

Nonprofit Budget Guide

*How to simplify &
streamline this
essential tool for
**Organizational
Success.***

RULES for successful nonprofit budgeting • STEPS to follow to do it right.



The Reality of Nonprofit Budgeting

Creating a budget for your nonprofit, using it to prioritize your investments, and keeping it up to date **can seem like an overwhelming challenge** – especially, if you have mixed-purpose funds or if your sources of revenue are constantly in flux.

However, **this essential tool can be a game changer** if you **first understand the rules** to doing it right, **then follow the six steps** to create it.

The most important thing to remember is that your budget will be wrong. Don't try to get it perfect. You can't predict the future, so that's not the goal. The goal is to provide a plan for the organization to move forward and each time you do a budget you'll get smarter.

TABLE OF CONTENTS

The Importance of a Nonprofit Budget	3
11 Essential Rules of Nonprofit Budgeting	6
6 Steps to Nonprofit Budgeting	18
The Impact of Successful Budgeting	24

Why Is it necessary?

The Importance of Nonprofit Budgeting

A nonprofit budget is a financial document that outlines how **your organization plans to spend its money** – it's a breakdown of your anticipated revenue along with direct expenses like programs, events, and fundraisers in addition to your overhead operating expenses- such as employee costs, utilities, and rent.

When you know how to leverage this financial document properly, the budget can help your nonprofit...

- Align Your Operations Around Short and Long-Term Goals
- Allow You to Fine-Tune Your Strategy
- Aid Informed Decision Making
- Facilitate Better Board Meetings
- Improve Fundraising Efforts With Informed Donors
- Keep the Organization on Track Financially





Align Your Operations

A proper budget helps to align your use of funds and entire operation around both short and long-term strategic goals. In a nonprofit, your operations and calendar of events depend entirely upon the availability of resources.

With a budget, you can determine spending limits for programs, prioritize your programs, keep costs in balance with revenue, and ensure every dollar of revenue is spent in a way that will maximize its impact. **Arranging your budget strategically will enable you to successfully serve and achieve your mission.**



Fine-Tune Your Strategy



As you start operating according to your budget, you'll have a baseline to help you prioritize your strategy and guide your decision making as you go along. A budget acts as a reference point in a nonprofit organization, as it establishes a written operational expectations for everyone.

As your fiscal year progresses, you should continuously revisit the budget, comparing your expectations to the actual events of the year to adjust and revise the budget, strategy, and goals as is necessary.



Aid Informed Decision Making

Along with financial reports and your board/management reports, budgets vs. actual enables nonprofit leaders to **make data-driven decisions to improve overall operations, efficiency, growth, and success.**

Accurate financial reports allow you to compare your actual numbers to the expectations set forth in your budget. This allows you to make real-time decisions to **keep all your programs and operations on track to achieve your short and long-term goals.**



For example, this can help you gain insight into whether you can afford to hire a new employee, whether you can afford to spend money on new equipment or resources for your programs or dedicate additional resources to expanding your mission.

Facilitate Productive Board Meetings



Paired with clear and accurate financial reports, a nonprofit budget will result in faster, more effective board meetings.

A budget allows board members to quickly **compare your goals and expectations for program performance** to the reality of how efficiently (or inefficiently) each of your programs is running.

11 Essential Rules for Nonprofit Budgeting

#1 Start Early and Devise a **PROCESS**
Start with enough time to gather data & obtain relevant input from all stakeholders.

#2 **CONTEXT Is Key**
Take the time to evaluate your program's financial trends.

#3 Use Your **NUMBERS, Not Your Gut**
Create a separate document where you note all assumptions and your logic.

#4 Budgeting Is a **GROUP PROJECT**
Getting everyone's input will help you create a more accurate budget.

#5 Use Realistic **REVENUE Estimates**
Contact your past corporate and foundation donors.

#6 Sort Out Your **EXPENSES**
Focus on keeping fixed and variable costs separated.

#7 Prioritize **CASH FLOW Management**
Develop and review a cash flow forecast for the upcoming year.

#8 Timely, **ACCURATE Data Is Essential**
Establish and maintain effective accounting standards and processes.

#9 Include **NON-MONETARY Contributions**
This will ensure your 990 is accurate come tax time.

#10 **SHOESTRING Budgets Are Risky**
Devise a budget that results in a 3-5% annual surplus.

#11 Monitor Your Budget vs. **ACTUALS**
Each month, compare your predicted numbers to your actual numbers

#1

Start Early and Devise a Process

It's never too late to start a budget. Ideally you start working on your nonprofit's budget a few months before the beginning of the new fiscal year.

This means devising a budgeting process in which you have enough time to gather data, obtain relevant input from stakeholders, present the budget to the board, and once approved, present the budget to the rest of your team.

Having a sound budgeting process will also simplify the ongoing maintenance and revision of your forecasts throughout the year.

Typically, you create an annual budget that, once approved, never changes. You then can update revised forecasts on a quarterly basis. This way, you can see what you originally thought was going to happen and how that changed along the way.

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Starting early and devising a process **simplifies the ongoing maintenance and revision of your forecasts** throughout the year.

#2

Context Is Key.

Although a budget is a future-based financial document, understanding and working from your nonprofit's current frame of reference is essential to increasing budget accuracy with forecasting based on past performance and trends.

Before building your budget, take the time to look at your program's financial trends over the past two years. Consider whether each program has consistently covered its costs, generated revenue, or if it repeatedly results in a financial loss and contributes to overhead expenses.



Take the time to **evaluate your program's financial trends.**



[Nonprofits That Make Data-Driven Decisions at Budget Time Have Better Outcomes](#)

#3

Use Your Numbers, Not Your Gut.

Sure, it's impossible to know every number in your budget, and you will, inevitably, need to include some assumptions. However, whenever possible, work from the numbers included in your past year's budget (*especially, those that have been revised and adjusted for accuracy*) and include vendor and partner quotes as often as you can.

When you must make assumptions, or estimates, in your budget, **create a separate document where you note all assumptions and your logic** behind the numbers you have included. This will ensure you have a quick answer for your board members when they question the origin of any number included in your budget.

If this is your first budget, you won't have any previous numbers to work from. In this case, do your best to create a list of potential expenses, make educated assumptions about their costs, and **devise a best and worst-case budget scenario to ensure you're well-prepared**- no matter what happens in the upcoming fiscal year.



This will ensure you have a **quick answer** for your **board members** when they question the origin of any number included in your budget...

#4

Budgeting Is a Group Project.

Don't try to create a budget on your own. Enlist the help of key team members- including your program managers, finance committee, and any employees that make decisions.

Everyone has helpful information to contribute and getting everyone's input through a team effort will help you create a more accurate budget.



Making it a team effort will help you create a more accurate budget.



#5

Use Realistic Revenue Estimates.

On your budget, it's essential that you forecast income as accurately as possible. In a nonprofit, however, revenue can be one of the most challenging items to forecast.

While you want to maintain an optimistic outlook for your organization, be careful not to reflect too much optimism in your budget. **It's better to budget realistically and exceed expectations.** Be sure you know exactly where that money is coming from.

Examine your past income sources to look for trends and remove any past sources you think will be unlikely to donate again. **Before writing down any figures, contact your past donors to determine whether you can expect future gifts.**

Go a step further to streamline the budgeting process by implementing a repeat donor giving program that asks for a monthly, quarterly, or annual commitment. This can help you create more consistent and predictable revenue streams.

Over **79%** of donations come from individual donors.^[1]

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Most Nonprofits believe foundations, events and corporations are the best way to raise money.
When in fact- it is the complete opposite!

[1] <https://givingusa.org/giving-usa-2020-charitable-giving-showed-solid-growth-climbing-to-449-64-billion-in-2019-one-of-the-highest-years-for-giving-on-rec>

#6

Sort Out Your Expenses.

Once you have figured out your budgeted revenue, you can turn your attention to expenses. Look at the past year and vendor quotes to estimate the expenses for your upcoming year. As you do this, **keep fixed and variable costs separated.**

Fixed costs include items that remain the same such as salaries, loan payments, insurance, and rent. Variable costs include those that fluctuate in response to the volume of your activities or operations (program materials, contractors). Variable costs can increase or decrease with respect to the situation, and this gives you some control over these costs. As a result, you'll make more decisions around variable costs to set limits and adjust operations accordingly.

Additionally, you should also **separate your operational budget from your capital budget.** An operational budget includes ongoing expenses and programs that reflect your current goals and strategies. These types of budget items also only affect the current year. For example, plans to revamp your website, launch a new program, or purchase new computers should be included in your operating budget because they are isolated expenses that reflect your goals for the current year.

Larger projects, such as the construction of a new building, would be included on a capital budget because these big, one-time spends have ongoing effects that continue from year to year as you pay them off.



Focus on keeping **fixed and variable costs separated.**

#7

Prioritize Cash Flow Management.

Cash flow forecasting is one of the most important tools and tasks for nonprofit operations. Cash flow is the measurement of the free cash flowing in and out of your nonprofit at any given time.

Cash flow forecasting and management break down your budget by month to **look at the expected timing of revenue and expenses to predict and prepare for cash flow shortages** that could otherwise gum up your operation- putting your mission on hold indefinitely.

For example: if you expect to have major expenses occur in the first few months of the year, but don't expect most of your revenue until your end-of-year giving campaign, then you could potentially encounter a cash flow shortage that forces your mission into a stand-still.

You should **work directly with your board members and finance committee to develop and review a cash flow forecast for the upcoming year.** Discuss and evaluate the nonprofit's past cash flow trends and determine which assumptions you can reasonably use.



Work directly with your board members and finance committee to **develop and review a cash flow forecast** for the upcoming year.

#8

Timely, Accurate Data Is Essential.

The majority of these rules assume your nonprofit has a robust back office in place. This allows you to obtain timely and accurate data on which you can base your expenses, revenue, budget, and cash flow forecasts.

A robust back office that collects, categorizes, and reports data accurately and efficiently enables you to minimize the assumptions you make when creating your nonprofit budget.

If your back office isn't up to par, then you not only won't be able to budget accurately, but you will also wind up spending more time on bookkeeping and accounting operations than is necessary, wasting your valuable time and resources on these operational tasks.

You must establish and maintain effective bookkeeping and accounting standards and processes to **save time and resources, protect your nonprofit from fraud risks, improve operations, generate accurate financial data, budget accurately, and improve cash flow forecasts to avoid future deficits.**

Every sound accounting system includes a chart of accounts that classifies the sources of revenue and the types of expenses you incur. You should use the same categories in your budget to easily generate financial reports for use in your board meetings and even demonstrate your prudent use of resources to donors.



You must establish and maintain effective bookkeeping and accounting **standards and processes.**

#9

Remember to Include Non-Monetary Contributions.

Non-monetary contributions such as in-kind donations of goods or services, including volunteer hours, don't cost your organization a cent, but they do add a lot of value. It's essential that you include these items on your budget so that they are accurately accounted for and so they net out to a zero-dollar value.

Be sure to estimate these types of costs and revenue at a fair market value in your budget to ensure your tax Form 990 is accurate.

For example, if the rent for donated office space (or office space provided by a parent nonprofit organization) is valued at \$1000 per month, then you should include this \$1000 per month in your budget as both an expense and revenue so that the two-line items cancel each other out.



It's essential that you include these items on your budget so that they are accurately accounted for and so **they net out to a zero-dollar value.**



Everything Nonprofit Leaders Need to Know About In-Kind Donations

#10

Shoestring Budgets Are Risky Budgets.

Many nonprofit leaders take pride in having the ability to operate on an extremely tight budget. Others might be wary of the perception that a budget surplus might make it seem that they aren't making the best use of their funds.

However, although it is sometimes necessary, operating on a shoestring budget is not something to be proud of because **doing so** essentially puts your organization at risk while also stifling your ability to innovate, reinvest, and grow.

Try to devise a budget that results in a three to five percent annual surplus. This surplus should be sufficient to cover your debt obligations and depreciation while adding a bit of cash to your operating reserve (which should already contain enough cash padding to fund about half a year's worth of expenses in the event of a cash flow pinch).



Try to **devise a budget that results in a three to five percent annual surplus.**

#11

Monitor Budget vs. Actuals Throughout the Year.

Nonprofit leaders must accept that the work of nonprofit budgeting is never complete. Once you've created a budget for the upcoming fiscal year, you need to revisit it every month.

Don't make the mistake of carefully creating, proposing, discussing, accepting, and then promptly forgetting your budget because if you forget about your budget, then you miss out on all its positive potential.

Each month, you should **compare your predicted numbers to your actual numbers to identify differences** (surpluses and deficiencies) and evaluate why these budget variances occurred.

If you are not in line with your budget, then you also are out of line with your goals- which means you need to assess why variances occur and determine whether there are any factors you can control to get back in line with your budget and back on track to achieving your goals for the year.

When you use your budget as a road map to your mission's success, it will become an indispensable tool for operations and management in your organization.



You must **establish and maintain effective bookkeeping and accounting standards and processes.**



6 Steps to Create Your Nonprofit Budget



Step **1**

Gather The Data

In order to determine the context for your budget, identify financial trends, and include as few assumptions in your budget as possible, **you must first gather all your data and historical financial records.**

You will need to gather all your numbers including donations, anticipated income, expense records, and vendor quotes. This is the information you need to make a new budget.

Ideally, with a robust, automated back office, you would be collecting most of this data throughout the year; And your financial data is easily accessible to pull reports at any time that can reveal financial trends.



Step **2**

Allocate Employee Costs

In most nonprofits, one of the largest expense categories is labor and all the costs that go along with it (salaries or hourly compensation, benefits, and payroll taxes). Your people are also one of your greatest assets, as your nonprofit simply can't operate without them.

Labor costs are also considered an overhead expense, which means funding them can be tricky if the revenue you receive comes as restricted funds. You'll need to be careful about how you allocate labor costs to programs to ensure you're channeling as much funding as compliantly possible to this expense category as you can.

This means it's **imperative** that you accurately and efficiently allocate your labor costs to various programs or grant income sources, so you'll know where the revenue to cover these costs is supposed to come from. To keep track of these cost allocations, create a payroll allocation worksheet that lists each employee and the percentage of their salary, taxes, etc. that will be allocated to each of your programs.



Payroll is usually at least **70-80%** of the expenses in every nonprofit.

Step **3**

Create a Budget Workbook & Cut Costs

While your overall organization's budget will fit on a single spreadsheet, nonprofit budgeting is more complex, and your overall organizational budget should also be broken down into separate budgets for programs, operations, and capital. A great way to organize all this information in one place is to **create a budget workbook that includes a tab for each of your programs including development and administrative.**

Each individual budget worksheet should feed into the master organization budget which will provide a bird's eye view of your entire organization's financial plan and strategy for the upcoming fiscal year.

Remember to include a list of the assumptions (with explanations of those assumptions) **that have been made for each budget.**

During this step, ask each of your program managers to review the previous year's actuals to use those numbers as a starting point to complete a budget projection for their individual programs in the upcoming year.

As they do this, your program managers should take a fine-toothed comb to the previous year's costs to determine where any cuts can potentially be made. For example, are there any recurring subscriptions that should be canceled or other line items from the previous year that turned out not to be an effective use of resources?

Step 4

Delegate Responsibilities to the Finance Team

To create a complete and thorough overall organizational budget, you will also need your finance team to update projections and schedules such as your depreciation, loan amortization, and prepaid items. These **schedules can be useful in helping you more accurately predict additional costs for the upcoming year.**

Step 5

Review and Approve Budgets

Aim to have all your budgets ready for review at least a month or two *before* the beginning of your next fiscal year.

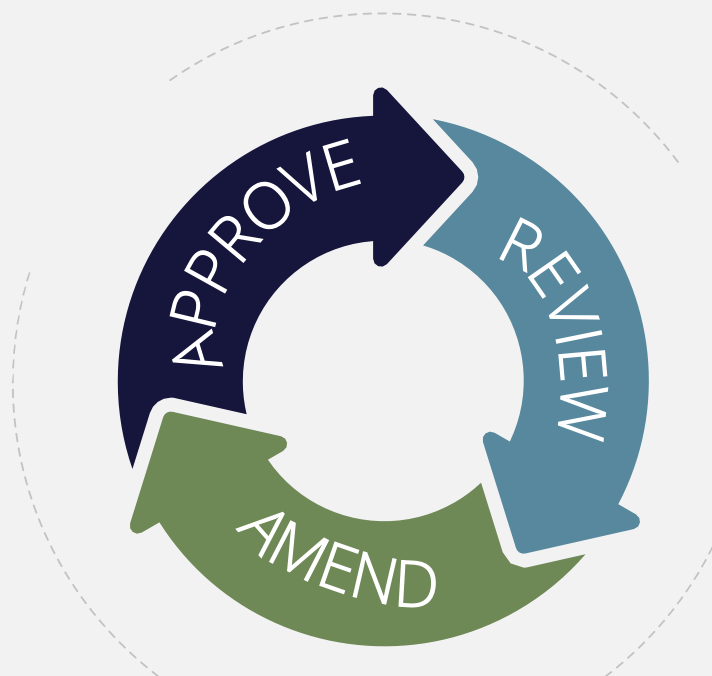
When your budget workbook is ready, present it to the finance committee for review, amendments, and adjustments. Once the finance committee has approved the budget, you can then present it to your board for final approval.

Step 6

Compare Budget Vs. Actual to Stay on Top of Variances

Once your board has signed off on your organization's budgets, the budget should be loaded into your accounting system and monthly budget vs. actual reports should be generated for each program manager in your system.

Going forward, at the end of each month, **each of your program managers can review their budget vs. actual reports to stay on top of the actual program costs and keep their programs on track** for success. As amendments or adjustments are needed, they can be presented to the finance committee and board for review and approval throughout the year.



Do More Good.

We hope this helps make your budgeting easier and much more effective...

When you start budgeting with the intention of setting goals, implementing goal-oriented plans, and making data-driven decisions to achieve those goals, you can **use your budget to help keep you, your organization, and your people on track and focused throughout the year.**

You can build surpluses into your annual budget to reinvest in your nonprofit, strengthen your organization, and increase the impact of your mission. As a result, you'll **attract higher-quality donors** to enjoy ever-increasing revenue and be able to **use your newly found funding to serve more people and do more good!**



About the Author

Stephen left Ernst & Young to join Amnesty International USA in 1989. Two weeks after the Human Rights Tour ended, Amnesty grew 300% - from \$6m to \$18m - in over 18 months.

He spent seven years at Amnesty, first as Deputy Executive Director – Finance & Administration (CFO) and then, as its Director of Development, learning how management accounting can help Development raise more money.

He has dedicated over 35 years helping nonprofits run like a well-run for-profit business. The only difference is that you reinvest the profits to create more outcomes.



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About GrowthForce



Your mission is to make the world a better place.
Ours is to assist you along the way.

The less time you spend in the back office, the more time you can focus on your mission. This is how we help nonprofits serve more people and raise more money.

Our passion for nonprofits is rooted in who we are. We attract people who want to work with a company with a conscious. Helping our nonprofit clients grow is what makes our work meaningful and makes the world a better place.

You get dedicated team of accounting professionals as a scalable solution providing outsourced bookkeeping, management accounting, controller, CFO and advisory services focused on your organization's unique needs. A team of people, processes and tools to deliver timely, accurate, meaningful financials that helps you tell your story.

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