

# The Engaged Nonprofit Budget

#NPBudget

NPO

# About Advancing Practice & Leading Edge Membership

## About our Guest Faculty

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# What is an annual budget and why does it matter?

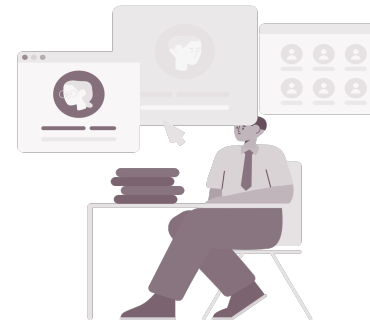
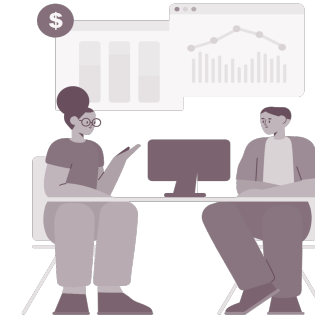
- ▷ Not really such a thing as a 12-month budget
- ▷ Expression of our priorities, direction, strengths, weaknesses, and values
- ▷ True no matter your organizational size



We all do it. Leverage it.

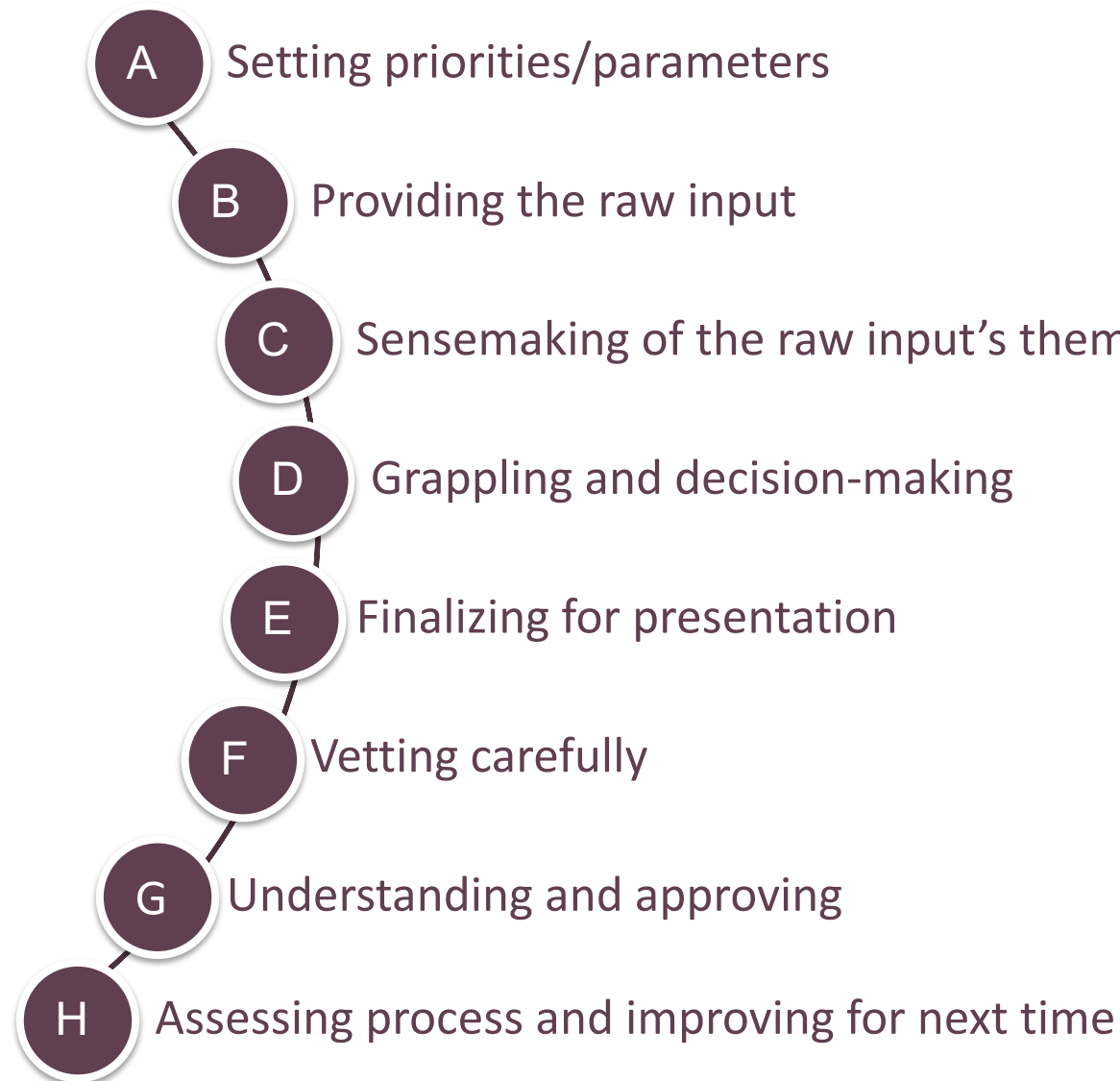
# 4 elements of a budget that drive its quality

1. The process to develop it, including who is involved
2. Its content
3. Its format
4. How it's operationalized



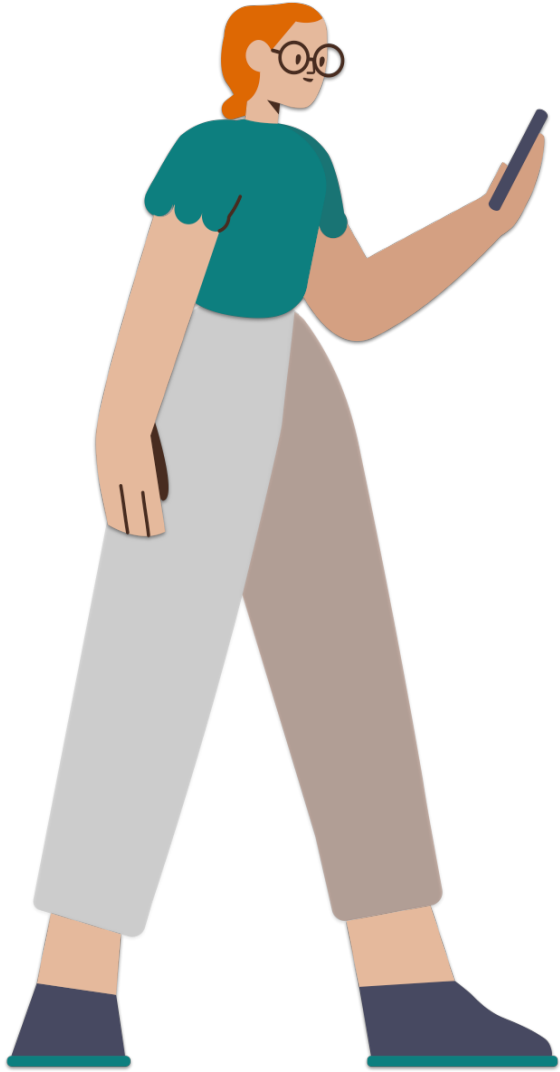
**If you want a different result, adjust the levers above.**

# Unpacking budget development



Always know where you are in the process and who needs to be involved.

# About the “budget manager” role



- ▷ Typically a role within a position: Finance Director, CFO, or COO
- ▷ May be CEO, consultant, or skilled administrative staff in small organizations
- ▷ Builds and manages the budget workbook, typically in Excel
- ▷ Collects and enters raw input
- ▷ Organizes, sorts, and weaves input from multiple sources
- ▷ Raises tensions for discussion and decision-making
- ▷ Updates drafts until ready for presentation



**Q: Should the annual budget balance?**

**A: NO!!**

- ▷ This budget is not for a program or a funder, it's for you
- ▷ You will either make money or lose it
- ▷ There is a time and place for both surplus and deficit



# Annual budget should be cost center based

- ▷ Cost centers as columns
- ▷ Understand full costs and sources of support
- ▷ Anticipated surplus/deficit are clear
- ▷ Organization as a portfolio of activities
- ▷ Discourage competitive view
- ▷ Promote holistic view

	Prog A	Prog B	Admin	Fund Dev	Total
<u>Income</u>					
Grants					
Fees					
<u>Expense</u>					
Compensation					
Occupancy					
<u>Net</u>	\$18,450	-\$10,000	-\$40,000	\$85,000	\$53,450

# Getting good raw input

Income numbers should  
come from those who  
influence them most

\$

Big ticket expense items:



Compensation/benefits, incl.  
hiring/ turnover assumptions



Contracted services



Occupancy



Business model specific items, e.g.  
cost of goods sold

# Pulling the pieces together



- ▷ Step back to make sense of the initial draft
- ▷ Identify open questions and gaps
- ▷ Check against the priorities and parameters
- ▷ Ready for decisions or another round of input

**A time for financial leadership**

# How much uncertainty can we accept?



- ▷ A budget with some unidentified income is common
- ▷ Be very clear and transparent on:
  - Committed funds
  - Likely but not committed funds
  - Identified but not yet likely funds
  - Unidentified funds
- ▷ Consider recent years' performance
- ▷ Evaluate risks and alternatives
- ▷ Option: pass a budget with a commitment to come back with v.2

# What's the board's role?

- ▷ Finance Committee does the deep dive and review of drafts
- ▷ Grounding in goals, priorities, and parameters
- ▷ Full board adopts the budget recommended by the Finance Committee
- ▷ Full board should understand the key assumptions and risks, ask good questions, but be careful of “late in the game” unproductive questions



## Operationalizing the budget once passed

Share accurate, timely  
budget-to-actual reports  
with staff and board



Encourage autonomy and  
accountability across staff  
managers



Create venues for  
productive conversations  
about budget variance



# The challenges of syncing with fundraising



Timing and recognition differences:

- ▷ Restricted grants
- ▷ Multi-year grants
- ▷ Pledges
- ▷ Capital grants



- ▷ Teach board and staff that these differences are legitimate and inevitable
- ▷ Create written/verbal reporting formats that accommodate the difference

# Should the budget be revised?

- ▷ Not generally
- ▷ Do a mid-year deep review
- ▷ Add a year-end projection column to your reports to present anticipated year-end

## Report at 6 months into FY

	YTD Actual	YTD Budget	Variance	Y/E Budget	Y/E Projection
<u>Income</u>					
Grants					
Fees					
<u>Expense</u>					
Compensation					
Occupancy					
<u>Net</u>	\$18,776	\$26,725	-\$7,949	\$53,450	<u>\$49,950</u>



# Nurturing a healthy budgeting culture



Tool for leadership development; learning the business



Do not pit:

- ▷ Programs against each other
- ▷ Board against staff
- ▷ Finance director against staff



Foster accountability AND keep everyone focused on the overall business model

Q & A

# Thank you for joining us!

Please complete your brief evaluation.  
Please consider becoming an *NPQ* Leading Edge Member.

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