Power Up Your Budget Process

Nonprofit Learning Center
September 18 & 19, 2012

Kay Sohl

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Your Greatest Budget Process Challenge?
What You Want Most from Today?
Budget Challenges

• Purpose of Annual Budget
• Complexity
• Restricted funds
• Integrating grant awards
• Mission/Budget alignment
• Uncertainty
Annual Budget Purposes

• Board authorization
• Financial road map to implement the strategic plan
• Tool for compliance & control
• Management accountability tool
Complexity

• Multiple programs/ projects
• Multiple funding sources
• Funder restrictions
• Multiple award periods
• Timing
Successful Budgeting Requires

• Meaningful cost centers
• Clarity about relationships between income sources & cost centers
• Recognition of impact of funder restrictions or requirements

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# Program Net Income

<table>
<thead>
<tr>
<th></th>
<th>Admin</th>
<th>Prog A</th>
<th>Prog B</th>
<th>Prog C</th>
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<tbody>
<tr>
<td>Income</td>
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<tr>
<td>Direct Expense</td>
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<tr>
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# Sample Functional Budget

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<tr>
<td>Salaries: Positions</td>
<td># Positions</td>
<td>% FTE</td>
<td>Salary</td>
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## SUPPORT AND REVENUE

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<td>100000</td>
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<td>22000</td>
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## REVENUE - EXPENSES

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| Allocated Undesignated Amounts | 0 | -80312 | 20490 | 19680 | 40142 | 0 |

## NET INCOME

| NET INCOME | 7432 | 7432 | 0 | 0 | 0 | 0 |
Funding Realities

• **Funder restrictions**
  o Programmatic
  o Type of costs

• **Funder preferences**
  o Innovation & expansion
  o Program vs. management

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Integrating Grant Awards into Fiscal Year Budget

• Fiscal year budget essential for planning & monitoring
• Grant award periods often do not tie to your fiscal year
• Identify portion of each grant available during fiscal year
Mission/budget Alignment

• Mission – core purpose
• Prioritize core expenses
• Clarify business model
• Build unrestricted sources of support
Core Mission Budget

• Pathway to sustainability
• Investment in infrastructure
• Priorities for use of unrestricted funds
• Compensation philosophy
• Consistent with strategic plan

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## SUPPORT AND REVENUE

<table>
<thead>
<tr>
<th>Source</th>
<th>TOTAL</th>
<th>UNDESIGNATED</th>
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**SUBTOTAL: SUPPORT & REVENUE**

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### REVENUE - EXPENSES

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**NET INCOME**

|                     | 7432    | 7432         | 0      | 0      | 0              | 0              |
## Contribution to Overhead

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<tr>
<th></th>
<th>Admin</th>
<th>FR</th>
<th>Prog A</th>
<th>Prog B</th>
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<tr>
<td><strong>Income</strong></td>
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<td><strong>Direct Expense</strong></td>
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</table>
Sustainability???

Your nonprofit’s sustainability on a scale of 1 to 5
Sustainability Factors

• Capacity to withstand adversity & innovate
• Adequate cash
• Positive net worth
• Effective board & staff leadership

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Starvation Cycle

“A vicious cycle is leaving nonprofits so hungry for decent infrastructure that they can barely function as organizations- let alone serve their beneficiaries”

Stanford Social Innovation Review

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“Nonprofits that spend too little on infrastructure have more limited effectiveness than those that spend more reasonably”
“in addition to the ceilings on those cost rations that many watchdogs set, floors should perhaps be introduced”

Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness, study by Hager, Thomas, and Wing, Center for Philanthropy, Indiana Univ August 2004.
Budget for Surplus

• “Nonprofit” is a legal concept not a financial strategy
• Income must exceed expense to build positive net worth
• Set target for reserves & for timeline to achieve target
Growing Net Assets

Revenues – Exp. = Net Income

Opening Net Assets
+ Net Income
= Ending Net Assets
Uncertainty

- Contributions
- Grants & contracts
- Fees and product sales
- Health insurance
- Other significant volatile expenses
Budget Development Process

• Identify needed info
• Gather, analyze, integrate info
• Identify high impact choices
• Develop financial models & evaluate alternate strategies
Budget Process - continued

• Discuss options
• Resolve choices
• Create final document
• Board approval
• Monitor progress
Before jumping into detailed line-item projections....

- Ask & answer fundamental questions
- Identify & resolve the most significant choices
Fundamental ???

- Strategic financial goals
- Commitments to personnel
- Cut-back philosophy
- Expansion/innovation criteria
- Infrastructure investment philosophy
Cut-back Philosophy

- Share the pain
- Silo approach
- Big cut versus multiple small cuts
- Tenure versus skills needs
- Priorities for use of unrestricted funds

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Identify High Impact Choices

• Personnel related
• Facilities & infrastructure
• Drop/add programs
• Redesign service delivery models
• Invest in fund development
• Other?

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What are the Highest Impact Budget Choices for your Nonprofit?
Board Role in Resolving Choices

• Finance Committee?
• Program Committees?
• Fund Raising Committee?
• Executive Committee?
• Full Board?
Board Budget Pitfalls

• Over attention to insignificant line items
• Under attention to risks
• “you’ve got the money, we’ve got the time” thinking
• “they should” thinking
Avoiding Board Pitfalls

• **Streamline budget format**
  Provide 1 page summary
  Consolidate line items
  Clarify use of restricted & unrestricted $$

• **Provide bullet-point narrative:**
  highlight major choices
  reflected in the budget

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Using the Budget

- Compare to actual year-to-date revenues & expenses
- Focus on most significant line items
- Project year-end impact
- Determine net income impact
When Income Falls Short

• Identify causes & whether shortfall will result in net loss
• Determine time required to increase income
• Cutting sooner allows smaller cuts to have larger impact
Your Next Steps?

• Review budget format
• Identify key choices
• Set targets for net assets
• ????
Impact of Underfunding Admin & Infrastructure

  [http://www.ssireview.org/articles/entry/the_nonprofit_starvation_cycle](http://www.ssireview.org/articles/entry/the_nonprofit_starvation_cycle)

- Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness, study by Hager, Thomas, and Wing, Center for Philanthropy, Indiana University, August 2004.