Growing people, communities, and resources for exempt organizations.

Budget Management

Before budgeting for your organization, we need to understand the overall financial stability of the organization. Here is a short list of business elements that need to be investigated:

Revenue:

1. Do you have at least six month of operating reserves? Y / N

2. Do you have at least five sources of revenue? Y / N

3. Do you have any source of revenue more than 50% of the total revenue? Y / N

4. Have you implemented new revenue sources in the last two years? Y / N

Expenses:

1. Have you experienced deficit spending in the last three years? Y / N

2. Are the majority of your expenses supporting your mission? Y / N

3. What percentage of your expenses are "fixed" costs? _____%

4. Is your overhead expenses more than 20% of your total budget? Y / N

Liabilities:

1. Do your liabilities exceed your reserves? Y / N

2. Do you have any liabilities over 5 years old? Y / N

3. Do you have any liabilities over $10,000? Y / N

Assets:

1. What percentage of your assets are cash? ____%

2. What percentage of your assets are in investments? ____%

3. What percentage of your assets are in real property? ____%

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Budget Management

How to forecast and conduct cost analysis for expenses

It's important to overstate expenses to avoid shortfalls and to build a cushion for changes in staff that can occur throughout a fiscal year. If adding a 10-15% additional expense margin brings you a surplus at the end of the fiscal year, properly invest that surplus into reserves or toward staff to improve retention. Retention is the second largest expense of most organizations.

When calculating staffing costs, an organization should consider the following:

- ❑ Salary: research on payscale.com, 50th percentile.
- ❑ 30% fringe to include payroll taxes, benefits, and expenses
- ❑ Recruiting costs for finding this position including marketing expenses, time to interview, time to call references
- ❑ Training costs for this position (initial and ongoing training)
- ❑ Supervisor for this position
- ❑ Supplies needed for this individual
- ❑ Licensing or certification costs
- ❑ Background check or drug test costs
- ❑ 10-15% administrative costs (overhead)

When forecasting revenues it's important to ensure that the organization underestimate all sources of revenue. This is not the part of the budget where you would show optimism. Therefore, you should plan a 10-15% reduction in revenues from the previous year.

The organization should also have research based on the financial sector of your organization to determine potential shortfall or growth in your industry. This can impact the forecast of revenues for a given year.

If your organization has a fee for service revenue source, it's important to understand margin and have a forecast for revenue in three month increments. This involves understanding services and how revenues are collected. A simple spreadsheet can be used to have complete transparency of projected (forecasted) revenues. This can also determine your expense spending for this forecasted months for this service.

Budget Management

How to build and invest profits (reserves)

To properly model any budget, profits (margin) need to be built into each calculation, each product, each service, and each cost associated with a business output. Once the volume of business is determined, the amount of monthly, quarterly, and annual profits must be distributed properly to any aspect of the business that needs profits such as:

- ❑ Reserves
- ❑ Debt
- ❑ Improvements
- ❑ Market expansion

People Over Mathematics

Each organization has an internal and external audience. People are the catalyst to help an organization grow. Therefore, your budget must invest in that catalyst, both internal and external to be successful. Here are some example:

Internal Audience:

- ❑ Provide timely reviews
- ❑ Use Strength Based Management to properly engage your staff to increase performance and retention.
- ❑ Ensure salaries are at least at 50% (mid-point) to your market.
- ❑ Provide consistent and meaningful recognition.
- ❑ Encourage open dialogue as it relates to making suggestions to improve the operations of your organization.

External Audience:

- ❑ Provide timely communication
- ❑ Use Strength Based Management to properly engage your audience to increase their interactions with your organization
- ❑ Ensure clients and customer segments know all opportunities to get connected to your organization
- ❑ Provide consistent and meaningful recognition
- ❑ Provide a mechanism to collect feedback

Budget Management

Measuring Engagement

We recommended to all nonprofits to use the Q12 model not only for their internal team, but their external donors, supporters, and volunteers. In addition, this measurement can be taken many times throughout the year or even after key milestones such as events or anniversaries. The more you can understand about how people engage your nonprofit, the better you can manage people (both external and internal) and make meaningful budgets.

Q12: "yes" or "no"

1. I know what is expected of me at work.
2. I have the equipment and materials I need to do my work right.
3. At work, I have the opportunity to do what I do best every day.
4. In the last seven days, I've received recognition or praise.
5. My supervisor, or someone at work, seems to care about me as a person.
6. There is someone at work that encourages my development.
7. At work, my opinion counts.
8. The mission of the organization makes me feel my job is important.
9. My associates and fellow employees are committed to quality work.
10. I have a best friend at work.
11. In the last six months, someone has talked to me about my progress.
12. This last year I had the opportunity to learn and grow.

Diversifying Revenues

Depending on the type of organization you have or the financial market you fit in, diversifying revenues is a key strategy to any budget. Some basic strategies to find other streams of revenue include:

- ❑ Developing a new product or service
- ❑ Partnering with another organization or vertical
- ❑ Expanding service or products regionally, nationally, or internationally
- ❑ Encouraging current donors to increase their spending or refer others to your organization for an increase of new donors

Budget Management

Methods of Saving on Expenses

There are many ways an organization can implement savings measures without losing employees. Here are some to consider for the revenue side:

1. Donor engagement: The more donors you can retain, the more revenue can be generated to off set budget deficits.

2. Increase donor participation: Work with existing donors (individuals and corporations) to increase their engagement thus increasing fees or revenues to the organization. This will offset social or financial trends and help repair budget deficits.

3. Diversify Revenues: Incorporate from the previous comments mentioned and diversify your revenue to increase unrestricted funds to be used to offset budget deficits.

4. Develop a new program: A new program or initiative can bring in new sources of revenue or donors that can be used to keep staff and re-direct them on something new that addresses a social, business, or economic change.

5. Investments: An organization should hold some funds in an interest baring account. A change in investments can generate new revenue or lower costs to offset a budget deficit.

Proportional Budgeting

Each organization should group their expenses by major categories and determine if those budget items directly align with your mission. Determine if the right amount of financial resources are allocated to the priorities that provide the best results for those you serve. The following strategies can help organizations better align with their mission:

1. Align staffing costs to focus on programs or services that provide the best results for those you serve.

2. Lower operational costs: This can include changing companies to lower costs, hiring third party companies to take over costly operations, or can simply be a negotiation to lower costs on supplies or fees being incurred by the organization.

Budget Management

Proportional Budgeting

3. Ask your staff: Involve your team in these decisions on how to save costs or leverage experiences to produce more with less. They will have great ideas you can use.

4. Ask your donors/vendors: Involve your external audience in gaining feedback on overhead and costs.

Budget Monitoring

Each organization should form a finance committee including executive management that reviews financial information monthly. While some of financial reports are required for tax purposes, they do not provide the level of detail necessary for proper review.

For example, when someone views the balance sheet they see a summary of assets and liabilities that define the financial position of the organization. What they don't see is how those funds are being managed.

In order to create more transparency, I recommend using reports that include the following:

- ❑ Budget versus actual report will show how you are performing to your forecasted and approved budget.
- ❑ Actual versus last year will show if your revenue and expenditure trends are consistent or out of sync.
- ❑ Specific program or service reports will show if funds are properly utilized based on the budget and the overall performance of the program, service, or effort it's funding.

In order to properly manage **revenue trends** the finance team partnered with the development team must produce reports that show the trends of some of the following:

- ❑ Individual donor revenues; this year compared to last year and compared to your current budget.
- ❑ Program/Service performance: this year compared to last year and compared to your current budget. Track impact of services based on clients served, revenues gained, and profits obtained.
- ❑ Marketing performance: this year compared to last year and compared to your projections.

Budget Management

Budget Monitoring

In order to properly manage **expense trends** the finance team partnered with the development team must produce reports that show the trends of some of the following:

- ❑ Forecasted expenses; this year compared to last year and compared to your current budget.
- ❑ Socio-Economic shifts; will something this year or in the future to effect the expenses that were forecasted.
- ❑ Multiple bids: is the organization obtaining more than one bid for services?
- ❑ Specific Program/Services expenses; this year compared to last year and compared to your current budget.

Service reporting should be shared in conjunction with reviewing the financial health of any organization. For every service the organization provides, there should be a report that includes but is not limited to the following:

- ❑ Service budget performance to actual (revenue, expenses, profit)
- ❑ Number served by the service compared to budget, lsat year, and projections
- ❑ Staffing costs forecasted versus actual versus last year
- ❑ Service delivery timeline being met or are they behind

Most programs associated with an organization have many different costs such as books, event space, mileage, and various partners that contribute to the overall success of the program. To provide the proper transparency, the following should be analyzed:

- ❑ Is the program reaching the amount of people as forecasted?
- ❑ Is the program on budget versus forecast and versus last year?
- ❑ Is the program lowering costs or cost sharing when appropriate?