

Financial Management for NonProfit Organizations

2014-02-23

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- 5 meetings + 1 exam (test)
- Next meeting:
- Reading material: <http://skroc.pl/fmno1> | <http://skroc.pl/fmno2>
<http://www.swlearning.com/finance/brigham/theory10e/resources/brig-fm10-WebCh30-r1.pdf>
http://www.swlearning.com/finance/brigham/theory11e/web_chapters/bri59689_ch30_web.pdf
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- PDF1:
http://www.swlearning.com/finance/brigham/theory11e/web_chapters/bri59689_ch30_web.pdf
- PDF2: <http://www.swlearning.com/finance/brigham/theory10e/resources/brig-fm10-WebCh30-r1.pdf>

The financial aim of nonprofit financial management?

- The best realization of the mission measured by maximization of stakeholders profits (both social and financial):

$$\Delta V = \sum \frac{FCF_n}{(1 + CC)^n} + \sum \frac{SV_n}{(1 + CC)^n}$$

- First: how we calculate realization of the general aim in for-profit financial management?

10 steps to Value

- 1) CR
- 2) Operating Cycle
- 3) Assets
- 4) AP
- 5) Capital invested
- 6) Capital structure
- 7) FCF forecasting
- 8) IRR
- 9) Cost of Capital (CC)
- 10) $\Delta SV = \Delta \text{social value}$

NonProfit Finance cases:

- Hospital / Medical service
- School (of something: primary, cooking, musical etc.)
- Religion based home of help (ex-drunks, ex-addicts, orphanages, etc.)
- Donation based WOŚP etc.
- Commune businesses: water-supply institutions
-

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CASE1: Hospital / Medical service

- Small nonprofit anticancer service want to buy X-ray machine (48000 Euros) for mammography. Economical time of life for such kinds of engines is 6 years.
- According to forecasts it could serve up to 2100 patients monthly, and they will pay 4 Euros for one scan. The rest of the payment (10 Euros for one scan) will be paid by local government.
- Fixed Costs: room with one clerck (300 euros/month), diagnostician (2000 Euros monthly), service/repair: 2 times by year (350 Euros) | Variable Costs: Energy, plates and other materials (1Euro per scan).
- 20000 will be covered by debt ($k_d=8\%$), the rest: equity (unleveraged beta = 0.72) [http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/Betas.html]
- NWC: 20% of CR
- Number of patients:

Year: 200X | 200X+1 | 200X+2 | 200X+3 | 200X+4 | 200X+5 | 200X+6 | 200X+7 | 200X+8..n |

Q: 20000 | 18000 | 20000 | 23000 | 24500 | 24000 | 25200 | 25000 | 25000 |