

# Power Up Your Budget Process

**Nonprofit Learning Center  
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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

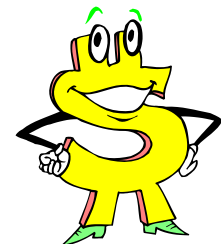
- Board **authorization**
- Financial **road map** to implement the strategic plan
- Tool for **compliance & control**
- Management **accountability** tool

# 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**



# Program Net Income

	Admin	Prog A	Prog B	Prog C
Income				
Direct Expense				
Gross Margin				
Allocated Expense				
Net Income				



## Sample Functional Budget

EXPENSES					TOTAL ADMIN	F.R.	PROG A.	PROG B.	PROG C. GENERAL	PROG C. GRANT 1	
	# Positions	% FTE	Monthly								
Salaries: Positions			Salary	# Months							
Executive Director	1	1	3000	12	36000	27000	9000	0	0	0	0
Fiscal Manager	1	1	2300	12	27600	27600	0	0	0	0	0
Program Director	1	1	2500	12	30000	0	0	7500	7500	7500	7500
Prog A & B Supervisor	1	1	2000	12	24000	0	0	12000	12000	0	0
Prog C Coordinator	1	0.75	2100	12	18900	0	0	0	9450	9450	9450
Case Manager	4	1	1800	12	86400	0	0	43200	21600	0	21600
Specialist	3	1	1500	9	40500	0	0	0	13500	13500	13500
Clerical Assistant	2	0.5	1300	9	11700	2925	2925	0	0	0	5850
<b>Subtotal: Salaries</b>					<b>275100</b>	<b>57525</b>	<b>11925</b>	<b>62700</b>	<b>54600</b>	<b>30450</b>	<b>57900</b>
Payroll Taxes (13%)					35763	7478	1550	8151	7098	3959	7527
Fringe Benefits (15%)					41265	8629	1789	9405	8190	4568	8685
<b>Subtotal: Personnel</b>					<b>352128</b>	<b>73632</b>	<b>15264</b>	<b>80256</b>	<b>69888</b>	<b>38976</b>	<b>74112</b>
Professional Services					16000	4000	8000	1000	500	500	2000
Occupancy					40000	8364	1734	9117	7939	4427	8419
Supplies					15000	1000	5000	4000	2000	1000	2000
Transportation					4000	500	600	0	1200	800	900
Other Expenses					20000	2000	4000	2000	3000	4000	5000
<b>TOTAL EXPENSES</b>					<b>447128</b>	<b>89496</b>	<b>34598</b>	<b>96373</b>	<b>84527</b>	<b>49703</b>	<b>92431</b>
Allocation of Admin					0	-89496	8658	24117	21153	12438	23129
<b>EXPS W/ ALLOCATED ADMIN</b>					<b>447128</b>	<b>0</b>	<b>43256</b>	<b>120490</b>	<b>105680</b>	<b>62142</b>	<b>115560</b>
SUPPORT AND REVENUE					TOTAL	UNDESIGNATED	PROG A	PROG B	PROG C GENERAL	PROG C GRANT 1	
Government Grants/Contracts					160560	0	20000	25000	0	115560	
Foundations					40000	0	5000	20000	15000	0	
Individual Donations					85000	77000	5000	1000	2000	0	
Special Events					50000	50000	0	0	0	0	
Program Service Fees					115000	0	70000	40000	5000	0	
Investment Income					4000	4000	0	0	0	0	
<b>SUBTOTAL: SUPPORT &amp; REVENUE</b>					<b>454560</b>	<b>131000</b>	<b>100000</b>	<b>86000</b>	<b>22000</b>	<b>115560</b>	
<b>REVENUE - EXPENSES</b>					<b>7432</b>	<b>87744</b>	<b>-20490</b>	<b>-19680</b>	<b>-40142</b>	<b>0</b>	
Allocated Undesignated Amounts					0	-80312	20490	19680	40142	0	
<b>NET INCOME</b>					<b>7432</b>	<b>7432</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	

# Funding Realities

- **Funder restrictions**
  - Programmatic
  - Type of costs
- **Funder preferences**
  - Innovation & expansion
  - Program vs. management

# 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**

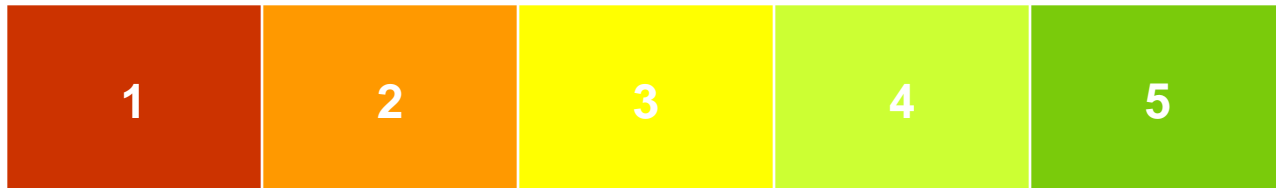
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# Contribution to Overhead

	<b>Admin</b>	<b>FR</b>	<b>Prog A</b>	<b>Prog B</b>
<b>Income</b>				
<b>Direct Expense</b>				
<b>Contribution to Overhead</b>				

# 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**

# 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 ratios 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 ???

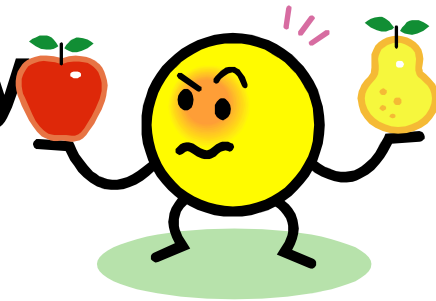
- **Strategic financial goals**
- **Commitments to personnel**
- **Cut-back philosophy**
- **Expansion/innovation criteria**
- **Infrastructure investment philosophy**

# Cut-back Philosophy

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

# Identify High Impact Choices

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



# **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**

# 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

- **2009 Stanford Social Innovation Review article :The Nonprofit Starvation Cycle**

[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.