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# Building Better Budgets

April 9, 2015  
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CompassPoint Nonprofit Services





Do you know **all** of  
CompassPoint?

Introducing Our Program Guide



## About CompassPoint

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*CompassPoint intensifies the impact of fellow nonprofit leaders, organizations, and networks as we achieve social equity together.*

Our integrated practice offers the strongest teaching, coaching, consulting, and peer learning – all grounded in deep nonprofit leadership experience.

# Learning Objectives

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- Reflect on your organization's effectiveness in its current budgeting process and identify areas to improve.
- Explore how to maximize full cost recovery in an organizational budgeting process.
- Identify the hallmarks of a strong cost allocation systems and identify areas to improve your organization's current system.
- Understand CCCF's fiscal monitoring standards.

# Budgeting = Planning + Monitoring

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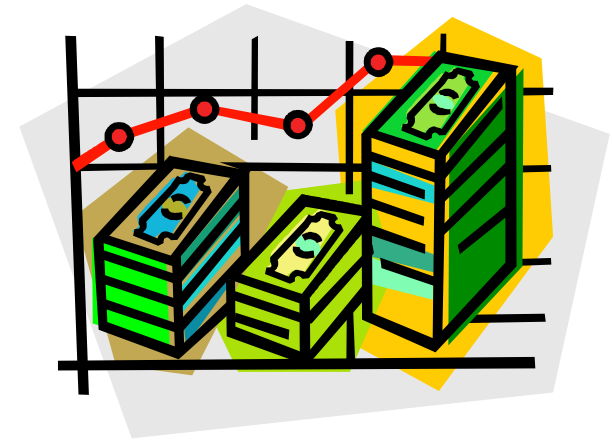


## Planning

- Defining organizational **goals**
- Outlining the **resource needs** and uses to accomplish their goals
- This should be **connected** to an annual operating plan and/or strategic plan

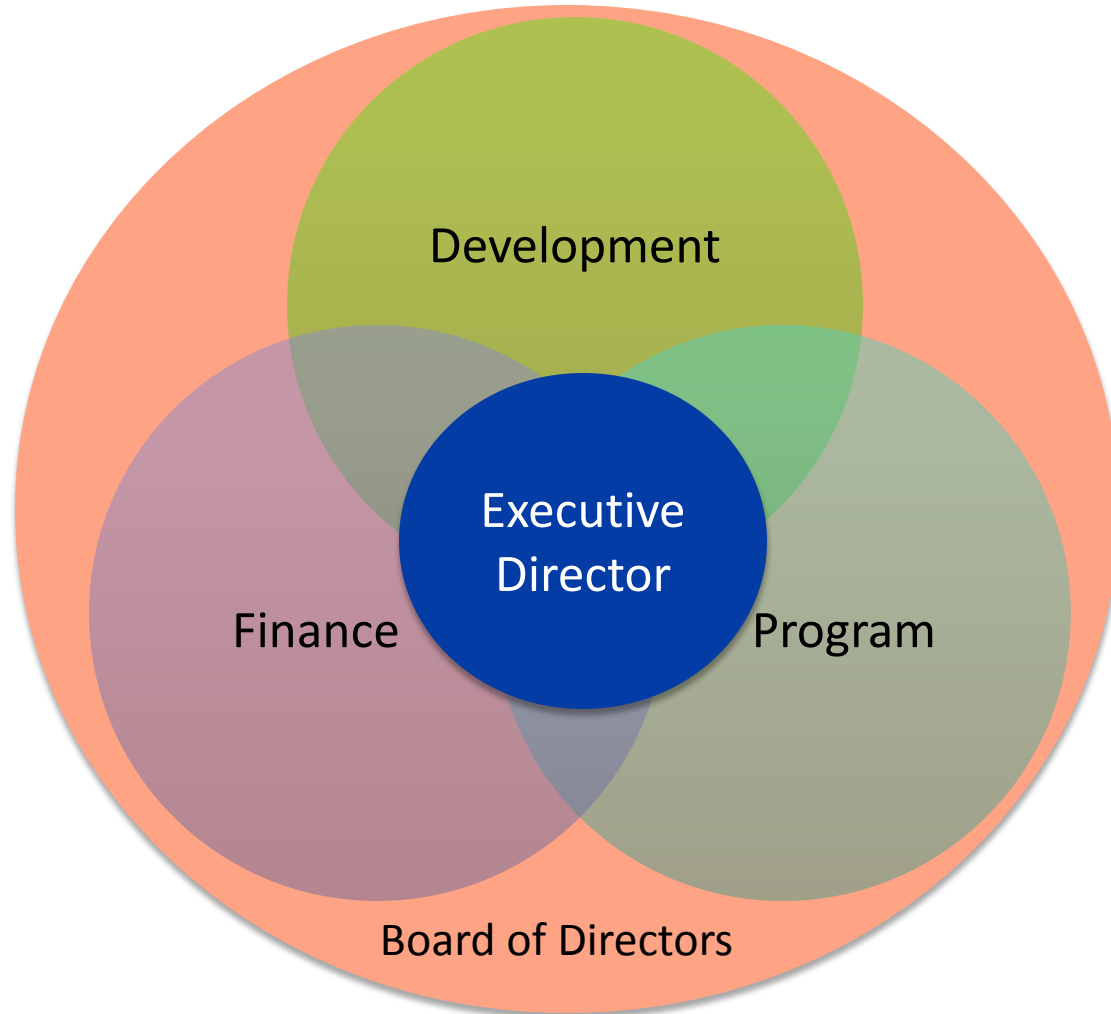
## Monitoring

- Monitoring progress **throughout** the time period covered by the budget
- Pointing out **significant variances** between the financial goals and how resources are actually being used
- Taking **corrective action** as problems arise

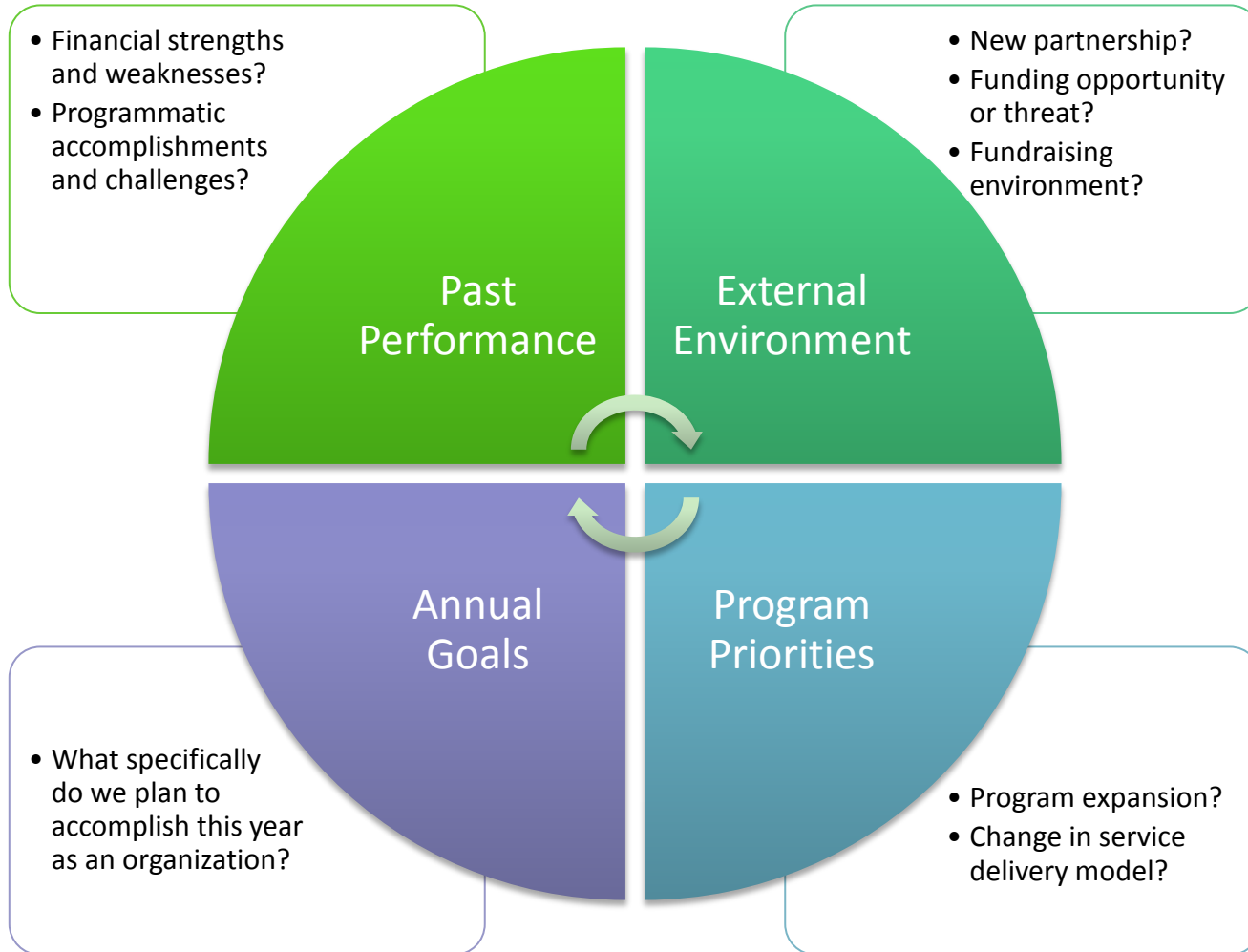


# Budget Basics: Inclusive Process

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# Budget Basics: Context and Goals



# Budget Basics: Focus on Net Result

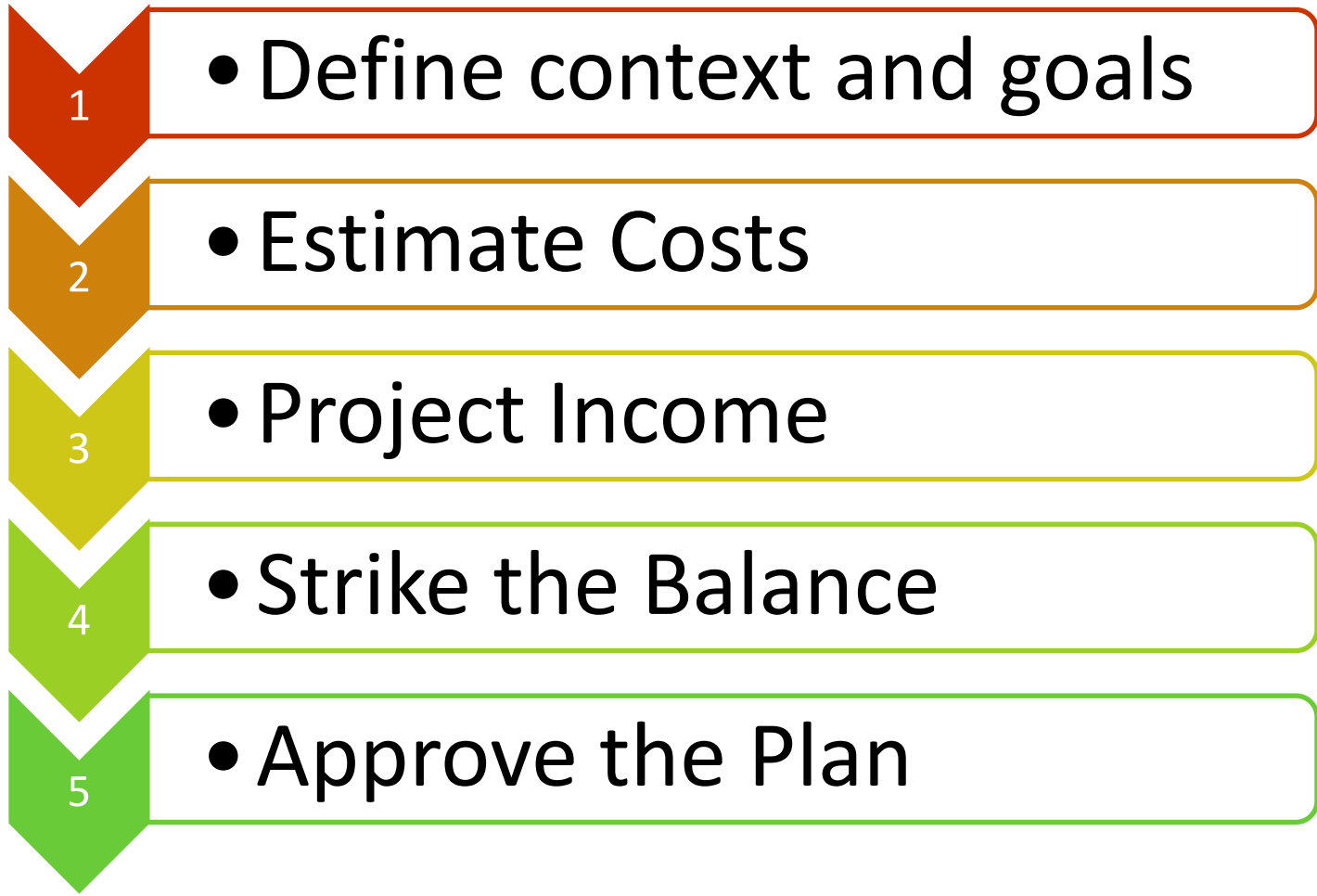
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Ultimately, a budget plans for one of 3 outcomes:



# Budget Basics: Stages of Planning Process

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# Budget Basics: Uniform Structure

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- Uniform structure based on Chart of Accounts
- Organizational, program, and funder level
- Income and expense by functional activities

<b>Program</b>	Costs resulting in distributing goods and services to clients and fulfilling the mission of the organization.
<b>Admin</b>	Costs such as governance, finance and accounting, legal, and executive management.
<b>Fundraising</b>	Costs associated with soliciting contributions.

# Sample Budget

As of June 15, 2012

	Program Activities		Supporting Activities		Common Costs	Total 2012-13
	Shelter Services	Support Groups	Admin-istration	Fund-raising		
Contributed support	-	-	-	340,000	-	340,000
Earned revenue	815,009	-	10,000	-	-	825,009
Released from restriction	-	445,000		5,000	-	450,000
<b>Total income</b>	<b>815,009</b>	<b>445,000</b>	<b>10,000</b>	<b>345,000</b>	<b>-</b>	<b>1,615,009</b>
Personnel expenses	329,852	214,881	117,365	127,339	179,161	968,598
Non-personnel expenses	291,750	54,300	28,100	19,750	224,113	618,013
<b>Total specific costs</b>	<b>621,602</b>	<b>269,181</b>	<b>145,465</b>	<b>147,089</b>	<b>403,274</b>	<b>1,586,611</b>
Allocation of common costs	<del>181,473</del>	<del>125,015</del>	<del>44,360</del>	<del>52,426</del>	(403,274)	-
Allocation of admin costs	<del>109,139</del>	<del>53,572</del>	(189,825)	<del>27,114</del>	-	-
<b>Total expenses</b>	<b>912,215</b>	<b>447,768</b>	<b>-</b>	<b>226,629</b>	<b>-</b>	<b>1,586,611</b>
<b>Change in net assets</b>	<b>(97,206)</b>	<b>(2,768)</b>	<b>10,000</b>	<b>118,371</b>	<b>-</b>	<b>28,398</b>

# Cash Flow Projections

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Cash flow projections focus on the **timing of cash receipts and reimbursements** and help prepare the organization to meet its obligations.



Why do we need a cash flow projection in addition to a budget?

# Sample Cash Flow Projection

<i>As of June 3, 2012</i>					
	<i>Total Budget</i>	<i>Q1 July-Sept</i>	<i>Q2 Oct-Dec</i>	<i>Q3 Jan-Mar</i>	<i>Q4 Apr-June</i>
<i>Opening Cash Balance</i>	175,000	175,000	49,125	121,100	148,896
<i>Fundraising</i>	415,000	100,000	215,000	50,000	50,000
<i>Foundation grants</i>	1,010,000	25,000	300,000	350,000	335,000
<i>Government contracts</i>	815,009	125,009	530,000	75,000	85,000
<i>Interest and dividends</i>	10,000	2,500	2,500	2,500	2,500
<i>Total Inflows</i>	2,250,009	252,509	1,047,500	477,500	472,500
<i>Personnel</i>	968,598	242,148	242,150	242,150	242,150
<i>Operating</i>	843,013	228,946	205,875	205,054	203,138
<i>Capital</i>	29,790	29,790	-	-	-
<i>Total Outflows</i>	1,841,401	500,884	448,025	447,204	445,288
<i>Cash Available</i>	583,608	(73,375)	648,600	151,396	176,108
<i>From (To) Line of Credit</i>	0	125,000	(125,000)	-	-
<i>From (To) Investments</i>	(410,000)	(2,500)	(402,500)	(2,500)	(2,500)
<i>Closing Cash Balance</i>	173,608	49,125	121,100	148,896	173,608
<i>Beginning Investments</i>	105,000	105,000	107,500	510,000	512,500
<i>Ending Investments</i>	515,000	107,500	510,000	512,500	515,000

# Related Compliance Form Boxes

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1. Agency-wide Budget (items in red are new this year)
  - a. Current (fiscal or calendar year)
  - b. Shows income and expense by program and funding source
  - c. Shows allocation of shared and indirect costs by program
  - d. Shows fundraising separate from program expense
  - e. Clearly identifies revenue sources (City, state federal)
  - f. 15% of funding from non-City sources or contractor can demonstrate non-City fundraising efforts
  - g. Annual cash flow projection (pilot)

# Cost Allocation Basics

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- ✓ Cost allocation is the process by which a nonprofit **distributes shared costs across programs and administration.**
- ✓ Cost allocation is important because it **helps a nonprofit to capture the true cost** of their activities and fairly allocate overhead costs.
- ✓ The City's cost allocation guidelines for nonprofit contractors largely follow those described by **Generally Accepted Accounting Principles (GAAP)** and in **Federal OMB Circular A-122.**



# The Allocation Process

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Is the process...

- **Reasonable:** Does the methodology reflect the actual use of resources considering the type of activity and costs?
- **Documented:** Is there a written narrative or clear footnotes on the agency's budget to explain the methodology?
- **Consistently Applied:** Is the allocation methodology applied consistently throughout the organization and over the course of the fiscal year?

# The Allocation Process

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<b>Program</b>	Costs resulting in distributing goods and services to clients and fulfilling the mission of the organization.
<b>Admin</b>	Costs such as governance, finance and accounting, legal, and executive management.
<b>Fundraising</b>	Costs associated with soliciting contributions.



# The Allocation Process



Program	Admin	Fundraising
Program Director Client stipends Program materials	Finance Director Audit expense Board meeting expenses	Development Director Postage for direct mail Event venue expense

**Shared Costs** are not easily attributed to a specific function

# The Language of Cost Categorization



Cost Categorization	Possible Audience
Program vs. Supporting	IRS / Audited Financials Watchdog Agencies Donors
Specific vs. Shared	Internal management Auditors
Direct vs. Indirect	Funders: Foundations and Government contracts

# The Language of Cost Categorization

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**Direct Costs:** Costs that are clearly and easily attributable to a specific program or activity (or specific programs or activities, e.g. when a staff person's time is clearly allocated to multiple programs)

**Shared Costs:** Costs that are necessary to the operation of all programs or activities, which can be prorated using a basis that reasonably measures the benefits provided to each activity

**Indirect Costs:** Costs that are necessary to the overall operation of an organization, but the benefits can't be traced to a particular program, for example, finance and governance

# The Language of Cost Categorization

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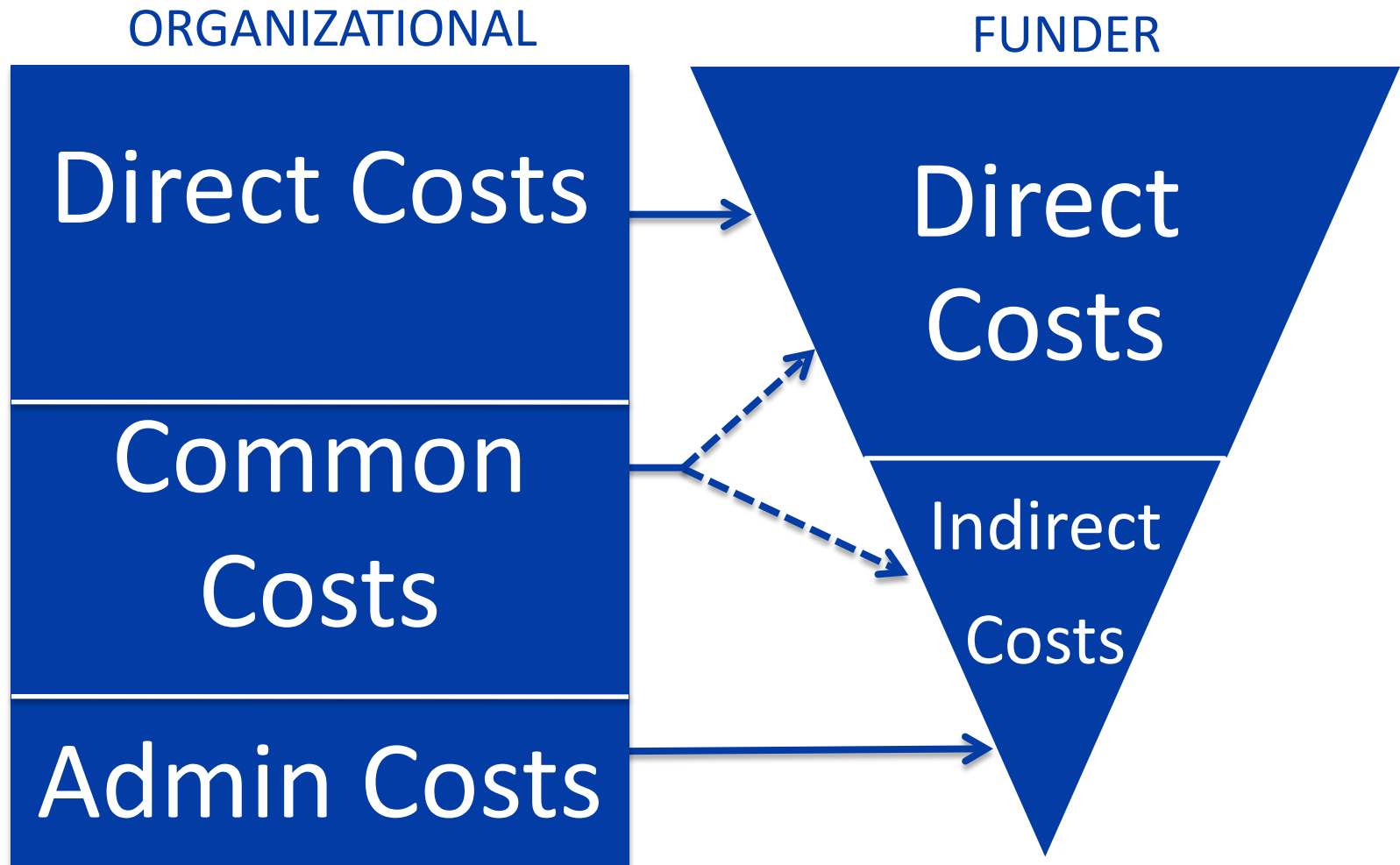
*For the City and County of San Francisco and other funders, there are only two types of costs in Contractor budgets: Direct and Indirect.*

*The direct costs may include items that the nonprofit would define as “shared costs” as well as their definition of “direct costs.”*

*The indirect costs would most likely include some items that the nonprofit defines as “shared costs” as well.*

# The Language of Cost Categorization

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# The Allocation Process

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1. Determine allocation rate(s)
2. Decide how to apply

# The Allocation Process



## Frequently used cost allocation rates

<b>FTE</b>	$\frac{\text{FTE for Each Activity}}{\text{Total FTE} - \text{Shared Cost FTE}}$
<b>Payroll Expense</b>	$\frac{\text{Payroll Expense for Each Activity}}{\text{Total Payroll} - \text{Shared Cost Payroll}}$
<b>Square Footage</b>	$\frac{\text{Square Footage for Each Activity}}{\text{Total Agency Square Footage}}$
<b>Specific Expense</b>	$\frac{\text{Specific Expenses for Each Activity}}{\text{Total Specific Expenses for the Agency}}$

# The Allocation Process

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The **Line by Line Method** is when an organization determines a different rate of usage for each line item, or groups of line items, and allocates each line individually.



# The Allocation Process

## Line by Line Allocation

	A	B	C	D = B X C	E = A + D
	Meal Delivery Specific	Total Shared	Allocation Basis	Meal Delivery's Portion of Shared	Meal Delivery Direct Plus Shared
Salaries	195,000	45,000	52.78% of FTE's	23,750	218,750
Benefits	48,750	11,250	52.78% of FTE's	5,938	54,688
<b>Personnel expense</b>	<b>243,750</b>	<b>56,250</b>		<b>29,688</b>	<b>273,438</b>
Supplies	25,000	11,000	52.78% of FTE's	5,806	30,806
Telephone	-	21,000	33.33% of telephones	7,000	7,000
Postage	-	18,000	18.50% of meter usage	3,330	3,330
Occupancy	-	78,000	65.00% of square footage	50,700	50,700
Equipment	55,000	2,000	48.00% of copier usage	960	55,960
Printing	10,000	-		-	10,000
Travel	3,750	-		-	3,750
Depreciation	-	10,000	40.00% of computers	4,000	4,000
Training	2,500	-		-	2,500
<b>Non-personnel expense</b>	<b>96,250</b>	<b>140,000</b>		<b>71,796</b>	<b>168,046</b>
<b>Total expenses</b>	<b>340,000</b>	<b>196,250</b>		<b>101,483</b>	<b>441,483</b>

# The Allocation Process

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The **Bottom Line Method** is when an organization groups all shared costs together and uses one allocation rate to allocate the total.

# The Allocation Process

## Bottom Line Allocation

	<i>Program Activities</i>		<i>Supporting Activities</i>		Common	Total
	Meal Delivery	Nutrition Education	Admin	Fund-raising		
Salaries	195,000	115,000	32,500	35,000	45,000	422,500
Benefits	48,750	28,750	8,125	8,750	11,250	105,625
<b>Personnel expense</b>	<b>243,750</b>	<b>143,750</b>	<b>40,625</b>	<b>43,750</b>	<b>56,250</b>	<b>528,125</b>
Supplies	25,000	15,000	-	2,500	11,000	53,500
Telephone	-	-	-	-	21,000	21,000
Postage	-	-	-	-	18,000	18,000
Occupancy	-	-	-	-	78,000	78,000
Equipment	55,000	-	-	-	2,000	57,000
Printing	10,000	10,000	-	2,500	-	22,500
Travel	3,750	1,500	500	1,500	-	7,250
Depreciation	-	-	-	-	10,000	10,000
Training	2,500	1,500	500	1,500	-	6,000
<b>Non-personnel expense</b>	<b>96,250</b>	<b>28,000</b>	<b>1,000</b>	<b>8,000</b>	<b>140,000</b>	<b>273,250</b>
<b>Total specific costs</b>	<b>340,000</b>	<b>171,750</b>	<b>41,625</b>	<b>51,750</b>	<b>196,250</b>	<b>801,375</b>
Allocation rate	52.78%	30.56%	8.33%	8.33%	-100.00%	0.00%
Allocation of common costs	<del>103,576</del>	<del>59,965</del>	<del>16,354</del>	<del>16,354</del>	(196,250)	-
<b>Total expenses</b>	<b>443,576</b>	<b>231,715</b>	<b>57,979</b>	<b>68,104</b>	-	<b>801,375</b>

# The Allocation Process

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Shared costs are allocated either:

- At the transaction level, as each invoice is entered
- As part of the month-end close, by journal entry

# Exercise



Domestic Violence Service Agency  
FY 12-13 Annual Budget - Expenses

	<i>Shelter Services</i>	<i>Support Groups</i>	<i>Admin</i>	<i>Fund-raising</i>	<i>Common Costs</i>	<i>Total 2012-13</i>
<i>Personnel expenses</i>	329,852	214,881	117,365	127,339	179,161	968,598
<i>Non-personnel expenses</i>	416,750	129,300	28,100	44,750	224,113	843,013
<i>Total specific costs</i>	746,602	344,181	145,465	172,089	403,274	1,811,611

- FTE basis for shared costs
- Bottom-line method

# Exercise



Domestic Violence Service Agency  
 FY 12-13 Annual Budget - Expenses

	Shelter Services	Support Groups	Admin	Fund-raising	Common Costs	Total 2012-13
Personnel expenses	329,852	214,881	117,365	127,339	179,161	968,598
Non-personnel expenses	416,750	129,300	28,100	44,750	224,113	843,013
Total specific costs	746,602	344,181	145,465	172,089	403,274	1,811,611
% of FTE's	45%	31%	11%	13%	100%	0%
Allocation of common costs	← 181,473	125,015	44,360	52,426	(403,274)	-
Expenses before admin costs	928,075	469,196	189,825	224,514	-	1,811,611

# The Allocation Process

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Allocating administrative costs is:

- Not required by GAAP or for the 990
- Critical for understanding full program costs and cost recovery efforts
- Most commonly based on expenses for each program area

# Exercise

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## Calculation for administrative allocations

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$$\frac{\text{Total Activity Expenses}}{\text{Total Expenses} - \text{Admin Expenses}} = \% \text{ of direct costs}$$



# Exercise



## Domestic Violence Service Agency FY 12-13 Annual Budget - Expenses

	Shelter Services	Support Groups	Admin	Fund-raising	Common Costs	Total 2012-13
Personnel expenses	329,852	214,881	117,365	127,339	179,161	968,598
Non-personnel expenses	416,750	129,300	28,100	44,750	224,113	843,013
Total specific costs	746,602	344,181	145,465	172,089	403,274	1,811,611
% of FTE's	45%	31%	11%	13%	-100%	0%
Allocation of common costs	181,473	125,015	44,360	52,426	(403,274)	-
Expenses before admin costs	928,075	469,196	189,825	224,514	-	1,811,611
% of direct costs	57%	29%	-100%	14%	0%	(0)
Allocation of admin costs	← 108,200	55,049	(189,825)	26,576 →	-	(0)
Total expenses	1,036,276	524,245	-	251,090	-	1,811,611

# Related Compliance Form Boxes

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## 2. Cost Allocation Procedures

- a. Process for cost allocation procedures and plan for shared costs is documented in a written narrative or in the footnotes of the current approved agency-wide budget
- b. Process for allocating shared program costs is consistent and reasonable
- c. Process for cost allocation procedures and plan for indirect costs is documented in a written narrative or in the footnotes of the current approved agency-wide budget
- d. Process for allocating indirect costs is consistent and reasonable
- e. **Procedures for cost allocation match actual cost allocation found in agency-wide budget and financial documents**

# Allocation to Funding Source

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- Allocation of program expenses to the funding source is often calculated based on the relative contract amount and/or specific provisions around allowable costs within the contract.
- As long as it is reasonable, allocation to funding source does not need to be done by FTE or similar basis.

# Monitoring Form Updates

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## 3. Audited Financial Statements As Applicable (Per Departmental Requirements)

### *For All Organizations:*

- a. Complete: all sections and statements included; opinion and other audit letters are signed
- b. Unqualified opinion
- c. Filed within six months of the close of the contractor's fiscal year (pilot)

# Monitoring Form Updates

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## 3. Audited Financial Statements As Applicable (Per Departmental Requirements)

### *Statement of Cash Flows:*

- i. Total change in cash is positive for 3 consecutive years  
or agency has a reasonable explanation and/or plan to  
reverse cash outflow (pilot)
- j. Cash flow from operations is positive [best practice only]
- k. Agency has at least 60 days of operating cash  
[best practice only]

# Monitoring Form Updates

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## 5. Fiscal Policies & Procedures

- a. Current (reflect prior site visit or audit recommendations)

Policies and Procedures contain the following in writing AND contractor determines the compliance per the attached checklist

# Monitoring Form Updates

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## 6. Financial Reports

### Balance Sheet (a.k.a. Statement of Financial Position):

- a. Current (as of the last four months, at least)
- b. Working capital ratio is greater than 1**
- c. Current bank reconciliation (as of the last four months, at least)

# Monitoring Form Updates

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## 8. Payroll (timesheets)

- d. Employee & supervisor signatures on timesheets in ink (e-timesheets are acceptable **with demonstration or verification of e-signature, or written procedures about how e-timesheets are signed**)
- e. All changes to timesheet are initialed by supervisor and employee in ink (e-timesheets are acceptable **with demonstration or verification of the approval process for changes, or written procedures about how e-timesheets are changed**)



## Other Resources . . .

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- **Controller's Website:**  
<http://www.sfcontroller.org/nonprofits>
- **CompassPoint Workshops:**  
<http://www.compasspoint.org/workshops>
- **Nonprofit Finance Fund:**  
<http://www.nonprofitfinancefund.org>
- ***Financial Leadership for Nonprofit Executives***  
*by Jeanne Bell and Elizabeth Schaffer*

# Contact Information

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