



Introduction to Nonprofit Budgeting

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Introductions and Logistics

- ▶ Hartford Public Library – Gina Federico
- ▶ Hartford Foundation for Public Giving – Lucas Codognolla
- ▶ Facilitator – Jennifer Hockenull, CPA, SHRM-CP

Objectives

- ▶ Understand why organizations need to prepare annual realistic budgets.
- ▶ Steps to prepare a budget.
- ▶ Strategies to consider when preparing a budget.
- ▶ How to obtain budget approval from your board.
- ▶ How to monitor your budget.

Why Do We Need a Budget?

- ▶ The budget is an organization's annual financial plan that translates organizational goals and objectives into dollars.
- ▶ Allow those outside of management to understand what the organization's priorities are for the upcoming year.
- ▶ Required for grant submission.
- ▶ Road map for the upcoming year.
- ▶ NOTE: Budgets are not meant to be exact – they are a guide and could require mid-year changes.

10 Step Budgeting Checklist

(from Propel Nonprofits (formerly Nonprofits Assistance Fund))

1. Determine timeline
2. Agree on goals (Board and Management)
3. Understand current financial status
4. Agree on budget approach
5. Develop draft expense budget
6. Develop draft income budget
7. Review draft budget
8. Approve budget
9. Document budget decisions
10. Implement budget

Budget Calendar

- ▶ 2-3 months before adoption
 - ▶ Initial Discussion with Governing Body
 - ▶ Initial Discussion with Management/Leadership
 - ▶ Prepare draft revenue and expense estimates
- ▶ 1-2 months before adoption
 - ▶ Present high-level (summary) budget to Finance Committee for feedback
 - ▶ Revisit with Management/Leadership
- ▶ 1 month before start of new year
 - ▶ Request approval from Governing Body

Budget Calendar

| | | |
|---------------------|--------------------------------------|---|
| Organization's Name | | |
| Budget Calendar | | |
| Budget Year 2025 | | |
| | | |
| | | |
| Due Date | Responsible Person/Department | Task |
| 9/15/2024 | Executive Director | Meet with Board Chair to discuss priorities for the following year |
| 9/20/2024 | Executive Director/ Finance Manager | Discuss current year financial status and future year requirements; prepare revenue estimates, if information is available |
| 9/21/2024 | Finance Manager | Prepare and distribute budget sheets (should include prior year and current year actual data; any known expenses; guidelines) |
| 9/21/2024 | ED/Finance/Programs Teams | Meet to discuss upcoming priorities, guidelines (any known increases in salary, benefits, etc.) |
| 9/30/2024 | Program Teams | Return first draft of budget requests to Finance Manager |
| 10/10/2024 | ED/Finance Manager | Review requests and consolidate into overall budget document; discuss needs to meet budget strategy |
| 10/15/2024 | Program Teams | Meet individually with ED/Finance Director to review requests and make recommendations for changes |
| 10/20/2024 | ED/Finance Committee | Meet with the Finance Committee to share high level budget projections; request feedback; include a budget brief highlighting changes from prior years, major program/activities to be funded, assumptions used (3% increase in salaries across the board, 10% increase in benefit costs, assume a 6% increase in individual donations, etc.) |
| 10/31/2024 | Finance Manager | Review feedback from Finance Committee; make necessary adjustments |
| 11/15/2024 | ED/Board | Share draft budget with the Board; request feedback |
| 11/30/2024 | Finance Manager | Prepare final draft of the budget for Board review and approval |
| 12/15/2024 | Board | Approve the budget for the upcoming year |

Budget Brief/Summary

Organization's Name

2025 Budget Brief

The 2025 Budget for XYZ Organization includes the following major revenue assumptions:

- 6% increase in overall individual contributions based on current trends
- A \$5,000 grant from ABC Corporation to fund Program D, a new program for 2025.
- Flat revenue from our annual gala based on the last 3 years of revenue from this event.
- A \$20,000 grant from the State; however, this funding is not certain at this time, therefore, associated expenses are identified and will only be spent if the grant is received.

The 2025 Budget for XYZ Organization includes the following major expenditure assumptions:

- 5% across the board salary increases, however, actual increases will be based on performance. Current COLA increases would be 2.5% if no merit increases were considered.
- Two (2) new positions were added to cover the needs of the new programs – these positions are grant-funded and grant-dependent; if the grants are not received, the positions will not be filled.
- 10% increase in benefits based on information provided by our broker.
- Increases in gala costs are included

Budgeting Strategies

- ▶ Balanced Budget
- ▶ Budgeting for a surplus/deficit
- ▶ Funding depreciation
- ▶ Methods
 - ▶ Zero-based
 - ▶ Income
 - ▶ Last Year Comparison

Types of Budgets

- ▶ Line item
- ▶ Program-based Budget and Project-based Budget
 - ▶ Most often needed for grant proposals
- ▶ Capital Budget
- ▶ Multi-Year Budget



Budgets

Questions?

Revenue Budget

What types of revenue does your organization bring in?

- Government Grants (could have audit implications)
- Industry Grants
- Event Income – ticket sales, sponsorships, auction income, etc.
- Individual and Corporate Giving
- Board Member Giving
- Fee for Service/Earned Income
- Investment Income
- In-Kind Donations

Revenue Budget

How do I estimate future revenue?

- Be realistic!
- Use Year-to-Date actuals/projections and prior year results as a guide
- Reach out to major donors/funders
- Review current outstanding grant applications
- Take into account any factors that might change future funding sources

Revenue Budget

Program Budget Revenue Considerations:

- Be realistic!
- Will you be receiving other grants to fund the program?
- Will there be earned income related to the program (participant fees, etc.)?
- Will you be receiving industry sponsorships for your program?

Revenue Budget

Budget Worksheet: Income Projection

| | Projection to Current Year-End | Proposed Budget | Certain | Reasonably Certain | Uncertain/ Possible | Total |
|-------------------|-----------------------------------|--------------------|---------|-----------------------|------------------------|-------|
| SUPPORT | | | | | | |
| Government Grants | | | | | | |
| 1. | \$ | \$ | \$ | \$ | \$ | \$ - |
| 2. | | | | | | - |
| 3. | | | | | | - |
| Foundation Grants | | | | | | |
| 1. | | | | | | - |
| 2. | | | | | | - |
| 3. | | | | | | - |
| 4. | | | | | | - |
| 5. | | | | | | - |
| 6. | | | | | | - |
| 7. | | | | | | - |
| 8. | | | | | | - |

Revenue Budget

**Budget Worksheet: Program-Based Budget
For the Period**

| | | A | B | C | D | E | | F |
|---------------|----------------------|-------------|-------------|-------------|-------------|-------------|----------------|---|
| | | | | | | Indirect | | |
| | | Total | Program 1 | Program 2 | Program 3 | Fundraising | Administrative | |
| Income | | | | | | | | |
| 1. | Grants | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| 2. | Government Contracts | - | | | | | | |
| 3. | Fees | - | | | | | | |
| 4. | Interest | - | | | | | | |
| 5. | Miscellaneous | - | | | | | | |
| 6. | Total Income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |

Revenue Budget

**Any Questions on
Revenue?**

Expenditure Budget

What types of expenditures does your organization have?

- Salaries, Benefits, Staff Development
- Direct Program Costs (only incur if the program occurs)
- Rent and other occupancy costs
- Travel
- Fundraising and other event expenses
- Accounting, IT, Legal, and other professional services
- Liability, Directors & Officers, and Cyber Insurance

Expenditure Budget

How do I estimate expenditures?

- Use Year-to-Date actuals and prior year results as a guide
- Take into account any assumed across the board salary and benefit increases (typically your largest expense category)
 - Attrition (staff turnover) savings?
- Include any known expenses – lease expenses, contracted expenses, etc.

Expenditure Budget

How do I estimate expenditures?

- Expenses for grant-funded projects (watch out for grant revenue received in one year that will be spent in a future year!)
- Include estimated increases for other services (insurance, tax/audit, professional services, etc.)
- Obtain quotes – best practice is (3) quotes from different vendors (you don't need to go with the lowest quote! But keep quotes and document why you chose the vendor)

Expenditure Budget

Personnel Expenditures and Allocations

- Personnel is typically the largest line item in the budget
- Consider any required increase (contractual), industry standards, cost of living, etc.
- Discuss benefit increases with your broker early
- Consider including an attrition savings line if your organization has significant turnover
- Consider budgeting for full benefit costs

| Employee Name | Current Year Salary | % Increase | | Budgeted Next Year Health Benefits | Next Year Salary | | | | | Next Year Health Benefits | | | | | Next Year Total | | | | |
|---------------|---------------------|----------------------------|---------|------------------------------------|------------------|------------|------------|------------|--------|---------------------------|------------|------------|------------|-------|-----------------|------------|------------|------------|--------|
| | | Current Year Benefit Costs | 4% | | 10% | Program #1 | Program #2 | Program #3 | Admin | Fundraising | Program #1 | Program #2 | Program #3 | Admin | Fundraising | Program #1 | Program #2 | Program #3 | Admin |
| Employee #1 | 10,000 | 10,000 | 10,400 | 11,000 | 5,200 | 5,200 | | | | 5,500 | 5,500 | | | | 10,700 | 10,700 | - | - | - |
| Employee #2 | 20,000 | 10,000 | 20,800 | 11,000 | | | 20,800 | | | | | 11,000 | | | - | - | 31,800 | - | - |
| Employee #3 | 30,000 | 10,000 | 31,200 | 11,000 | | | 31,200 | | | | | 11,000 | | | - | - | 42,200 | - | - |
| Employee #4 | 40,000 | 10,000 | 41,600 | 11,000 | | 41,600 | | | | | 11,000 | | | | - | 52,600 | - | - | - |
| Employee #5 | 50,000 | 10,000 | 52,000 | 11,000 | 52,000 | | | | | 11,000 | | | | | 63,000 | - | - | - | - |
| Employee #6 | 60,000 | 10,000 | 62,400 | 11,000 | 15,600 | 15,600 | | 31,200 | | 2,750 | 2,750 | | 5,500 | | 18,350 | 18,350 | - | 36,700 | - |
| Employee #7 | 70,000 | 5,000 | 72,800 | 5,500 | | | | 36,400 | 36,400 | | | | 2,750 | 2,750 | - | - | - | 39,150 | 39,150 |
| | 280,000 | 65,000 | 291,200 | 71,500 | 72,800 | 62,400 | 52,000 | 67,600 | 36,400 | 19,250 | 19,250 | 22,000 | 8,250 | 2,750 | 92,050 | 81,650 | 74,000 | 75,850 | 39,150 |

Expenditure Budget

Program Budget Expenditures Considerations:

- Be realistic!
- Who will be working on the program?
 - Estimate the cost based on the % of time each person will spend on the program – include salary and benefits – and if for a future year, don't forget to include estimated increases in costs!
- What supplies will be needed for the program?
- What outside consultants might be required?
- Indirect costs may be allowed as well (check the grant application!)

Direct vs. Indirect

- ▶ **Direct costs** are those easily identifiable as costs associated with a program and are often variable (if a program doesn't happen, neither do the costs)
 - ▶ Supplies for a program
 - ▶ Salary for a Program Manager
 - ▶ Rent for a daycare center
- ▶ **Indirect costs** are those that are not directly related to a program and are typically fixed
 - ▶ Accountant Costs
 - ▶ IT Costs
 - ▶ Rent
 - ▶ Insurance

Expenditure Budget

**Any Questions on
Expenditures?**

Sharing the Budget with the Board

Once you have the draft budget ready for Board evaluation, prepare a summary document:

- Revenue by Category
- Expenditures in larger buckets
- Consider sharing information by program, if helpful for your board

Work with your board leadership and/or Finance committee to:

- Request feedback and allow for time to make adjustments
- Request approval from the Board (ideally before the start of the next year)

Monitoring the Budget

- ▶ **My budget is done – now what?**
 - ▶ Monthly budget comparisons to actual results
 - ▶ YTD budget comparison to actual results
 - ▶ Budget revisions/mid-course corrections

Monitoring the Budget - Grants

- ▶ **My grant budget is done – now what?**
 - ▶ Monitor budget to actual results for each grant – are you over or underspending?
 - ▶ Budgets for grant-funded projects can't change without approval from the grantor
 - ▶ When entering expenditures related to grants, it is important to track in the financial system for ease and accuracy of reporting

Monitoring the Budget

Budget Worksheet: Budget to Actual Comparisons For the Period Ended _____, _____

| | Current Month | | | Year To-Date | | | Annual Budget |
|---------------------------------|---------------|-------------|-------------|--------------|-------------|-------------|---------------|
| | Actual | Budget | Variance | Actual | Budget | Variance | |
| Income | | | | | | | |
| Grants | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Government Contracts | | | - | | | - | |
| Fees | | | - | | | - | |
| Interest | | | - | | | - | |
| Miscellaneous | | | - | | | - | |
| Total Income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Expenses | | | | | | | |
| Salaries | | | - | | | - | |
| Payroll Taxes | | | - | | | - | |
| Health Benefits | | | - | | | - | |
| Other Benefits | | | - | | | - | |
| Total Personnel Expenses | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Audit/Acct. Fees | | | - | | | - | |
| Equipment Lease | | | - | | | - | |
| Insurance | | | - | | | - | |
| Training/Education - Staff | | | - | | | - | |
| Promotional Expenses | | | - | | | - | |
| Consultant Fees | | | - | | | - | |
| Program Activities | | | - | | | - | |
| Supplies | | | - | | | - | |
| Office Equip./Repair | | | - | | | - | |
| Postage | | | - | | | - | |

Mid-Year Budget Changes

What do I do if my actual expenses are exceeding the budget?

- Review your by-laws to see if there are guidelines as to how to proceed
- Typically, your board approves an overall budget, allowing room to overspend in some areas and underspend in others, as long as the total budgeted expenditures are not exceeded
- If you are monitoring your budget monthly, you will be able to discuss any potential overages with your board and determine if you need to go back to the board for a mid-year budget adjustment
- Recommend ongoing, open communication with your board on any budget concerns regularly and timely



Final Questions?

Resources, Next Session and Wrap-Up

- ▶ Other Training Sessions
 - ▶ [Stand-Alone Workshops :: Nonprofit Support Program \(hfpgnonprofitsupportprogram.org\)](http://hfpgnonprofitsupportprogram.org)
- ▶ Please complete the survey that will be sent to you after this event
- ▶ Any follow up questions, please reach out to JenniferHockenhullCPA@gmail.com
- ▶ Connect with me on LinkedIn!
www.linkedin.com/in/jennifer-hockenhull-8a6bbb92

THANK
YOU!

Supplemental Information

Cost Allocation

- ▶ Common (or shared) costs are expenses that are not easily identifiable with a single function.
- ▶ Cost allocation is the process of assigning the cost among two or more activities/programs.
- ▶ A cost allocation plan is written documentation of methods used to allocate costs – this is up to the organization, and needs to be followed and be consistent!

Common Cost Allocation: Step 1

Categorize Expenses

Program: Program staff, program materials

Administrative: finance staff, audit expense, board meeting expenses

Fundraising: development staff, event expenses

Common Costs: rent and utilities, computers, office supplies, receptionist

Common Cost Allocation: Step 2

Choose Allocation Method

Frequently used cost allocation rates:

1. FTE
2. Payroll
3. Square Footage

Common Cost Allocation: Step 3

Allocate Shared Costs

1. Line by Line Method

-- a different rate of usage for each line item, or groups of line items

2. Bottom Line Method

-- all shared costs are grouped together and one allocation rate is used

Capitalization and Depreciation

Capitalization means that:

- ▶ an item has a useful life of more than one year
- ▶ the item is recorded as an asset when purchased rather than expense

Depreciation is the process by which the cost of a capitalized item is recorded over the useful life of the item. The value of the asset is reduced each year due to wear and tear, age or obsolescence