



Budgeting Basics for Nonprofits

Presented by Danosky & Associates, LLC

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Consulting for Nonprofits



Danosky & Associates is an action-oriented, results-driven consulting firm that builds nonprofit capacity, applied through an equity lens with innovative strategies for an ever-emerging future.

Our Vision:

Every nonprofit will have the capacity to make the world a better place.

Our Mission:

We provide nonprofits the guidance, support and tools necessary to build a better world.

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Introduction

Sharon Danosky

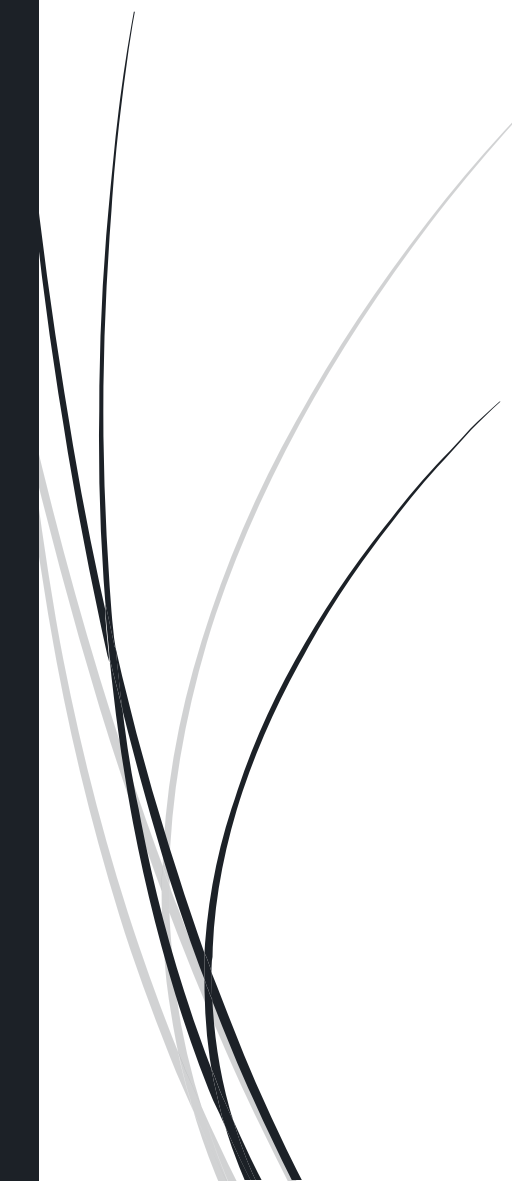


Susan Rosati





A Budget is Key to Financial Sustainability

- ▶ A budget is a commitment by the board and staff to sound financial management.
 - ▶ A budget helps the organization plan for the future.
 - ▶ Advance planning allows for growth and unexpected contingencies.
 - ▶ It's the means through which to assess the organization's health.
 - ▶ Timely review of financial reports to ensure the organization is on track.
 - ▶ Approval and oversight of the annual budget is a core responsibility of all boards.
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How to Prepare a Budget



Define the Budget Process



- Communicate financial forecast for current year and financial goals for next year.
- Develop a template for your managers to follow.
- Review the timeline.
- Set expectations.



Who is responsible for creating the annual budget

- Initially staff.
 - Departments within the organization.
 - Finance Department.
 - Executive Director.
- Board approval.
 - Finance.
 - Full board approves.



Identify your budget team



- ▶ Department Heads or Manager
 - ▶ Develop assumptions along with budget “wish list”.
 - ▶ May also provide information about state and federal contracts.
- ▶ Human Resources Director
 - ▶ Provides salary and benefit information.
- ▶ Development Director
 - ▶ Provides projected revenue.
- ▶ The Chief Financial Officer
 - ▶ Compiles the information.
- ▶ Executive Director
 - ▶ Distills and sets priorities.
- ▶ Board Treasurer/Finance Committee
 - ▶ Review and recommends.



Create your budget timeline



- ▶ Gather budget assumptions from managers, department heads, etc. Refer to your strategic plan. What are your growth projections? What do you need to support them?
- ▶ Review benefits, insurance costs, potential merit or COLA wage adjustments , PTO Costs, etc.
- ▶ Forecast revenue projections for the next year and associated costs to realize them.
- ▶ All assumptions and projections go to Finance to be compiled.
- ▶ Vet assumptions and budget projections to match revenue with expenses.
- ▶ Reconcile differences and present budget to the Finance Committee.
- ▶ Finance Committee brings final budget to the Board for approval.



Budget Timeline

Tasks	March	April	May	June
Gather budget assumptions from managers, department heads, etc. Refer to your strategic plan. What are your growth projections? What do you need to support them?	█			
Review benefits, insurance costs, potential merit or COLA wage adjustments , PTO Costs, etc.	█			
Forecast revenue projections for the next year and associated costs to realize them	█			
All assumptions and projections go to Finance to be compiled		█		
Vet assumptions and budget projections to match revenue with expenses.			█	
Reconcile differences and present budget to the Finance Committee				█
Finance brings final budget to the Board				█

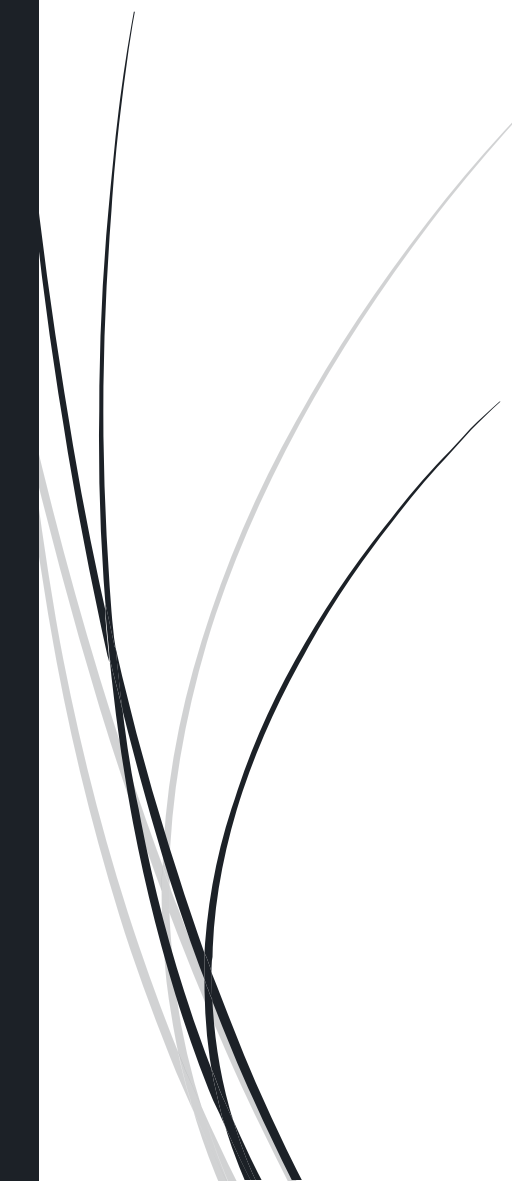


Set financial objectives

- ▶ Have a good understanding of where you are now financially.
 - ▶ Are you currently meeting budget projections from prior year?
 - ▶ If not, why not?
 - ▶ How will this affect budgeting in the current year?
 - ▶ Will you have to make up for a deficit?
 - ▶ Will you have a surplus that you can apply to the coming year?
 - ▶ Do you want to apply any surplus to reserves or endowment?
 - ▶ Will you have to maintain the status quo?
- ▶ Communicate this information to your management team, so they can participate meaningfully in developing budget assumptions.



What goes into the Budget?

- ▶ Assumptions:
 - ▶ Growth in existing services.
 - ▶ Elimination or reduction in services.
 - ▶ Adding a new service.
 - ▶ What are the revenue expectations of any of the above?
 - ▶ Be conservative.
 - ▶ Take into considerations changes in reimbursement, budget cuts from feds, etc.
 - ▶ What are the expense implications?
 - ▶ Will you need addition staff, or reduce staffing?
 - ▶ What infrastructure is required (i.e. facilities, technology, furniture)?
 - ▶ Know what is a fixed expense and what is a variable expense.
- 



Budget Assumptions



- ▶ Assumptions – YES...but work with real numbers.
- ▶ What programs will you be adding/subtracting this year?
- ▶ What changes do you want to see happening this year?
- ▶ Will you losing or gaining funders?
- ▶ Make it a team effort – involve staff and key board members.
- ▶ Identify opportunities, threats and emerging trends.
- ▶ Separate your capital budget from operational budget.
- ▶ Overhead is needed....don't run on a shoestring.
- ▶ Cash flow projections – Critical!



Fixed costs vs. Variable costs



- ▶ Fixed costs are costs which do not fluctuate or change on a regular basis. You have to budget for these costs every month, every year. They might increase or decrease over time – but they are costs you have to pay each month, such as monthly salaries, rent or mortgage, insurance, technology, etc.
- ▶ Variable costs or flexible expenditures are costs that don't necessarily occur each month or costs that might increase or decrease dependent on the services or activities you deliver. They could be supplies, printing, temporary help, costs associated with hosting events or fundraisers. It can also include wages, such as per diem or seasonal employees.

As a nonprofit it is vital to track and understand how what your fixed costs are – that can't change and how various costs change and can be more easily managed. The breakdown of these expenses determines whether you will lose money, break even or even incur a small profit.



Fixed vs. Variable Costs

	Fixed	Variable
Meaning	In accounting, fixed costs are expenses that remain constant for a period of time irrespective of the level of activity.	Variable costs are expenses that change directly and proportionally to the changes in business activity level or volume.
Incurred when	On a consistent, regular timeframe, i.e., monthly When you have control of the expense	The cost increases/decreases based on the number or volume of activities
Also known as	Fixed costs are also known as overhead or administrative costs	Variable costs are also referred to as direct costs as it directly affects the activity levels.
Nature	Fixed costs are time-related i.e. they remain constant for a period of time.	Variable costs are volume-related and/or activity related and change with the changes in activity level.
Examples	Rent or mortgage, salaries, personal benefits, technology,	Per-diem staff, printing costs, fundraising activities, events, trainings, professional development



Nonprofit Budget Framework

Aligned with the 990



Functional Accounting



- ▶ FASB 17.
- ▶ Budgets should be broken into three general categories.
 - ▶ Administration
 - ▶ Programming
 - ▶ Fundraising
- ▶ This aligns with your 990.
- ▶ Build a budget based around your programs.



Program Costs:

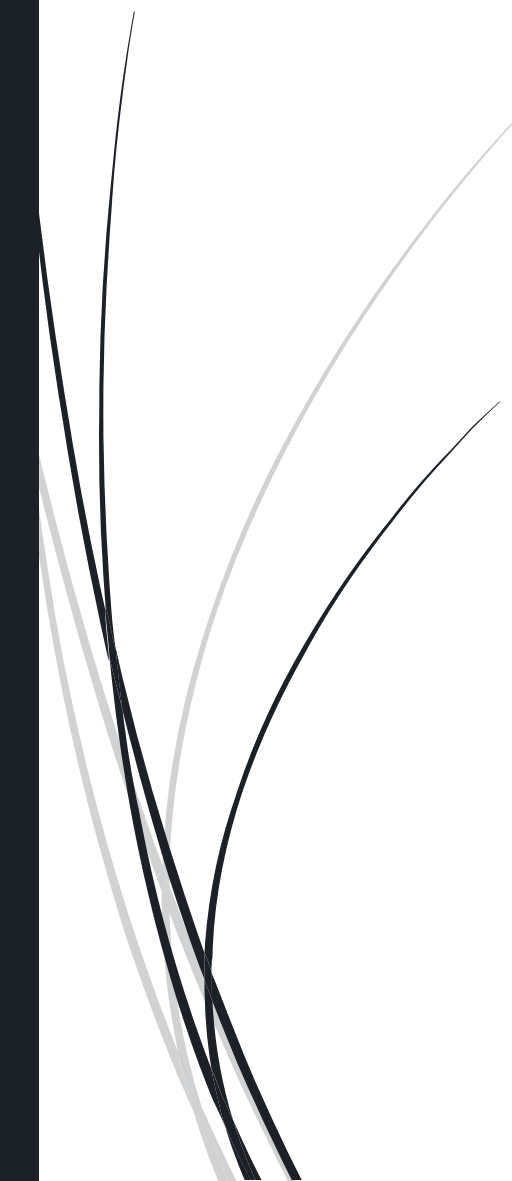
Everything that is directly related to delivering services.

- Staffing.
 - All program staff – part-time, full-time, per diem wages and benefits.
 - % of Management time spend developing, reviewing, overseeing programs.
- Supplies and materials required.
- Training staff to perform the job.
- Transportation costs.
- Related technology costs (i.e., tablets for staff to work remotely).
- Transportation related to programs.



Administrative Costs –

Expenses related to running and managing the organization

- Finance & budgeting.
 - Managers' time not spent running a program (i.e., strategy meetings, finance meetings).
 - Human resources.
 - Information Technology (time not spent with program staff).
 - General administration; support staff; etc.
- 



Fundraising

Time, labor and supplies related to raising funds

- ▶ There are some exclusions that could be considered administrative.
 - ▶ Time spent with board members could be administrative.
 - ▶ Time spent in strategy, marketing, finance, administrative meetings.
 - ▶ Materials that are developed that are used to educate the community.
 - ▶ Public relations; social media; “marketing”.

Sample Statement of Functional Expenses:

	Program Services				Supporting Services			Total
	Program A	Program B	Program C	Program D	Program Expenses	Management and General	Fundraising	
Salaries	\$168,189	\$ 67,710	\$247,474	\$129,323	\$612,696	\$ 74,120	\$ 75,697	\$ 762,513
Payroll taxes and Employee benefits	34,037	13,703	49,962	26,120	123,822	15,228	15,263	154,313
Rent	97,288	8,215	24,436	13,271	143,210	7,162	6,530	156,902
Utilities	2,935	1,180	3,509	1,906	9,530	1,029	938	11,497
Office cleaning	1,797	723	2,149	1,167	5,836	630	574	7,040
Consultants	6,989	3,237	8,668	7,440	26,334	1,887	46,987	75,208
Accounting & Auditing Fees	-	-	-	-	-	19,000	-	19,000
Office expense	6,123	2,462	7,248	3,945	19,778	2,122	1,921	23,821
Supplies	7,907	2,500	3,355	2,514	16,276	-	-	16,276
Telephone	7,591	3,052	9,078	4,930	24,651	2,661	2,426	29,738
Postage and messengers	1,500	750	600	1,584	4,434	1,784	4,000	10,218
Photocopying	135	145	80	2,565	2,925	390	-	3,315
Equipment leasing	3,535	1,421	4,227	2,296	11,479	1,239	1,130	13,848
Insurance	2,848	1,145	3,406	1,849	9,248	998	910	11,156
Local transportation	667	268	798	434	2,167	234	213	2,614
Meals and entertainment	1,798	723	1,371	125	4,017	1,000	2,026	7,043
Seminars and training	500	250	750	2,500	4,000	3,698	1,000	8,698
Fees	560	3,247	1,003	-	4,810	219	-	5,029
Data processing	496	199	593	322	1,610	174	158	1,942
Dues and subscriptions	385	532	130	683	1,730	375	185	2,290
Advertising	5,017	3,838	3,245	5,979	18,079	432	393	18,904
Depreciation	2,284	918	2,731	1,483	7,416	800	730	8,946
Miscellaneous	522	210	625	16,275	17,632	176	4,328	22,136
Total expenses	<u>\$357,953</u>	<u>\$118,378</u>	<u>\$381,238</u>	<u>\$229,861</u>	<u>\$1,087,430</u>	<u>\$118,058</u>	<u>\$166,959</u>	<u>\$1,372,447</u>



Sources of Revenue



- ▶ Federal/State contracts.
- ▶ Federal/State/Municipal Grants.
- ▶ Earned Income.
 - ▶ Fee for service
 - ▶ Sales
 - ▶ Unrelated business income
- ▶ Interest (from Endowment/Other).
- ▶ Fundraising.
 - ▶ Corporations
 - ▶ Individuals
 - ▶ Events
 - ▶ Foundations
 - ▶ Major donors
 - ▶ Bequests

Nonprofit ABC
 Budget Overview: FY 2022-2023 - FY23 P&L Classes
 July 2022 - June 2023

	Admin	Development	Program 1	Program 2	Program 3	TOTAL
Income						
4025 CONTRACT REVENUE						
4025-1 ABC Contract				200,000.00		200,000.00
Total 4025 CONTRACT REVENUE	\$ 0.00	\$ 0.00	\$ 0.00	\$ 200,000.00	\$ 0.00	\$ 200,000.00
4055 GRANTS						
4055-25 State Grants			500,000.00		110,000.00	610,000.00
4055-35 Other Grants					80,000.00	80,000.00
4055-50 Foundation Grants		10,000.00	5,000.00	25,000.00		40,000.00
Total 4055-50 Foundation Grants	\$ 0.00	\$ 10,000.00	\$ 5,000.00	\$ 25,000.00	\$ 0.00	\$ 40,000.00
Total 4055 GRANTS	\$ 0.00	\$ 10,000.00	\$ 505,000.00	\$ 25,000.00	\$ 190,000.00	\$ 730,000.00
4080 OTHER REVENUE						
4080-04 Food Service Revenue			5,000.00			5,000.00
4080-07 Program Revenue					150,000.00	150,000.00
Total 4080 OTHER REVENUE	\$ 0.00	\$ 0.00	\$ 5,000.00	\$ 0.00	\$ 150,000.00	\$ 155,000.00
4090-15 A&G ALLOCATION REIMBURSEMENT						
4090-17 Development (A&G Reimbursement)	29,000.00					29,000.00
4090-20 Program 1 (A&G Reimbursement)	113,000.00					113,000.00
4090-25 Program 2 (A&G Reimbursement)	45,000.00					45,000.00
4090-30 Program 3 (A&G Reimbursement)	76,000.00					76,000.00
Total 4090-15 A&G ALLOCATION REIMBURSEMENT	\$ 263,000.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 263,000.00
4145 Contributions						
4145-10 4145-10 Unrestricted		125,000.00	2,000.00	1,000.00		128,000.00
4145-15 4145-15 Temp Restricted		7,000.00				7,000.00
Total 4145 Contributions	\$ 0.00	\$ 132,000.00	\$ 2,000.00	\$ 1,000.00	\$ 0.00	\$ 135,000.00
4146 Events						
4146-07 Event Revenue		55,000.00				55,000.00
4146-10 Sponsorship		15,000.00				15,000.00
Total 4146 Events	\$ 0.00	\$ 70,000.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 70,000.00
4155 Rental Property						
4155-05 820 Rental		18,000.00				18,000.00
Total 4155 Rental Property	\$ 0.00	\$ 18,000.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 18,000.00
4168 In-Kind		6,000.00				6,000.00
Total Income	\$ 263,000.00	\$ 236,000.00	\$ 512,000.00	\$ 226,000.00	\$ 340,000.00	\$ 1,577,000.00



Revenue Analysis




- ▶ Who in the organization is responsible for what revenue?
- ▶ What are the revenue assumptions?
- ▶ How much could the revenue vary?
- ▶ How will you project it?



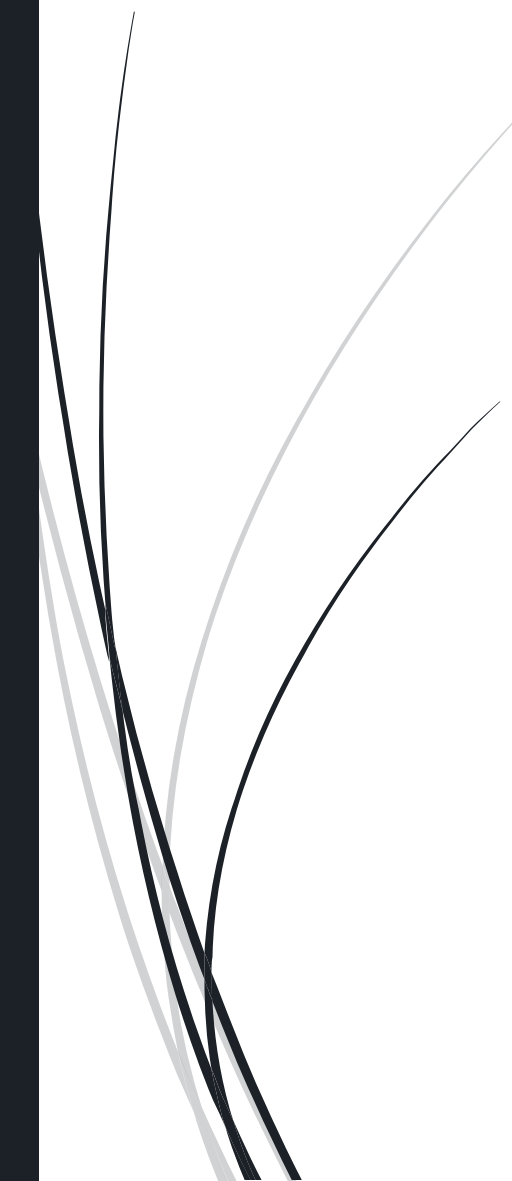
Operating Expenses



- Salaries & Wages.
- Subcontractors.
- Professional Development.
- Supplies & Materials.
- Technology.
- Rent/Mortgage.
- Utilities.
- Etc.....



If you're budgeting – You're allocating expenses

- ▶ Allocations also include percentage of overhead allocated to each department appropriately.
 - ▶ This will be addressed in detail in our session next week.
- 

Salary and Benefits Budget

Expenses	Admin	Development	Program 1	Program 2	Program 3	TOTAL
6051 SALARY						
6051-05 Gross Wages	172,000.00	60,452.00	264,451.00	134,596.00	201,359.00	832,858.00
Total 6051 SALARY	\$ 172,000.00	\$ 60,452.00	\$ 264,451.00	\$ 134,596.00	\$ 201,359.00	\$ 832,858.00
6052 FRINGE BENEFITS						
6052-05 Health Insurance (Med125)	6,500.00	6,500.00	39,000.00	19,500.00	26,000.00	97,500.00
6052-10 Life Insurance	780.00	390.00	1,500.00	900.00	1,300.00	4,870.00
6052-15 Dental	360.00	360.00	2,250.00	1,125.00	1,450.00	5,545.00
6052-18 Medicare	2,500.00	877.00	3,835.00	1,952.00	2,920.00	12,084.00
6052-27 Social Security	10,664.00	3,750.00	16,396.00	8,345.00	12,484.00	51,639.00
6052-28 SUI	570.00	285.00	2,000.00	855.00	1,425.00	5,135.00
6052-30 Workers Comp. Insurance	160.00	72.00	4,400.00	1,400.00	3,000.00	9,032.00
Total 6052 FRINGE BENEFITS	\$ 21,534.00	\$ 12,234.00	\$ 69,381.00	\$ 34,077.00	\$ 48,579.00	\$ 185,805.00

Expenses: Group into Categories

Expenses	Admin	Development	Program 1	Program 2	Program 3	TOTAL
6055 MATERIALS & SUPPLIES						
6055-01 Food		2,500.00	18,000.00			20,500.00
6055-02 Event		4,000.00	500.00			4,500.00
6055-03 Kitchen			4,000.00			4,000.00
6055-05 Maintenance	100.00	2,000.00	500.00			2,600.00
6055-09 Office	2,000.00	3,000.00	5,000.00	1,000.00	10,000.00	21,000.00
Total 6055 MATERIALS & SUPPLIES	\$ 2,100.00	\$ 11,500.00	\$ 28,000.00	\$ 1,000.00	\$ 10,000.00	\$ 52,600.00
6056 FACILITIES						
6056-01 Rent		2,500.00			1,100.00	3,600.00
6056-10 Maintenance & Repair						
6056-11 Building	4,000.00	1,000.00	10,000.00	1,000.00	2,000.00	18,000.00
6056-12 Equipment	2,000.00		3,000.00		500.00	5,500.00
6056-13 Grounds	1,500.00		5,000.00		4,500.00	11,000.00
Total 6056-10 Maintenance & Repair	\$ 7,500.00	\$ 1,000.00	\$ 18,000.00	\$ 1,000.00	\$ 7,000.00	\$ 34,500.00
6056-20 Utilities						
6056-21 Electric	2,500.00	1,200.00	8,000.00	700.00	3,500.00	15,900.00
6056-22 Gas	1,800.00	1,500.00	4,500.00	500.00	1,780.00	10,080.00
6056-24 Trash Collection			2,100.00		2,000.00	4,100.00
6056-25 Water	300.00	100.00	600.00		200.00	1,200.00
Total 6056-20 Utilities	\$ 4,600.00	\$ 2,800.00	\$ 15,200.00	\$ 1,200.00	\$ 7,480.00	\$ 31,280.00
Total 6056 FACILITIES	\$ 12,100.00	\$ 6,300.00	\$ 33,200.00	\$ 2,200.00	\$ 15,580.00	\$ 69,380.00

Other Expenses and Allocations

Expenses	Admin	Development	Program 1	Program 2	Program 3	TOTAL
6058 OTHER EXPENSES						
6058-10 Communications						
6058-11 Cell	1,000.00		2,400.00	1,300.00	2,500.00	7,200.00
6058-12 Internet	1,000.00		1,300.00			2,300.00
6058-13 Phone	366.00	400.00	5,000.00	300.00	2,500.00	8,566.00
6058-14 Postage	400.00	1,500.00	1,500.00		900.00	4,300.00
6058-16 Web		1,500.00				1,500.00
Total 6058-10 Communications	\$ 2,766.00	\$ 3,400.00	\$ 10,200.00	\$ 1,600.00	\$ 5,900.00	\$ 23,866.00
6058-20 Insurance						
6058-21 Auto Ins.			7,500.00	650.00	1,500.00	9,650.00
6058-23 Liability	2,500.00	1,300.00	8,400.00	2,500.00	7,200.00	21,900.00
6058-28 Umbrella	200.00	100.00	625.00	200.00	600.00	1,725.00
6058-29 D&O Insurance	3,000.00					3,000.00
Total 6058-20 Insurance	\$ 5,700.00	\$ 1,400.00	\$ 16,525.00	\$ 3,350.00	\$ 9,300.00	\$ 36,275.00
6058-30 Other						
6058-05 Advertising		1,000.00	500.00	500.00	500.00	2,500.00
6058-07 Accounting/Audit	36,000.00					36,000.00
6058-09 Bank Fee	100.00	1,000.00				1,100.00
6058-15 Conferences & Training (Staff)	1,000.00	2,500.00	3,000.00	500.00	2,000.00	9,000.00
6058-25 Equipment Lease			3,000.00			3,000.00
6058-31 House Keeping	100.00				550.00	650.00
6058-32 Employee Appreciation	100.00	1,000.00	200.00	100.00	200.00	1,600.00
6058-33 Technology Expense	3,000.00	1,000.00	4,500.00	2,000.00	3,000.00	13,500.00
6058-34 Memberships	300.00		1,500.00		600.00	2,400.00
6058-35 Payroll Processing	900.00	450.00	2,800.00	900.00	2,750.00	7,800.00
6058-36 Permits/Licenses		500.00	450.00			950.00
6058-37 Printing	100.00	7,000.00	500.00	100.00	1,000.00	8,700.00
6058-40 Professional Fees		500.00				500.00
6058-46 Miscellaneous	2,500.00	2,000.00				4,500.00
6058-47 Covid Expenses	2,500.00	100.00	800.00			3,400.00
6058-50 Donor Cultivation		3,000.00				3,000.00
6508-53 Board Development	200.00	3,000.00				3,200.00
Total 6058-30 Other	\$ 46,800.00	\$ 23,050.00	\$ 17,250.00	\$ 4,100.00	\$ 10,600.00	\$ 101,800.00
Total 6058 OTHER EXPENSES	\$ 55,266.00	\$ 27,850.00	\$ 43,975.00	\$ 9,050.00	\$ 25,800.00	\$ 161,941.00
Total 6053 OPERATING EXPENSES	\$ 69,466.00	\$ 45,650.00	\$ 105,175.00	\$ 12,250.00	\$ 51,380.00	\$ 283,921.00
6080 A&G ALLOCATION EXP						
6080-10 PROGRAM 2 (A&G Allocation Exp)				45,000.00		45,000.00
6080-15 PROGRAM 1 (A&G Allocation Exp)			113,000.00			113,000.00
6080-16 Development (A&G Allocation Exp)		29,000.00				29,000.00
6080-20 Program 3 (A&G Allocation Exp)					76,000.00	76,000.00
Total 6080 A&G ALLOCATION EXP	\$ 0.00	\$ 29,000.00	\$ 113,000.00	\$ 45,000.00	\$ 76,000.00	\$ 263,000.00
Total Expenses	\$ 263,000.00	\$ 147,336.00	\$ 552,007.00	\$ 225,923.00	\$ 377,318.00	\$ 1,565,584.00
Net Operating Income	\$ 0.00	\$ 88,664.00	\$ 40,007.00	\$ 77.00	\$ 37,318.00	\$ 11,416.00
Net Income	\$ 0.00	\$ 88,664.00	\$ 40,007.00	\$ 77.00	\$ 37,318.00	\$ 11,416.00



Budget Approval Process

- ▶ Executive Director/Finance Director
 - ▶ Finance Committee
 - ▶ Board
 - ▶ Review with Management Team
- 

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Managing Your Budget

Budget Surplus and Deficits

Surplus

- ▶ Nonprofits can make a profit or surplus.
- ▶ Making money isn't their mission but need surplus years in order to build reserves and invest in their programs aligned with mission.



Deficits

- ▶ Acceptable to have a budget with a deficit
 - ▶ Are there adequate reserves to support the deficit?
 - ▶ What is the long term strategy to have a surplus?





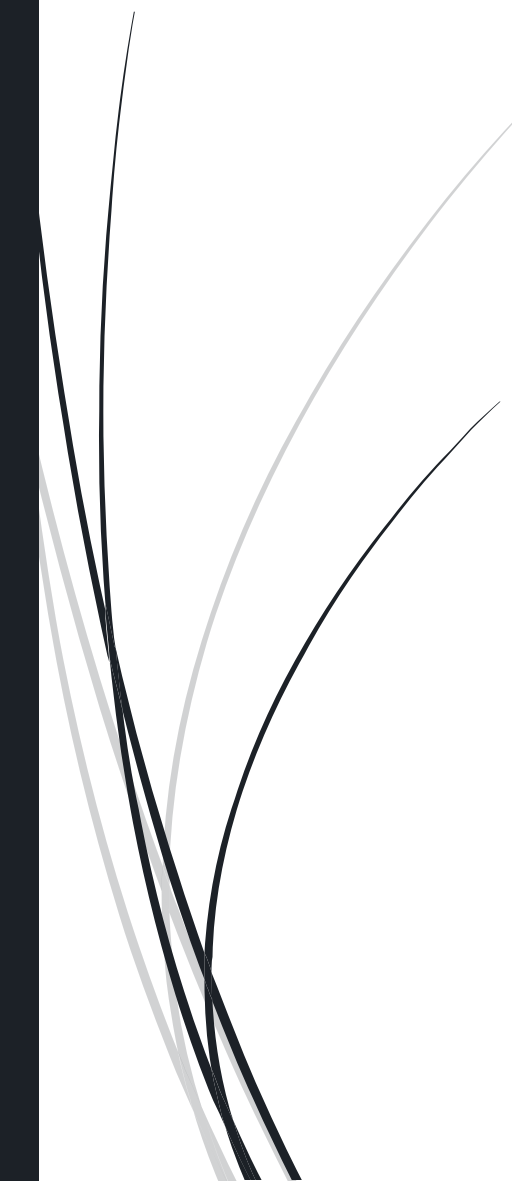
Why Manage Cash Flow?

CASH IS KING

- ▶ Common causes of cash flow shortages:
 - ▶ Timing of donations and grants.
 - ▶ Reimbursement-based contracts.
 - ▶ Timing of disbursement, such as advance payments.
 - ▶ Changes in revenue sources or payment schedules.
 - ▶ Operating with a deficit (expenses exceed revenue).
 - ▶ Unexpected or unplanned events.
- ▶ The cost of these shortages can be high.
 - ▶ Late fees, penalties, and finance charges.
 - ▶ Damaged relationships with vendors and contractors.
 - ▶ Lost opportunities for new mission-building activities.
 - ▶ Time spent worrying about and trying to resolve cash flow problems after they occur.

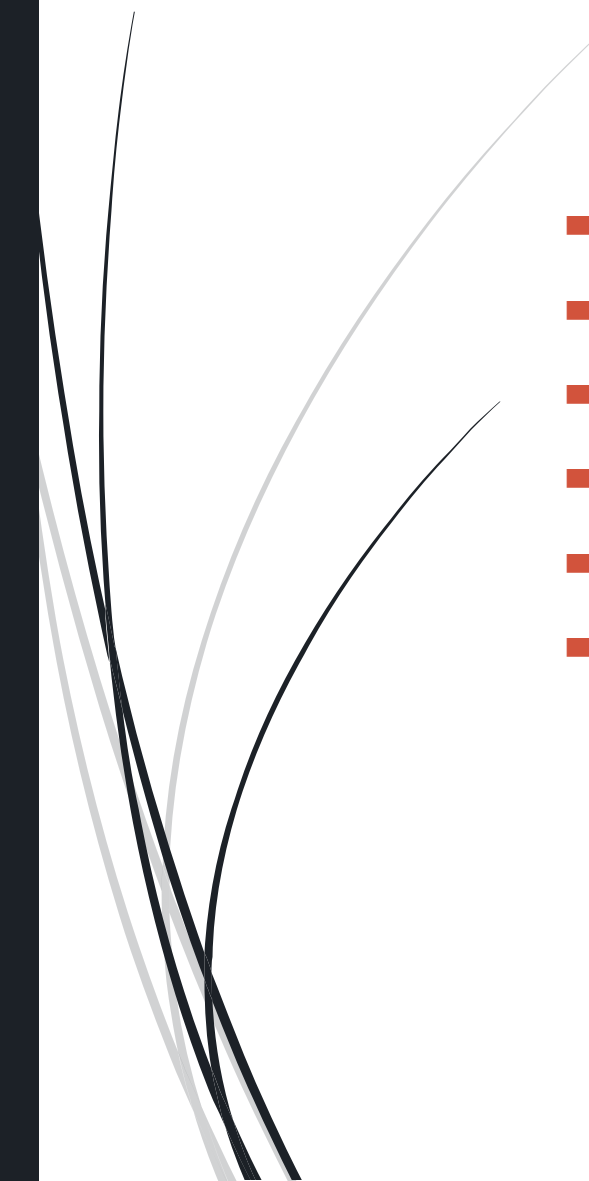


How to Manage Cash Flow?

- 
- ▶ Start with an accurate cash balance.
 - ▶ Base projections on realistic budget assumptions.
 - ▶ Reflect the expected timing of receipts and payments, don't just divide by 12.
 - ▶ Pay particular attention to when you expect to receive grants and use conservative assumptions for unidentified grant funds.
 - ▶ Be careful about including grants that are restricted for use in a future time period.
 - ▶ Check your payroll schedule (remember, if you have biweekly payroll there will be two months a year when you must pay three payrolls).
 - ▶ Note any lump sum payments, such as payments for insurance, printing, payroll taxes, etc.



How to Avoid Cash Flow Problems?

- 
- ▶ Develop realistic, well-considered budgets each year.
 - ▶ Consistently operate with the goal of a surplus of income over expenses.
 - ▶ Build internal cash reserves over time (3-to 6 months of cash on hand).
 - ▶ Plan early and often.
 - ▶ Be aware of cash flow and budget assumptions and react to changes.
 - ▶ Maintain good relationships with vendors, contractors, and bankers.



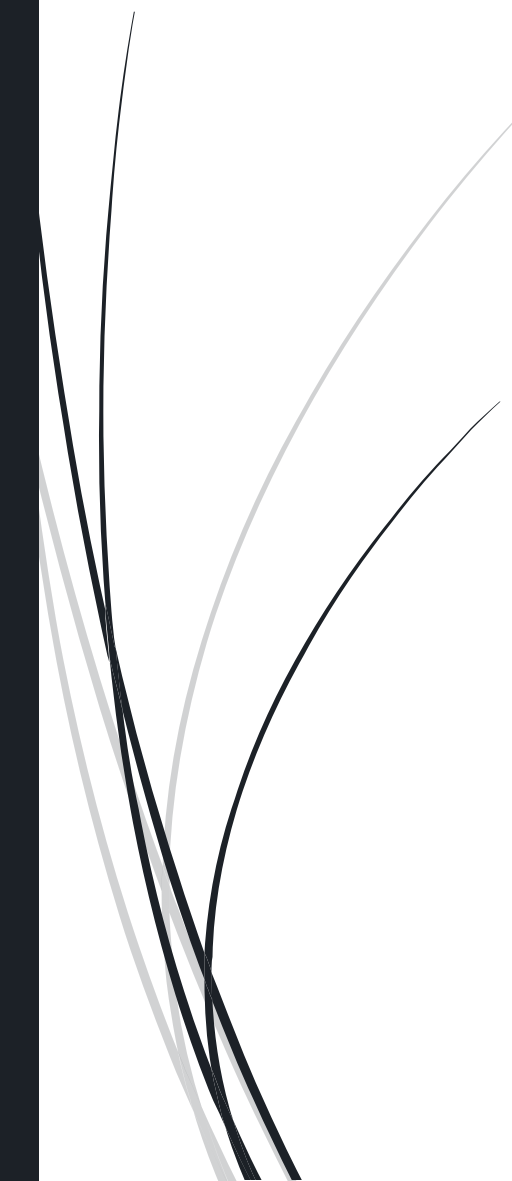
Cash Flow Projection



- ▶ A nonprofit statement of cash flow is a financial report that shows how cash moves in and out of an organization on a regular basis. It includes:
 - ▶ Cash flows from operating expenses.
 - ▶ How much money you receive; how much you pay for operations.
 - ▶ Cash flows from Investing Activities.
 - ▶ Large or capital purchases, such as equipment.
 - ▶ Money you have in reserves.
 - ▶ Cash flows from Financing Activities.
 - ▶ Credit card or loan payments.



What is meant by Break-Even?

- ▶ Break-even is when you have enough revenue to cover your operations, with no or a modest surplus.
 - ▶ A break-even analysis tells us at what level of service we're able to achieve a net financial result of zero, or break-even.
 - ▶ Understanding fixed vs. variable costs is essential, because you need to understand what is within your control and what is not.
- 



Scenario Planning



- ▶ Finance can serve as a consultant as your management team develops assumptions.
- ▶ They can plug in formula's if you increase revenue or expenses by X – what will it look like?
- ▶ A good exercise if there is a need to re-forecast the budget the following year.
- ▶ Inform Finance Committee of the process and share some of the scenario's.
- ▶ New programs should be vetted by the Board, as well.

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Monitoring Your Budget



Monitoring the Budget



- ▶ A budget monitoring report is a financial report that shows actual income and expenditure for a certain period compared to the budget for the same period.
- ▶ Monitoring your budget is a priority – for staff, management and the board.
- ▶ Monitor what matters. Stick to the highlights and major issues:
 - ▶ The smaller budget items can be better reviewed by staff and department heads.
 - ▶ If smaller issues rise to the top as a larger issue it should be reviewed by management.
 - ▶ If there are significant issues, they are to be reviewed by the board.
- ▶ Watch the warning signs.
 - ▶ Significant discrepancies between the budget and actual.
 - ▶ Lack of connection between your operational plans and decisions and the budget.
 - ▶ Ongoing contingencies or explanations.



4 Questions to Consider

- ▶ How close did the organization come to the budgeted figures?
- ▶ What adjustments, if any, should be made to the current year's budget?
- ▶ What adjustments, if any, should be made to budgets in future years?
- ▶ What changes, if any, should be implemented to improve performance?



Tools for Monitoring



- ▶ Department Budget Statements.
- ▶ Full Organizational Statement of Activities every month.
- ▶ Summary Financial Statements.
- ▶ Balance Sheet.
- ▶ Dashboards.



What if

When things don't go as expected



Financial Reconciliation



- ▶ Reconciliation is an accounting process that looks at internal records against external financial records (i.e., bank statements) to identify/resolve discrepancies.
- ▶ Reconciliation ensures that money leaving an account is being properly allocated and that the bank records accurately reflect the transactions.
- ▶ If you find discrepancies between financial records or account balances, reconciliation is useful in figuring out why.
 - ▶ Development requires monthly reconciliation.
 - ▶ Departments should reconcile their accounts.
- ▶ Differences can sometimes be explained by timing differences or processing delays.
- ▶ When significant unexplained discrepancies occur it could be an indicator of fraudulent activity.

Budget Revisions – DON'T



- ▶ Very rare to revise approved budget.
 - ▶ If a major error is discovered, may want to revise budget.
 - ▶ If budget is revised, must go through same approval process.
- ▶ Short Term Forecasts are better than revisions to budget.
 - ▶ Revise annual financial projection using more up-to-date information acquired continuously throughout the year adding actual results with projected results.
 - ▶ Management and Board work to address any new gaps not in budget.
- ▶ Review variances between budget and actual.
 - ▶ Were your assumptions off?
 - ▶ Did an unforeseen situation arise in the nonprofit sector? In the economy?



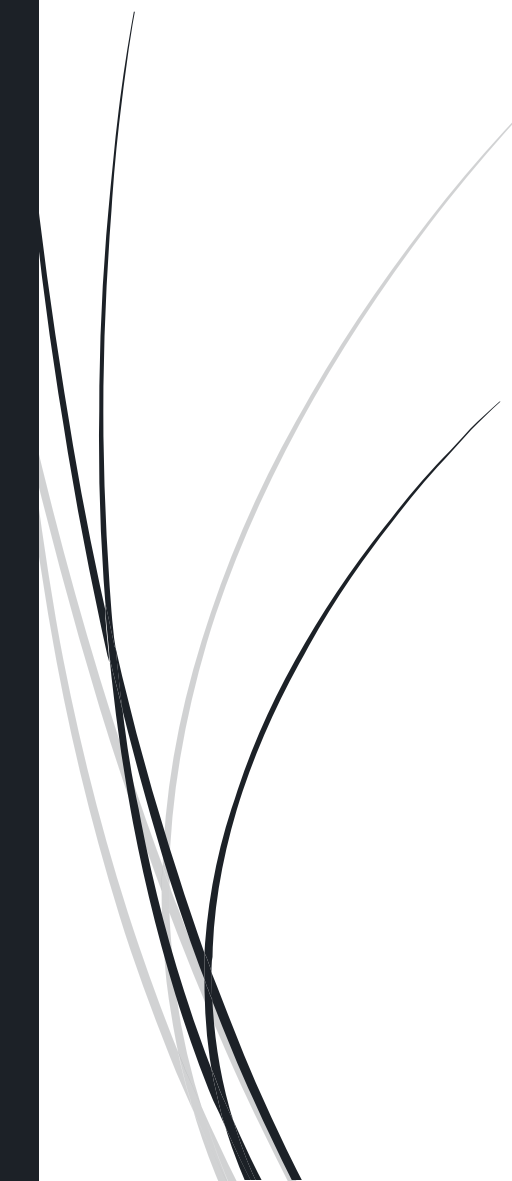
Reforecast if Necessary



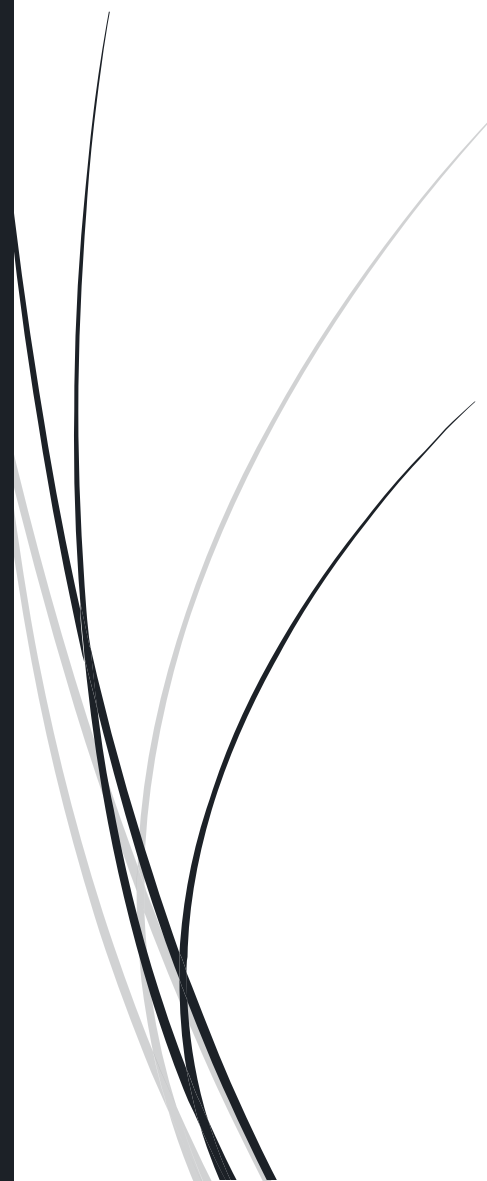
- ▶ You prepare your budget once – you don't change it if things change.
- ▶ Reasons for re-forecasting:
 - ▶ Unexpected cuts in revenue; i.e. govt. contracts.
 - ▶ Reduction in services due to staffing shortages.
 - ▶ Unexpected and significant increase in operating revenue.
 - ▶ New government contract.
 - ▶ Large bequest or major gift.
 - ▶ A pandemic.



How to Reforecast?

- ▶ Create a separate, revised budget that uses year-to-date results.
 - ▶ Use management's best estimate for the remaining months of the year.
 - ▶ Insert a column into your original budget with revised projections.
 - ▶ You can revise it monthly or quarterly to see how things are tracking.
 - ▶ Maintain your original budget so that you can gain insight that will be helpful when planning for the following year.
- 

	Reforecast	Budget	Budget	Budget
		Without	With	Total
	FY 2018	Restrictions	Restrictions	Total
		FY 2018	FY 2018	FY 2018
Revenue				
Total earned revenue	85,100	85,100	-	85,100
<i>Contributed revenue</i>				
<u>Foundations</u>				
ABC Community Foundation	85,000	85,000		85,000
Sunshine Foundation	-	-	240,000	240,000
Farhills Foundation	15,000	15,000		15,000
XYZ Foundation	20,000	20,000		20,000
Fair Weather Foundation	135,000	185,000		185,000
Stage Coach Bank Foundation	15,000	15,000		15,000
123 Foundation	65,000	65,000		65,000
NF Foundation	-	-		-
To be raised	40,000	30,000		30,000
Net assets released from restrictions	120,000	120,000	(120,000)	-
Total foundations	495,000	535,000	120,000	655,000
Total government	80,000	80,000	-	80,000
<u>Corporations</u>				
Make it Rain Corporation	10,000	15,000		15,000
Total corporations	10,000	15,000		15,000
Special event	50,000	50,000		50,000
Individuals	12,000	10,000		10,000
Board	6,000	5,000		5,000
Total contributed revenue	653,000	695,000	120,000	815,000
Total Revenue	738,100	780,100	120,000	900,100



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Final Considerations



Financial Training



- ▶ Nonprofit Accounting is different than for-profit accounting.
- ▶ Training annually for the Board of Directors.
 - ▶ The role of the Finance Committee.
 - ▶ The role of the board.
 - ▶ What they will see each month.
- ▶ Training for managers and department heads.
 - ▶ How to look at your monthly budget statement.
 - ▶ What to look for.



The Budget as a Roadmap

- ▶ What gets funded is what gets done ...
- ▶ When Boards approve a budget – they are approving your work plan.
- ▶ Questions to ask:
 - ▶ Are you funding elements in your strategic plan?
 - ▶ Are you funding growth?
 - ▶ Are you funding capacity?
 - ▶ Are you budgeting accurately?
 - ▶ Don't under budget hoping for unexpected revenue.
 - ▶ Don't over-budget expecting something will come through.
- ▶ Your budget should align – and fully fund – your operating plan.



The Nonprofit Starvation Cycle

Lower overhead is not always better

- ▶ The nonprofit sector suffers from a widespread debilitating phenomenon of underfunding organizational infrastructure, called the starvation cycle.
- ▶ The desire for leaner organizations by donors puts pressure on nonprofits to reduce overhead spending. Seeking a competitive advantage, nonprofits underreport how much they spend on overhead, further feeding donors' skewed expectations. When these three forces meet, they create a cycle that slowly but steadily starves nonprofits and erodes their organizational infrastructure.
- ▶ Too little overhead can be harmful because it deprives nonprofits of resources critical for capacity-building needs, hurting performance and long-term success.
- ▶ Too much overhead is detrimental to outcomes because it breeds inefficiency and opens the door for resource exploitation and other agency problems.



Impact!

What amount of overhead is optimal to achieve desirable outcomes?