

The Bankable Not-for-Profit

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DC Children and Youth Investment Trust Corporation

For-Profit vs. Not-for-Profit

- The goal of for-profit and not-for-profit organizations should be:

PROFITABILITY!!!

A.K.A.

Net Income > Net Outflow



For-Profit vs. Not-for-Profit

- However for-profits use that profitability to drive shareholder value while not-for-profits look to realize their socially beneficial mission on an ongoing basis.



For-Profit vs. Not-for-Profit

- For-profit organizations' operations are driven by exchange transactions (compensation for service/product).
- Not-for-profits depend on donated resources to drive operations.
- Therefore, not-for-profits must ensure that donations are used as directed by the donor.
- Budgeting & Cash Management are **VITAL!**



Budgeting & Cash Management

- Not-for-profits must ensure that they have access to cash to provide services and cash flow can be difficult to predict.
- Budgeting is critical in that respect unpredictable cash inflows must be offset by expense control.

What is a Budget?

- It is an operating plan for a fiscal period.
- It expresses decisions on how the not-for-profit will realize its purpose.
- It charts the direction for allocating resources and identifies potential challenges when reviewed on a consistent basis.
- It's the ultimate management tool for the most engaged not-for-profit managers.

Approaches to Budgeting

- Zero-Based Budgeting: programs need to be proven as fiscally sound every fiscal period.
- Incremental Budgeting: existing programs are pre-approved and subject to increases/decreases in available resources.

Useful Budget Reports Can Include:

- Annual, quarterly, monthly projections of income/expenses for the entire not-for-profit and its divisions.
- Revenue projections by type-contributions, tuition, fees, etc.
- Building or equipment acquisition.
- Cash Flow
- Staffing models.

Proposed Budget vs. Actual Performance

Example:

	Actual	Budget	Variance
Income			
Contributions	25,000	27,500	(2,500)
Grants(unrestricted)	5,000	5,000	0
Sales (Net)	4,325	4,000	325
Total income	34,325	36,500	(2,175)
Expenses			
Staff	10,000	12,000	(2,000)
Office expense	1,120	1,000	120
Telephone	5,665	6,000	(335)
Counseling	12,000	12,000	0
Bus tickets	4,960	5,000	(40)
Misc. support	510	500	10
Total expenses	34,255	36,500	(2,245)
Excess	70	0	(70)



Proposed Budget vs. Actual Performance

- Periodic budget comparisons to actual performance can reveal issues and allow reactive decisions to be made quickly in response to societal change.



Asset Management

- After the budget is developed, not-for-profits must focus on financing current operations by using current funds and maximizing obtainable resources to enhance returns.

Cash Flow Planning

- **Cash is King!**
- Cyclical and seasonal fluctuations can impact cash flow therefore reemphasizing the need for a sound budget.
- Planning ahead is key.

Cash Flow Budgeting

- Estimate when collections on year-end receivables will occur.
- Calculate time lag between billings and cash receipts.
- Chart expected cash expenditures according to the month they're due.
- Confirm capital expenditures, asset sales, borrowing, debt repayment, etc.
- Cash flow budgeting plans reserves that may be needed to cover future expenses.



Cash Flow Budget Example:

Cash Flow Budget Worksheet

	[Month]	[Month]	[Month]	[Month]	[Month]	[Month]	Total
Beginning Cash Balance		\$0	\$0	\$0	\$0	\$0	
Cash Inflows (Income):							
Accts. Rec. Collections							0
Loan Proceeds							0
Sales & Receipts							0
Other:							0
							0
							0
Total Cash Inflows	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Available Cash Balance	\$0	\$0	\$0	\$0	\$0	\$0	
Cash Outflows (Expenses):							
Advertising							0
Bank Service Charges							0
Credit Card Fees							0
Delivery							0
Health Insurance							0
Insurance							0
Interest							0
Inventory Purchases							0
Miscellaneous							0
Office							0
Payroll							0
Payroll Taxes							0
Professional Fees							0
Rent or Lease							0
Subscriptions & Dues							0
Supplies							0
Taxes & Licenses							0
Utilities & Telephone							0
Other:							0
							0
							0
							0
Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Cash Out Flows:							
Capital Purchases							0
Loan Principal							0
Owner's Draw							0
Other:							0
							0
							0
Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Cash Outflows	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Ending Cash Balance	\$0	\$0	\$0	\$0	\$0	\$0	



Cash Reserves

- When cash reserves have accumulated, excess cash can be placed in short term investment vehicles such as CDs, T-Bills, and Money Market Accounts to maximize the yield on that cash.
- When cash reserves exceed the amount needed for one operating cycle, longer term investments may be considered based on organizational risk tolerance and expected returns.

Restricted Funds

- Not-for-profits must use contributions for the purposes for which they were given.
- This must be tracked.



Income Statement

Bank-Love.org
Income Statement
For Twelve Months Ending 12/31/XX

INCOME	Unrestricted	Temp Restricted	Total
Individual Contributors	28,000	15,000	43,000
Grants		60,000	60,000
Fees	100,000		100,000
Contract Income	50,000		50,000
Total	178,000	75,000	253,000
EXPENSES			
Personel	90,000		90,000
Programs	50,000		50,000
Rent	15,000		15,000
Marketing	10,000		10,000
Total	165,000	0	165,000
Change in Net Assets (Surplus/Deficit)	13,000	75,000	88,000



Simple Debt Service Calculation

Bank-Love.org

	<u><u>12/31/XX</u></u>
Revenue:	253,000
Net Income:	13,000
Debt Service:	7,000
Debt Service Coverage:	1.86x



Summary

- The budgeting process and cash management are critical areas of focus for not-for-profits.
- A qualified CPA should be employed to manage the unique reporting needs and management of donated resources for not-for-profits.
- Not-for-profits that manage themselves in a documented and profitable manner position themselves to maximize the Bank's resources.

