

Fundamentals of Network Forecasting

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The Center's Purpose

The National Rural Health Resource Center (The Center) is a nonprofit organization dedicated to sustaining and improving health care in rural communities. As the nation's leading technical assistance and knowledge center in rural health, The Center focuses on five core areas:

- Performance Improvement
- Health Information Technology
- Recruitment & Retention
- Community Health Assessments
- Networking

Learning Objectives

- Provide definitions and guidance on developing a financial forecast
- Identify common network expenses and revenues
- Review an excel spreadsheet for use of presentation attendees
- Discover ways to implement and use the excel spreadsheet
 - Include multiple revenue streams
 - Include multiple expenses

We have to start somewhere!



Forecasting 101

- What is a financial forecast?
 - A forecast is a prediction about a condition or situation at some future time.
- It is important to engage in the gathering of financial information to provide key data needed for the design of a precise budget and forecast.
- The new dynamic is changing and it is essential to utilize the traditional tools in the forecasting process (i.e. spreadsheets, budget systems, etc.)

Forecasting 101

- Financial planning is a continuous process of directing and allocating financial resources to meet strategic goals and objectives. The output from financial planning takes the form of budgets.
- All organizations need to start off with a plan that clearly identifies their long-term objectives. A strong financial forecast gives nonprofits an opportunity to see what they need to do in the present to keep the organization running, and provides insights into components that could be added down the line to improve processes.

Basic Terms: Financial Health

The ability to financially continue ongoing operations.

1. Revenue and expenses must be in balance
2. Adequate Resources
3. The organization must be able to replenish or renew itself

Basic Terms: Revenue and Expenses

- Revenues and expenses must be in balance.
- At a minimum, revenue should match expenses. This is referred to as “break-even”.
- The standard measure of profitability is margin: $\frac{\text{Revenue} - \text{Expenses}}{\text{Revenues}}$

Revenues

Basic Terms: Revenue and Expenses (cont.)

- Total Margin:
$$\frac{(\text{Total revenue from all sources} - \text{Total expenses})}{\text{Total revenue from all sources}}$$
- Margin is defined as a portion of revenues.

Where are we headed?



Forecasting Pitfalls

- **Lack of a clear strategic plan** — For a budget forecast to be successful, there must be a strategic plan which supports the organization's vision. In the absence of a strategic plan, resources will be spent without a clear vision of the organization's development needs.
- **Absence of a contingency plan** — The budget for a nonprofit organization should always be flexible and contain a contingency plan to account for unanticipated variances or better than expected results. Very frequently, a contingency plan is absent and the accuracy of the budget is compromised.

Forecasting Pitfalls

- **Lack of cash forecast** — One of the key elements in nonprofit financial management is cash forecasting. Organizations are hindered in making sound management decisions without an updated forecast of forthcoming cash inflows, outflows, and the resulting cash position.
- **Lack of board approval** — The governing board, executive director, or head of the organization should approve the budget and keep current with budget performance. The absence of board and management approvals will preclude proper monitoring of the budget performance, understanding of the organization's expenditures, and proper safeguards against misappropriation of funds or employee fraud.

Problems with Budgets and Forecasting

- Takes too long to prepare.
- Doesn't help us run our business.
- Budgets are out-of-date by the time we get them.
- Too much playing with the numbers.
- Too many iterations / repetitive tasks within the process.

Problems with Budgets and Forecasting (cont.)

- Budgets are cast in stone in a constantly changing business environment.
- Too many people are involved in the budgeting process.
- Unable to control budget allocations.
- By the time budgets are complete, I don't recognize the numbers.
- Budgets do not match the strategic goals and objectives of the organization.

We have to get in the race!



Forecasting Best Practices

Finally, here are some best practices that can transform budgeting into a value-added activity:

1. Budgeting must be linked to strategic planning since strategic decisions usually have financial implications.
2. Make budgeting procedures part of strategic planning. For example, strategic assessments should include historical trends, competitive analysis, and other procedures that might otherwise take place within the budgeting process.

Forecasting Best Practices (cont.)

3. The Budgeting Process should minimize the time spent collecting and gathering data and spend more time generating information for strategic decision making.
4. Get agreement on summary budgets before you spend time preparing detail budgets.
5. Automate the collection and consolidation of budgets within the entire organization. Users should have access to budgeting systems for easy updating.
6. Budgets need to accept changes quickly and easily. Budgeting should be a continuous process that encourages alternative thinking.



Summary

Budgeting should be flexible, allowing modification when something changes. For example, the following will impact budgeting:

- Life cycle of the business
- Financial conditions of the business
- General economic conditions
- Competitive situation
- Technology trends
- Availability of resources

Summary

- Financial Planning is a continuous process that flows with strategic decision making.
- The Operating Plan and the Financial Plan will both support the Strategic Plan.

Warning/Reality Check

- The path will be difficult and not all will want to go
- There will be frustration and growing pains

Conclusion

- As with any other aspects of managing an organization, the budgeting process needs to be driven by the vision of the organization and its strategic plan.
- Organizations that stay focused on their strategic plan know exactly where they can spend their resources and keep them from spending them in areas that do not line up with the vision. In addition, it is critical to consider the current economic environment and the sustainability of the funding from the current sources.
- Other than having a strategic plan and business goals, building an efficient budget includes having revenue projections, fixed and variable cost projections, annual goal expenses, board approval and budget reviews.

Forecasting Success

1. Don't get overwhelmed
2. Network with others
3. Utilize NRHRC staff and resources
4. Take it one step at a time

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