



# AAFCPAs

## **RETHINKING YOUR BUDGET:**

**Leading Your Organization Through a  
More Comprehensive Financial Planning Process**



**JEFF CICOLINI**  
PARTNER  
AAFCPAs



**JEANIE GORLOVSKY-SCHEPP**  
MANAGER  
AAFCPAs

# According to the Nonprofit Finance Fund's "State of the Sector" NFP survey, for responding NFPs:

- 47% ended the year with a surplus
- 13% ended the year with an unplanned deficit
- 53% had 3 months or less of cash on hand
- 60% reported that funders never or rarely cover the full costs of programs they intend to support
- 31% with government funding reported payment delays of more than 30 days
- 32% said their top challenge was pursuing long-term financial sustainability. Other top challenges included raising funding that covered full costs and developing cash reserves.

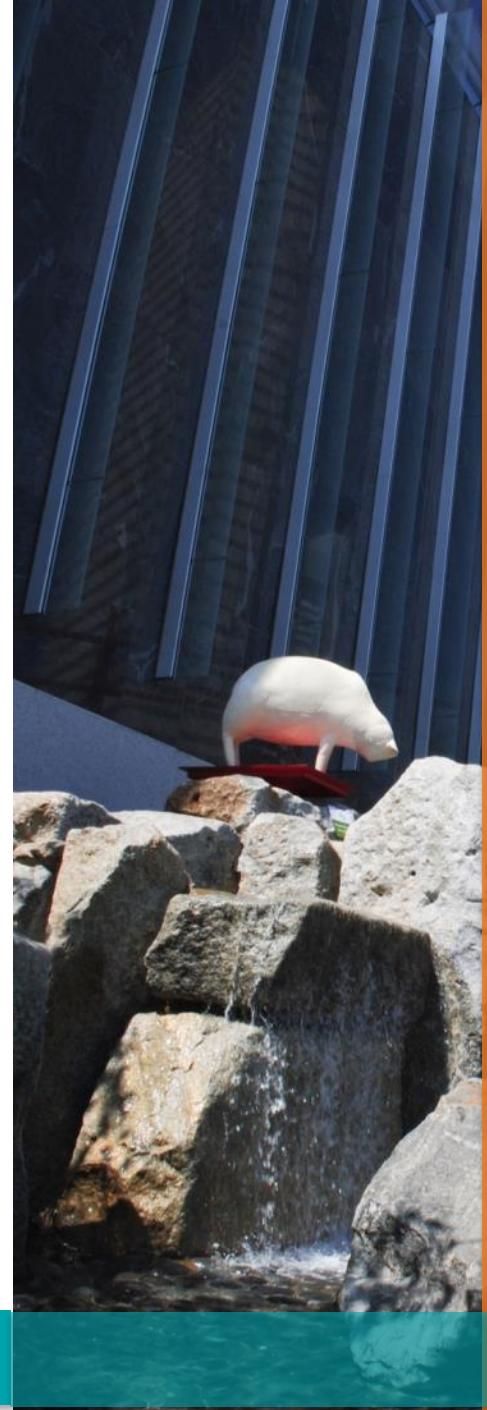


The solution to these challenges  
needs to include  
strategic financial planning and  
budgeting!



# Strategic Importance of Budgeting

- Budgeting is a key tool in overall NFP financial management process – 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 want some independence from funders

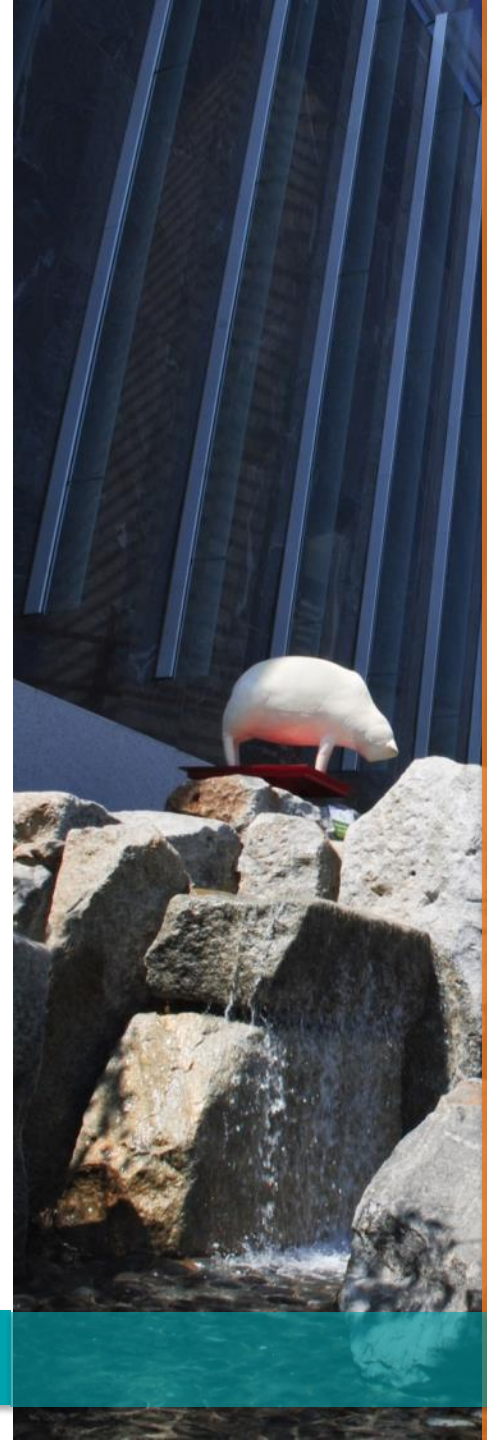




# Different Types of Budgets

- Operating budget
- Cash flow budget
- Capital budget

NFPs should have all three budgets, and should think about each one strategically.



# Operating Budget

- This is a financial reflection of your program plan - what you are going to do and solve in your programs?
  - What goals do you want to achieve in your NFP business, and how much is it going to cost?
  - A budget allows for best use of limited NFP resources
  - A budget “tells the story” of a NFP



# Operating Budget – Budgeting Strategically

- First – step back and assess your financial position and “assess your baseline”
  - How can we make our financial picture look better?
  - What are our funders seeing?
  - Look at key ratios and trends over the last 3-5 years, such as:
    - Operating results (“profits”)
    - Level of operating reserves (without property and equipment, Board-designated, and donor-restricted net assets)
      - What is the number of months of operating expenses in operating reserves?
      - Trends in operating results and reserves over time
    - Liquidity – such as current ratio, cash trends, collectibility of receivables
    - Leverage – such as debt/equity ratio



# Operating Budget – Budgeting Strategically (continued)

- 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 (continued)

- Second - Look at each program/activity
  - Which programs are our “core” mission programs?
  - How are programs performing financially? How can we improve their performance?
    - Which programs are covering direct costs?
    - Which programs are contributing to overhead?
  - Program and finance departments need to work together and be “thought partners” on the budget – consider program nuances and future changes.
  - If there is a proposed new program – will it fit within our core mission and what will be its financial impact? Can we afford it?



# Operating Budget – Budgeting Strategically (continued)

- Look at overhead and infrastructure costs (ie., IT upgrades, staff development)
  - Goal is to avoid “nonprofit starvation cycle” of never having enough to invest resources in infrastructure
  - Is our overhead “too lean”?
- Understand your revenue concentrations and the related risks – what is the right “mix” of revenue for your NFP?
- Understand your “fixed” costs and obligations (such as leases)
- Identify the “risks” in your budget and what you can do to mitigate them
- Remember that a good budget needs to be “real”



# Operating Budget – Budgeting Strategically (continued)

- Then – Develop short- and long-term financial plans that align with your strategic plan, and put the plans into action!
  - What strategies do we need to incorporate into our financial plans to meet our NFPs goals, short-term and long-term?
  - Think about building different types of reserves – such as working capital/operating, stability funds, program expansion reserves, innovation funds.
  - Best practice is usually budgeting a 3-5% “profit” each year to grow operating reserves.
    - How much of a safety net do we need?
  - Important to have a 3-5 year financial plan and budget



# Operating Budget – Budgeting Strategically (continued)

- Close monitoring of the actual results to the financial plan is vital.
- Compare budget-to-actual year-to-date results.
  - Always refer back to your original budget. The answer is not simply to change the budget – avoid reforecasting.
    - Once budget is established, you need to work within the plan.
  - Need explanations as to why actual results differ from the plan.





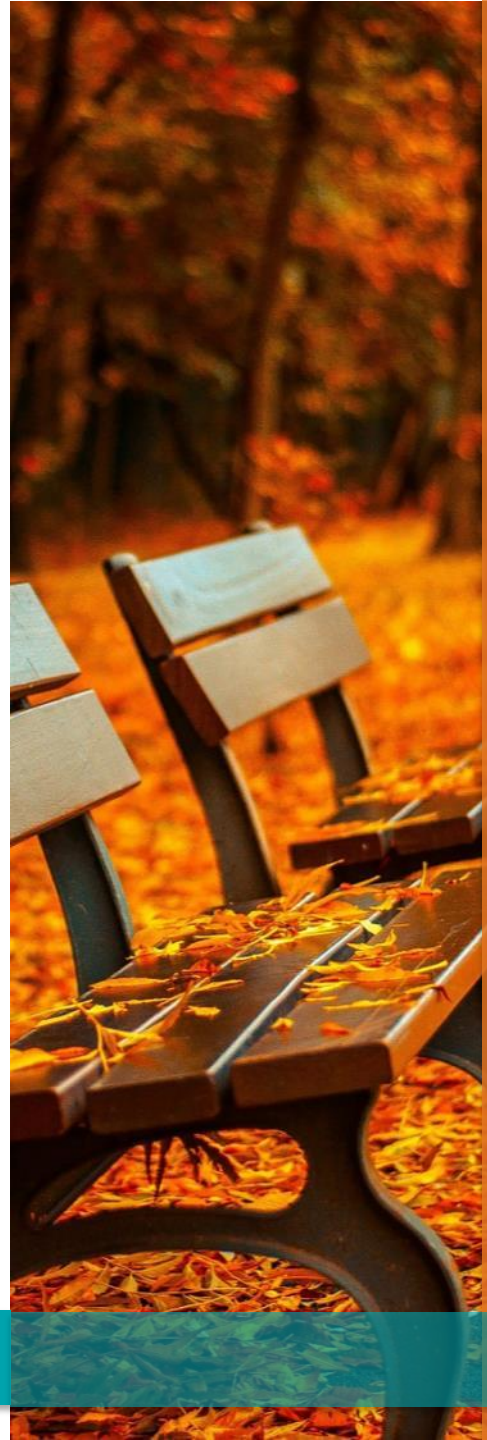
# Cash Flow Budget

- How does your operating budget match up to your cash flow needs? Consider timing differences.
- When is cash coming in/out the door? Need to have a cash management plan to keep you solvent all year long.
- As part of long-term strategic planning, look at key cash flow ratios and trends over the last 3-5 years, such as cash trends and number of months of expenses in operating cash.
- Best practice is usually having 3-6 months of current assets on hand.



# Capital Budget

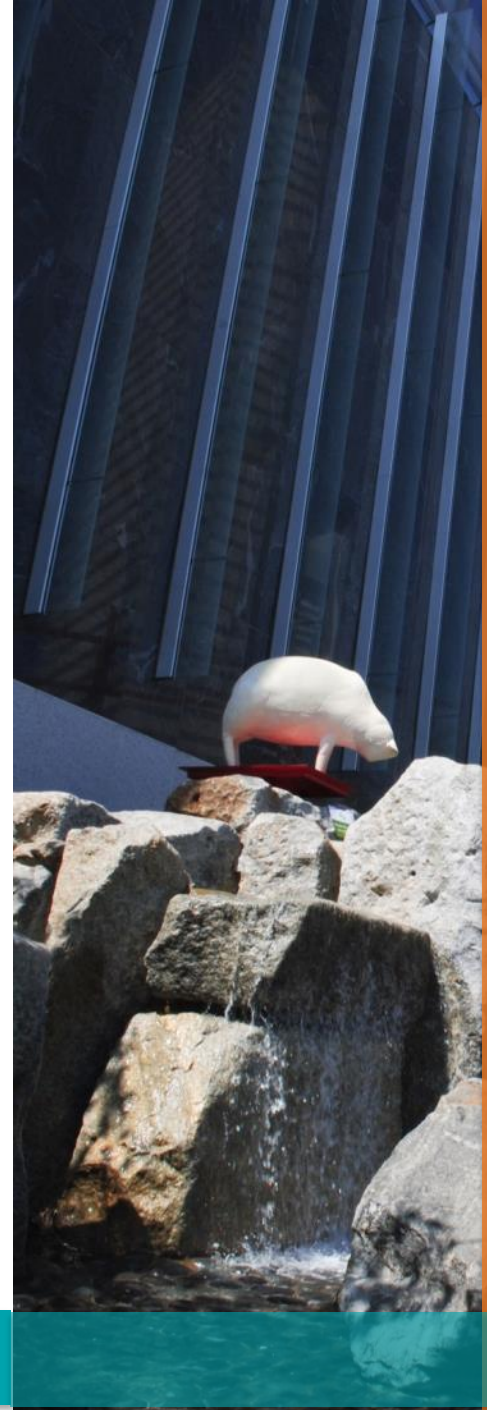
- What are your future capital needs, and how are you going to pay for them?
  - Capital expenditures can quickly wipe out operating and cash reserves
  - Consider capital “sources” and “uses”
- Consider doing a capital needs study
- It’s important to “cover” depreciation expense as part of your operating budget
  - Capital reserve



# Ask Yourself...

According to the Nonprofit Finance Fund's "State of the Sector" NFP survey, here are some good strategic financial questions for NFPs to ask themselves:

- 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?
- 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](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>



# Questions & Comments



**JEFF CICOLINI**  
PARTNER  
AAFCPAs

774.512.4026  
jicolini@aafcpa.com



**JEANIE GORLOVSKY-SCHEPP**  
MANAGER  
AAFCPAs

774.512.4000  
jgorlovsky-schepp@aafcpa.com