



# NONPROFIT FINANCE FUNDAMENTALS

## Nonprofit Budget Basics

**YOUR**  
**PART-TIME**  
**CONTROLLER®**  
The **NONPROFIT** financial specialists™

# ABOUT THIS SESSION

**Session Goal:**  
Share our best  
tips for planning  
a successful  
budget process



**SANDRA MAGRI**

**Manager**

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# LEARNING OBJECTIVES



The **NONPROFIT** financial specialists™

1

Introduce and define **different types of budgets**

2

Provide an overview of **the budget process**

3

Share the importance of using the **budget as a management tool**

4

Introduce the concept of **surplus budgeting**

# FINANCIAL STATEMENT TERMINOLOGY AND CONCEPTS



## Fiscal Year

12-month period that an organization uses to report its finances



## General Ledger

Recordkeeping tool that houses all of the organization's financial transactions



## Chart of Accounts

Listing of all accounts within an organization's accounting information system



## Internal Controls

System of policies, procedures, and protocols designed to protect the organization's assets and prevent errors



## Generally Accepted Accounting Principles - GAAP

Common accounting rules and regulations in the United States for financial reporting

There are  
**two** main  
**accounting**  
**methods**

## Cash Basis

### Non-GAAP

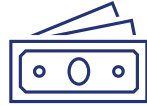
Reports only how much cash is received or disbursed during a period

## Accrual Basis

### GAAP

Records revenue when earned and expenses when incurred, regardless of when cash is received or paid

## Cash Basis



- Accounts for cash transactions only
- Simple
- Not as accurate or complete
- Useful when accrual amounts are not significant
- Not useful for comparative purposes
- **Not GAAP**

## Accrual Basis



- Accounts for cash items and amounts due to/from others
- More complex
- More accurate and complete
- Useful when accrual amounts are significant
- Useful (and essential) when comparing to budget
- **GAAP**

## Balance Sheet Accounts

- **Assets:** resources owned by an organization which benefit future periods (things owned)
- **Liabilities:** business obligations (things owed)
- **Equity/Net Assets:** assets left over after liabilities are subtracted

## Income Statement Accounts

- **Revenues:** amounts earned and/or contributed
- **Expenses:** costs incurred as a result of doing business



## Accounting Equation

$$\text{ASSETS} = \text{LIABILITIES} + \text{EQUITY}$$





## Functional Expense Classifications

- Expenses must be tracked and reported by both **nature** and **function**
- Two major functional categories:
- **Program Services:** activities that result in delivering goods and services to beneficiaries and fulfill the purpose or mission of the organization
- **Supporting Activities:** all other activities, such as:
  - Management and general
  - Fundraising
  - Membership development



## Cost Allocations

- The process of spreading shared expenses across activity centers, departments, or programs
- Costs can be **direct** or **indirect**
  - **Direct costs:** directly identifiable to a specific program or activity
  - **Indirect costs:** benefit more than one objective and cannot be readily identified to a single program or activity
- Costs might be allocated on the basis of time and effort, number of employees, square footage, or other methods



- Requires all involved to think through what they plan to do and how they will do it - accountability
- Helps a nonprofit organization plan for the best use of limited funds to fulfill its mission
- Provides a tool from which management can monitor deviations
  - A nonprofit board has a stewardship responsibility
- If designed well, an operating budget can serve as a model for building other budgets

## What is a budget?

1. Something with a lot of numbers in it
2. An itemized estimate of expected income and expenses for a given period in the future
3. A plan of action expressed in monetary terms - a **financial plan**
4. A tool to monitor an organization's financial activities
5. Where the rubber meets the road!

**A budget is ALL of these things!**



There are other types of budgets in addition to an operating budget

- **Capital budgets**
- **Project budgets**
- **Cash forecasts**
- **Master plans**

Let's look at examples of these



## Capital budget

- A capital budget is used to plan for the acquisition or maintenance of fixed assets such as land, buildings, improvements, furniture, or equipment

ABC Agency Capital Budget FYE December 31, 2022						
Item	Budget Line	Program Category	Projected In-service Date	Projected Useful Life	Amount	Justification
Phone system	Office Equipment	Administration	January	7 years	35,000	Replaces outdated system
Asphalt shingle roof	Buildings and Improvements	Administration	March	20 years	20,000	Replace admin building roof
Handicap van	Equipment	Adult Transportation	March	5 years	45,000	For transportation program
Concrete paving	Buildings and Improvements	Supportive Housing	March	15 years	10,000	Resurface pedestrian walk at senior center
Shade structures	Furniture & Fixtures	Supportive Housing	May	7 years	5,000	Shade structures for senior center
Break room furniture	Furniture & Fixtures	Administration	April	7 years	2,500	Furniture for staff break room
Total, Capital Expenditures					117,500	

## Project budget

- A project budget reflects spending for a specific project or activity, and is usually prepared in conjunction with funding requests

Budget Summary							
ABC Agency							
Food storage shed							
Project Period: 1/01/2022-12/31/2024							
	Year 1		Year 2		Year 3		Total
Budget Category	Request	Match	Request	Match	Request	Match	Project
A. Personnel	5,000	5,000	5,000	5,000	5,000	5,000	30,000
B. Fringe Benefits	1,250	1,250	1,250	1,250	1,250	1,250	7,500
C. Travel	500	500	500	500	500	500	3,000
D. Equipment	12,500	12,500	12,500	12,500	12,500	12,500	75,000
E. Supplies	1,500	1,500	1,500	1,500	1,500	1,500	9,000
F. Contractual	3,000	3,000	3,000	3,000	2,500	2,500	17,000
G. Construction	5,000	5,000	2,500	2,500	2,000	2,000	19,000
H. Other Direct Costs	1,500	1,500	1,500	1,500	1,750	1,750	9,500
I. Total Direct Costs	30,250	30,250	27,750	27,750	27,000	27,000	170,000
J. Total Indirect Costs	5,000	5,000	5,000	5,000	5,000	5,000	30,000
K. Total Project Costs	35,250	35,250	32,750	32,750	32,000	32,000	200,000

## Cash forecast

- A cash forecast is a tool to help an organization forecast its **ending cash balance**
- It combines actual and forecast amounts for **comparison against an organization's operating budget**
- It aids in cash flow planning:
  - When an organization might need to borrow from its line of credit?
  - When to expect payments from funders?
  - When to plan capital expenditures?

**Let's look at an example**

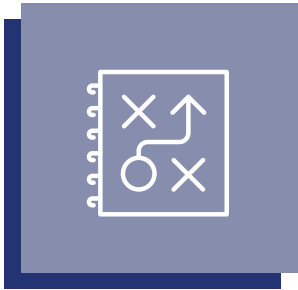






## Cash forecast example

NFP Food bank														
Cash Forecast using 2022 Budget														
	FORECAST												FORECAST	BUDGET
	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	TOTAL	TOTAL
<b>REVENUE</b>														
Total Revenue	14,500	14,500	62,500	90,000	77,000	120,000	127,500	397,500	79,500	65,000	75,000	102,000	1,225,000	1,225,000
<b>EXPENSES</b>														
Salaried staff	21,875	21,875	21,875	21,875	21,875	21,875	21,875	21,875	21,875	21,875	21,875	21,875	262,500	262,500
Hourly staff	5,250	5,250	13,125	13,125	31,500	39,375	52,500	39,375	31,500	13,125	13,125	5,250	262,500	262,500
12% Payroll taxes	3,255	3,255	4,200	4,200	6,405	7,350	8,925	7,350	6,405	4,200	4,200	3,255	63,000	63,000
8% Benefits	2,170	2,170	2,800	2,800	4,270	4,900	5,950	4,900	4,270	2,800	2,800	2,170	42,000	42,000
Facility repairs/maintenance	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	8,750	105,000	105,000
Garden and grounds	7,917	7,917	7,917	7,917	7,917	7,917	7,917	7,917	7,917	7,917	7,917	7,917	95,000	95,000
50% Cost of merchandise sold	1,000	1,000	2,500	2,500	6,000	7,500	10,000	7,500	6,000	2,500	2,500	1,000	50,000	50,000
Professional fees	1,120	1,120	2,800	2,800	6,720	8,400	11,200	8,400	6,720	2,800	2,800	1,120	56,000	56,000
Utilities	7,000	7,000	5,000	4,000	4,000	5,000	7,000	7,000	5,500	5,000	5,000	6,500	68,000	68,000
Marketing and promotion	960	960	2,400	2,400	5,760	7,200	9,600	7,200	5,760	2,400	2,400	960	48,000	48,000
Supplies	360	360	900	900	2,160	2,700	3,600	2,700	2,160	900	900	360	18,000	18,000
Interest expense													-	-
Depreciation	12,500	12,500	12,500	12,500	13,125	13,125	13,125	13,125	13,125	13,125	13,125	13,125	155,000	155,000
<b>Total Expenses</b>	<b>72,157</b>	<b>72,157</b>	<b>84,767</b>	<b>83,767</b>	<b>118,482</b>	<b>134,092</b>	<b>160,442</b>	<b>136,092</b>	<b>119,982</b>	<b>85,392</b>	<b>85,392</b>	<b>72,282</b>	<b>1,225,000</b>	<b>1,225,000</b>
<b>CHANGE IN NET ASSETS</b>	<b>(57,657)</b>	<b>(57,657)</b>	<b>(22,267)</b>	<b>6,233</b>	<b>(41,482)</b>	<b>(14,092)</b>	<b>(32,942)</b>	<b>261,408</b>	<b>(40,482)</b>	<b>(20,392)</b>	<b>(10,392)</b>	<b>29,718</b>	-	-
<b>CASH FLOW ADJUSTMENTS:</b>														
Depreciation	12,500	12,500	12,500	12,500	13,125	13,125	13,125	13,125	13,125	13,125	13,125	13,125	155,000	
Purchase of fixed assets				(75,000)									(75,000)	
Change in receivables:														
Buffy Foundation								(200,000)					(200,000)	
Target Foundation					25,000								25,000	
Change in payables												36,141	36,141	
Line of credit													-	
Net cash flow adjustments	12,500	12,500	12,500	(62,500)	38,125	13,125	13,125	(186,875)	13,125	13,125	13,125	49,266	(58,859)	
<b>NET CASH FLOW</b>	<b>(45,157)</b>	<b>(45,157)</b>	<b>(9,767)</b>	<b>(56,267)</b>	<b>(3,357)</b>	<b>(967)</b>	<b>(19,817)</b>	<b>74,533</b>	<b>(27,357)</b>	<b>(7,267)</b>	<b>2,733</b>	<b>78,984</b>	<b>(58,859)</b>	
Beginning Cash	125,000	79,843	34,687	24,920	(31,347)	(34,703)	(35,670)	(55,487)	19,047	(8,310)	(15,577)	(12,843)		
Ending cash	<b>79,843</b>	<b>34,687</b>	<b>24,920</b>	<b>(31,347)</b>	<b>(34,703)</b>	<b>(55,487)</b>	<b>19,047</b>	<b>(8,310)</b>	<b>(15,577)</b>	<b>(12,843)</b>	<b>66,141</b>			



## Master plan

- In a master plan the focus is on goal-setting

Master Plan Example					
ABC Agency					
Master Plan, 2021 through 2025					
	2021	2022	2023	2024	2025
<b>Goals and Objectives</b>					
Develop activity program for senior center	20,000	30,000	35,000	40,000	42,500
Work with other diabetes education centers	-	10,000	15,000	15,000	15,000
Develop computer training program for seniors	15,000	20,000	20,000	25,000	25,000
Purchase building for housing program	-	450,000	-	-	-
Explore immunization project	10,000	15,000	-	-	-
<b>Total</b>	<b>45,000</b>	<b>525,000</b>	<b>70,000</b>	<b>80,000</b>	<b>82,500</b>
<b>Sources of Income</b>					
Individual contributions	10,000	10,000	10,000	7,500	7,500
Foundation grants	25,000	30,000	15,000	20,000	20,000
Capacity-building grants	15,000	45,000	25,000	25,000	25,000
Building campaign	-	425,000			
Program Fees	21,000	30,000	33,000	39,000	40,500
<b>Total</b>	<b>71,000</b>	<b>540,000</b>	<b>83,000</b>	<b>91,500</b>	<b>93,000</b>
<b>Projected Surplus</b>	<b>26,000</b>	<b>15,000</b>	<b>13,000</b>	<b>11,500</b>	<b>10,500</b>

## An operating budget:

- Projects amounts for an organization's income and expense items for a specific period (usually the upcoming fiscal year)
- States **realistic goals** or objectives for the coming period
  - Think: “NO MONEY, NO MISSION”
- Provides a **benchmark or comparison point** upon which management can monitor performance



## Who should be involved in creating the operating budget?

- The CFO or Controller
- Program staff
- Development staff
- Executive Director / CEO
- Board of Directors / Finance Committee

**ALL of these folks should be involved in the budget process!**



## Typical responsibilities during the operating budget process

CFO/Controller	Program Staff	Development Staff	ED/CEO	BOD
Budget compilation	Estimate direct program costs and revenues	Project fundraising goals from donations	Oversight of the budget process	Budget policy decisions, and final budget approval
Budget to actual reporting and analysis throughout the year	Accountable for controllable costs	Project funding from grant awards	Review reports, develop KPIs, recommend actions	Monitor and address budget deviations

**All members must be aware of goals and work together to achieve them**

- ***KPIs = Key Performance Indicators***

## Examples of policy decisions that impact the budget process

- Programs that should be kept, expanded, or cut?
- Changes in program fees/ticket prices/levels of service
- Personnel raises / bonuses
- Equipment purchases or repair needs
- The board's desired level of reserves
  - What is the board's **Liquidity Policy**; how many days of operating expenses do they strive to maintain?
- Allocation methodologies based on the organization's Cost Policy

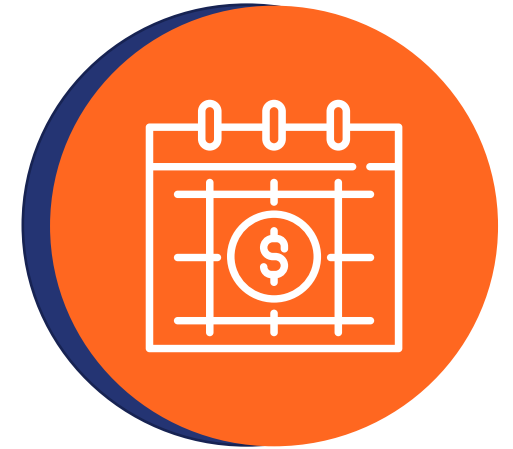
## Steps in the operating budget development process:

1. **Develop** budget calendar
2. **Evaluate** current performance
3. **Establish** program and organizational goals
4. **Distribute** budget templates
5. **Develop** expense budget items
6. **Develop** income budget items
7. **Review** budget draft
8. **Approve** budget
9. **Distribute** approved budget
10. **Implement** and monitor budget



## Step #1: Develop budget calendar

- **Develop due dates** for each phase of the operating budget
  - The goal should be that the budget is approved before the beginning of the fiscal year
- **Communicate** the budget calendar and expectations to staff
  - Mention the process and goals at staff meetings and invite discussion
- Try to initiate the budget process at the **same time each year**





## Step #2: Evaluate current performance

- Review current year income and expense compared to budget
  - Forecast to the end of the year
  - Evaluate programs, fundraising goals, and admin functions; how close were amounts to budget?
  - Document major budget variances; what were the reasons?



## Step #3: Establish program and organizational goals

- **Start with your organization's strategic plan**
- **Identify the coming year's program and organizational goals**
  - **Program goals** - Will programs continue at the same level? Any new program initiatives?
  - What are the organization's financial goals?
- **Management will need to establish or reaffirm:**
  - An appropriate goal for the following year's ending cash or liquid reserves
  - An acceptable range of operating reserve amounts that could be available for the following year
  - Reasonable cost allocation methodologies

## Step #4: Distribute budget templates

- **Assign budget segments**
  - **Development staff** – contributed revenue
  - **Program staff** – program income and related program expenses
  - **Managerial staff** – administrative expenses
  - **Managerial staff** – personnel details
- **Prepare templates**
  - Try to maintain the same format for all templates
- **Communicate** due dates for budget templates



# SAMPLE BUDGET TEMPLATE



ABC Agency							
Budget Template for Supportive Housing Program							
FYE December 31, 2022							
	YTD 2021	Forecast 2021	Total 2021	Budget 2021	Over/(Under) 2021	Budget 2022	Budget Justification
<b>Revenues</b>							
Grants	600,000	125,000	725,000	700,000	25,000		
Fees for Service	40,000	15,000	55,000	50,000	5,000		
Special Events			-	-	-		
Donations			-	-	-		
Investment Income			-	-	-		
<b>Total Revenues</b>	<b>640,000</b>	<b>140,000</b>	<b>780,000</b>	<b>750,000</b>	<b>30,000</b>	-	
<b>Expenses</b>							
<b>Direct Costs:</b>							
Salaries & Wages	179,250	59,750	239,000	239,000	-		
Taxes & Benefits	36,712	12,237	48,949	48,949	-		
Program Costs	16,000	4,500	20,500	19,866	634		
Client Assistance	4,000		4,000	3,000	1,000		
Program Facility Costs	187,500	65,000	252,500	250,000	2,500		
Program Insurance	15,000	5,000	20,000	20,000	-		
<b>Total Direct Costs</b>	<b>438,462</b>	<b>146,487</b>	<b>584,949</b>	<b>580,815</b>	<b>4,134</b>	-	
<b>Indirect Costs:</b>							
Salaries & Wages	31,705	19,568	51,273	47,273	4,000		
Taxes & Benefits	7,575	2,525	10,100	10,100	-		
Facility Costs	51,430	17,144	68,574	68,574	-		
Insurance	6,000	500	6,500	6,234	266		
Office Supplies	500		500	-	500		
<b>Total Indirect Costs</b>	<b>97,210</b>	<b>39,737</b>	<b>136,947</b>	<b>132,181</b>	<b>4,766</b>	-	
<b>Total Expenses</b>	<b>535,672</b>	<b>186,224</b>	<b>721,896</b>	<b>712,996</b>	<b>8,900</b>	-	
<b>Surplus (Deficit)</b>	<b>104,328</b>	<b>(46,224)</b>	<b>58,104</b>	<b>37,004</b>	<b>21,100</b>	-	

## Step #5: Develop expense budget items

- Line items should correspond to expense lines from financial reports/chart of accounts
  - Use prior year actuals and current year forecasts
  - Disseminate line items to appropriate staff
- Negotiate
  - Some items can be controlled (staff snacks) but others cannot (insurance)
- Document key budget assumptions
  - “3% rate increase for training instructors”
  - “Projecting 10% increase in health benefits costs”



## Step #6: Develop income budget items

- **Line items should correspond to income lines from financial reports/chart of accounts**
  - Segregate contributed income from earned income
  - Follow GAAP when developing income amounts
  - Use prior year actuals and current year forecasts
    - **Combine those amounts with estimates for new initiatives/appeals/funding sources**
- **Amounts should be conservative; consider economic conditions**
- **Document key budget assumptions**
  - “Ticket sales reflect 3% price increase and 5% projected increase in sales”
  - “Projecting 10% decrease in individual donations”
- **Do not forget in-kind donations!**



## Step #7: Review budget draft

- **Verify the budget draft meets program and organizational goals**
  - **The Board (or a committee of the Board)** should review and discuss assumptions
  - Never try to **“plug”** a deficit by assuming that contributions will cover a shortfall
  - The board may send the budget draft back to staff for adjustments
- **Did you know?**
  - A nonprofit may budget for a deficit if it anticipates spending down donor restricted net assets from prior periods



## What questions might you have if presented with this budget?



ABC Agency Annual Budget Summary FYE December 31, 2022						
	Supportive Housing	Older Adult Transportation	Diabetes Ed & Mgmt.	Fundraising	General & Administrative	Total Agency Budget
<b>Revenues</b>						
Grants	700,000	150,000	125,000	-	-	975,000
Fees for Service	50,000	3,000	20,000	-	-	73,000
Special Events	-	-	-	125,000	-	125,000
Donations	-	-	-	24,000	-	24,000
Investment Income	-	-	-	-	5,000	5,000
<b>Total Revenues</b>	<b>750,000</b>	<b>153,000</b>	<b>145,000</b>	<b>149,000</b>	<b>5,000</b>	<b>1,202,000</b>
<b>Expenses</b>						
Salaries & Wages	286,273	30,909	101,818	80,000	130,000	629,000
Taxes & Benefits	59,049	9,890	25,040	15,860	22,435	132,273
Program Costs	19,866	74,498	5,960	20,000	-	120,324
Client Assistance	3,000	-	4,000	-	-	7,000
Facility Costs	318,574	8,558	17,138	7,865	7,865	360,000
Insurance	26,234	779	1,558	714	714	30,000
Office Supplies	-	-	-	-	10,000	10,000
<b>Total Expenses</b>	<b>712,995</b>	<b>124,634</b>	<b>155,514</b>	<b>124,439</b>	<b>171,014</b>	<b>1,288,597</b>
<b>Surplus (Deficit)</b>	<b>37,005</b>	<b>28,366</b>	<b>(10,514)</b>	<b>24,561</b>	<b>(166,014)</b>	<b>(86,597)</b>



## Step #8: Approve budget

- **The budget should be approved by the Board**
  - Some organizations delegate the budget review to a “budget committee” and the committee submits the budget to the full Board for discussion and approval
- **Once approved, changes should not be made without Board approval**



## Step #9: Distribute approved budget

- **Distribute copies of the approved budget to staff**
  - Anyone who will be held accountable for budget performance should receive a copy
  - Include budget justifications
    - They provide a record to help staff prepare next year's budget
    - They educate staff who may step into the process in the future



## Step #10: Implement and monitor the approved budget



- **Input the approved budget into the accounting information system**
  - Annual budget amounts will need to be spread across the budget year for monthly comparison purposes
  - Break out the budget in the accounting system by program/department
  - Options
    - **Monthly** – divide budget line item amount by 12
    - **Quarterly** – divide budget line item amount by 4
    - **Prior Year** – allocate line item amount based on prior year actuals
    - **Special** – assign based on seasonality or other process (e.g. summer camp program, winter gala, sprint exhibit, etc.)

## Recognizing “red flags”



To be effective, budget amounts must be compared to actual results **on a timely basis** (every month!)



Let's look at some “**red flags**” that may indicate to management that there are problems

## Indications of financial trouble

<b>Declining support</b>	<b>Declining financial independence</b>	<b>Postponing current costs</b>	<b>Ineffective governance</b>
Decline in individual gifts or membership dues	Reliance on a few major funding sources	Deferring needed maintenance of fixed assets	Continuing budget variances
Decline in response to grant requests	Growing debt / ongoing deficits	Inability to make payroll	Failure of management to act
Criticism of organization by the public	Growing revenues committed to meet match requirements	Selling investments to meet current expenses	“Borrowing” from donor-restricted funds



...while grants and contracts are designed to break even, organizations are not. Healthy organizations require cash reserves, which means they must generate excess cash in at least some of the years.

- Jeanne Bell, co-author of *The Sustainability Mindset*



**Nonprofits cannot just “survive”  
to carry out their mission.**

## What is surplus budgeting?

- Surplus budgeting means just what it sounds like – **budgeting for a surplus (or profit)**
- A surplus budget lays out a plan to spend less money than received
- By building **reserves a nonprofit has a better chance to**
  - **Survive economic recessions or declines in operations**
  - **Plan for long-term investments such as new programs or capital expenditures**
- Operational surplus is most often generated from unrestricted revenues





- **Budgets** can be an effective tool to help nonprofit management **assess its ability to fulfill its mission**
- A budget forces an organization to **establish goals and objectives to know where it is heading**
- A budget should be **supported by all members of the organization**
- To be effective, budgets must be **compared to actual results on a timely basis**





The **NONPROFIT** accounting specialists™

## CONTACT US



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# QUESTIONS?

