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FOUR FINANCIAL CONFUSIONS WORKBOOK

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Four Financial Confusions Workbook

First Confusion Exercise: Revenue-based budgeting

Sample Organization 1

Estimate the Revenue for 2014 based off of 2009 – 2013:

Year	2009	2010	2011	2012	2013	2014
Amount	$400K	$500K	$450K	$550K	$600K	
Average	-	$450K	$450K	$475K	$500K	$500K
Difference	-	$100K	($50K)	$100K	$50K	$50K Diff. $650K Tot.
% Change	-	25%	(10%)	22%	9%	11.5% $669K

There are three different ways of going about getting a potential revenue amount for 2014: average, difference, and percent change. It's often best to work the numbers all three ways and see if there are any clusters or ranges that make sense.

In this case, the organization's revenue tends to be growing.

- The 5-year average will be a bit low, since revenues have been increasing, however, this may still be healthy.
- The Difference average is within $4,000 of an additional 9% growth over 2013 ($654K).
- The % Change average is the biggest jump in revenue.

Questions:

Which one would you choose? Why?

What are the pros and cons to the other two choices?

How can you apply this to your organization?

Sample Organization 2

Estimate the Revenue for 2014 based off of 2009 – 2013:

Year	2009	2010	2011	2012	2013	2014
Amount	$600K	$550K	$450K	$500K	$400K	
Average	-	$575K	$533K	$525K	$500K	$500K
Difference	-	($50K)	($100K)	$50K	($100K)	($50K) Diff. $350K Tot.
% Change	-	(8.3%)	(18.2%)	11%	(20%)	(8.9%) $365K

There are three different ways of going about getting a potential revenue amount for 2014: average, difference, and percent change. It's often best to work the numbers all three ways and see if there are any clusters or ranges that make sense.

In this case, the organization's revenue tends to be retracting.

- The five-year average will be over-inflated, since overall trends are declining.
- In this case, none of the averages matches well with a repeat of the 2013 20% drop, which would put the organization at $320K.
- The lowest average estimate is the Difference average, and the organization will need to determine whether that is low enough.

Questions:

Which one would you choose? Why?

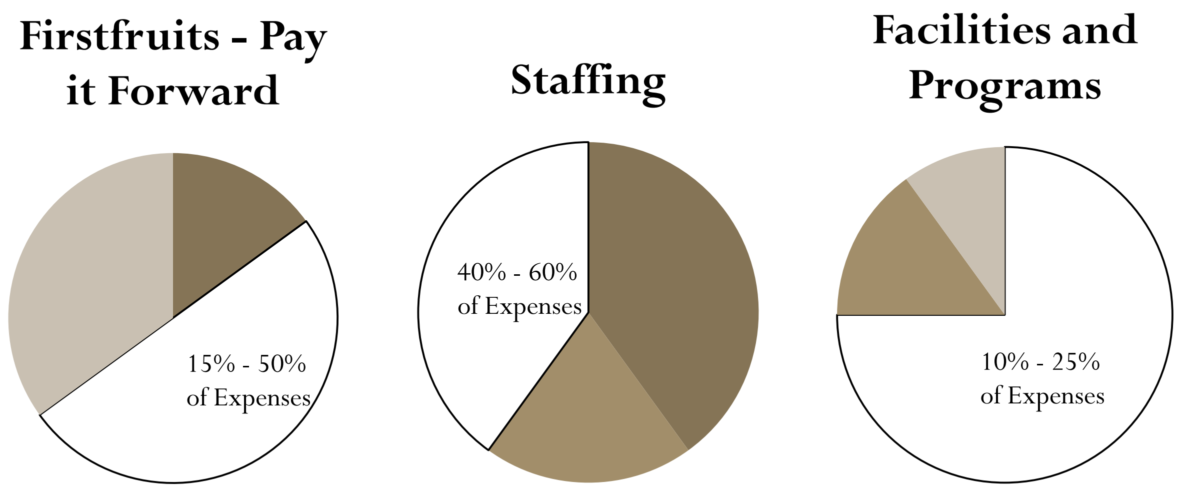
What are the pros and cons to the other two choices?

How can you apply this to your organization?

Please note for both sample organizations that the growth or decline in the numbers has been made extreme so as to show the differences in the methods. Many organizations do not endure such radical changes of fortune.

Enterprise Budgeting

We recommend spending only 95% of budgeted revenues (especially if reserves are thin), and dividing available funds as follows:



Questions:

In your organization, what percentage of revenues do you budget to expend every year?

How does your organization break down these three areas? Why?

Financial Services Roles

Lead – Adaptive Changes

Manage –Technical & Adaptive Changes

Do - Technical Changes

Chief Financial Officer: As part of (or working with) executive team, assists in developing vision and strategic implementation of organizational mission through financial expertise, staff management, nonprofit donor development, strategic problem-solving and creativity.

Finance Director / Asset Manager: Strategic Asset Management; strategic budget development; collaboration with investment team to develop and implement investment policy; board development; nonprofit donor and constituency contact; nonprofit endowment management / development; high-level analysis of financial picture. Active participant in developing implementation plans relative to the financial aspects of an organization's or business' mission / values.

Financial Health Assessments / Forensic Accounting: Examining organizational financial health, setting books in order, reporting to management

Governance and Policy Development: designing and writing procedure, policy and bylaws to establish best practices and reduce structural conflict around finances

Budget Director / Financial Management: Budget development; Cash Management; Report Generation; Primary contact with external audit; Custom report development; basic analysis. Requires understanding of organizational vision / mission / values / politics alongside advanced accounting principles / practices, board involvement

Accounting Software Support: Troubleshoots, repairs and configures accounting software systems

Accounting: Oversight and review of books; procedural risk management; higher-level bookkeeping functions; knowledge of intermediate and advanced accounting principles as pertains to organization; knowledge of applicable laws and Generally Accepted Accounting Practices. Requires supervisory level knowledge and understanding of accounting system

Bookkeeping: Daily operations – recording deposits and checks, reconciling bank statements, basic journal entries. Requires operator level knowledge and understanding of accounting system and basic accounting principles

Second Confusion: Length of Effect of a Transaction

Financial Roles Map

Who is filling which role in your organization?

Which roles are doubled up?

Which roles are provided by outside contractors or affiliated organizations?

Which roles are fulfilled by boards and committees?

Major Designated Revenues

Name	Frequency	When it comes in	When it goes out	Typical amount (range)

How does the relative match (or mismatch) of inflows and outflows of designated revenues affect your organization's cash flow?

What changes to accounting may your organization need to make to match up the revenue and expenses for reporting purposes?

Equipment and Property Repair and Replacement

AREA	Specific	Age	Expected Life	Life Remaining	Initial Cost	Replace Cost	Depreciation = A/EL x IC	Reserve Allocated
REAL ESTATE								
	Main Building		40 – 50 Years					
	Roof		20 – 30 Years					
	Major Mechanical Systems		10 – 15 – 20 Years					
	HVAC		20 Years					
	Carpets		7 – 17 Years					
	Addition 1		40 Years					
	Addition 1 Roof		20 – 30 Years					
	Addition 1 Major Mechanical Systems		10 – 15 – 20 Years					
	Addition 1 HVAC		20 Years					
	Addition 1 Carpets		7 – 17 Years					
	Addition 2		40 Years					
	Addition 2 Roof		20 – 30 Years					
	Addition 2 Major Mechanical Systems		10 – 15 – 20 Years					
	Addition 2 HVAC		20 Years					
	Addition 2 Carpets		7 – 17 Years					
	Other							

Equipment and Property Repair and Replacement (2)

AREA	Specific	Age	Expected Life	Life Remaining	Initial Cost	Replace Cost	Depreciation = A/EL x IC	Reserve Allocated
AUTO-MOBILES								
	Vehicle 1		5 Years					
	Vehicle 2		5 Years					
	Vehicle 3		5 Years					
OFFICE EQUIP								
	Desks		7 Years					
	Chairs		7 Years					
	Files		7 Years					
	Shelving		10 Years					
	Photocopier		5 Years					
	Computer 1		3 – 5 Years					
	Computer 2		3 – 5 Years					
	Computer 3		3 – 5 Years					
Non-Office Electronics								
	Sound Equip		5 – 10 Years					
	Lighting Equip		10 Years					
GROUNDS EQUIP								
	Riding Mower		5 Years					
	Other		7 – 10 Years					

Equipment and Property Repair and Replacement (3)

AREA	Specific	Age	Expected Life	Life Remaining	Initial Cost	Replace Cost	Depreciation = A/EL x IC	Reserve Allocated
MISC FURNITURE								
	Tables		7 Years					
	Chairs		7 Years					
	Lamps		7 Years					
	Book Shelves		7 Years					
APPLIANCES								
	Chest Freezer		20 Years					
	Commercial Refrigerator		15 Years					
	Stove		20 Years					
	Vacuum Cleaner		6 Years					
	Other							

Note: In ideal cases, Allocated Reserves should be equal to or greater than Depreciation; in many cases organizations must make up the difference through capital campaigns.

Solvency

Assets: What the Organization Owns

Type	Account	Institution	Amount
CASH			
BANK ACCOUNTS			
	Checking		
	Savings		
			Total Cash & Bank Accounts (A):
CDs			
INVESTMENTS			
	Annuities		
	Mutual Funds		
	Stocks/ Bonds/ Commodities		
			Total All of the Above (B):
FIXED ASSETS			
	Buildings		
	Land		
	Property and Equipment		
	(Less Depreciation)[1]		
Receivables			
	General Receivables		
	Pledges Receivable		
	Notes Receivable		
Prepaid Expenses & Deposits			
			Total This Page (C):

[1] Subtract total depreciation column from previous exercise.

Solvency (2)

Liabilities: What the Organization Owes

Type	Account	Vendors / Institution	Current Amount	Past Due Amount	Remaining Balance
VENDORS					
	Current				
	Past Due		*************		
			*************		
			*************		
PAYROLL WITHHOLDING					
	Federal				
	State				
	Local 1				
	Local 2				
	FUTA				
	Past Due + Penalties and Interest		*************		
			*************		
Loans, Mortgages and Notes Payable					
	Current				
	Past Due		*************		
			*************		
			Total this Column (D):	Total this Column (E):	Total this Column (F):
Deferred Revenue					
Accrued Expenses					
Contractual Obligations[2]					
			Total this Column this page (G):	Total this Column this page (H):	Total this Column this page (I):

[2] For instance, if a staff contract has a 90-day notice clause, 90 days' worth of the contract amount should go here.

Solvency (3)

Net worth: (C) minus [(G) and (H) and (I)] = NW: _____________

If NW is positive, the organization is preliminarily balance-sheet solvent. If NW is negative, the organization is balance-sheet insolvent. Insolvency puts more significant liability on the organization's directors to make sure the creditors' interests are held in view.

If the organization has totals in (E) and/or (H), the organization is delaying and/or defaulting on payments. This is usually a sign of another kind of insolvency: cash flow insolvency.[3]

Of the total (A), how much is restricted by donors or organizational resolution for specific use? (J): _____________

Of the total (B), how much is restricted by donors or organizational resolution for specific use? (K): _____________

Total Available Cash: (A) minus [(J) and (G) and (H)] = AC: ______________

Total Available Funds: (B) minus [(K) and (G) and (H)] = AF: _____________

If either AC or AF is negative, the organization is cash flow insolvent.

What is the amount of the average monthly unrestricted revenues? (L): _____________

What is the amount of the average monthly operational expenses? (M): _____________

Surplus or Deficit: (L) minus (M) = (N): _______________

If N is negative, the organization is operating at a deficit. If N is positive, the organization is operating at a surplus. If N is zero, the organization is balanced.[4]

Liquidity

The organization's cash liquidity is AC / M = CL: ____________ this is how many months of reserves the organization has in cash.

The organization's total liquidity is AF / M = TL: _____________ this is how many months of reserves the organization has total.

Has your organization missed any payments in the last 30 days? 90 days? 6 months? Year?

[3] In this case, please see us as we may be able to help create a plan to get back on track.
[4] Balance may not be ideal, however, if reserves are thin.

Third Confusion: Reporting and Management

Current Reports Reflection and Self-Analysis

How many different types of financial reports does your organization generate?

Who receives your current financial reports?

What information do they contain? How old is the information?

What policies are in place to reduce the risk of fraud, excess indebtedness, conflict of interest, and cash flow management?

Do any of your reports make projections toward the future?

Who is responsible for managing day-to-day cash flow?

Who manages revenue reporting?

How does your organization track and respond to revenue trends?

How often does your organization adjust your budget and/or spending patterns to match current actual circumstances?

Organizational Priority Budget

List your organization's top five priorities:

1	
2	
3	
4	
5	

Organize your budget by the significant line items reflected in each priority (split up items as needed, such as proportions of salaries and administrative expenses) on the priority list on the next page.

When you present your spending plan (Budget) to your leaders and/or constituents, you can now present a plan that reflects the organization's priorities based off of actual accounting line items, volunteers, and time required. This helps you manage your planning according to priorities, not just according to line items.

Ideally, this budget reflects a grid of the expense breakdown listed under "Enterprise Budgeting" in confusion 1, and the priority budget in this exercise. We have provided a breakdown of the Enterprise percentages below to aid in your preparations:

Area	Percent Chosen	Item	Amount
Firstfruits & Pay it Forward (15% - 50%)			
Staff – includes benefits (40% - 60%)			
Programs and Facilities (10% - 25%)			
Totals		****************	

Priority ________

Section	Subsection	Line Item Name / Reference Number (If needed)	Amount (Time, People, and/or Money)
Staffing			
	Primary Staff		
	Secondary Staff		
	Benefits / Payroll Taxes		
	Volunteers		
Direct Program Costs			
	Materials		
	Vendors / Contractors		
	Volunteer Support		
	Other		
Administrative and Indirect Program Costs (Pro-Rated)			
	Office/Support Staff Costs		
	Bookkeeping / Accounting		
	Photocopying		
	Governance, Review and Accountability		
	Other Administrative		
Facility Costs			
	Utilities		
	Cleaning and General Maintenance		
	Repairs and Improvements (Base off of depletion, depreciation and wear-and-tear)		
Totals			

Fourth Confusion: Cash Flow & Reduced Expense

Revenue-Expense Balance

Use one of these sheets for each major revenue stream in your organization.

Revenue Stream ____________________________ Total Received____________ Period _____

Impact_________________ (people) __________________ (products) __________ (services)

Type	Amount	Costs Associated (Name)	Costs Associated (Amount)	
People (Paid)				
People (Volunteer)				
Administrative, Governance, and Back Office				
Facilities				
Furniture				
Other Programs (that feed in to this stream via referral or other connection)				
Other Assets involved				
				Total Net Gain or Loss
Total Financial				
Total People				
Total Time				

Note: Impact differs depending on the nature of the revenue stream.

Cash Flow Projection

For each month, plot your overall cash flow with this chart. For previous months, use actual numbers; for future months use budgeted or otherwise projected numbers; for current month pro-rate between the two.

Month	Beginning Cash (UR)	Beginning Cash (R)	Total Cash		Receipts (UR)	Receipts (R)	Total Receipts		Disbursements (UR)	Disbursements (R)	Total Disbursements		Ending Cash (UR)	Ending Cash (R)	Total Ending Cash
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Total															

For More Information

If you have any questions, comments, or confusions about the information in this workbook, feel free to contact us!

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Matt and his wife Lisa live in Warren, Ohio, and are expecting their first child this summer.