
<th>Program 3</th>
<th>M&amp;G</th>
<th>Fundraising</th>
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Enter data into highlighted cells only.
RESOURCES
• *Keeping It in Reserve: Grantmaking for a Rainy Day*, Hilda Polanco and John Summers, Nonprofit Quarterly, May 2016:
  https://nonprofitquarterly.org/2016/05/02/keeping-it-in-reserve-grantmaking-for-a-rainy-day/

• *Technical Assistance: Getting Your Nonprofit Budget Past ‘One Day (or Year) at a Time’*, Hilda Polanco, The Geraldine R. Dodge Foundation: The Dodge Blog, May 2016:
  http://blog.grdodge.org/2016/05/03/technical-assistance-getting-your-nonprofit-budget-past-one-day-or-year-at-a-time/#sthash.XAqS9Q65.tfxzrNe6.dpbs
In collaboration with the Wallace Foundation, FMA has created a library of tools and resources to help organizations become “fiscally fit”

Four Topic Areas: Planning | Monitoring | Operations | Governance
Online Tutorials for StrongNonprofits.org

FMA offers complimentary orientation one-hour webinars that feature an overview of the website and drill down on several of its key resources.

Upcoming webinar dates:

• September 22 at 10:30 am PT

To register, or see upcoming webinar dates: http://fmaonline.net/strongnonprofits

For a 15-minute, on-demand webinar tour of the site:
http://fmaonline.net/SNPonDemand
Program-Based Budget Builder

http://www.wallacefoundation.org/knowledge-center/Resources-for-Financial-Management/Pages/Program-Based-Budget-Template.aspx

Funding Opportunity Assessment Tool


Cash Flow Projections Template


Fiscal Management Activities Calendar
On-Demand Webinar:
5 Step Guide to Budget Development

www.strongnonprofits.org
Fiscal Management Associates, LLC

• Established in 1999 to serve not-for-profit organizations around the country
• Provides customized financial management, accounting, software, organizational development, human resources, and other consulting services
• Works directly with organizations or through funder-supported management and technical assistance programs

FMA's mission is to empower not-for-profit organizations with the knowledge and skills to successfully serve their constituents and fulfill their missions

John Summers
jsummers@fmaonline.net
Rebecca Coker, MPA
rcoker@fmaonline.net

New York | Chicago | Oakland | Los Angeles

www.fmaonline.net

@FMA4Nonprofits
/FiscalManagementAssociates
linkedin.com/company/fiscal-management-associates-llc
First Place for Youth

- **FOUNDED:** 1998
- **MISSION:** Help foster youth build the skills they need to make a successful transition to self-sufficiency and responsible adulthood
- **YOUTH SERVED:** 471 in housing, total of 1,900 (2016)
- **LOCATIONS:** Headquartered in Oakland, providing services in 6 counties in California (Los Angeles, San Francisco, Santa Clara, Solano, Contra Costa and Alameda)
The First Place Program

We provide housing, education, employment, and healthy living support to youth participants.

Safe, Stable Housing
Scattered-site apartments are conveniently located with access to public transportation, community colleges and work opportunities.

Intensive Case Management
Youth Advocates (case managers) support young people in setting goals to develop self-esteem and move them toward greater independence.

Education and Employment
Staff specialists give youth the tools to finish high school, enroll in post-secondary education and secure sustainable living-wage employment.

Healthy Living Skills
Community resource centers offer workshops to help youth balance physical, mental, and emotional health, covering everything from financial literacy to personal well being to parenting skills.