



NonprofitCenter
of Northeast Florida

Connect • Strengthen • Advocate

Learning Lab – Essentials: Nimble Budgets

Welcome – Autumn

Hello, my name is Autumn Lee and I am the Communications Director at the Nonprofit Center of Northeast Florida. Thank you for joining us for this Essentials training. This series is designed to cover fundamental, wide-ranging topics in an accessible manner that allows organizations of all sizes and backgrounds to participate and engage. As a valued member of the Nonprofit Center this series is included in your membership and accessible to you and your organization at no additional cost.

Over the next 30 minutes you will hear from a Nonprofit Center staff expert and learn more about how you can take these learnings back to your organization to help you in the important work you do for our communities. At the top of this page, you will find additional tips and tricks for getting the most out of this session. You will also find any referenced handouts or materials in the “downloads” section directly below this video.

With that, let’s get started!

Nimble Budgets - Darien

Thank you again for joining us today for our Nimble Budgets. We are excited to be bringing you this presentation in this virtual, pre-recorded model as well as in our virtual, live format. If you are curious about when the next live session will be taking place make sure to check out our Programming and Events page.

For today’s session we will be spending our time on:

- The What and Why of a Budget
- Building a Budget – Who, When and How



NonprofitCenter
of Northeast Florida

Connect • Strengthen • Advocate

- Tracking Your Budget
- Financial Policies and Procedures

The “What” and “Why” of a Budget

To begin, when want to define what a budget is. A budget is a quantitative representation of the money you think you are going to spend and the money you think you are going to “make.” Budgets usually represent one year, although they can be shorter or longer, depending on your need. It is only your best guess at your plan — it will change over time, and it won’t always be completely accurate. You will use it internally to make sure you can pay your bills and meet your strategic goals, but external people will also want to see it — funders, or banks if you are applying for credit. Obviously, you’ll want it to be organized and easily understood, and it needs to be concrete enough that it gives you a starting point — but not concrete in that it won’t change.

We create budgets for legal and planning purposes. Legally, we want to provide a document to our boards so they can monitor the organization’s fiscal activity. This allows them to provide careful oversight and provide guidance on any areas of concern. When you provide a concise and transparent budget, it’s easier to pinpoint any red flags. We also have budgets to reflect the plan around strategic goals; you are able to illustrate whether the program or organization has any deficits or surpluses, and it also allows for you to monitor for changes.

As I mentioned previously, you there are two types of budgets that organizations usually create. There is the overarching organizational budget and the program/department budget. The organizational budget will plan out income and expenses over your fiscal year. In most cases, this is a 12-month period. Your fiscal year can be calendar or based on another set of dates (usually determined by your revenue sources. For instance, the Nonprofit Center’s fiscal year is July 1 – June 30. Many organizations who are funded through the state have the same fiscal year. Those who rely on federal or city funds tend to use the Oct. 1 – Sept. 30 fiscal year.



NonprofitCenter
of Northeast Florida

Connect • Strengthen • Advocate

When you are planning a program or department budget, there are significant differences. Program budgets may not have the same lead time; they may not align with the organizational budget. For instance, if a program receives grant funding for a specific program, it may only last for six months. Because a program budget will be included in the overall budget, there may be less board oversight or approval. If the program will have significant changes in how it operates or the board's legal responsibility, you will want to have board approval.

When you are going through the budget process, you will not use just the budget document to prepare and present to the board. Budget is just one part of your financial documents package that your organization will need. Here are some others. We won't cover these in depth, but you will hear me mention them as a part of the planning and reconciliation process.

When you start the process you will want to know the type of accounting your organization uses. Two of the most popular types of accounting are cash and accrual. If you are looking for a simple bookkeeping option and the easiest way to monitor cash flow, cash accounting is better. If you would like an option that provides a better long-term understanding, accrual is better. There are also hybrid methods of accounting that an accountant can give more guidance on. For example, the Nonprofit Center uses cash accounting.

Now on to the components of the budget. First is the income/revenue. This is any funds that your organization or program receives. There are many different income/revenue sources, namely grants, fees for service or fundraising. What's very important when determining your revenue sources is if the funding is restricted or unrestricted. Restricted funds, by law, can only be used for their intended purpose. For example, if you receive a grant for supplies for your after-school program, you would not be able to use those funds for personnel or administrative costs. However, unrestricted funding may be used for any expenses for your organization.



NonprofitCenter
of Northeast Florida

Connect • Strengthen • Advocate

You will also want to track in-kind contributions as they are also considered income. You will need to track this to report on your 990, or funders may request all sources of income and you will need to include that information.

Next, we have costs/expenses. This is any money that is being spent. You will have direct and indirect expenses. Direct expenses like restricted funds have a specific purpose. Just like the example I used for restricted funds, direct expense would be salaries or equipment for a particular program. Indirect expenses cannot be allocated to a specific project or program and may benefit the whole organization. This is usually things like rent, insurance or administrative staff.

Building a Budget -Who, When and How

Now that we reviewed the definitions and components of the budget, let's see who should be involved in the process. For program budgets, you will want to have lead program staff and CEO/executive team. Most program budgets do not require board input. For the organization's budget, you will want the executive team, including finance staff, program staff, a small board committee to review the budget and then the full board for final approval. You want to make sure that those involved are familiar with budgeting and well versed in your organization's strategic plan.

Timing is everything! You will want to have ample time to gather all the information you need to properly build your budget. Starting the process at least four months prior to the start of your budget will allow you to create your draft, make revisions, get committee and full board approval and then implement the budget.

When you're starting your budget process you want to make sure that you have your goals set. One way to do this is to have a strategic plan. A strategic plan is simply what your organization wants to do long term — the process of defining the



NonprofitCenter
of Northeast Florida

Connect • Strengthen • Advocate

strategy for your organization and the direction. You want to make sure that you're making decisions and allocating the resources to achieve that plan. If you do not currently have a strategic plan, you can build that process into your budgeting process. You will want to take that into consideration when you begin the process because it can take time to create and approve a long-term strategic plan. On the slide you can see some areas where you can focus your plan.

As we mentioned in the beginning, a budget is an educated guess of income and expenses. We want to remember that this is a live document, so as you are building it, the numbers are not set in stone. It's always better to underestimate revenue and overestimate expenses, rather than the other way around. This is because it's easier to adjust a budget for unexpected funds than to adjust expenses for funds that do not materialize.

You want to look at the expenses from the previous year especially for operational purposes. I'll go into more detail, but you do not want to forget to include fundraising and advocacy costs. It's very important to build in those costs because it is a cost that any organization or program will utilize. If this is your first time building out a budget, use a friend. It could be someone within your organization with historical knowledge of the budget, or you can reach out to another organization that has built a similar budget.

This slide shows a few examples of expense line items your organization may use. This is not an exhaustive list, so look closely at your own budgets and expenses to determine what expense lines you may need.

Overhead is not evil! Fundraising costs are defined as those that involve seeking, soliciting or securing charitable contributions. Some examples of fundraising costs are development staff, the fees paid to a fundraising consulting firm, and the fees paid to register the charitable organization for solicitation purposes or for preparing grant proposals. Management and general costs are all the other costs



NonprofitCenter
of Northeast Florida

Connect • Strengthen • Advocate

that are needed to operate the organization and are shared across programs. Some examples of that are rent/mortgage, administrative staff or equipment not designated for a specific program. Having no money allocated for fundraising is a red flag. Many grants and the Financial Accounting Standards Board (FASB) provide guidance for what they consider overhead and the percentage they approve. If you aren't sure, don't be afraid to ask.

When preparing for the income and revenue, you want to review the budget vs. actuals from the prior fiscal year. If you do not have a budget vs. actuals document, you can review bank statements to see what income was coming in and when. You can then plot it to make sure your expenses are tracking with when your income comes in. You also want to look at your strategic plan and see what it calls for. This is to confirm that any changes for the upcoming year are noted and you are not strictly basing your budget on prior numbers and goals. If you are not sure that you may receive certain income, leave it out. The rule of thumb for income is if you are 75 percent sure you are going to receive the funds, include it in your budget; if not, leave it out. Earlier in the training we mentioned underestimating income. You want to be conservative with the income for your budget. For example, you don't want to put in a \$100,000 grant or even a \$10,000 grant that you're not sure that you will receive because you'll build expenses based on that income. We will discuss shortly what you can do if income doesn't materialize.

Here are a few examples of income line items. Just like the expense line items, this list is not exhaustive, and some items may not apply to your organization.

Now that you have plotted your income and expenses, you want to compare. How do the income and expenses flow in and out? You will want to compare month by month to see if you are able to adjust expenses to match when the income will be received or verify that you will have enough discretionary funds to cover those expenses until you receive more income.



NonprofitCenter
of Northeast Florida

Connect • Strengthen • Advocate

You have compared your income and expenses and have adjusted as necessary. Your bottom line shows that you have one of three types of budgets. The first is a surplus budget. This means that your income exceeds your expenses. The second is a balanced or zero-based budget, meaning your expenses equal your income. The final budget is a deficit budget: Your expenses exceed your income. Each type of budget has their own benefits depending on the goals for your organization. For instance, a surplus budget can be used to build reserves and save for future projects. The downside is some funders see a surplus and think your organization does not need any additional help. A balanced/zero-based budget is considered a best practice by some organizations. It accounts for all income, and it means you are planning to not be in the hole at the end of the budget cycle. A deficit budget can show you are investing in long term projects or looking to decrease assets.

Tracking Your Budget

So once you have the budget built out, you're going to need to have some type of process to track your income and expenses. You will need to know who needs access to these reports. For example, if it's a programmatic budget, you of course want to make sure that the CEO or financial staff is reviewing it, but you also want to make sure the manager of that program has access to the reports. Some organizations will have their program staff track their income and expenses separately, then provide the information to the finance department. Some finance departments will compare the information and provide reporting to that program to make sure it matches. Every organization will not require accounting software to track your finances; in fact, Excel is a great tool. There is also different accounting software that can help you track your budget. QuickBooks is utilized in many different organizations, both small and large. Some nonprofits use the website Techsoup.com to get discounted software and hardware, and they provide great rates for nonprofits. They have the different levels of QuickBooks and other accounting software, if you need something to plan your budget and track your income and expenses. If you are not familiar or comfortable with accounting



NonprofitCenter
of Northeast Florida

Connect • Strengthen • Advocate

software, there are a few agencies around Northeast Florida who provides trainings, including FSCJ and the Small Business Development Center.

Once you have the tracking system in place, you will want to know who is responsible for tracking your budget to actuals. If you have an accountant in your organization, they will be providing information to you, but you also want to have somebody consistently tracking. This allows for more transparency and catching errors like applying income or expenses to the wrong line item.

You have built your budget, created your tracking system — now what? Well now it's time to present your budget to your board. I know it may seem like a budget is self-explanatory, but you want to be able to tell the story of your budget. It's not just numbers. Remember, the income and expenses are all based on history and your strategic plan. Which scenario sounds better? "We're going to spend \$10,000 on rent this year, and \$2,000 on new computers, and we have to increase our supply budget to \$60 per month, because Kim likes the blue pens." Or, "We are going to serve more people in more effective ways. That means increasing our capacity to do it. So, you'll see a 10 percent increase in rent to cover space for our new program director, as well as 25 percent increase in fundraising costs for the development director to work on raising money for a new after-school site." It's all about presentation. You want your board and funders to have the full picture. In the first scenario, you didn't know the *why*. In the second scenario, it explains the costs and why there has been an increase. Make sure to answer any questions that your board has and accept the feedback. Finally, document your process for the year to see what changes were made from previous years and how it can be adjusted for the next year.

Once your budget is approved you want to check your actuals against your plans. This includes reviewing your profit and loss statement that shows your actual activity and compare that against your budget. That document is called your budget vs. actuals. At least quarterly, you will want to present your financials to



NonprofitCenter
of Northeast Florida

Connect • Strengthen • Advocate

your board, including providing your balance sheet and midyear forecasting for year end.

Sometimes things don't go as planned. We mentioned early on that the budget is an educated guess, a living document. So, when the unexpected happens, what can you do? If income does not materialize, is it a timing issue? If so, are you able to delay the expenses until the income is received? Can you use undesignated funds to cover the cost of the expenses or apply for additional funds? If none of those options are available, where can you cut expenses? If expenses don't materialize — for example, loss of staff — will that change your ability to achieve your goals? If not, do you have a plan for the surplus funds? It's very important to have a contingency plan for a surplus, so funds are not mismanaged. A variance is when actual costs are either higher or lower than the standard or projected costs, and if the variances are considered significant, they should be investigated to determine the cause. Your organization will need to determine what variance amount triggers further research.

Another helpful tool for your budget is a financial dashboard. The dashboard is a snapshot of your financials. Your finance committee and leadership can decide what items you should highlight on the dashboard. Some areas could be your revenue, strategic plan goals, board interests and high-need areas.

Financial Policies and Procedures.

The next two slides, we will discuss financial policies and procedures. You will want to include many of your policies in your finance manual. You are doing this so you can protect yourself as the person who's creating the budget and or overseeing the day-to-day finances. You are also protecting your organization; this document outlines the authority necessary for regular financial actions. This includes the authority of the staff and procedures that include the board. Some policies and procedures you will want to include in this manual include approving expenses,



NonprofitCenter
of Northeast Florida

Connect • Strengthen • Advocate

check signing, payroll and who has the authority to enter into contracts, including grants. This is important because you may have different people in your organization that work with vendors and discuss terms, but the ultimate authority should be limited. The manual will also be the place to include policies on reconciling financials and how you will maintain accurate financials. There may be different people for programs budgets, but ultimately there should be one person in charge of having all the financial records in one place and accessible. Also, you want to include any travel/transportation reimbursement policies for staff and board. If you're a smaller organization that has less than five people in the organization, the checks and balances may be a little bit difficult or may cross lines of positions that wouldn't normally have those type of responsibilities. Where possible, there should be at least three people in designated roles that are independent of each other. For instance, our organization has someone who completes the deposit, someone who receives the payments for our trainings, membership and donations, and someone that reconciles the payments.

These are some additional policies that may be necessary for your organization, or you might not need all of them. For instance, if you don't receive stocks or do not invest, you will not need those policies. If you don't currently have reserves, that doesn't mean that you should not have a reserve policy because in time you may have a reserve and you want to make sure that you outline what expenses you can utilize your reserves for and plan for emergency purposes. With the check signer's policy, if your CEO is the only one who can sign checks, you will want to make sure that there's a second signer as a backup if your CEO is unavailable, or if you write a check above a designated amount, you will have a second signer on those checks. This confirms the two signers agree that the payment is proper and reasonable. Lastly, you want to include the budget amendment and approval process in the financial manual. You do not want to include these types of policies in your board policies as they are not as easy to amend.



NonprofitCenter
of Northeast Florida

Connect • Strengthen • Advocate

I would like to thank you for taking the time to learn more about budgets. Some of the resources we have used for this training are listed here.

If you have any questions about budgets or any other operations areas, please feel free email or call me at DReynolds@Nonprofitctr.org, 904-425-1935.

Close-out: Autumn

That was great! Thank you for joining us for this Essentials training. We can't wait to see how you take this knowledge back to your organizations! Be sure to fill out the short survey at the bottom of this page; your feedback is important to us! To learn more about what we do at the Nonprofit Center, follow us on social media — you can find us on Instagram, Facebook, LinkedIn and Twitter. To learn more about other Nonprofit Center events visit our website at nonprofitctr.org and click on "Events & Programming."

See you next time!