



## **Nonprofit Budgeting Part 1: Budget Basics**

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## Nonprofit Budgeting Part I: Budget Basics

Many of us are initially drawn to work in nonprofits because of a commitment to the causes our organizations work toward. At some point we may find ourselves responsible for helping to develop and manage the financial resources of the organization, with little experience with the tools and language of finance.

This workshop is designed for people who are new to budgeting and want to get a baseline understanding of the components of a nonprofit budget. We will demystify some of the terminology around budgeting, share examples of different types of budgets and when they are useful, and practice reading and interpreting different budget presentations.

### Learning Objectives

**By the end of this workshop you will:**

- Understand the components of a budgeting process so that you can begin to develop a customized step-by-step checklist for your organization or program's budgeting process;
- Begin to explore how power dynamics influence budgeting and financial decision-making at your organization;
- Increase your understanding of the terminology and concepts involved in nonprofit budgeting;
- Practice reading different budgets and explore what might be the right format for your organization or program;
- Deepen your understanding of your role(s) in the budgeting process and begin to identify how you can positively influence the process at your organization.

## Nonprofit Budgeting Part I: Budget Basics

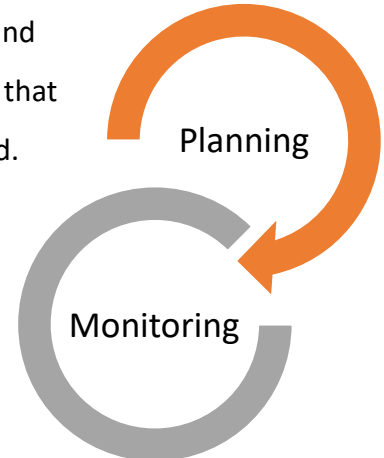
The annual budget is the financial reflection of what a nonprofit business expects to accomplish over a 12-month period. For many nonprofit leaders, budgeting is the most comfortable and interesting part of financial leadership. Done effectively, the budgeting process actively engages many staff and board members who may be uninterested in accounting or monthly financial reporting. It becomes an opportunity for these stakeholders to contribute to the organization's goals and priorities. For most organizations, the annual budgeting cycle also offers the best (if not the only) time to set meaningful financial goals. The process results in a useful tool—one that will be used to anticipate problems and to provide a baseline against which actual program and financial experience can be monitored.

### A Tool for Planning and Monitoring

**Planning:** The process of building a budget is fundamentally a planning process.

In fact, in the course of planning for its future, an organization will often regularly revisit its goals, priorities, and activities. This is a healthy and necessary time of annual reflection and one of the primary reasons that the budgeting process should begin several months before year-end.

Even in a relatively straightforward budgeting process where there seems little doubt about the organization's overall direction, the act of determining what the organization wants to accomplish, how much that will cost, and how the necessary resources will be generated is a form of strategic planning—if done thoughtfully.



**Monitoring:** Once adopted, the budget becomes an essential financial management tool helpful in monitoring ongoing organizational activities throughout the year. With each reporting cycle, the organization compares actual performance against its plan. If the organization has gone “off track,” various responses can be considered. If, for example, a program is costing more than anticipated, it may be necessary for management to bring costs down through staff reductions

or a freeze on non-personnel expenses. Or leadership may decide to revise the plan to take the higher level of expense into account. Using the budget as an ongoing monitoring tool raises these sorts of strategic discussions at the staff and board levels in an ongoing and timely manner.

### **An Inclusive Process**

In order for an organizational budget to be accurate, effective, and uniting, **the budgeting process must be inclusive**. While the executive director and key finance staff often play the coordinating role in the process, all management team and board members have a role to play. Designing an effective process that engages people with multiple perspectives can be challenging. Program planners and fiscal managers often speak different languages and may have different priorities; they may or may not be aware of the importance of each other's approach to the budget process. Program planning decisions may be viewed as failing to reflect economic realities, while fiscal management decisions are sometimes seen as insensitive to the programmatic mission of the organization. These conflicts are often fought out during the budgeting process—the very process that could unite these viewpoints. The leadership challenge is to highlight and integrate these various perspectives the collective goal of developing a realistic and inspiring plan for the coming year.

To be sure, an inclusive process can be a messy one with a great deal of debate and even frustration at times. The budgeting process is the ideal time each year to bring an organizational cross-section into the financial leadership effort. The executive director that creates the budget during an all-nighter before the first board meeting of the year—or asks her finance manager to do so—is almost guaranteeing a less-than-accurate plan and a useless tool for controlling financial activity throughout the year. People in your organization will feel more accountable to a plan that they had some say in developing. In our consulting work with nonprofits, we do not see leaders having much luck holding program and development staff accountable to budgets they did not contribute to meaningfully.

## 7 Stage Budgeting Process



### I. Design the process

\_\_\_ **Determine the roles and decision making processes** that will yield the most effective information gathering, analysis, and decision making to drive the process.

\_\_\_ **Develop a timeline** that meaningfully engages multiple perspectives and ensures approval prior to the fiscal year end.

### II. Clarify context and articulate goals

\_\_\_ **Assess current alignment of organizational values** to resource management decisions.

\_\_\_ **Reflect on successes and failures** (programmatic and financial) and document learning.

\_\_\_ **Identify opportunities, threats, and emerging trends** likely to influence your work (both programmatic and financial); articulate impact on revenue planning and cost structure.

\_\_\_ **Evaluate current financial health** by analyzing current year-end forecast, current budget variances, and balance sheet strength; articulate impact on capitalization and surplus needs.

\_\_\_ **Name the values, goals, and priorities** that should be reflected in this year's budget.

\_\_\_ Based on the above reflections and discussions, **identify specifically what you need to focus on** in this year's budgeting process, given the organization's values, goals, priorities, and current context (i.e. engaging fundraising staff in developing detailed revenue projections rather than setting a target that "fills the gap," developing a long-term plan for compensation increases with the board finance committee, etc.).

### III. Decide on the budget structure

\_\_\_ **Articulate primary purposes of your budget** (i.e. funder compliance, monitoring progress on unsecured funds, testing new cost structure, managing multiple scenarios, etc.)

\_\_\_ **Develop the structure** that best supports that purpose (see examples in this manual).

\_\_\_ **Design cost allocation process**, if applicable.



#### IV. Estimate costs

- \_\_\_ **Review compensation structure and staff time/deployment** in context of organizational values, goals, and priorities. Identify compensation/staffing priorities for the coming year.
- \_\_\_ **Calculate known/steady expenses** for the coming year (including increases in rental space, estimates for insurance premiums, planned software purchases, etc.).
- \_\_\_ **Conduct deeper research and/or analysis on areas of particular risk** (i.e. new/unknown costs, areas of prior year over- or under-spending).
- \_\_\_ **Develop support schedules** that substantiate areas of greatest dollar amount and risk (i.e. staff salaries and benefits, specific expenses such as facility rental or event costs, depreciation schedules for organizations with significant fixed assets, etc.).

#### V. Forecast income

- \_\_\_ **Calculate known/steady income** for the coming year (including secured contracts, multi-year restricted grants, steady fees, baseline contributions).
- \_\_\_ **Conduct deeper research and/or analysis on areas of particular risk** (i.e. contracts to be secured, new or increased fund development efforts).
- \_\_\_ **Develop support schedules** that substantiate areas of greatest dollar amount and risk (i.e. enrollment expectations, release schedule for restricted funds, detailed fundraising plans, foundation prospect likelihoods).



## VI. Draft budget and document decision points

- \_\_\_ **Discuss potential risk areas** in income and expense along with analysis of current context and **determine level of risk tolerance**.
- \_\_\_ **Create a consolidated budget spreadsheet**, including any potential scenarios and all support schedules that were developed during the process.
- \_\_\_ **Develop initial draft** and verify that it addresses the values, goals, and priorities named.
- \_\_\_ **Share draft with staff teams and/or board committees** for feedback and refinement.
- \_\_\_ **Adjust draft as needed** to account for feedback and ensure alignment between named values, goals, and priorities and capacity/funding.
- \_\_\_ **Document** all assumptions and potential decision points so that they can be reflected on and learned from as the year progresses.

## VII. Adopt and implement

- \_\_\_ **Present budget to the board for approval**, focusing discussion on potential decision points and areas of risk to be monitored.
- \_\_\_ **Clarify roles and decision making processes** to support effective budget monitoring.
- \_\_\_ **Design reports for budget-to-actual monitoring**, determine timeline for distribution, and process for feedback.
- \_\_\_ **Maintain rolling projection** that is updated as new information comes in, focused on the areas of greatest risk or uncertainty.
- \_\_\_ **Monitor and share budget to actual reports regularly** and facilitate discussion among the appropriate teams to respond to changes as needed.



## EXERCISE: Planning Your Budgeting Process



	Priority Level			1 = must have    2 = nice to have    3 = maybe later
Task	1	2	3	Notes
Design the Process				
Determine roles and decision making				
Develop a timeline				
Clarify Context and Articulate Goals				
Assess alignment of organizational values				
Reflect on successes and failures				
Identify opportunities, threats, emerging trends				
Evaluate organizational financial health				
Name values, goals and priorities the budget should reflect				
Identify primary areas of focus for this year’s process (based on above)				
Decide on the Budget Structure				
Articulate your budgeting process’ primary purpose				
Develop the structure to support that purpose				
Design cost allocation process if needed				
Estimate Costs				
Review staff time and compensation structure				
Calculate known and/or steady expenses				
Conduct research and analysis on areas of risk				
Develop support schedules where needed				
Forecast Income				
Calculate known and/or steady income				
Conduct research and analysis on areas of risk				
Develop support schedules where needed				

	Priority Level			1 = must have   2 = nice to have   3 = maybe later
Task	1	2	3	Notes
Draft Budget and Document Decision Points				
Discuss potential risk areas and determine level of risk tolerance				
Create consolidated budget spreadsheet				
Develop initial draft of budget; align with values, goals, priorities				
Share draft with staff and board; collect feedback				
Adjust the draft as needed				
Document assumptions and decision points				
Adopt and Implement				
Present budget to board for approval				
Clarify roles and decision making processes for budget monitoring				
Design reports for budget-to-actual monitoring				
Maintain rolling projections				
Monitor budget-to-actual reports regularly				

#### NOTES:

## Power and Decision-Making

A thoughtfully designed budgeting process is an opportunity to explicitly examine how power and decision-making around money is distributed in the organization, and to potentially disrupt oppressive patterns around who holds expertise and decision making authority over the financial resources of the organization. One way to start this analysis is through developing a power map and beginning to explore possible shifts. A sample way of power mapping is below.

### STEPS TO POWER MAPPING:

1. Identify all the people who are involved in your budgeting process (including YOU!). You may also include people beyond the staff and board of the organization, such as funders, policy makers, or constituents.
2. Name the types of decisions each person or entity holds and what kind of process is used to make these decisions.
3. Identify which sources of power<sup>1</sup> this person or entity draws upon (either intentionally or not). Include social power dynamics such as race, class, gender, etc.
4. Draw lines between the circles to indicate where relationships exist. Sometimes it's useful to indicate both formal connections (i.e. supervisory relationships) and informal relationships (i.e. friendships, close colleagues) using different colors.
5. Discuss your power map as a group – what opportunities exist to distribute power were it is concentrated, open up decision making processes that are currently held by a few people, or begin to engage those who have been excluded from meaningful involvement?
6. Plan for the changes you can implement this year, including how to support the learning of those new to the process.

Person: \_\_\_\_\_

Decides: \_\_\_\_\_

Sources of Power: \_\_\_\_\_

Person: \_\_\_\_\_

Decides: \_\_\_\_\_

Sources of Power: \_\_\_\_\_

Person: \_\_\_\_\_

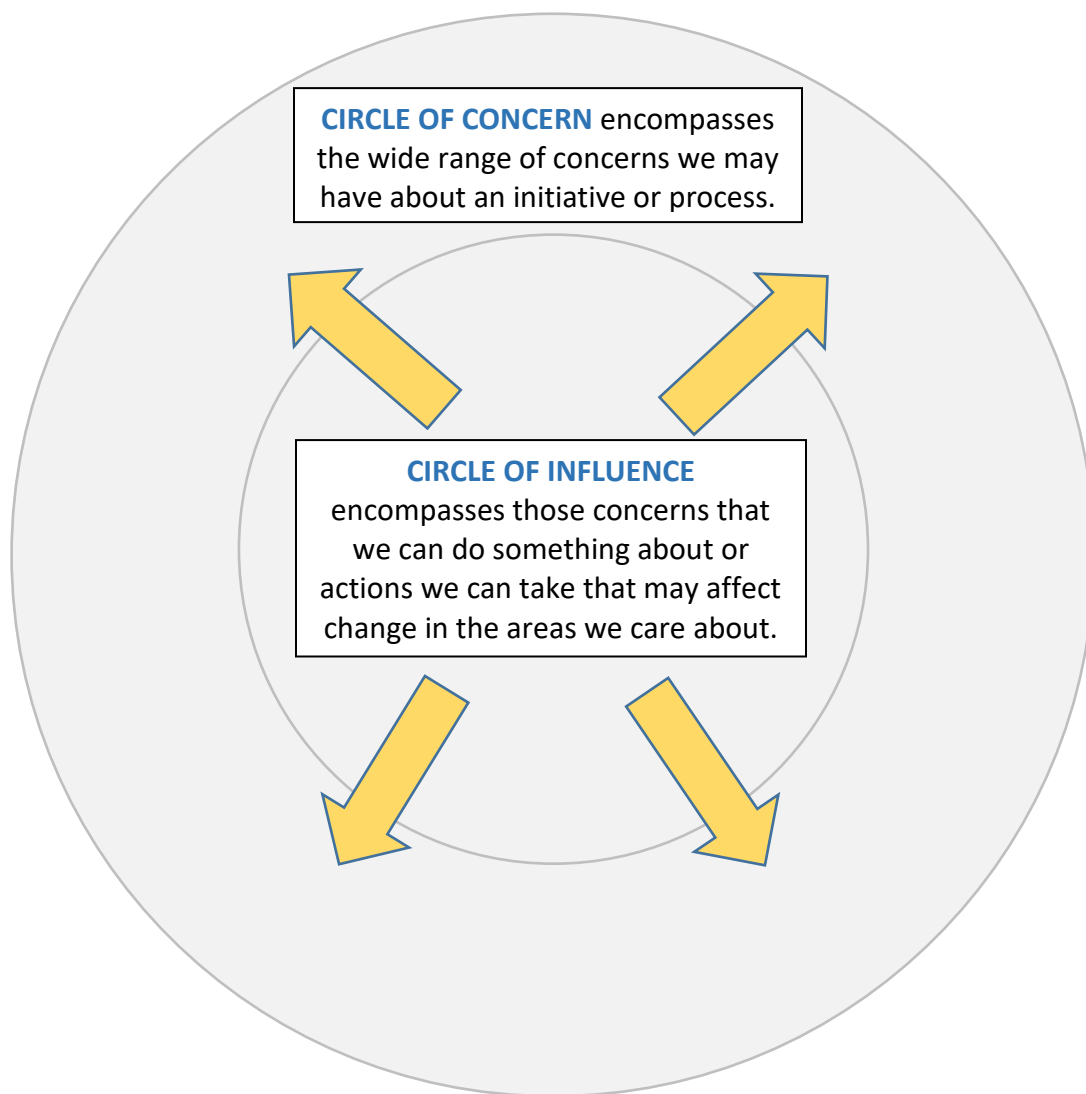
Decides: \_\_\_\_\_

Sources of Power: \_\_\_\_\_

<sup>1</sup> See the “Sources of Power” tool at [http://stproject.org/toolkit\\_tool/sources-of-power/](http://stproject.org/toolkit_tool/sources-of-power/)

## Identifying and Expanding Your Influence

A person who fills a particular position in an organization (e.g. executive director, finance manager, program staff, etc.) may participate in and influence the organization's budgeting process in several ways. Clarifying roles and decision making power is critical in an inclusive process. When positional leaders invite and encourage participation in the budgeting process, there are many ways that people can influence the process without positional authority. One way to reflect on the potential of your role in the process is considering your *Circle of Concern* and *Circle of Influence*<sup>2</sup>.

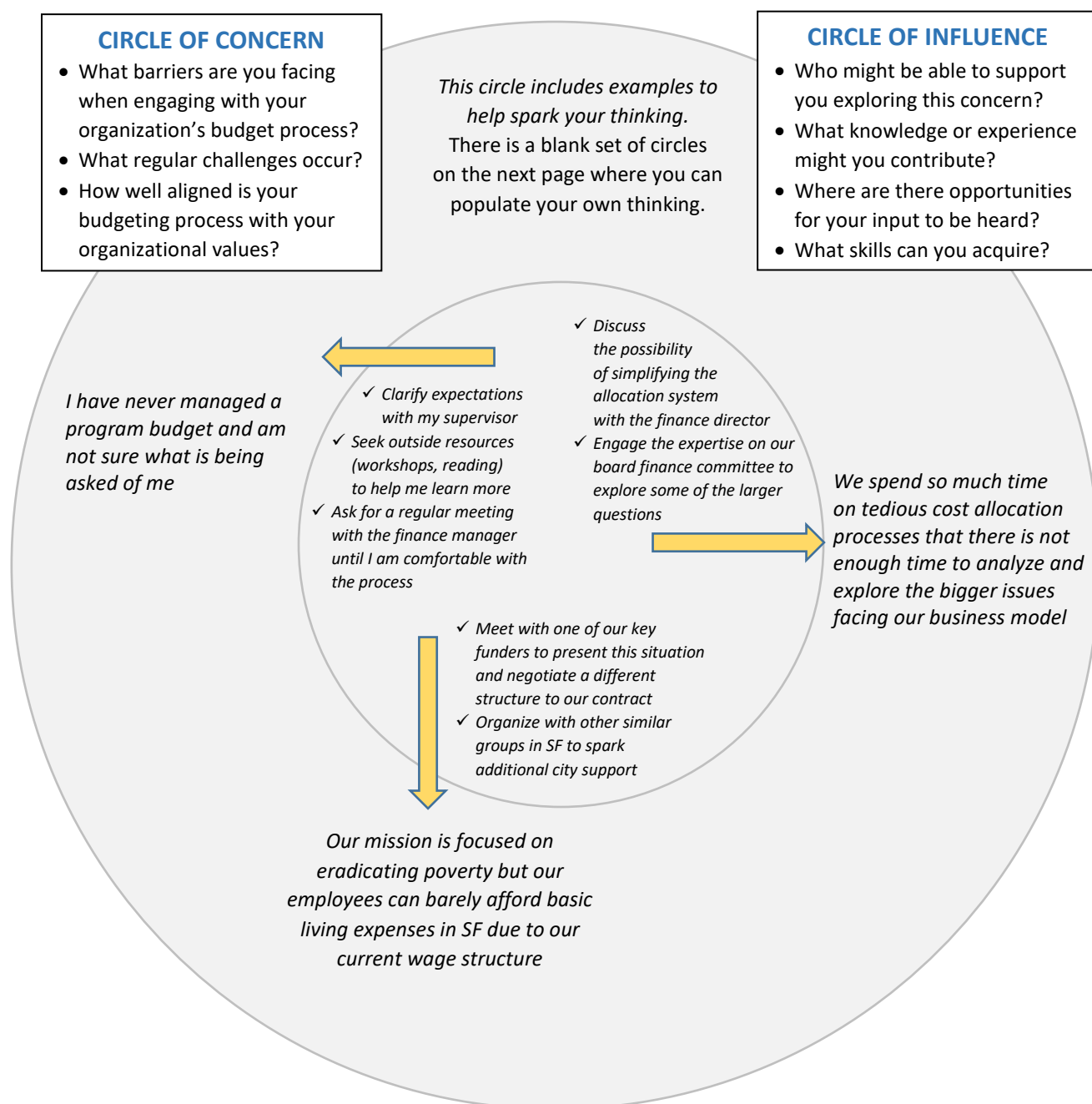


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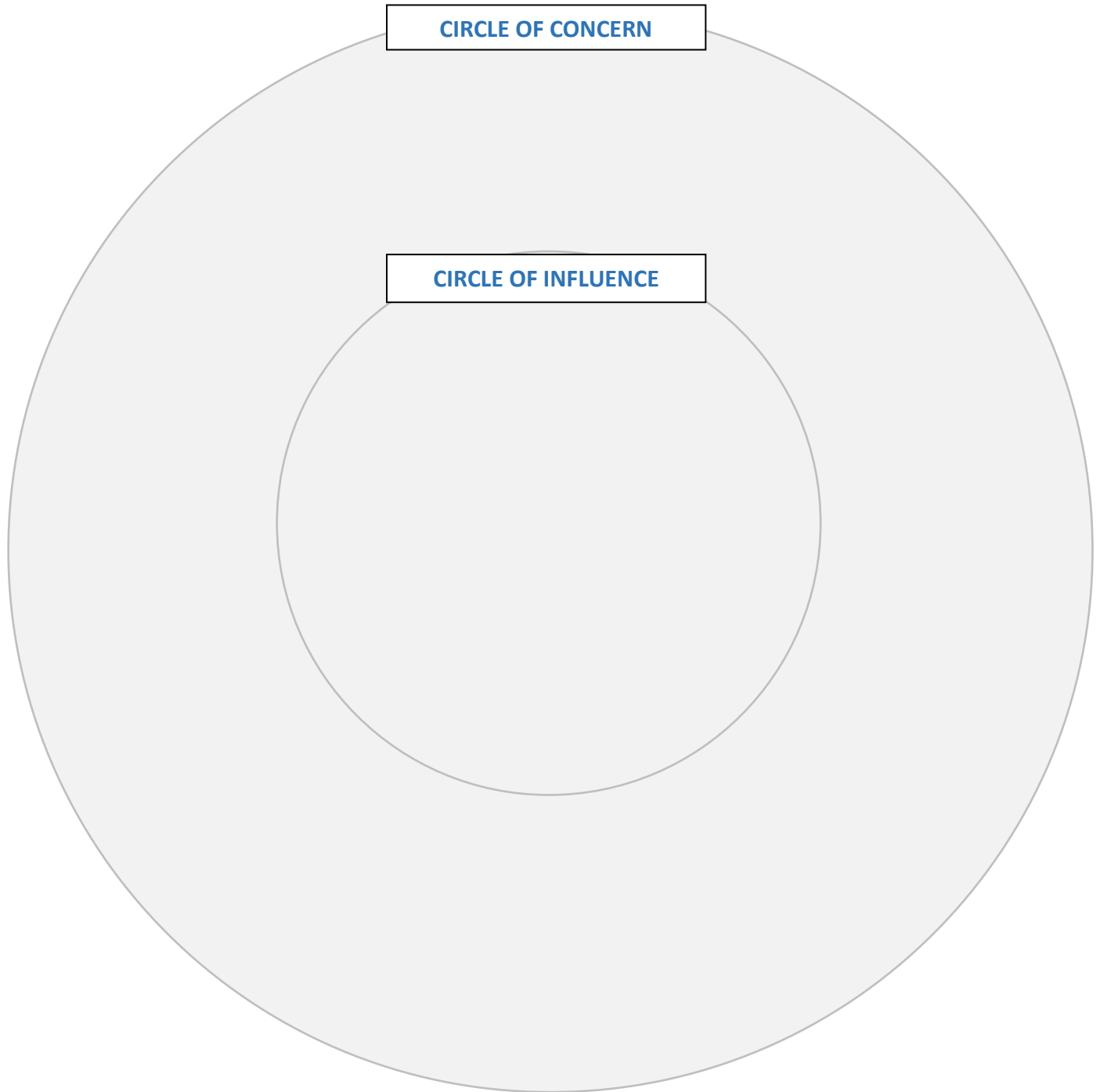
<sup>2</sup> Adapted from [The Seven Habits of Highly Effective People](#) by Stephen R. Covey, Simon & Schuster, 1992.

## EXERCISE: Identifying and Expanding Your Influence

Take a few minutes to write down some of the concerns you have about your organization's budget process and/or your role in it so far. There are no right answers here – think about why you decided to take this workshop. Then, in the inner circle, begin to identify some pathways to action that you may be able to use to address some of these concerns.



## EXERCISE: Identifying and Expanding Your Influence



### Reflection questions:

1. What support do I need to begin to address the concerns I have influence over?
2. What work do I want to start or stop doing in relation to our budgeting process and what might be a pathway to support that shift?

## Basic Budget

Domestic Violence Intervention & Prevention Agency  
2016-17 Organizational Budget  
As of June 5, 2016

	Budget 2016-17
Contributions	80,000
Fundraising events - net	135,000
Foundation grants	125,000
<b>Total support</b>	<b>340,000</b>
Government contracts	815,009
Interest and dividends	10,000
<b>Total earned revenue</b>	<b>825,009</b>
Net assets released from restriction	450,000
<b>Total income</b>	<b>1,615,009</b>
Salaries	800,830
Payroll taxes	82,085
Employee benefits	80,083
Training	5,600
<b>Personnel expenses</b>	<b>968,598</b>
Accounting	17,500
Bank charges	5,000
Building expenses	27,500
Clients, direct assistance to	250,000
Conferences and meeting	17,500
Depreciation	38,897
Dues and subscriptions	3,650
Equipment rental/maint.	3,200
Insurance	29,000
Interest	8,016
Other professional fees	39,500
Postage and delivery	12,000
Printing and copying	16,000
Supplies	51,500
Telephone	36,000
Travel	20,250
Utilities	42,500
<b>Non-personnel expenses</b>	<b>618,013</b>
<b>Total expenses</b>	<b>1,586,611</b>
<b>Change in net assets</b>	<b>28,398</b>

## Time-Based Budget

Domestic Violence Intervention & Prevention Agency  
2016-17 Final Budget for Finance Committee  
As of June 5, 2016

	YE Projection 2015-16	Budget 2016-17	\$ Increase/ Decrease	% Increase/ (Decrease)
Contributions	60,000	80,000	20,000	33%
Fundraising events - net	100,000	135,000	35,000	35%
Foundation grants	25,000	125,000	100,000	400%
<b>Total support</b>	<b>185,000</b>	<b>340,000</b>	<b>155,000</b>	<b>84%</b>
Government contracts	790,559	815,009	24,450	3%
Interest and dividends	12,000	10,000	(2,000)	-17%
<b>Total earned revenue</b>	<b>802,559</b>	<b>825,009</b>	<b>22,450</b>	<b>3%</b>
Net assets released from restriction	400,000	450,000	50,000	13%
<b>Total income</b>	<b>1,387,559</b>	<b>1,615,009</b>	<b>227,450</b>	<b>16%</b>
Salaries	778,910	800,830	21,920	3%
Payroll taxes	79,849	82,085	2,236	3%
Employee benefits	74,156	80,083	5,927	8%
Training	3,200	5,600	2,400	75%
<b>Personnel expenses</b>	<b>936,115</b>	<b>968,598</b>	<b>32,483</b>	<b>3%</b>
Accounting	17,000	17,500	500	3%
Bank charges	5,000	5,000	-	0%
Building expenses	26,300	27,500	1,200	5%
Clients, direct assistance to	150,000	250,000	100,000	67%
Conferences and meeting	5,000	17,500	12,500	250%
Depreciation	29,634	38,897	9,263	31%
Dues and subscriptions	3,650	3,650	-	0%
Equipment rental/maint.	3,100	3,200	100	3%
Insurance	28,500	29,000	500	2%
Interest	8,951	8,016	(935)	-10%
Other professional fees	15,500	39,500	24,000	155%
Postage and delivery	9,000	12,000	3,000	33%
Printing and copying	14,500	16,000	1,500	10%
Supplies	50,000	51,500	1,500	3%
Telephone	35,000	36,000	1,000	3%
Travel	15,420	20,250	4,830	31%
Utilities	41,250	42,500	1,250	3%
<b>Non-personnel expenses</b>	<b>457,805</b>	<b>618,013</b>	<b>160,208</b>	<b>35%</b>
<b>Total expenses</b>	<b>1,393,920</b>	<b>1,586,611</b>	<b>192,691</b>	<b>14%</b>
<b>Change in net assets</b>	<b>(6,361)</b>	<b>28,398</b>	<b>34,759</b>	



## REFLECTION: Time-Based Budget Review

- ✓ What do you learn about this organization, given this budget structure?
  
  
  
  
  
  
  
  
  
  
- ✓ What questions come up for you when reviewing this budget?
  
  
  
  
  
  
  
  
  
  
- ✓ What does this structure suggest about decision-making?

**NOTES:**

## Source-Based Budget

Domestic Violence Intervention & Prevention Agency  
2016-17 Final Budget for Finance Committee  
As of June 5, 2016

	Total 2016-17	Allen Foundation	Babcock Foundation	Dept of Human Services	Fundraising	All Sources	Unfunded/ Indirect
Contributions	80,000	-	-	-	80,000	80,000	-
Fundraising events - net	135,000	-	-	-	135,000	135,000	-
Foundation grants	125,000	-	-	-	125,000	125,000	-
<b>Total support</b>	<b>340,000</b>	-	-	-	340,000	340,000	-
Government contracts	815,009	-	-	815,009	-	815,009	-
Interest and dividends	10,000	-	-	-	-	-	10,000
<b>Total earned revenue</b>	<b>825,009</b>	-	-	815,009	-	815,009	10,000
Net assets released from restriction	450,000	125,000	320,000	-	5,000	450,000	-
<b>Total income</b>	<b>1,615,009</b>	<b>125,000</b>	<b>320,000</b>	<b>815,009</b>	<b>345,000</b>	<b>1,605,009</b>	<b>10,000</b>
Salaries	800,830	62,500	156,789	321,764	115,500	656,553	144,277
Payroll taxes	82,085	6,875	17,247	31,279	11,839	67,240	14,845
Employee benefits	80,083	7,000	18,679	32,735	-	58,414	21,669
Training	5,600	440	1,500	2,000	-	3,940	1,660
<b>Personnel expenses</b>	<b>968,598</b>	<b>76,815</b>	<b>194,215</b>	<b>387,778</b>	<b>127,339</b>	<b>786,147</b>	<b>182,451</b>
Accounting	17,500	-	-	-	-	-	17,500
Bank charges	5,000	-	-	-	-	-	5,000
Building expenses	27,500	1,500	-	15,000	-	16,500	11,000
Clients, direct assistance to	250,000	-	-	250,000	-	250,000	-
Conferences and meeting	17,500	10,000	-	700	2,000	12,700	4,800
Depreciation	38,897	-	-	15,000	-	15,000	23,897
Dues and subscriptions	3,650	600	1,805	1,000	250	3,655	(5)
Equipment rental/maint.	3,200	-	-	1,600	-	1,600	1,600
Insurance	29,000	-	-	12,500	-	12,500	16,500

Interest	8,016	-	-	3,600	-	3,600	4,416
Other professional fees	39,500	7,500	30,000	-	-	37,500	2,000
Postage and delivery	12,000	1,000	1,000	-	4,000	6,000	6,000
Printing and copying	16,000	-	5,000	1,000	10,000	16,000	-
Supplies	51,500	3,800	10,000	14,990	2,500	31,290	20,210
Telephone	36,000	2,500	7,500	14,000	-	24,000	12,000
Travel	20,250	-	15,000	3,750	1,000	19,750	500
Utilities	42,500	5,000	7,500	20,000	-	32,500	10,000
<b>Non-personnel expenses</b>	<b>618,013</b>	31,900	77,805	353,140	19,750	482,595	135,418
<b>Total expenses</b>	<b>1,586,611</b>	<b>108,715</b>	<b>272,020</b>	<b>740,918</b>	<b>147,089</b>	<b>1,268,742</b>	<b>317,869</b>
Indirect allocation, based on funder guidelines		16,285	47,980	74,091	-	138,356	(138,356)
		125,000	320,000	815,009	147,089	1,407,098	179,513
<b>Change in net assets</b>	<b>28,398</b>	-	-	-	197,911	197,911	(169,513)

## REFLECTION: Source-Based Budget Review

- ✓ What do you learn about this organization, given this budget structure?
  
- ✓ What questions come up for you when reviewing this budget?
  
- ✓ What does this structure suggest about decision-making?

## Activity-Based Budget

Domestic Violence Intervention & Prevention Agency  
2016-17 Final Budget for Finance Committee  
As of June 5, 2016

	Program Activities		Supporting Activities		Common Costs	Total Budget 2016-17
	Shelter Services	Support Groups	Admin- istration	Fund- raising		
Contributions	-	-	-	80,000	-	80,000
Fundraising events - net	-	-	-	135,000	-	135,000
Foundation grants	-	-	-	125,000	-	125,000
<b>Total support</b>	-	-	-	<b>340,000</b>	-	<b>340,000</b>
Government contracts	815,009	-	-	-	-	815,009
Interest and dividends	-	-	10,000	-	-	10,000
<b>Total revenue</b>	<b>815,009</b>	-	<b>10,000</b>	-	-	<b>825,009</b>
Released from restriction	-	445,000	-	5,000	-	450,000
<b>Total income</b>	<b>815,009</b>	<b>445,000</b>	<b>10,000</b>	<b>345,000</b>	-	<b>1,615,009</b>
Salaries	295,920	194,450	106,000	115,500	88,960	800,830
Payroll taxes	30,332	19,931	10,865	11,839	9,118	82,085
Employee benefits	-	-	-	-	80,083	80,083
Training	3,600	500	500	-	1,000	5,600
<b>Personnel expenses</b>	<b>329,852</b>	<b>214,881</b>	<b>117,365</b>	<b>127,339</b>	<b>179,161</b>	<b>968,598</b>
Accounting	-	-	17,500	-	-	17,500
Bank charges	-	-	5,000	-	-	5,000
Building expenses	-	-	-	-	27,500	27,500
Clients, direct assistance to	250,000	-	-	-	-	250,000
Conferences and meeting	1,000	10,000	2,500	2,000	2,000	17,500
Depreciation	-	-	-	-	38,897	38,897
Dues and subscriptions	1,000	2,300	100	250	-	3,650
Equipment rental/maint.	-	-	-	-	3,200	3,200
Insurance	-	-	-	-	29,000	29,000
Interest	-	-	-	-	8,016	8,016
Other professional fees	20,000	12,000	2,500	-	5,000	39,500
Postage and delivery	-	-	-	4,000	8,000	12,000
Printing and copying	1,000	5,000	-	10,000	-	16,000
Supplies	15,000	10,000	-	2,500	24,000	51,500
Telephone	-	-	-	-	36,000	36,000
Travel	3,750	15,000	500	1,000	-	20,250
Utilities	-	-	-	-	42,500	42,500
<b>Non-personnel expenses</b>	<b>291,750</b>	<b>54,300</b>	<b>28,100</b>	<b>19,750</b>	<b>224,113</b>	<b>618,013</b>
Total specific costs	621,602	269,181	145,465	147,089	403,274	1,586,611
Allocation of common costs	181,473	125,015	44,360	52,426	(403,274)	-
Allocation of admin costs	109,139	53,572	(189,825)	27,114	-	-
<b>Total expenses</b>	<b>912,215</b>	<b>447,768</b>	<b>-</b>	<b>226,629</b>	<b>-</b>	<b>1,586,611</b>
Change in net assets	(97,206)	(2,768)	10,000	118,371	-	28,398

## REFLECTION: Activity-Based Budget Review

- ✓ What do you learn about this organization, given this budget structure?
  
  
  
  
  
  
  
  
  
  
- ✓ What questions come up for you when reviewing this budget?
  
  
  
  
  
  
  
  
  
  
- ✓ What does this structure suggest about decision-making?

**NOTES:**

## Basis for Common Cost Allocation

In activity-based budgeting, you must design a reasonable method for distributing an organization's common or shared costs. One way that many organizations do this is based on how much staff time is spent in each activity area (known as an FTE basis). Below is an example of a staffing plan that represents how staff time is expected to be distributed in the coming year. This plan serves as support documentation for the cost allocation percentages used in the sample budget on page 20.

### Staffing Plan As of April 22, 2016

Name	Position	Total FTE	Shelter Services	Support Groups	Admin	Fund-raising	Common Costs	Total
Elena	Executive Director	1.00	0.10	0.25	0.40	0.25	-	1.00
Freda	Director of Finance and Admin.	0.75	-	-	0.75	-	-	0.75
Albert	Accounting Manager	0.50	-	-	0.50	-	-	0.50
Ina	IT Manager	0.50	-	-	-	-	0.50	0.50
Ollie	Office Manager	1.00	-	-	-	-	1.00	1.00
Carla	Custodian	0.50	-	-	-	-	0.50	0.50
Paula	Director of Programs	1.00	0.60	0.40	-	-	-	1.00
Sherri	Shelter Manager	1.00	1.00	-	-	-	-	1.00
Denise	Day Coordinator	1.00	1.00	-	-	-	-	1.00
Natalie	Night Coordinator	1.00	1.00	-	-	-	-	1.00
India	Intake Coordinator	1.00	1.00	-	-	-	-	1.00
Cathy	Case Worker	1.00	1.00	-	-	-	-	1.00
Connie	Counselor	1.00	1.00	-	-	-	-	1.00
Alexis	Advocacy Manager	1.00	-	1.00	-	-	-	1.00
Adriana	Adult Community Organizer	1.00	-	1.00	-	-	-	1.00
Yani	Youth Community Organizer	1.00	-	1.00	-	-	-	1.00
Lani	Legislative Advocate	1.00	-	1.00	-	-	-	1.00
Dana	Director of Development	1.00	-	-	-	1.00	-	1.00
Dennis	Development Associate	0.75	-	-	-	0.75	-	0.75
		17.00	6.70	4.65	1.65	2.00	2.00	17.00
FTE's without common		15.00	6.70	4.65	1.65	2.00	(2.00)	
% of FTE's for allocation of shared		100%	45%	31%	11%	13%	-100%	

## Basis for Admin Cost Allocation

Sometimes organizations will also allocate its administrative expenses across the different activities to help identify the “full costs” of each program area and ensure that its fundraising for programs covers a portion of the administrative expenses of the organization as well as the direct program costs. Often this is done on a direct expense basis, which is calculated below.

*As of May 29, 2016*

	<i>Shelter Services</i>	<i>Support Groups</i>	<i>Admin</i>	<i>Fund- raising</i>	<i>Common Costs</i>	<i>Budget 2016-17</i>
<i>Personnel expenses</i>	329,852	214,881	117,365	127,339	179,161	968,598
<i>Non-personnel expenses</i>	416,750	129,300	28,100	44,750	224,113	843,013
<i>Total specific costs</i>	746,602	344,181	145,465	172,089	403,274	1,811,611
<i>% of FTE's</i>	45%	31%	11%	13%	-100%	-
<i>Allocation of common costs</i>	181,473	125,015	44,360	52,426	(403,274)	-
<i>Expenses before admin costs</i>	928,075	469,196	189,825	224,514	-	1,811,611
<i>% of direct costs</i>	57%	29%	-100%	14%	-	-
<i>Allocation of admin costs</i>	108,200	55,049	(189,825)	26,576	-	-
<i>Total expenses</i>	1,036,276	524,245	-	251,090	-	1,811,611

*Calculation for administrative allocations (direct expense basis)*

*Example for Shelter Services:*

$$\frac{\text{Total Activity Expenses}}{\text{Total Expenses} - \text{Admin Expenses}} = \% \text{ of direct costs} \quad \frac{\$928,075}{\$1,811,611 - \$189,825} = 57\%$$

## Program or Project Budget Planning

A meaningful way to build an inclusive budgeting culture is to directly involve people in the creation and monitoring of a smaller component of the overall budget that is directly related to their work, often a program or project. While organizational-level planning is underway, each program manager can simultaneously work on their portion of the budget, which may include the key deliverables for the year, staffing requirements, and estimates of the program or project's specific costs.

Program or project managers are usually in the best position to estimate the specific costs associated with their plans for the year. Based on past experience and current goals, program managers should determine the number of staff members, supplies, and other resources needed to attain their objectives. When historical reference information is lacking or incomplete, it may be helpful to call on the experiences of your peers at similar organizations or do other types of research to make an educated estimate on your program costs. When these types of estimates are made, it is particularly critical to document your thinking so that you can test these assumptions against the real information that will unfold over the year so that you can continue to improve cost projections over time.

Remember that some costs are more hidden than others. For example, if a new program will require ten new staff positions, the expense estimates must also include time to hire, train, and support the new staff, as well as additional benefits, advertising costs, office equipment, and so forth. If a program is going to cut staff, there may be attendant costs such as outplacement or severance packages. An experienced finance manager acting in the role of budget manager can help program and project managers anticipate these less obvious costs.



## Program-Based Budget

Domestic Violence Intervention & Prevention Agency  
2016-17 Shelter Program Budget – Draft Scenarios  
As of April 29, 2016

	Core	Expanded
<i>Executive Director</i>	8,500	8,500
<i>Director of Programs</i>	34,800	34,800
<i>Shelter Manager</i>	42,500	42,500
<i>Day Coordinator</i>	36,500	36,500
<i>Night Coordinator</i>	37,200	37,200
<i>Intake Coordinator</i>	36,000	36,000
<i>Case Worker</i>	38,500	38,500
<i>Counselor</i>	40,000	40,000
<i>Salary increases</i>	21,920	21,920
<i>Total Salaries</i>	295,920	295,920
<i>Payroll taxes</i>	30,332	30,332
<i>Training</i>	3,600	3,600
<i>Total Personnel expenses</i>	329,852	329,852
<i>Clients, direct assistance to</i>	250,000	375,000
<i>Conferences and meeting</i>	1,000	1,000
<i>Dues and subscriptions</i>	1,000	1,000
<i>Other professional fees</i>	20,000	20,000
<i>Printing and copying</i>	1,000	1,000
<i>Supplies</i>	15,000	15,000
<i>Travel</i>	3,750	3,750
<i>Total Non-personnel expenses</i>	291,750	416,750
<i>Total specific costs</i>	621,602	746,602
<i>Shelter Nights</i>		
<i>Single women</i>	2,190	2,190
<i>Women with children</i>	4,380	4,380
<i>Infants/Toddlers</i>	1,095	1,095
<i>Children (2-12)</i>	1,460	1,460
<i>Teens (13-18)</i>	730	730
<i>Total Number of Nights</i>	9,855	9,855
<i>Cost per night</i>	\$63.07	\$75.76

## EXERCISE: Program or Project Budget Planning

This worksheet offers a process of reflection and planning designed to support program or project managers to engage meaningfully in a budgeting process. These questions can be used for self-reflection or to guide a collective conversation as part of a budgeting process.

**Program, Project, or Campaign:** \_\_\_\_\_

1. **Briefly paint a picture of its success.** What does it look like when this program, project or campaign is fully energized and thriving? Include specific deliverables and/or goals for the fiscal year or the duration of the project, where possible.
  
2. Keeping this image of success in mind, **what types of resources will be needed to achieve this vision?** Be as specific as possible – for example:
  - *we will need to allocate staff time for reflection and shared learning (supporting a vision of a significant shift in our program direction)*
  - *we will need healthy, locally grown snacks that kids love to eat (supporting our effort to embed health and wellness in our academic programs)*
  - *we will need dedicated staff time and a budget for consultant (supporting our project to select and implement new accounting software)*

## EXERCISE: Program or Project Budget Planning (cont'd)

3. Looking at each type of resource that contributes to the project's success, how might we start planning for building this resource into our program budget?

Type of Resource	Amount Needed	Next Steps
<i>Examples:</i>	<i>Examples:</i>	<i>Examples:</i>
<i>Staff time for reflection and shared learning</i>	<i>5% of everyone's time for learning sessions</i>	<i>Discuss with program and management teams what we will need to let go of, to free this time</i>
<i>Healthy, locally grown snacks that kids love</i>	<i>Serving 20 students, 3x per week for 36 weeks = 60 snacks per week, 2,160 snacks per school year</i>	<ul style="list-style-type: none"> <li>• <i>Start conversation with community farming co-op</i></li> <li>• <i>Engage current students in brainstorm for snack planning</i></li> </ul>

## SUMMARY: TYPES OF BUDGETS

		Implications for decision making	
Type of budget	Primary purpose	Advantages	Drawbacks
<b>Time-based budget:</b> Presents annual budget in comparison to prior year actuals, and sometimes also to future years' projections.	To highlight trends and/or expected changes in the organization's financial model. Boards of directors often find this view useful for providing context when reviewing a budget and it can aid in a focus on longer-term business model shifts.	✓ Highlights trends and the most dynamic areas of change in the budget for discussion.	✓ Aggregate data is high-level and does not provide a way to look at the various financial drivers at the program or project level.
<b>Source-based budget:</b> Presents annual budget based on its funding source reporting requirements rather than its activities.	To plan for effective cost recovery and funder compliance, primarily used by organizations with a significant number of funding sources that require detailed line-item compliance reporting.	✓ Smooth integration with source-based accounting for funding-based budget-to-actual reporting.  ✓ Easy to identify "gaps" in funding that may need to be covered by unrestricted sources.	✓ Can lead to a "funding-first" approach where expense decisions are driven primarily by funder requirements and restrictions rather than program need and impact.  ✓ In organizations with multiple programs it can be difficult to identify program-level costs, unless this is integrated with activity-based budgeting.

## SUMMARY: TYPES OF BUDGETS

		Implications for decision making	
Type of budget	Primary purpose	Advantages	Drawbacks
<b>Activity-based budget:</b> Presents annual budget based on its activities (programs and supporting activities of administration and fundraising) rather than its specific funding sources.	To identify the “full costs” of each program/activity of the organization, which supports effective program-based fundraising efforts and monitoring program-based budgets.	<ul style="list-style-type: none"> <li>✓ Smooth integration with functional accounting practices for program-based budget-to-actual reporting and 990 preparation.</li> <li>✓ Provides clarity about net results of each activity as a way of thinking about the organizations business model.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Can lead to or exacerbate “siloing” of programs rather than reflect the integrated nature of the work.</li> <li>✓ Can focus conversations on fixing programs that are “losing money,” without a more nuanced understanding of nonprofit financial models.</li> </ul>
<b>Program or Project budget:</b> Presents a smaller component of an organization’s budget, focused around a specific area of work.	To highlight one component of the organization’s work, often to support distributed budget management (where program or project managers hold full responsibility for a portion of the organization’s resources) and/or fundraising efforts (to set revenue targets and support conversations with donors or funders who are interested in a particular area of the organization’s work.	<ul style="list-style-type: none"> <li>✓ Supports inclusive budgeting practices by giving people influence over a segment of the budget that is personally meaningful and directly related to their work.</li> <li>✓ Useful in organizations that have a lot of restricted funding that requires detailed reporting and targeted fundraising efforts.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Can contribute to isolation or “siloing” of the work if program-level budget conversations are not integrated with the full organization conversations and priority setting.</li> </ul>

## Terminology

These are the key financial terms referenced in this course. More financial terminology is available at: <http://www.nonprofitfinancefund.org/glossary>

### Income:

**Contributed Support:** Income that the organization obtains in support of its particular cause or mission (such as individual donations, bequests, or foundation grants).

**Earned Revenue:** Income that the organization obtains by providing a good or service in exchange for fees (such as tuition, ticket sales, and some but not all government contracts). This includes sliding-scale fees or those that might only cover partial costs of the services provided in exchange. The services are often, but not always, central to the organization's mission.

**Net Assets Released from Restriction:** Income that is recognized for use when the donor-designated restriction (time or purpose) has been met. For example, funds that are restricted for a particular program are "released" for use as the costs to run the program are incurred.

**Pass-through Revenue:** Funds provided to the organization that must be spent on behalf of, or passed through to, a secondary agent. Common examples include re-grants or specifically funded program expenses such as site rental or participant stipends.

### Expense:

**Functional Expenses:** Categorizing organizational expenses based on the activity that incurs them. This way of categorizing costs is driven by the requirements of the Form 990 and by Generally Accepted Accounting Principles (GAAP). Expenses are categorized as either **program services** (activities that result in goods or services being distributed to beneficiaries, customers, or members in order to fulfil the purpose or mission for which the organization exists) or **supporting services** (activities other than program services, including management/ administrative and fundraising).

**Common Costs** (*also called shared costs*): Organizational expenses that cannot be attributed to a single function or activity of the organization. Expenses such as rent, general office supplies, or insurance are often categorized as common rather than attributed to a specific program or supporting service.

**Cost Allocation:** The process of proportionally distributing common costs among two or more activities that benefit from those costs. Many organizations allocate common costs based on staff time assigned to each activity, square footage allotted for each

activity and/or total direct expenses of each activity. Cost allocation process should be reasonable, documented, and consistently applied.

**Full Program Costs:** While there is no precise definition of this phrase, it typically refers to the total of a program's direct costs, as well as an allocation of "indirect" costs that may include common costs and supporting costs (administrative and/or fundraising costs). Calculating full operating costs in this way can help to ensure effective fundraising targets for programs and support effective cost recovery efforts from grants and contracts.

The Nonprofit Finance Fund defines the guiding equation of full costs like this - add together:

- Day-to-day operating expenses
- Unfunded expenses (e.g., underpaid staff)
- Working capital (cash for day-to-day needs)
- Reserves (e.g., savings, rainy day fund)
- Fixed asset/technology additions (money to purchase a building, or new computers)
- Debt
- Change capital (e.g., resources to adapt, grow, and/or expand)

**Fixed Costs:** Expenses that have to be paid by the organization regardless of the revenue generated. These costs do not change when the amount of services increase or decrease. For most organizations, basic operating expenses such as salaries, rent, and insurance fall into this category.

**Variable Costs:** Expenses that increase or decrease depending on the amount of services provided. For example, the cost of workshop personnel and supplies could vary with the number of sessions offered, the cost of meals could vary with the number of participants served, or the cost of filing fees will vary with the number of legal orders filed.

#### **Other:**

**Change in Net Assets** (*also called net income, surplus or deficit, profit or loss*): Overall financial result of an organization over a period of time (i.e. month, quarter, year). This is calculated as total income minus total expense. When this result is positive (surplus), the organization is building reserves. When negative (deficit), the organization is drawing from reserves.

**Chart of Accounts (CoA):** The complete listing of every account in an accounting system (asset, liabilities, net assets, revenue and expense). Organizational budget formats should be aligned with the revenue and expense categories that are identified in the organization's CoA.

**Reserves:** Unrestricted cash that is available as a cushion against unexpected events, losses of income or significant unforeseen expenses. Reserves can also be used to fuel program innovation or fund organizational change initiatives. For most nonprofits, reserves are build up over time with small annual operating surpluses. When an organization runs a deficit, it is depleting its reserves. Reserves are reflected on the organization's Statement of Financial Position (balance sheet) as Unrestricted Net Assets.

**Support Document** *(also called supporting data or support schedule):* Written information attached to the budget that provides backup detail and depth to support particular line-item figures. Common examples include: salary schedules, fundraising plans, enrollment projections, restricted funds release schedule, depreciation schedule, etc.



### Action Steps:

Three things I will take back to my organization from today's session include:

1. 

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2. 

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3. 

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Notes: