

Financial Projections: Why, When, and How

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Agenda

- What are Projections?
- Why are Projections Important?
- When in a Project Lifecycle are Projections Most Useful?
- How Do You Prepare Projections?
- Case Study
- Wrap up
- Questions

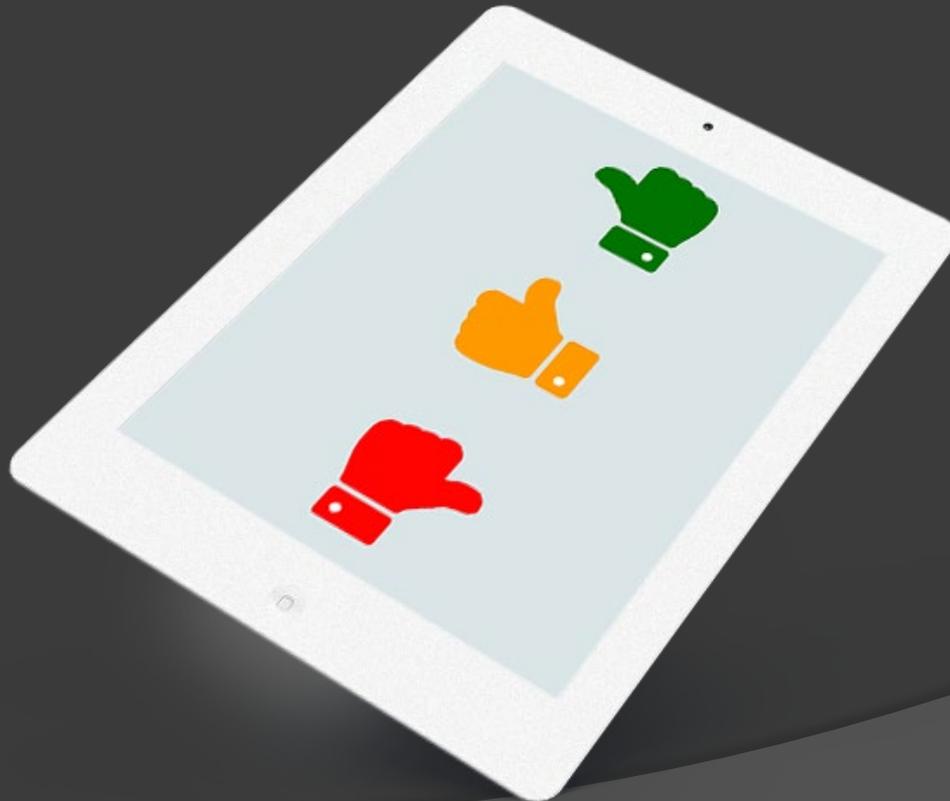


What Are Projections?



What Are Projections?

What are projections?



What Are Projections?

A future **prediction** of **estimated** financial results based on the **qualitative** and **quantitative** data.

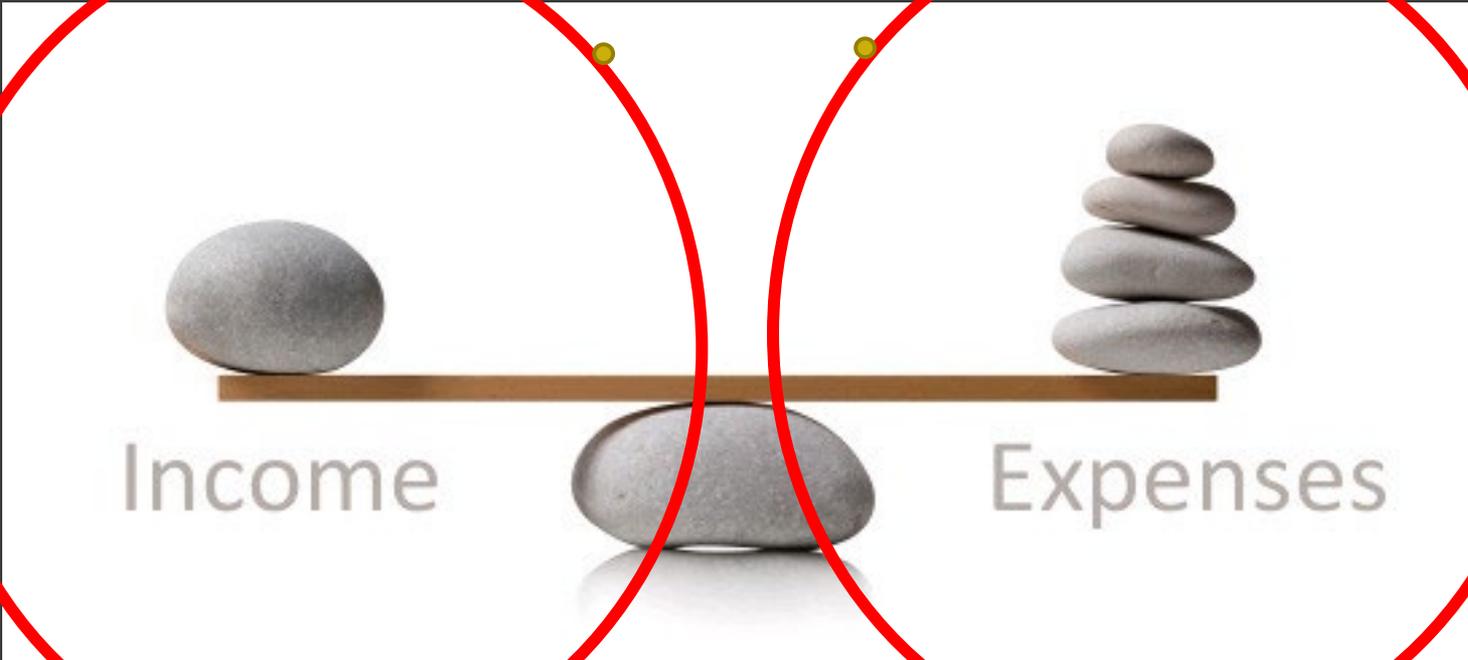


ns?

- Personnel costs
- Materials & supplies

- Clinical trial patients
- Sponsor budget

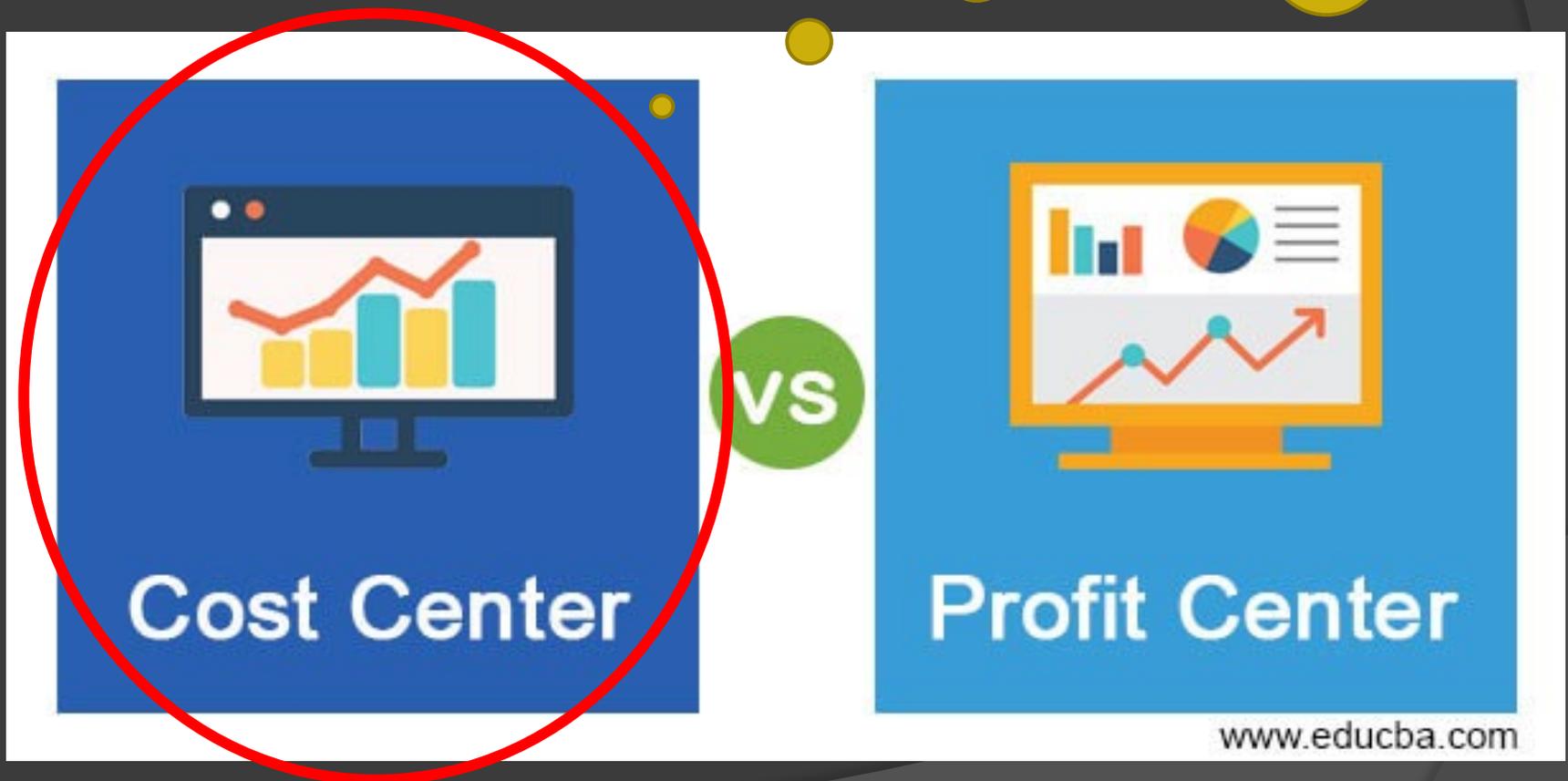
- Income vs. Expenditures



What Are Projections?

- Cost-Center vs. Profit Center

Focus today
on **grant**
projections,
fixed
revenues

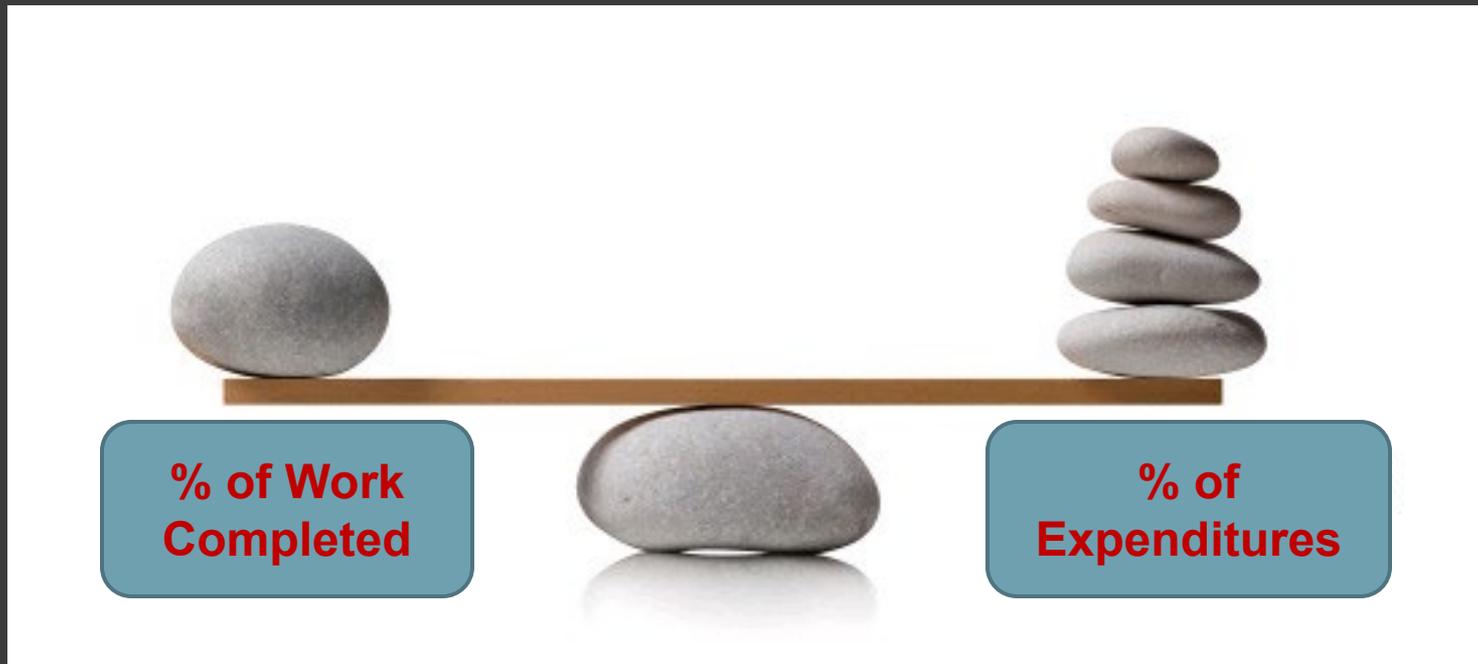


Why Are Projections Important?

Why are projections important?



Why Are Projections Important?



Why Are Projections Important

- Anticipates Problems
- Guides Spending Controls that Need to Occur
- Helps to Prepare for Project Close-Out

When Are Projections Most Useful?

When are projections most useful?



When Are Projections Most Useful?



When Are Projections Most Useful?

- Project Set-up
 - Appointing more FTEs than budgeted
 - Appointing personnel with higher salaries than budgeted
 - Lower budget awarded than budgeted
 - **Lower patient population available than expected**

When Are Projections Most Useful?

- Manage Project
 - Lab supply or animal costs increase
 - Equipment is more expensive than budgeted
 - Employee promotion occurs
 - Unexpected equipment costs
 - **Unexpected delays or acceleration in the research**



May Require
Sponsor
Approval

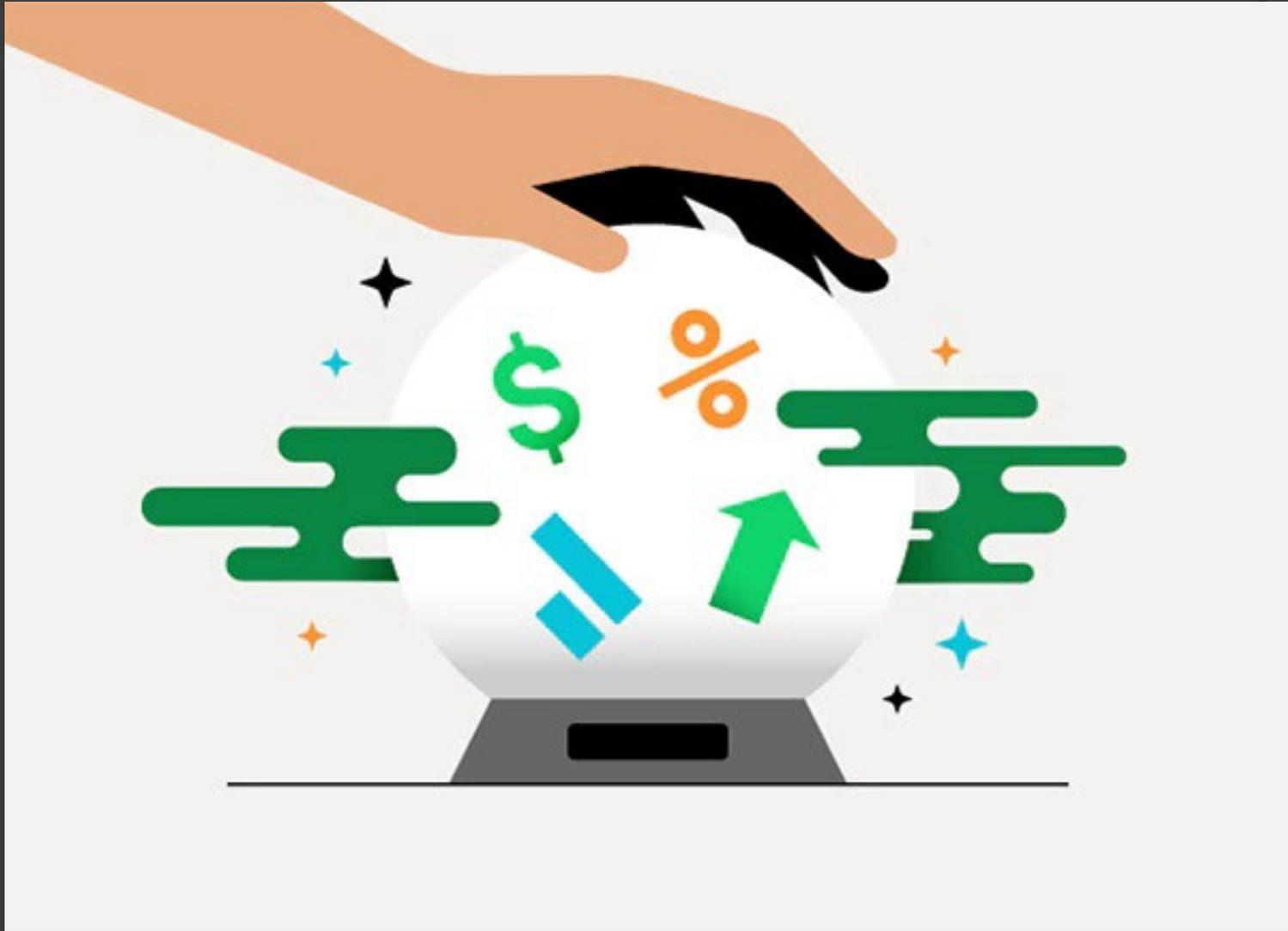
When Are Projections Most Useful?

- End of Budget Year
 - Anticipated remaining funds for progress report
 - Evaluating carry-forward funds for next budget year

When Are Projections Most Useful?

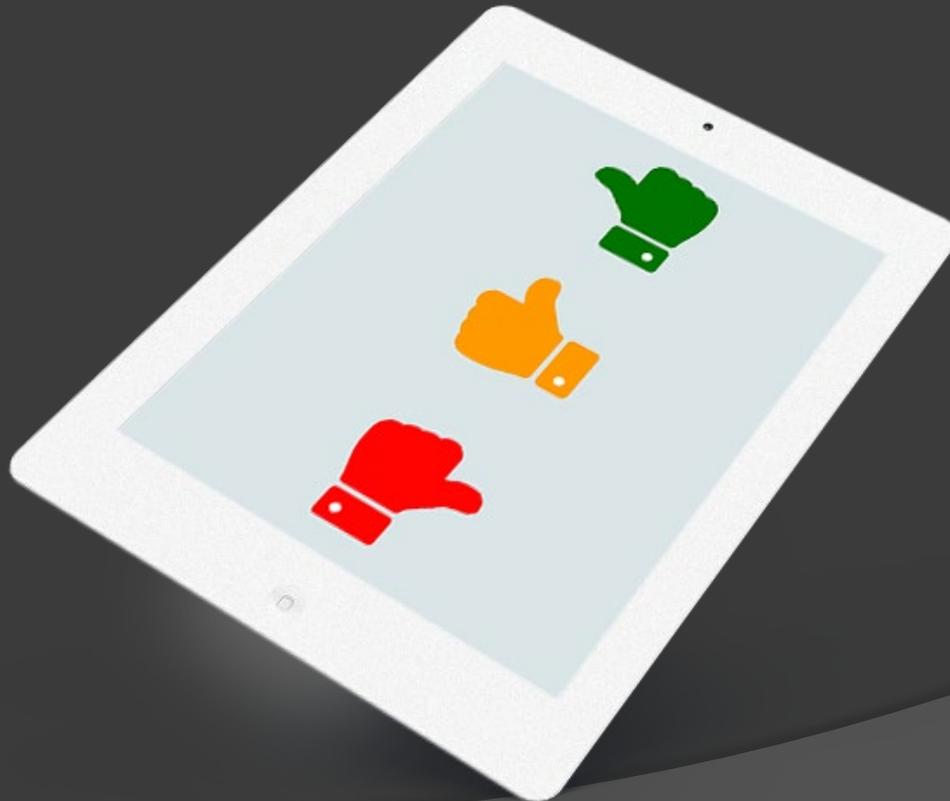
- Project Close-Out
 - Evaluate available funds for a no-cost time extension
 - Anticipate remaining funds returning at close-out

How Do You Prepare Projections?



What Are Projections?

Have you prepared projections?



How Do You Prepare Projections?

- ◎ Understand your Project
 - Sponsor Approved Budget
 - Sponsor Approved Expense Categories
 - Type of Project (Contract vs. Grant)
 - Type of Revenue (Milestone, Cost-Reimbursable, Letter of Credit, Fixed price, Clinical Trial)
 - Other Participants (Sub-recipients, Sub-contractors, Sub-project holders)

How Do You Prepare Projections?

◎ Understand the Purpose of Your Projections

- Guide Future Spending
- Control Overspending
- Prepare for Close-out



How **accurate**
do you need
your
projections?

How Do You Prepare Projections?

- ◎ Gather Information – **Guide Future Spending**
 - Awarded budget for current year & anticipated for future years
 - Current monthly overall spending rate
 - Months remaining in the **project period**



For *simplicity*
we're assuming
a *standard*
NIH R01 grant

How Do You Prepare Projections?

- ◎ Gather Information – **Control Under/Over Spending**
 - Budgeted costs (in categories) for your project
 - Current Balance (in categories) for your project
 - Number of FTEs budgeted vs. those appointed
 - Trend of personnel costs per month
 - Trend of non-personnel costs per month
 - Months remaining in the **budget period**

How Do You Prepare Projections?

- ◎ Gather Information – *Prepare for Close-Out*
 - Finalized estimate personnel costs
 - Recurring monthly costs (cryogenic gases, IT, etc.)
 - Months remaining in the **budget period**
 - Anticipated one-time expenses
 - Expenses incurred, but not yet charged

How Do You Prepare Projections?

⦿ Consider Your Audience

- Sponsor
- Department Administration
- Principal Investigator

Case Study

The Case Study Recipe



Case Study 1 – Guide Future Spending

- ⦿ Audience: PI
- ⦿ Purpose: **Guide Future Spending**
- ⦿ Understand your Project
 - NIH R01 Grant
 - Type of Revenue: LOC / Cost-Reimbursable
 - Other Participants: One Co-I at your institution

Case Study 1 – Guide Future Spending

◎ Gather Information

- Sponsor Approved Budget:
 - \$250K direct costs per year for 5 years.
 - You are ending year 1.
 - \$50K direct costs remain at end of year 1
- Monthly Spending Rate: \$16,700 per month
- Months remaining: 48 months

Case Study 1 – Guide Future Spending

- ⦿ What is the projected balance at the end of Year 5?
(assume the spending rate will remain the same)

- ⦿ Is your PI overspending or underspending?

Case Study 1 – Guide Future Spending

- ◎ What is the projected balance at the end of Year 5?
 - Budget Remaining: \$250K for 4 years remain +\$50K at end of Y1 = \$1,050,000
 - Expenditures: \$16,700\$ * 48 months = \$801,600
 - Remaining Funds: \$1,050,000 - \$801,600 = \$248,400
- ◎ Is your PI overspending or underspending?

Case Study 1 – Guide Future Spending

- ◎ What advice would you provide your PI?

- ◎ What new information might change this advice?

Case Study 2 – Control Overspending

- ⦿ Audience: PI
- ⦿ Purpose: **Control Overspending**
- ⦿ Understand your Project
 - NIH R01 Grant
 - Type of Revenue: LOC / Cost-Reimbursable
 - Other Participants: One Co-I at your institution

Case Study 2 – Control Spending

◎ Gather Information

- Budgeted Costs
- Monthly Spending
- Months remaining: **8 months**

	Budget	Expenses to Date	Balance	Actual FTEs	Trend
PI	3.6 Cal Mo \$48,000	\$16,000		3.6	\$4,000
Co-I	3.6 Cal Mo \$48,000	\$32,000		7.2	\$8,000
Post-Doc	12 Cal Mo \$60,000	\$20,000		12.0	\$5,000
Research Staff	6 Cal Mo \$36,000	\$24,000		12.0	\$6,000
Total Personnel	\$192,000	\$92,000	\$100,000		\$23,000
Supplies	\$24,000	\$8,000			\$2,000
Animals	\$34,000	\$20,000			\$5,000
Total Other Costs	\$58,000	\$28,000	\$30,000		\$7,000
Total Direct Costs	\$250,000	\$120,000	\$130,000		\$30,000

Case Study 2 – Control Spending

- ① What is the projected balance at the end of the budget year?
(assume the spending rate will remain the same)
- ① Is your PI overspending or underspending?
- ① What is the driver of overspending?

Case Study 2 – Control Spending

- What is the projected balance at the end of the budget year? **Negative \$110,000**

	A	B	C	D	E	F=E * 8	G = B+F	H = A-G
	Budget	Expenses to Date	Balance	Actual FTEs	Trend	Projected Costs	Total Costs	Projected Balance
PI	3.6 Cal Mo	\$48,000	\$16,000	3.6	\$4,000	\$32,000	\$48,000	
Co-I	3.6 Cal Mo	\$48,000	\$32,000	7.2	\$8,000	\$64,000	\$96,000	
Post-Doc	12 Cal Mo	\$60,000	\$20,000	12.0	\$5,000	\$40,000	\$60,000	
Research Staff	6 Cal Mo	\$36,000	\$24,000	12.0	\$6,000	\$48,000	\$72,000	
Total Personnel	\$192,000	\$92,000	\$100,000		\$23,000	\$184,000	\$276,000	(\$84,000)
Supplies	\$24,000	\$8,000			\$2,000	\$16,000	\$24,000	
Animals	\$34,000	\$20,000			\$5,000	\$40,000	\$60,000	
Total Other Costs	\$58,000	\$28,000	\$30,000		\$7,000	\$56,000	\$84,000	(\$26,000)
Total Direct Costs	\$250,000	\$120,000	\$130,000		\$30,000	\$240,000	\$360,000	(\$110,000)

Case Study 2 – Control Spending

Is your PI overspending or underspending?

What is the driver of overspending?

Budget			Actual FTEs	Total Costs
PI	3.6 Cal Mo	\$48,000	3.6	\$48,000
Co-I	3.6 Cal Mo	\$48,000	7.2	\$96,000
Post-Doc	12 Cal Mo	\$60,000	12.0	\$60,000
Research Staff	6 Cal Mo	\$36,000	12.0	\$72,000
Total Personnel		\$192,000		\$276,000
Supplies		\$24,000		\$24,000
Animals		\$34,000		\$60,000
Total Other Costs		\$58,000		\$84,000
Total Direct Costs		\$250,000		\$360,000

Case Study 2 – Control Spending

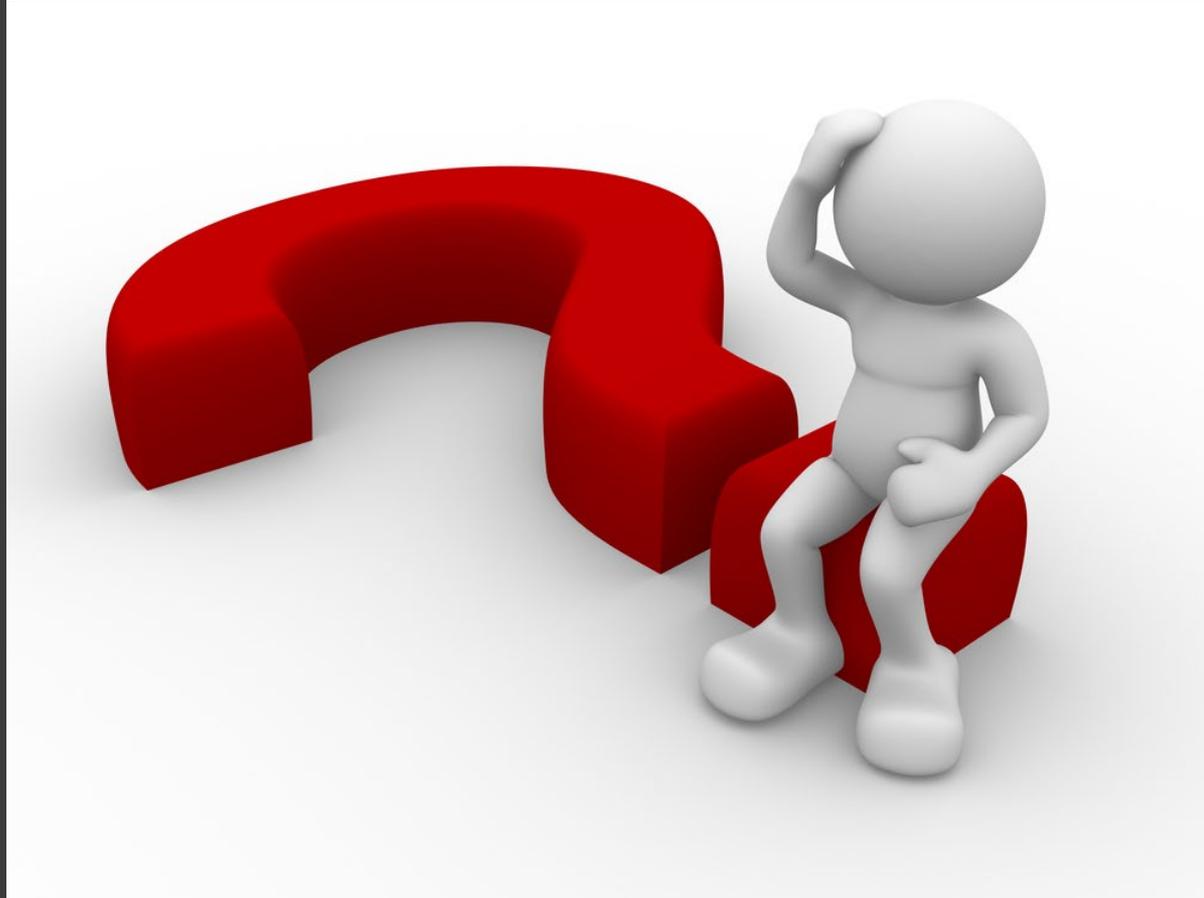
- ⦿ How would you discuss this with your PI?
 - Is the effort shown presently reducing?
 - Is the immediate purchase of animals declining at the end of the project?
 - If neither of these is true, what is the plan to reduce spending?

Wrap up

- ① What are Projections? ✓
- ② Why are Projections Important? ✓
- ③ When in a Project Lifecycle are Projections Most Useful? ✓
- ④ How Do You Prepare Projections? ✓
- ⑤ Case Study ✓



Questions??



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