

# Financial Management Training Series

## Session # 3

### Intro to Planning & True Cost

**Participant Manual**

# Initiative Overview

Hartford Foundation for Public Giving's team and [Fiscal Management Associates](#) (FMA) have partnered to deliver a Financial Management Training series (October 2020 – February 2021) to increase the **financial and operational stability and resiliency** of a cohort of organizations. Together, we believe that if organizations are rooted in a sound financial position and develop discipline around financial and operational practices, then they will be better positioned to deliver innovative programs in support of their mission. Through virtual convenings, and coaching, organizations in this cohort will work towards becoming more durable and resilient in the face of challenging times.

## Key Program Activities

Each organization participates in the following:

- Organization **pre-assessment** for baseline capacity and financial practices
- Development of a **multi-year financial health trends analysis** for each participant
- Hands-on **learning activities** in a workshop setting, and as part of a **series of virtual convenings**
- **Coaching** geared toward creating space for each organization's specific context and helping leaders hold themselves accountable

## Core Topics



# Today's Session:

## Intro to Planning & True Cost

### Agenda

#### Planning & Budgeting Part 1

*Types of Budgets*

*True Cost*

*Overhead*

# Financial Planning

**Financial Planning is a process to define how an organization's strategy will be funded.**

- Ongoing
- Team-based
- Focused on the future but responsive to the present
- Structured to allow for recalibration and course correction

Budget Types	Description
Strategic Budget	3-5 year plan for revenues and expenses, encompassing an organization's strategic goals
Capital Budget	A plan for fixed asset outlays within a 1-5 year period
Operating Budget	1-year plan for revenues and expenses that includes the departments and programs of an organization and may incorporate plans for accumulation of reserves
Program Budget	1-year plan for revenues and expenses related to a specific program, with the goal of covering true cost of delivery
Grant Budget	A plan for specific revenues and expenses related to a grant or contract
Cashflow Projection	6-12 month plan for cash inflows, cash outflows, and the amount and duration of cash shortages or shortfalls

# Annual Budgeting Process



---

## Activity: Case Study

We will place you into breakout groups

As a group:

- Review the case study (below) and budget (on the following page)
- Discuss the questions listed below

We will ask participants to give a 1-2 minute recap if they are interested.

### Details

The organization in this case study has experienced operating deficits in three of the past five years. The organization's leadership understands the importance of reversing this trend. However, each April when they go through the process of creating the operating budget for the upcoming fiscal year, there never seems to be enough information to support cutting back on any particular activity.

### Discussion:

After reviewing their FY19 operating budget on the following page, answer the following questions:

1. Does this budget give you a clear picture of the full costs of running each of the organization's programs?
  
  
  
  
  
  
  
  
  
  
2. What challenges might this organization be facing in its attempts to cover its administrative costs?
  
  
  
  
  
  
  
  
  
  
3. What more do you wish you knew about this organization's operations?

# Budget for Fiscal Year 2019

Funding Source	State Contract TRJ	State Contract - MWT	City - DSS	State Contract for BRJ	City - Dept of Youth	City - Board of Education	DFSS Contract	Grant from Community Foundation	Project Reach	Grant from Foundation ABC	Administrative Costs	Total Projected Revenue & Expenses
<b>Revenue</b>	<b>\$ 240,000</b>	<b>\$ 100,000</b>	<b>\$ 95,000</b>	<b>\$ 227,000</b>	<b>\$ 350,000</b>	<b>\$ 70,000</b>	<b>\$ 75,000</b>	<b>\$ 40,000</b>	<b>\$ 45,000</b>	<b>\$ 60,000</b>	<b>\$ 5,441</b>	<b>\$ 1,307,441</b>
Salaries	144,999	32,288	70,000	142,518	252,000	50,000	46,528	40,000	7,551	53,879	167,657	1,007,420
Fringe Benefits	43,281	13,975	19,286	52,960	73,996	18,304	15,090	-	1,319	6,121	118,162	362,494
Contracted Services	-	50,000	-	-	-	-	-	-	-	-	-	50,000
Family Support Funds	-	-	-	-	-	-	1,850	-	-	-	-	1,850
Rent	18,557	830	1,000	8,000	-	-	-	-	-	-	112,541	140,928
Stipends	-	-	-	-	-	-	-	-	24,000	-	-	24,000
Client Support / Client Transportation	1,025	-	-	5,000	2,000	-	-	-	3,500	-	-	11,525
Training / Development	4,000	-	-	-	-	-	-	-	-	-	-	4,000
Technical Assistance / Workshops	-	385	-	-	-	-	-	-	-	-	-	385
Equipment Maintenance / Lease	4,000	700	-	2,400	-	-	1,000	-	-	-	-	8,100
Equipment Purchase	-	-	-	-	-	-	-	-	-	-	-	-
Telephone / Cellphones	7,000	539	-	4,320	5,400	796	2,820	-	-	-	11,525	32,400
Supplies / Materials	4,355	568	3,000	3,894	4,604	600	1,316	-	6,465	-	-	24,802
Travel / Lodging / Transportation	3,000	715	714	1,800	2,000	300	1,113	-	1,435	-	-	11,077
Cultural Field Trips / Youth Activities	-	-	-	-	10,000	-	-	-	-	-	-	10,000
Marketing / Public Relations	-	-	-	-	-	-	-	-	-	-	-	-
Audit	3,000	-	1,000	2,550	-	-	-	-	-	-	6,450	13,000
Insurance	6,783	-	-	3,558	-	-	572	-	-	-	19,087	30,000
<b>SUBTOTAL</b>	<b>\$ 240,000</b>	<b>\$ 100,000</b>	<b>\$ 95,000</b>	<b>\$ 227,000</b>	<b>\$ 350,000</b>	<b>\$ 70,000</b>	<b>\$ 70,289</b>	<b>\$ 40,000</b>	<b>\$ 44,270</b>	<b>\$ 60,000</b>	<b>\$ 435,422</b>	<b>\$ 1,731,981</b>
Loan Interest	-	-	-	-	-	-	-	-	-	-	1,500	1,500
Administrative Cost	-	-	-	-	-	-	4,711	-	730	-	-	5,441
<b>TOTAL EXPENSES</b>	<b>\$ 240,000</b>	<b>\$ 100,000</b>	<b>\$ 95,000</b>	<b>\$ 227,000</b>	<b>\$ 350,000</b>	<b>\$ 70,000</b>	<b>\$ 75,000</b>	<b>\$ 40,000</b>	<b>\$ 45,000</b>	<b>\$ 60,000</b>	<b>\$ 436,922</b>	<b>\$ 1,738,922</b>
Variance	0	0	0	0	0	0	0	0	0	0	(431,481)	(431,481)

# Guide to Key Budgeting Concepts


## Parts of a Budget | Expenses

### Expense Types

**Natural Expenses** are classified by the nature of the expense.

**Functional Expenses** are classified by the type of activity for which the expense was incurred. Functional Expenses fall into the following categories:

Program	Management & General	Fundraising
<b>Description:</b> Direct provisions of goods or services related to the organization's mission and purpose  <b>Examples:</b> program supplies, salaries of program staff	<b>Description:</b> Activities such as oversight, business and financial management  <b>Examples:</b> audit costs, salaries of Finance and HR staff	<b>Description:</b> Expenses incurred in soliciting donors to contribute  <b>Examples:</b> Costs to produce a donor event, salaries of Fundraising staff

FUNCTIONAL EXPENSES →		Program A	Program B	M&G	Fundraising	Total
<b>NATURAL EXPENSES</b> 	<b>Personnel</b>					
	Executive Director	25,900	16,280	18,500	13,320	74,000
	Program Director	34,000	34,000	-	-	68,000
	Teacher A	55,000	-	-	-	55,000
	Teacher B	-	50,000	-	-	50,000
	Bookkeeper	-	-	25,000	-	25,000
	Grantwriter	-	-	-	20,000	20,000
	Fringe	22,980	20,056	8,700	6,664	58,400
	<b>Non-Personnel</b>					
	Classroom supplies	12,200	14,600	-	-	26,800
	Snacks	2,200	3,000	-	-	5,200
	Bus rental	2,000	-	-	-	2,000
	Audit fees	-	-	9,500	-	9,500
	Conference travel	-	-	800	-	800
	Event space rental	-	-	-	1,000	1,000
	Event catering	-	-	-	3,200	3,200
	Rent	13,011	12,097	3,868	3,024	32,000
	Utilities	2,440	2,268	725	567	6,000
	Office supplies	1,952	1,815	580	454	4,800
	Depreciation	6,262	5,822	1,862	1,455	15,400
	<b>Total</b>	<b>177,944</b>	<b>159,937</b>	<b>69,535</b>	<b>49,684</b>	<b>457,100</b>



## Specific vs 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 **are allocated among functional areas** using a consistent and appropriate methodology

- Rent & utilities
- Office supplies
- Depreciation

SPECIFIC  
EXPENSES

SHARED  
EXPENSES

	Program A	Program B	M &G	Fundraising	Total
<b>Personnel</b>					
Executive Director	25,900	16,280	18,500	13,320	74,000
Program Director	34,000	34,000	-	-	68,000
Teacher A	55,000	-	-	-	55,000
Teacher B	-	50,000	-	-	50,000
Bookkeeper	-	-	25,000	-	25,000
Grantwriter	-	-	-	20,000	20,000
Fringe	22,980	20,056	8,700	6,664	58,400
<b>Non-Personnel</b>					
Classroom supplies	12,200	14,600	-	-	26,800
Snacks	2,200	3,000	-	-	5,200
Bus rental	2,000	-	-	-	2,000
Audit fees	-	-	9,500	-	9,500
Conference travel	-	-	800	-	800
Event space rental	-	-	-	1,000	1,000
Event catering	-	-	-	3,200	3,200
Rent	13,011	12,097	3,868	3,024	32,000
Utilities	2,440	2,268	725	567	6,000
Office supplies	1,952	1,815	580	454	4,800
Depreciation	6,262	5,822	1,862	1,455	15,400
<b>Total</b>	<b>177,944</b>	<b>159,937</b>	<b>69,535</b>	<b>49,684</b>	<b>457,100</b>

## Three Types of Expenses

### Type 3: SPECIFIC M&G/FUNDRAISING EXPENSES

#### Type 1: SPECIFIC PROGRAM EXPENSES

#### Type 2: SHARED EXPENSES

	Program A	Program B	M&G	Fundraising	Total
<b>Personnel</b>					
Executive Director	25,900	16,280	18,500	13,320	74,000
Program Director	34,000	34,000	-	-	68,000
Teacher A	55,000	-	-	-	55,000
Teacher B	-	50,000	-	-	50,000
Bookkeeper	-	-	25,000	-	25,000
Grantwriter	-	-	-	20,000	20,000
Fringe	22,980	20,056	8,700	6,664	58,400
<b>Non-Personnel</b>					
Classroom supplies	12,200	14,600	-	-	26,800
Snacks	2,200	3,000	-	-	5,200
Bus rental	2,000	-	-	-	2,000
Audit fees	-	-	9,500	-	9,500
Conference travel	-	-	800	-	800
Event space rental	-	-	-	1,000	1,000
Event catering	-	-	-	3,200	3,200
Rent	13,011	12,097	3,868	3,024	32,000
Utilities	2,440	2,268	725	567	6,000
Office supplies	1,952	1,815	580	454	4,800
Depreciation	6,262	5,822	1,862	1,455	15,400
<b>Total</b>	<b>177,944</b>	<b>159,937</b>	<b>69,535</b>	<b>49,684</b>	<b>457,100</b>

## Allocation Methodology

### Definition

A method by which costs associated with more than one program or mission support area (administrative or fundraising) are distributed across functions.

### Purpose

To allocate expenses in order to determine the **true costs of programs** and cost per unit of services.

### Common Approaches

#### Example 1

##### By Staff Full-Time Equivalent (FTE)

- Use this approach if the number of staff for your programs/functions represents the volume of resources used

#### Example 3

##### By People Served

- Use this approach if the resource is used in direct relation to the number of people participating in the program

#### Example 2

##### By Square Footage

- Use this approach if you have a program/function that disproportionately occupies a particular space, or if you have large programs operated primarily by volunteers

## Bringing it All Together: Overhead

		Overhead				
		Program A	Program B	M&G	Fundraising	Total
Specific Program Expense	Personnel					
	Executive Director	25,900	16,280	18,500	13,320	74,000
	Program Director	34,000	34,000	-	-	68,000
	Teacher A	55,000	-	-	-	55,000
	Teacher B	-	50,000	-	-	50,000
	Bookkeeper	-	-	25,000	-	25,000
	Grantwriter	-	-	-	20,000	20,000
	Fringe	22,980	20,056	8,700	6,664	58,400
	OTPS					
	Classroom supplies	12,200	14,600	-	-	26,800
Shared Costs Allocated to Programs	Snacks	2,200	3,000	-	-	5,200
	Bus rental	2,000	-	-	-	2,000
	Audit fees	-	-	9,500	-	9,500
	Conference travel	-	-	800	-	800
	Event space rental	-	-	-	1,000	1,000
	Event catering	-	-	-	3,200	3,200
	Rent	13,011	12,097	3,868	3,024	32,000
	Utilities	2,440	2,268	725	567	6,000
	Office supplies	1,952	1,815	580	454	4,800
	Depreciation	6,262	5,822	1,862	1,455	15,400
Total		177,944	159,937	69,535	49,684	457,100

### Overhead vs. Indirect Cost Rates

#### Overhead Rate

Management & General + Fundraising

---

Total **Organizational** Expense

#### Indirect Cost Rate

Management & General + Fundraising

---

Total **Program** Expenses

## Resource: StrongNonprofits.org

**Resources**

[www.strongnonprofits.org](http://www.strongnonprofits.org)

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

### StrongNonprofits Toolkit

Resources to strengthen your nonprofit financial management

Toolkit Home   Budgeting   **Cash Flow**   Audit Readiness   Operations   Data and Analysis   Governance and Strategy

**Cash Flow**

Understanding Cash Flow  
Cash Flow Projections  
Cash Flow Projections (Basic)  
Next Steps

Once you have completed your annual budget process, these tools can help your team translate your newly minted operating budget into a detailed cash flow projection over the course of a fiscal year.

44

Planning tools available on [www.strongnonprofits.org](http://www.strongnonprofits.org):

### 1. Program Based Budget Builder Template

This Excel worksheet is designed to help nonprofit financial managers build their organization’s budget by listing revenue and expenses on a programmatic/functional basis, and allocating personnel and direct and indirect non-personnel expenses.

### 2. Cash Flow Projections Template for Nonprofit Managers

This Excel worksheet is designed to help nonprofit financial managers translate their operating budget into a detailed cash flow projection over the course of a fiscal year.

# Resources: Further Reading on True Cost

THE CHRONICLE OF

PHILANTHROPY

*Ending the Nonprofit Starvation Cycle*

- [Five Foundations Address the “Starvation Cycle”](#)
- [The Best Solutions Have a Compelling Story Behind Them](#)
- [The Price of Real Change](#)
- [How Foundations and Nonprofits Can End the “Starvation Cycle”](#)
- [How One Nonprofit Prepared for Tough Conversations With Funders](#)
- [Why Funders Should Pay for the True Costs of Nonprofits’ Work](#)
- [Five Nonprofit Survival Skills for Managing Low-Overhead Funding](#)
- [Learning Strategic Financial Management From the School of Hard Knocks](#)



## A Step Toward Supporting the True Cost of Nonprofits’ Work

<https://hewlett.org/a-step-toward-supporting-the-true-cost-of-nonprofits-work>

MacArthur  
Foundation

## Changing How We Support Indirect Costs

<https://www.macfound.org/press/perspectives/changing-how-we-support-indirect-costs/>

---

## Session 3 Homework

### 1. Specific vs Shared

Together as a team review your Chart of Accounts (from your accounting system) and/or the natural expenses in your budget and determine if they are specific, shared, or both. If they are shared, discuss the most appropriate allocation methodology.

### 2. Everyone Deserves a Fair Slice

Either on your own or with your team, watch the quick 7-minute video “Everyone Deserves a Fair Slice” on YouTube: <https://www.youtube.com/watch?v=gELZnORV4U>