The Art & Science of Budgeting

Steve Zimmerman
Principal, Spectrum Nonprofit Services

Ensuring Accuracy

Financial Literacy

Assessing Financial Health

Planning and Communicating

Organizational Sustainability

Financial Leadership Model

Today’s Conversation

✓ Explain how and why to leverage budgeting to strengthen your organization
✓ Describe a framework for creating a budget
Budgeting Emotions

- Worried
- Happy
- Sad
- Angry

1. Current focus = printing costs
2. True focus = shelter costs

One-time budgeting

- Budgeting for grants
- Consolidating individual budgets annually
- “What do WE WANT to do?”

Common Budgeting Challenges

<table>
<thead>
<tr>
<th>Natural v. Functional</th>
<th>One-time budgeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current focus = printing costs</td>
<td>Budgeting for grants</td>
</tr>
<tr>
<td>True focus = shelter costs</td>
<td>Consolidating individual budgets annually</td>
</tr>
<tr>
<td>“What do WE WANT to do?”</td>
<td></td>
</tr>
</tbody>
</table>

Budgeting: A Holistic Process

What is the problem that needs solving?

What will you do about it?

- Theory of Change, Mission Impact.

What will that cost you?

Who would and why should someone pay?

- Marketing, Fundraising

5th quarter / rolling budgeting
Opportunity to Build a Stronger Organization

Break Down Silos

Build Financial Capacity
Budgeting

Practice Inclusion

<table>
<thead>
<tr>
<th>Description</th>
<th>CEO/CFO Devel. Staff</th>
<th>Program Staff</th>
<th>Finance Committee</th>
<th>Program Committee</th>
<th>Development Committee</th>
<th>Full Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set Goals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forecast</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BRIDGE the GAP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approve</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Balancing Act

Leadership: ED, CFO
Science
Art

6 Stages of Budgeting

- Setting Goals and Context
- Calculate Costs
- Adjust the Budget
- Bridge the Gap
- Forecast Income
- Implement and Monitor
6 Stages of Budgeting

Context

What is the budget?

Review past performance

Financial metrics:
- Reserve
- True program cost
- Revenue trends

Program metrics:
- Impact measures
- Scale measures
- Quality measures
Review strategic or business plan

What are your goals? Where should you be on goals? Were any assumptions incorrect?

Review Your Market

Are constituent needs changing? Are funders or revenue streams changing? Is there new competition?

Including everyone!

<table>
<thead>
<tr>
<th>Exploration Area</th>
<th>Who</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Objectives</td>
<td>CEO / Staff / Board</td>
</tr>
<tr>
<td>Impact / Program Objectives</td>
<td>Program Committee</td>
</tr>
<tr>
<td>Market Analysis</td>
<td>CEO / Staff / Board</td>
</tr>
<tr>
<td>Financial Goals / Reserve</td>
<td>Finance Committee</td>
</tr>
<tr>
<td>Revenue / Development Plan</td>
<td>Development Committee</td>
</tr>
</tbody>
</table>
Sample: Budget Goals

As of August 15, 2019

<table>
<thead>
<tr>
<th>Overall Goal</th>
<th>2020 Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stabilize programs and ensure highest quality</td>
<td>Salary increases to all staff</td>
</tr>
<tr>
<td>Replace computers and equipment</td>
<td>Increase direct client support</td>
</tr>
<tr>
<td>Improve on key financial health indicators</td>
<td>Build cash reserves</td>
</tr>
<tr>
<td>Reduce overhead rate</td>
<td>Build line of credit</td>
</tr>
<tr>
<td>Maximize fundraising effectiveness</td>
<td>Increase endowment income</td>
</tr>
<tr>
<td>Increase board role in fundraising</td>
<td>Build temporarily restricted balance</td>
</tr>
<tr>
<td>Maximize cost recovery in foundation grants</td>
<td></td>
</tr>
</tbody>
</table>
Starting with Personnel Costs

<table>
<thead>
<tr>
<th>Position</th>
<th>Program Activities</th>
<th>Fundraising</th>
<th>Consulting</th>
<th>Counseling</th>
<th>Shared Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>100%</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
<td>35%</td>
</tr>
<tr>
<td>Admin Assistant</td>
<td>100%</td>
<td>15%</td>
<td>5%</td>
<td>5%</td>
<td>45%</td>
</tr>
<tr>
<td>Finance Director</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development Director</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director of Counseling</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director of Education</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Counselors</td>
<td>400%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Teachers</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director of Technology</td>
<td>400%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receptionist</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custodian</td>
<td>20%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bookkeeper</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development Coordinator</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total FTE's: 14.70
Total FTE's w/o Shared: 12.50
Shared Allocation %: 22% 41% 2% 18% 17%

Estimating Costs

Connection: True Program Costs

- **Specific Costs**: Those expenses that relate directly to the initiative or activity.
- **Shared Costs**: Those expenses split between multiple activities such as occupancy and technology.
- **Administrative Costs**: Those expenses related to time spent with the board, finance and overall structure and function.

Not budgeting in the correct category can lead to a high overhead rate. Understand the relationship between growing one category and the other.
Questions to Ask

1. Think about what is new and what is the core of your program?
2. Can we realistically just keep adding services or tasks?
3. Who will pay for new services?
4. Are there new technologies or theories that will help us deliver on our mission?
5. How will we measure outcomes?

6 Stages of Budgeting

- Setting Goals and Context
- Estimate Costs
- Forecast Income
- Bid/Gap the Cap
- Approve the Budget
- Implement and Monitor

Connection: Revenue Strategy

- Align revenue mix with impact
- Produce flexible income
- Leverage the organization’s capacities
Reliability
How is our revenue trending?
What is happening with the economy?
Are we cultivating funders/donors?

Flexibility
Are we building up restricted grants? Can we deliver?
Do we have a stable source of unrestricted income?

Organizational Capacity
Do we have the right infrastructure to monitor and report?
Do we have the right relationships to continue this revenue stream?
Into which revenue streams are we investing resources?
A potentially harmful habit practiced in many community nonprofits is presuming that a break-even budget is mandatory…Instead of “How can we make the budget balance?” the annual budgeting cycle should begin with the question, “What financial outcome does our organization want or need this year?”

-Jeanne Bell
Connection: Building / Using a Reserve

How much do you have in reserves?
Do you need to build a reserve?
Can you use a reserve?

(Re)focus on Priorities

Are we putting our money where our mission is?
What is a high priority for the organization to accomplish this year?
Are we making effective / efficient use of our funds?

Connection: Cash Flow Projections

Does the cash flow work for this budget?
Do you need to move income or expenses around?
6 Stages of Budgeting

1. Setting Goals and Context
   - Estimate Costs
   - Forecast Income
2. Bridging the Gap
   - Implement and Monitor

Does the budget REALLY invest in our priorities / strategy?

The Board’s Role
### 6 Stages of Budgeting

1. **Set Goals and Context**
2. **Estimate Costs**
3. **Forecast Income**
4. **Approve the Budget**
5. **Implement and Monitor**

Budgets are built on assumptions, and the level of uncertainty keeps increasing. Developing a living, breathing budget will allow for more uncertainty.

-Kate Barr
Budget – Actual Reports

For the nine months ending September 30, 2019

<table>
<thead>
<tr>
<th>YTD Actual</th>
<th>Budget</th>
<th>Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$150,979</td>
<td>$150,000</td>
<td>$979</td>
</tr>
<tr>
<td>Counseling Services</td>
<td>$424,860</td>
<td>$431,250</td>
<td>$6,391</td>
</tr>
<tr>
<td>Consulting</td>
<td>$29,944</td>
<td>$37,500</td>
<td>$7,556</td>
</tr>
<tr>
<td>Total Program Services</td>
<td>$605,783</td>
<td>$618,750</td>
<td>$12,968</td>
</tr>
<tr>
<td>Administration</td>
<td>$67,031</td>
<td>$67,500</td>
<td>$469</td>
</tr>
<tr>
<td>Fundraising</td>
<td>$59,862</td>
<td>$67,500</td>
<td>$7,639</td>
</tr>
<tr>
<td>Total Supporting Services</td>
<td>$126,893</td>
<td>$135,000</td>
<td>$8,108</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$732,675</td>
<td>$753,750</td>
<td>$21,075</td>
</tr>
<tr>
<td>Increase in Net Assets</td>
<td>$11,870</td>
<td>$7,500</td>
<td>$4,370</td>
</tr>
<tr>
<td>Net Assets Beginning of the year</td>
<td>$11,870</td>
<td>$11,870</td>
<td>$0</td>
</tr>
<tr>
<td>Net Assets Ending of the year</td>
<td>$11,870</td>
<td>$11,870</td>
<td>$0</td>
</tr>
</tbody>
</table>

Addressing Budget Variance

On a quarterly basis:
- Review current budget and assumptions
- Always have a 4 quarter budget
- Easier for grant funding
- Keeps budget front and center
<table>
<thead>
<tr>
<th>Q1 Actual</th>
<th>Q2 Actual</th>
<th>Q3 Projections</th>
<th>Q4 Projections</th>
<th>Projected Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support &amp; Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Budgeting

Take Home Points

- Budgeting is an opportunity, not a chore
- Include everyone!
- Invest in your priorities
- Budget for a surplus
- Keep the budget front and center

Next Webinar

- March 20, 2020
- Telling Your Financial Story: Dashboard Driving
  - Understand and explain how to use a dashboard to report financial information
  - Determine the metrics that are right for your organization to track
  - Outline a process for compiling your dashboard

Follow Up

- A recording of this session will be available for 2 weeks.
- You will receive a link by email to key slides and templates.
- Please complete our evaluation so we can continue to improve our sessions.