



FINANCIAL MANAGEMENT
PRACTICES FOR MANAGING
FEDERAL GRANTS TRAINING SERIES:

Session 1: Financial Planning for Federally Funded Organizations

APRIL 25, 2024



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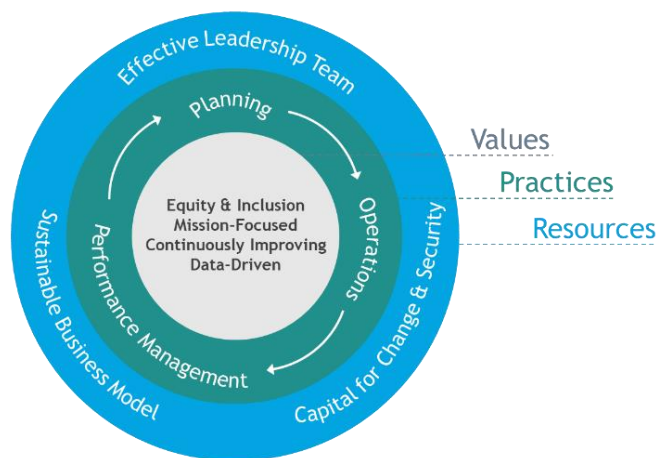
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Program Overview

PLANNING	SESSION 1: Financial Planning for Federally Funded Grants April 25, 2024 1:00pm-3:00pm ET / 10:00am-12:00pm PT
OPERATIONS AND MANAGEMENT	SESSION 2: Managing a Federally Funded Grant May 14, 2024 1:00pm-3:00pm ET / 10:00am-12:00pm PT
REPORTING & PERFORMANCE MANAGEMENT	SESSION 3: Reporting on Federally Funded Grants June 18, 2024 2:30pm-4:40pm ET / 11:30am-1:30pm PT

Financial Resilience

What does financial resilience mean to you?



Financially resilient nonprofits stay focused on the long-term while continually assessing and responding to current needs. They understand and are able to tell their financial story. Expressed through an organization’s **values**, **practices**, and **resources**, financial resilience is an ongoing commitment.

IT STARTS WITH VALUES

In an **equitable and inclusive** culture, financial data is shared with diverse stakeholders and not limited to the Executive Director and Board. Organizations that value equity and inclusion are transparent, not beholden to a single decision-maker, and have institutionalized financial leadership across the organization.

Resilient organizations foster a culture of **continuous improvement** around processes and systems. What financially resilient organizations understand intuitively is that operational improvements are not a one-time fix. The need to turn a critical eye to process and bring a standard of excellence to infrastructure is ongoing.

There is a willingness to use financial **data to inform decision making**. This can be a culture shift for many nonprofits, who are accustomed to relying on mission or gut rather than consulting financial data for key insights.

Finally, there is a recognition that the organization's financial performance as well as the finance team itself are deeply **tied to mission**. Strong financial results support mission achievement. And resilient organizations understand that the finance team is a core partner supporting mission-related goals, rather than a standalone transactional unit.

PRACTICES FOR THE PRESENT AND FUTURE

Financial **planning** ranges from annual budgeting to multi-year projections that map numbers to the organization's strategic priorities. Regardless of the timeframe, planning is about connecting program goals to resource decisions.

Operations boils down to people, processes, and systems. For effective planning and performance management to happen, operations need to work. This means having the right skills and roles on the finance team, efficient and effective workflows for core processes, and appropriate technology systems.

Effective **performance management** means leaders understand the financial status of an organization and its programs and use past performance as a baseline for anticipating future needs. Financially resilient organizations elevate standard budget-to-actual monitoring by defining and tracking Key Performance Indicators and presenting financial data in engaging, user-friendly formats such as dashboard reports.

FINANCIAL AND HUMAN RESOURCES

Leaders must understand and optimize their organization's business model—that is, what drives revenue and expenses and how their nonprofit creates impact. Having a **sustainable business model** means resources are used in alignment with mission goals and that revenues reliably cover the full cost of operations.

Resilient nonprofits are appropriately capitalized. They have liquid financial reserves to buffer the organization against future uncertainty, as well as access to the financial capital necessary to fund investments for growth and change. We call this **capital for change and security**.

Finally, the most important resource in any organization are its people. Nonprofits that have a well-balanced and **effective leadership team** with diverse perspectives and skillsets are at a distinct advantage to nonprofits that operate with a solitary leader and are much more likely to achieve and maintain financial resilience.

Grants Management Lifecycle

There are three major phases in the Grants Management Lifecycle:

1. **Pre-Award:** This is the phase where the organization researches opportunities, ensures mission and program fit, reviews criteria, and ultimately decides on whether or not to pursue the award. During this phase, the organization will write the proposal, develop budgets, and collect any materials needed before submitting the proposal.
2. **Award Phase:** Once the organization is awarded a grant, they enter the Award phase. During this time, the organization should review and understand expectations related to the grant. If the organization confidently believes they can execute on the grant according to the proposal and budget, they will accept the grant.
3. **Post-Award Phase:** Once the grant has been awarded and accepted, the organization enters the Post-Award phase. During this phase, the work for the grant will be executed, and the organization will be responsible for managing the grant needs and compliance requirements. Post-award activities include staffing up the project, ensuring the organization is meeting performance and financial goals, tracking expenses, and tracking outcomes. Once the work is finished or the period of performance has ended, the organization will programmatically and financially close out your project.



Overview of Government Funding

TYPES OF GRANTS

Public Grants

- ▶ The US government has 26 grantmaking agencies with over 900 grant programs.
- ▶ Grants can come directly from the Federal government or passed through from state and local governments or other organizations.
- ▶ These grants are governed by 2 CFR Part 200, or the Uniform Guidance, which carries the weight of the Federal government behind them, i.e. fines and penalties for violations.

Foundation Grants

- ▶ Typically, from a single funding source, such as a family or private foundation or corporation, with their primary mission and activity being making grants to charitable organizations and individuals.
- ▶ Private grants are not governed by the Uniform Guidance, although many grants come with a contract with terms and conditions for recipients to meet.
- ▶ Grants received must still follow appropriate accounting rules including fulfilling the donor's intent and satisfying conditions in order to recognize revenue.

SOURCES OF GOVERNMENT FUNDING

Government funding can come at the federal, state, or local level. Government funding is generally intended to address a public need or provide for the public good that other funders like individuals or private foundations can't or won't support. Examples of this are free and reduced lunches or disaster relief or scientific research. These programs all serve a public need and are government funded at a size and scale that other funders can't match.

The flow of funding often starts with Congressional approval of an appropriation which provides the funds to federal agencies, who then distribute through grants and contracts. Federal agencies provide funding to the states, which may then subgrant it to local governments or other entities.

The federal government may also directly award grants to school districts, universities and hospitals, and nonprofits.

FUNDING OPPORTUNITIES

1. PROCUREMENT CONTRACTS

Used to acquire goods or services for the direct benefit or use by the procuring entity. A government may procure a good or service that your organization provides. In the case of these contracts, the government is the buyer and the construction company or food service company are the suppliers. From an accounting standpoint, procurement contracts are exchange transactions where each party receives something of value. Some qualities of contracts include:

- ▶ For the direct benefit of the government
- ▶ Government has use of the good or services
- ▶ Purchases a good or service
- ▶ Buyer and seller relationship
- ▶ Modifications must meet strict standards
- ▶ More rigid scope of work
- ▶ Cost or price is typically agreed upon at the time of contract award
- ▶ Considered an exchange from an accounting standpoint
- ▶ Federal award compliance requirements are not passed-through

2. GRANTS

Legal agreement where the recipient carries out activities for a public purpose. A grant is offered when the government is trying to meet and achieve a public purpose. The government itself does not directly benefit from these services but the public does. In these cases, the government provides funds for a program where the beneficiary is not necessarily the government itself. Similar to a private foundation grant, these are contributions, where there's no expectation that the funder receives something of value in return. Some qualities of grants include:

- ▶ Advances a public purpose
- ▶ Public has access to the services or knowledge
- ▶ Supports or stimulates an activity
- ▶ Partnership between government and recipient
- ▶ Easier to amend or revise, generally
- ▶ More flexible scope of work
- ▶ Costs must be allowable, allocable, reasonable and consistently treated
- ▶ Considered a contribution from an accounting standpoint

3. COOPERATIVE AGREEMENTS


Form of grant that includes substantial involvement from the funding agency. This is a type of grant where the government is heavily involved in the programmatic activities. These types of grants aren't common and are usually

done when the federal government has certain ownership or access to materials that isn't available to the public. Examples of how the funder might be involved in the work include:


- ▶ Reviewing, providing recommendations, and concurring with final work plans and project budgets
- ▶ Reviewing and providing feedback on the activities, documentation, procedures, measures, and tools established and implemented for accomplishing the goals of the project
- ▶ Reviewing and providing feedback on written materials
- ▶ Facilitating connections
- ▶ Collaborating in the development of guides and tools and the design, operation, direction, and evaluation of activities, including meetings, training activities, and workshops
- ▶ Assisting with the coordination of efforts to plan, develop, and implement the various phases of the project
- ▶ Providing the expertise of agency personnel and other relevant resources to support the efforts of the project activities
- ▶ Facilitating partnerships and communication between the recipient and federal agencies, other grant recipients, and community stakeholders to improve coordination efforts

COMMON GRANT TYPES

Government grants normally require the submission of a proposal, budget, and other supporting materials in response to an RFP (request for proposal) or NOFO (Notice of Funding Opportunity) to engage applicants in a competitive bidding process to ensure fair selection. Government grants frequently require an organization to have its own working capital because the organization needs to demonstrate that either expenses have been incurred appropriately or that milestones have been met before invoicing the government for those costs.



COST REIMBURSEMENT
Nonprofit incurs expense THEN invoices.



PERFORMANCE-BASED
Nonprofit meets milestones THEN invoices.

THE FLOW OF FUNDING

As a direct recipient:	As a subrecipient or subcontractor :
<ul style="list-style-type: none"> ▶ From a federal or state agency ▶ As a grant or a contract to provide goods and services <ul style="list-style-type: none"> ○ The relationship is like a traditional funder/grantee type OR ○ As a client and supplier or service provider 	<ul style="list-style-type: none"> ▶ Funding is made first to a pass-through entity and then to the recipient entity <ul style="list-style-type: none"> ○ There can be additional, lower-tier pass-through entities involved. ○ Each additional pass-through entity can layer on additional requirements ○ The recipient entity can end up with either a subaward or a subcontract

As a **subrecipient** there are various obligations you must comply with:

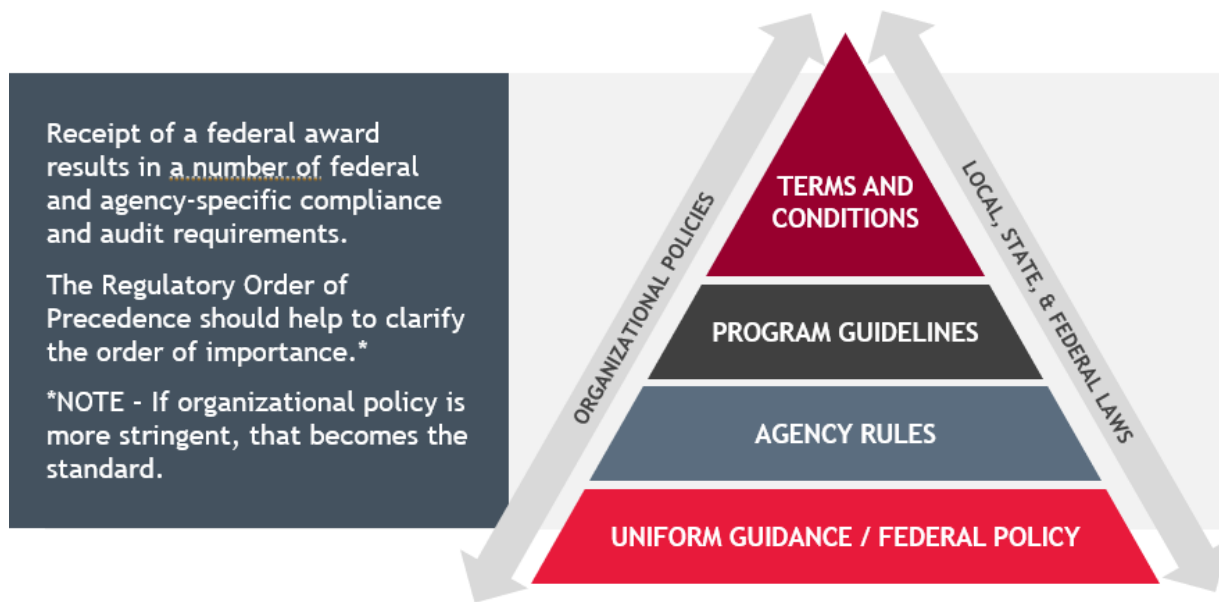
- ▶ Comply with the regulations found in the Uniform Guidance, as well as any additional terms and conditions imposed by funders
- ▶ Perform and deliver agreed upon scope of work as detailed in the project narrative and project budget
- ▶ Submit performance and financial reports as required
- ▶ Cooperate with monitoring activities (desk and/or site reviews) conducted by funders
- ▶ Allow funders to access records and financial statements as needed to meet requirements under the Uniform Guidance
- ▶ Undergo a Single Audit of federal expenditures as required by the Uniform Guidance
- ▶ Certify that the organization has not been suspended or debarred from receiving federal funds

UNIFORM GUIDANCE

The Office of Management and Budget’s (OMB) [Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#) (commonly referred to as the “Uniform Guidance” or 2 CFR 200) serves as the government-wide framework for grants management and is the authoritative set of rules and requirements for federal awards.

Subpart	Title	Sections Included
Subpart A	Acronyms and Definitions	200.0 - 200.1
Subpart B	General Provisions	200.100 - 200.113
Subpart C	Pre-Federal Award Requirements and Contents of Federal Awards	200.200 - 200.216
Subpart D	Post Federal Award Requirements	200.300 - 200.346
Subpart E	Cost Principles	200.400 - 200 - 476
Subpart F	Audit Requirements	200.500 - 200.521

The Uniform Guidance is the set of regulations for how the Federal government oversees grant funding and what recipients are required to follow. If your organization is required to have a Single Audit performed, auditors and regulators will test to see how compliant an organization is to all applicable requirements in the Uniform Guidance.



In addition to the Uniform Guidance, recipients need to understand and meet the terms and conditions of other regulations that may apply. These may come from the funding agency’s rules, the funding program that authorizes the grant and specific terms and conditions that comes from the award itself. Additionally, your organization may have its own policies and procedures to follow as well as other local, state and Federal laws that need to be followed.

Financial Planning

Financial planning is a process to define how an organization's strategy will be funded. Financial planning processes should be:

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

WHAT IS A BUDGET?

Ultimately the budget (or budgets) is the outcome of the financial planning process, but it can also be seen as a financial action plan for the period represented. Your budget is also an expression of your organization's values - how and where you choose to spend your money should reflect who you are as an organization.

Budget Types	Description
Multi-Year/Strategic Budget	3-5 year plan for revenues and expenses, encompassing an organization's strategic goals. Financial plan for long-term programmatic and financial goals, used to reality-test and refine strategic plans, and to operationalize them by informing annual plans
Annual Operating Budget	1-year, board-approved plan for all unrestricted revenue (including releases) and all operating expenses. Advances multi-year plans, and may contribute to (surplus), or deplete (deficit), the organization's overall resources. Used throughout the year for prioritizing and managing resources.
Cash Budget	6-12 month plan for cash inflows, cash outflows, and the amount and duration of cash shortages or shortfalls
Program Budget	1-year plan for a program including: <ul style="list-style-type: none"> - Earned and restricted revenue - Specific personnel and nonpersonnel expenses - Allocated shared expenses (like rent, utilities, office supplies) <p>For pricing and fundraising, include an additional allocation to recover a commensurate portion of overhead expenses</p>
Grant Budget	A plan of expenses allowed by a specific funding source, for a period of time defined by that funder, often with limited support for overhead



Do you have a compensation policy and how is it reflected in your budget? How are you allocating resources across programs? Are you prioritizing local, BIPOC-led vendors? If you are pursuing training in Diversity, Equity, and Inclusion (DEI), does your budget allow for you to pay skilled facilitators to lead this DEI work? And most importantly, how are you investing in your organization’s greatest asset, your staff?

Budgeting Concepts: 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
Description: Direct provisions of goods or services related to the organization’s mission and purpose	Description: Activities such as oversight, business and financial management	Description: Expenses incurred in soliciting donors to contribute
Examples: program supplies, salaries of program staff	Examples: audit costs, salaries of Finance and HR staff	Examples: Costs to produce a donor event, salaries of Fundraising staff

		FUNCTIONAL EXPENSES				
		Program A	Program B	M&G	Fundraising	Total
NATURAL EXPENSES	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
	Non-Personnel					
	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
Total	177,944	159,937	69,535	49,684	457,100	

SPECIFIC VS. SHARED EXPENSES

Specific Expenses	Shared Expenses
<p>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</p> <ul style="list-style-type: none"> ▶ Salaries for program personnel ▶ Salaries for fiscal staff ▶ Fundraising expenses 	<p>Expenses that are shared among some or all programs and functions. These expenses must be allocated among functional areas on the basis of an appropriate methodology</p> <ul style="list-style-type: none"> ▶ Rent & utilities ▶ Office supplies ▶ Depreciation

	Program A	Program B	M&G	Fundraising	Total
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
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Bus rental	2,000	-	-	-	2,000
Audit fees	-	-	9,500	-	9,500
Conference travel	-	-	800	-	800
Event space rental	-	-	-	1,000	1,000
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SPECIFIC EXPENSES (rows 1-10)

SHARED EXPENSES (rows 11-15)



When presenting or analyzing an organization's finances, BDO advocates for the use of the true cost model. True cost takes into account *all* expenses your organization requires to deliver services and meet its mission, not just those attributable to a specific program or covered by a particular funding source. As such, true cost includes both specific and shared expenses. How might you allocate costs differently to reflect the true cost of your organization? How are you communicating your costs to funders and donors?

THREE TYPES OF EXPENSES

- ▶ Type 1: Specific Program Expenses - Specific expenses used for Programs
- ▶ Type 2: Shared Expenses - Shared expenses that cross programs and supporting services (Management & General (M&G) and Fundraising)
- ▶ Type 3: Specific M&G and Fundraising Expenses - Specific expenses used for supporting services (Management & General (M&G) and Fundraising)

Type 3: SPECIFIC M&G/FUNDRAISING EXPENSES

	Program A	Program B	M&G	Fundraising	Total
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
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Type 1: SPECIFIC PROGRAM EXPENSES

Type 2: SHARED EXPENSES

ALLOCATION METHODOLOGY

An allocation methodology is a method by which costs associated with more than one program or mission support area (administrative or fundraising) are distributed across functions. We allocate expenses in order to determine the **true cost of programs** and cost per unit of services. Common methodologies are outlined in the table below.

By Staff Full-Time Equivalent (FTE)	By Square Footage	By People Served
Use this approach if the number of staff for your programs/functions represents the number of resources used	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	Use this approach if the resource is used in direct relation to the number of people participating in the program

Overhead and Indirect Costs

“Overhead” is an often heard and often misunderstood word in the nonprofit sector. Many different people use different definitions. We define overhead as all of our supporting services at our organization - Management & General (M&G) and Fundraising. Overhead is not the same as indirect costs, as indirect costs are those defined by a funder and each funder defines those costs in their own way. Whether or not a funder will consider a cost direct or indirect does not change whether a cost is a program cost or an overhead cost.

OVERHEAD EXPENSES

	Program A	Program B	M&G	Fundraising	Total
Personnel					
Executive Director	25,900	16,280	18,500	13,320	74,000
Program Director	34,000	34,000	-	-	68,000
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**Type 1:
SPECIFIC
PROGRAM
EXPENSES**

Costs funded by program grant(s)

**Type 2:
SHARED
EXPENSES**

Costs funded by indirect rate from program grant(s) or unrestricted revenue

The calculations for overhead rate and indirect cost rate are also slightly different, although often conflated. Overhead is a percentage of our whole organization expenses while Indirect is a percentage of just our program expenses.

Overhead Rate	Indirect Cost Rate
Management & General + Fundraising	Management & General + Fundraising
Total Organizational Expenses	Total Program Expenses



Finance +
Equity

Most nonprofits do not spend enough money on the administrative and fundraising infrastructure (aka overhead) necessary to carry out their missions. Three forces intertwine to deprive organizations of much-needed overhead funding: nonprofits neglect infrastructure and misrepresent data; funders have unrealistic expectations; and nonprofits feel pressure to conform to these unrealistic expectations.

This is the Nonprofit Starvation Cycle, and it results in nonprofits underinvesting in even their most basic infrastructural needs. In recent years, the leaders of top foundations and organizations like BDO have begun advocating for an end to this cycle by assessing nonprofits' true costs and publicly calling for changes to funding models. While most of the onus lies with foundations to alter their systems, many nonprofits have more opportunities than they realize to advocate for themselves around restrictions and indirect costs. How are you calculating your indirect costs and communicating with your funders and stakeholders about overhead?

INDIRECT COST RATE DEFINED

Indirect Cost means those costs incurred for a common or joint purpose benefitting more than one *cost objective* (a program, function, activity, award, organizational subdivision, contract, or work unit), and *not readily* assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Indirect cost pools must be distributed to benefitted cost objectives on bases that will produce an **equitable result** in consideration of relative benefits derived.

$$\frac{\$50,000 - \text{Indirect Expenses (Finance, Legal, IT, Admin...)}}{\$500,000 - \text{Direct Program Expenses (Labor, supplies, services...)}}$$

$$= \text{Indirect Cost Rate (10\%)}$$

For every \$10 of Program expense, the organization earns \$1 in indirect cost recovery.

NEGOTIATED INDIRECT COST RATE AGREEMENT (NICRA)

NICRA is, generally, an indirect cost rate negotiated with the Federal Government and accepted by all Federal agencies. This rate includes provisional, fixed, predetermined, and final costs. Organizations must submit an **Indirect Cost Proposal** to cognizant agencies for review and follow prescribed calculation methodology. Specific guidelines for categorization of costs will likely differ from costs as categorized for financial statement purposes. Generally, organizations must renew this annually, but the rate of renewal varies.

Organizations that do not want a NICRA can opt to use the 10% de minimis rate instead.

COST PRINCIPLES

- ▶ Orgs are responsible for:
 - the efficient and effective administration of the Federal award and
 - administering funds in agreement with the terms and conditions of the Federal award.
- ▶ Costs must be:
 - Allowable
 - Allocable
 - Reasonable
- ▶ Subpart E of the Uniform Guidance includes a selected items of cost and if these costs are allowable or not from both a direct expense and indirect expense treatment.

ALLOWABLE COSTS







Under the UG, everything you buy using federal funds must be an allowable expense. For something to be allowable, it needs to be necessary for the project and priced reasonably. Meaning that the Federal government expects you to be price sensitive and not overpay. You need to be able to record the expense on your books according to generally accepted accounting principles. And you need to have documentation of what you bought.

There are some expenses that the Federal government outright says is unallowable. Some examples of these are alcohol, entertainment costs, bad debt, fines, things you buy for personal use.

To be allocable under a Federal award, *costs must be chargeable or assignable to the award in accordance with the relative benefits received.*

- ▶ Incurred specifically for the award
- ▶ Benefits an award specifically and can be distributed proportionately based on the benefit received
- ▶ Necessary to the overall operation of the business
- ▶ Treated consistently across all programs, activities, functions, contracts, organization subdivision

Allowable costs are:

 <p>Necessary and reasonable for, and allocable to, the award</p>	 <p>Conform to the Cost Principles, as established in 2 CFR 200 and/or FAR Part 31</p>
 <p>Treated consistently with non-federal costs: No cost may be assigned as direct if also assigned as indirect cost for same purposes</p>	 <p>In accordance with Generally Accepted Accounting Principles (GAAP)</p>
 <p>Not included in other federal awards as costs or match</p>	 <p>Adequately documented</p>

PRICE REASONABLENESS

The Federal government wants to make sure that you're not overpaying for goods or services. Price reasonableness is what a prudent person would spend in an competitive environment. This does not mean that you need to always go with the cheapest option. There may be cases where something may be a little more expensive, but you can get it quicker.

For example, suppose you want to get a computer for a project. You have many options to choose from including high-end gaming computers to laptops set up for office work. What the government is looking for is that you're picking items that are ordinary and reasonable in order for you to do the work. To ensure that, you may have to demonstrate how you determined the price, so things like quotes or known market rates for something comparable are good things to have on hand and document.

A cost is reasonable when:

- ▶ The nature and amount incurred does not exceed what a prudent person would spend.

While determining reasonableness, particular consideration must be given to:

- ▶ Costs that are recognized as ordinary and reasonable
- ▶ Accepted sound business practices, arm's length bargaining, and Federal and state laws and regulations
- ▶ Significant deviations from established practices when incurring the cost
- ▶ Grantee's responsibilities to customers, owners and employees
- ▶ Market prices for comparable goods or services in comparable geographic areas

Budgeting Concepts: Revenue

PARTS OF A BUDGET | REVENUE

Contributed	Earned	Government	Other
Examples: <ul style="list-style-type: none"> Individual contributions Foundation and corporate donations Special events 	Examples: <ul style="list-style-type: none"> Fee for program services Sales of merchandise 	Examples: <ul style="list-style-type: none"> Fee for service contracts Cost reimbursement contracts Government grants 	Examples: <ul style="list-style-type: none"> Interest income Investment income In-Kind contributions

REVENUE TYPES

Without Donor Restrictions	With Donor Restrictions (Temporary)	With Donor Restrictions (Permanent)
Description: Contributions are free of donor restrictions on their usage Examples: <ul style="list-style-type: none"> Foundation grants for general operations Individual, corporate and other contributions Performance-based contracts Fee for service revenue Investment income 	Description: Contributions have donor-imposed restrictions and may be removed by (1) the passage of time or (2) an act of the organization. Temporarily restricted revenue is reclassified as unrestricted revenue once the restriction has been met. Examples: <ul style="list-style-type: none"> Foundation grants for specific programs Multi-year foundation grants 	Description: Contributions have donor restrictions in perpetuity Example: <ul style="list-style-type: none"> Traditional Endowments

	Program A	Program B	M&G	Fundraising	Total
REVENUES					
Foundations					
Foundation A	40,000				40,000
Foundation B		25,500			25,500
Foundation C		35,000			35,000
Satisfaction of Restriction (Foundation Y)	23,450				23,450
Satisfaction of Restriction (Foundation Z)		14,300			14,300
Individual Contributions					
Annual Appeal				30,000	30,000
Board Members				18,000	18,000
Other				2,000	2,000
Government Contracts					
City Dept of Youth		85,000			85,000
State Dept of Education	98,300				98,300
Other					
Special Events				65,000	65,000
Program Fees		4,500			4,500
Investment Income			1,400		1,400
Total Revenue	161,750	164,300	1,400	115,000	442,450
EXPENSES					
Total Personnel	137,880	120,336	52,200	39,984	350,400
Total OTPS	40,064	39,601	17,335	9,700	106,700
Total Expense	177,944	159,937	69,535	49,684	457,100
Revenues Less Expenses	(16,194)	4,363	(68,135)	65,316	(14,650)

Surplus/Deficit
By Program

Cash Flow Projections

A cash flow budget or forecast is a 6 to 18-month plan for cash disbursements and receipts, month by month, incorporating both operating and capital requirements. The forecast should include a clear indication when cash will be received and disbursed regardless of when revenue and expenses will be recognized on an accrual basis. Cash flow forecasts should include cash inflows and outflows which are not in the operating budget like the purchase of fixed assets and utilization or repayment of debt.

Using the starting cash position, this budget can predict the likelihood of a cash shortfall in specific months. The position would need to be shored up using reserves or a credit line. The budget can also predict months when there is excess cash. This could be a good time for taking on expenses which have a flexible timeframe.

Even an organization which plans for a healthy surplus in its annual budget and has a several months of cash-in-hand, can have a cash crunch if the revenue and expenses are very low or very high, respectively, in some months.

Activity: Budgeting Case Study

With your group:

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

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
Revenue	\$ 240,000	\$ 100,000	\$ 95,000	\$ 227,000	\$ 350,000	\$ 70,000	\$ 75,000	\$ 40,000	\$ 45,000	\$ 60,000	\$ 5,441	\$ 1,307,441
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
SUBTOTAL	\$ 240,000	\$ 100,000	\$ 95,000	\$ 227,000	\$ 350,000	\$ 70,000	\$ 70,289	\$ 40,000	\$ 44,270	\$ 60,000	\$ 435,422	\$ 1,731,981
Loan Interest	-	-	-	-	-	-	-	-	-	-	1,500	1,500
Administrative Cost	-	-	-	-	-	-	4,711	-	730	-	-	5,441
TOTAL EXPENSES	\$ 240,000	\$ 100,000	\$ 95,000	\$ 227,000	\$ 350,000	\$ 70,000	\$ 75,000	\$ 40,000	\$ 45,000	\$ 60,000	\$ 436,922	\$ 1,738,922
Variance	0	0	0	0	0	0	0	0	0	0	(431,481)	(431,481)

Resources

STRONGNONPROFITS.ORG



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

For a 15-minute, on-demand webinar tour of the site: StrongNonprofits.org

Relevant resources available on StrongNonprofits.org:

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.

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/>



Robert Wood Johnson Foundation

Revised Indirect Cost Rate Policy

rwjf.org/content/granteeresources/legal-and-policy/Indirect_Cost_Rate.html

Appendix

TRUE COST PRESENTATION OF CASE STUDY BUDGET

Budget: Fiscal Year 2019									
	Total	Programs						Supporting Services	
		Counseling	Family Services	Workforce	Empowering Community	Street Outreach	Strengthen Schools	M&G	Fundraising
REVENUE									
Government	\$ 1,157,000	\$ 102,000	\$ 215,000	\$ 100,000	\$ 70,000	\$ 400,000	\$ 270,000	\$ -	\$ -
Foundations & Individual Giving	\$ 135,441	\$ 16,000	\$ 29,000	\$ -	\$ 25,000	\$ 25,000	\$ 16,000	\$ 24,441	\$ -
Other	\$ 15,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,000	\$ -
Total Revenue by Program/Function	\$ 1,307,441	\$ 118,000	\$ 244,000	\$ 100,000	\$ 95,000	\$ 425,000	\$ 286,000	\$ 39,441	\$ -
EXPENSE									
Personnel:									
Salaries	\$ 1,007,420	\$ 100,450	\$ 120,773	\$ 44,739	\$ 74,224	\$ 340,379	\$ 187,320	\$ 113,690	\$ 25,844
Fringe	\$ 362,494	\$ 38,726	\$ 53,203	\$ 21,223	\$ 25,660	\$ 117,470	\$ 71,479	\$ 26,365	\$ 8,367
Total Personnel	\$ 1,369,914	\$ 139,176	\$ 173,976	\$ 65,962	\$ 99,884	\$ 457,849	\$ 258,800	\$ 140,055	\$ 34,211
Other Than Personal Service (OTPS):									
Direct Expenses									
Contracted Services	\$ 50,000	\$ -	\$ -	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Family Support Funds	\$ 1,850	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,850	\$ -	\$ -
Stipends	\$ 24,000	\$ -	\$ -	\$ -	\$ -	\$ 24,000	\$ -	\$ -	\$ -
Client Support / Client Transportation	\$ 11,525	\$ 2,400	\$ 3,200	\$ 1,925	\$ -	\$ 4,000	\$ -	\$ -	\$ -
Technical Assistance / Workshops	\$ 385	\$ -	\$ -	\$ 385	\$ -	\$ -	\$ -	\$ -	\$ -
Cultural Field Trips / Youth Activities	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ -	\$ -	\$ -
Marketing/Public Relations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Audit	\$ 13,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,000	\$ -
Other Expenses	\$ 5,441	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,441	\$ -
Total Direct OTPS	\$ 116,201	\$ 2,400	\$ 3,200	\$ 52,310	\$ -	\$ 38,000	\$ 1,850	\$ 18,441	\$ -
Shared Expenses (Allocated by FTE)									
Training/Development	\$ 4,000	\$ 399	\$ 479	\$ 178	\$ 295	\$ 1,351	\$ 744	\$ 451	\$ 103
Equipment Maintenance/Lease	\$ 8,100	\$ 808	\$ 971	\$ 360	\$ 597	\$ 2,737	\$ 1,506	\$ 914	\$ 208
Telephone/Cellphones	\$ 32,400	\$ 3,231	\$ 3,884	\$ 1,439	\$ 2,387	\$ 10,947	\$ 6,025	\$ 3,656	\$ 831
Supplies/Materials	\$ 24,802	\$ 2,473	\$ 2,973	\$ 1,101	\$ 1,827	\$ 8,380	\$ 4,612	\$ 2,799	\$ 636
Travel/Lodging/Transportation	\$ 11,077	\$ 1,104	\$ 1,328	\$ 492	\$ 816	\$ 3,743	\$ 2,060	\$ 1,250	\$ 284
Insurance	\$ 30,000	\$ 2,991	\$ 3,597	\$ 1,332	\$ 2,210	\$ 10,136	\$ 5,578	\$ 3,386	\$ 770
Loan Interest	\$ 1,500	\$ 150	\$ 180	\$ 67	\$ 111	\$ 507	\$ 279	\$ 169	\$ 38
Shared Expenses (Allocated by Sq Ft)									
Rent	\$ 140,928	\$ 19,409	\$ 33,390	\$ 12,017	\$ 13,846	\$ 8,776	\$ 38,753	\$ 12,661	\$ 2,076
Total Shared OTPS	\$ 252,807	\$ 30,564	\$ 46,802	\$ 16,985	\$ 22,089	\$ 46,577	\$ 59,556	\$ 25,287	\$ 4,946
Total Expenses by Program/Function	\$ 1,738,922	\$ 172,140	\$ 223,979	\$ 135,257	\$ 121,973	\$ 542,426	\$ 320,206	\$ 183,783	\$ 39,158
Revenues Less Expenses	\$ (431,481)	\$ (54,140)	\$ 20,021	\$ (35,257)	\$ (26,973)	\$ (117,426)	\$ (34,206)	\$ (144,342)	\$ (39,158)

About BDO

BDO's Nonprofit and Grantmaker Advisory Practice exists to build a community of individuals with the confidence and skills to lead organizations that change the world.

As of 2021, FMA has become a part of BDO USA. With this new relationship, we augment FMA's empathetic approach to meeting clients where they are with the significantly broader range of accounting, advisory and consultative services for which BDO USA is known.

BDO's Nonprofit and Grantmaker Advisory Practice provides expert fiscal management staff and capacity-building technical assistance, including organizational consultation and training, using an approach tailored to individual organizations and their specific needs. The group serves nonprofit organizations and funders, empowering them to effectively manage their resources, improve operations, and position themselves for stable, long-term growth.

The following is an outline of services that BDO can provide:

Our Services	
Fiscal Infrastructure Review	Assistance with developing the internal fiscal staffing, systems and processes to support the financial complexity of your programs and operations.
Financial Advisory Services	Support to your organization's leaders in understanding and making decisions on critical financial issues, including business modeling, budgeting, cash management, creating dashboards, and strategic planning.
Internal Controls Consulting	Assistance with defining staff roles and responsibilities to ensure internal controls that protect your organization's resources and meet contemporary auditing standards. We can also work with you to document this control structure in a customized fiscal policies and procedures manual.
Accounting System Implementation	Designing, installing, and training on the most widely used accounting software programs available for nonprofit organizations.
HR Consulting	Help with minimizing risk by ensuring policies, documents and practices are compliant with government regulations, create efficiencies by implementing best practices through available technology and achieve excellence by hiring and retaining top quality fiscal staff.
Outsourced Fiscal Management Services	Management of the full range of your organization's accounting and financial management tasks on an outsourced basis, including providing support for the annual financial audit.