

Outline

- I. Introduction to shelter economics
- II. Financial Statements
 - Balance Sheet
 - Income Statement
 - Cash Flow Statement
- III. Risk
 - Major sources of risk
- IV. Framing shelter decision making
- V. Scenario Analysis
 - Example Scenario

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Shelter Management 

Strategic Management The process of charting the overall long-term course of the firm	Tactical Management The process of making and implementing short-term decisions that keep the firm moving towards its long-term goals
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**AN INTRODUCTION TO
SHELTER ECONOMICS**

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Key Points

Fixed Costs/Expenses

Variable Costs/Expenses

Revenue/Income Streams

- Directly related to animals saved
- Not directly related to animals saved

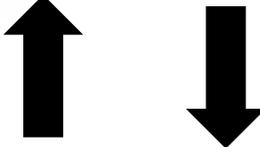


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Always TWO ways to improve

Profit = Revenue - Cost



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Costs/Expenses

Fixed

Ownership (or fixed or indirect) costs
= costs that arise from owning buildings or land (or other long-term assets).

*Arise from owning assets and would exist even if they weren't used to produce in this enterprise.

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A Note on Fixed Costs

***Difficult to assign on an enterprise budget ***

- Often appropriate and necessary but not tied to any enterprise (legal and accounting fees)
- Often prorated and spread across enterprises
- Sometimes charged to enterprises based on that enterprise's share of either shelter's total variable costs or total gross revenue
- Think overhead!

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Costs/Expenses

Variable

Operating (or variable or direct) costs
= arise from the actual operation of the enterprise.

*** Would not exist if you did not operate.

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Revenue/Income

Adoption fees
→ Tied to number of lives saved.

Donations
→ Not directly tied to number of lives saved.

Sales of goods
→ Not directly tied to number of lives saved.

Fundraising events
→ Not directly tied to number of lives saved.

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**How do I organize
all of this and make it USEFUL?**

Enterprise Budget!

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Enterprise Budget

An organization of revenues, expenses, and profit (net income) for a single enterprise

Each "business unit" or type of animal is an enterprise

BASE UNIT for an enterprise budget is generally a single unit of production

- Per dog
- Per cat
- Per kitten
- Per puppy

21

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Enterprise Budget

BASE UNIT for an enterprise budget is generally a single unit of production

- Per dog
- Per cat
- Per kitten
- Per puppy

Sometimes another unit makes sense, i.e. a room in your shelter; a group of 30 kittens

22



Enterprise Budget

You **MAY** have multiple budgets per enterprise with different assumptions of production (or yield)

i.e.: you may have a budget for "fast track" kittens and a separate budget for other kittens

Using common units (i.e. per kitten) permits comparison across budgets

23



Uses of Enterprise Budgets

Helps identify most profitable enterprises to be included in the whole shelter plan

They require a lot of data – but – once completed ... are a good source of data for:

- other budgeting exercises
- decision making

In order to show *economic profit* must include opportunity costs to unpaid factors

24



Opportunity Cost

- The cost of using a resource that could be used elsewhere.
- The earnings from that resource in that best *alternate* use.
- To use a resource, it costs you what you could sell it for, not what you paid for it.



25

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What is opportunity cost?

Technically, we will define it in one of two ways:

1. The income that could have been generated by selling or renting the input to someone else,

OR

2. The additional income that would have been received if the input had been used in its most profitable alternative use.

Why is this important?

26

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***Bottom Line:
Enterprise Budgets***

Receipts
– operating costs (variable)
– ownership costs (fixed)

= accounting profit (net income)
– opportunity cost of unpaids (labor, mgt, capital)

= economic profit

27

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What's going on here?

To increase lives saved ... you drive up Total Variable Cost!

Thus, you MUST understand what your variable costs are, relative to your revenue generated.

- Does a puppy, on average, generate more or less in income that it costs to save?

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FINANCIAL MANAGEMENT & FINANCIAL STATEMENTS

Financial Management

- Sound financial management is *necessary* in order to enable the operation to continue



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Back to the Basics: Business Management

Borrowing from farm business management ...

3 business financial statements:

1. Balance Sheet
2. Income Statement
3. Cash Flow Statement

Let's focus on the concepts and what we can gain from each ...

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Balance Sheet

= a financial report summarizing the assets, liabilities, and equity (net worth) of an entity at a given point in time

What do you own?

What do you owe?

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Risk

- Financial
- Regulatory
- Human resource
 - Hired, volunteer, management
- Legal
- Production

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Consider ...

Demand	Supply
<ul style="list-style-type: none">- General economy<ul style="list-style-type: none">- Demand for pets- Ability to pay for pet care- Location, location, location- Adoption fees- Seasonality- Awareness- Segmentation of market	<ul style="list-style-type: none">- General economy<ul style="list-style-type: none">- Ability to pay for pet care- Location, location, location- Costs!<ul style="list-style-type: none">- Vaccines- Food- Veterinary Care- Interest rates, capital availability- Seasonality

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Partial Budgets

- A process of examining those costs, income and resources that change with a proposed adjustment
- Compares profitability of alternatives under consideration
- Emphasis only on the expected *changes* in revenues and costs
- Isolates the effects of proposed changes

Decision-Making! Decision-Making!



Partial Budget Development

1. Identify goals and option to be investigated
2. Identify revenues and expenses to consider
3. Estimate revenue and expense changes
4. Associate changes with a positive or negative impact on the business
5. Perform sensitivity analysis for key factors/assumptions
6. Review outcome in a "whole" operation perspective



Evaluating Management Changes

- + Additions due to Management Changes
(increased revenues and decreased expenses)
- Subtractions due to Management Changes
(decreased revenues and increased expenses)
- = Net Change to Enterprise



Format

A. Increased Revenue	C. Decreased Revenue
B. Decreased Expense	D. Increased Expense
Net effect = (A+B) - (C+D)	

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Recent Project: Shelter Financial Analysis

Recent Project:

- Adoption strategies used in animal shelters can have a large impact on the total number of adoptions and donations that take place.
- Reducing adoption fees during peak kitten or puppy season is one way to reduce inventories and increase the number of open space to save more lives, but does not necessarily increase the financial well-being of the shelter if the per-animal costs exceed the revenues generated.

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Additional Notes: