



## The Art & Science of Budgeting

Steve Zimmerman  
Spectrum Nonprofit Services

CALCASA  
September 14, 2010

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### Poll # 1

What is the size of your organization?

- A. Less than \$500,000
- B. Between \$500,000 and \$1 Million
- C. Between \$1 Million and \$1.5 Million
- D. Over \$1.5 Million

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### Poll # 2

What is your role in your organization?

- A. Finance?
- B. Fundraising?
- C. Executive Director?
- D. Board Member?

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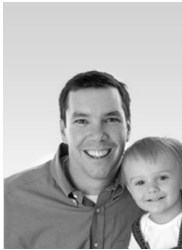
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The face behind the voice . . .



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Which is a better budget?

Program	Budget	Actual
A	\$850	\$900
B	\$1000	\$900

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Which is a better budget?

It depends!

Planning                  Monitoring

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## Budgeting as a Planning and Monitoring Tool

Allows you to:

- Define organizational goals.



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## Budgeting as a Planning and Monitoring Tool

Allows you to:

- Define organizational goals.
- Tie into strategic plan.

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## Budgeting as a Planning and Monitoring Tool

Allows you to:

- Define organizational goals.
- Tie into strategic plan.
- Outline resource needs and uses to accomplish goals.



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## Budgeting as a Planning and Monitoring Tool

Allows you to:

- Monitor progress throughout the time period.
- Show differences between plans or goals and actual use.



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## Budgeting as a Planning and Monitoring Tool

Allows you to:

- Monitor progress throughout the time period.
- Show differences between plans or goals and actual use.
- Take corrective action as problems arise.

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## Who is involved?

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## Who is involved? Everyone



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## Who is involved? Everyone

Program Staff	Direct expenses Income
Development Staff	Contributed support Direct expenses
Finance Staff	Administrative expenses Shared Costs
Board	Set goals Approve budget

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## Who is in-charge?

- Typically the Director of Finance will be the budget keeper, in-charge of the spreadsheet.
- Sometimes the Executive Director or Treasurer keeps the spreadsheet
- The ED is responsible for keeping the time table and momentum.



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## 6 Stages of Budgeting

1. Setting goals and context
2. Estimate costs
3. Forecast income
4. Bridging the gap
5. Approve the budget
6. Implement and monitor the budget

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## Roles in Budgeting

Step	Description	Fin.	Dev	Prog	Board
1	Setting goals and context	•	•	•	•
2	Estimate costs	•		•	
3	Forecast income		•	•	
4	Bridging the gap	•	•	•	
5	Approve the budget				•
6	Implement and monitor	•	•	•	•

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## When do we budget?

- Budgeting takes time – make sure you allot enough of it.




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## Sample Budget Calendar

September	Retreat - review performance; set goals
October	Program plans; direct cost estimates
November	Income plans; capital budget; first draft
December	Cash flow; alignment, approval
January	Begin implementation
April	1st quarter review
July	Mid-year review (and revision, if needed)
Ongoing	Monthly review of budget vs. actual

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## What about grant budgets?

- If your organization receives a lot of restricted foundation funding or government contracts, you need to move up steps 1,2 and 3 so that you can budget strategically.




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- What is the problem that needs solving.  
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- What will you do about it?
  - Theory of Change, Mission Impact.↓
- What will that cost you?
  - Marketing, Fundraising

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### Step 1: Setting Context and Goals

- Review past performance
  - Financial metrics (What is your reserve?)
  - Program metrics (How many people did you serve?)

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### Step 1: Setting Context and Goals

- Review past performance
- Review strategic or business plan
  - What are your goals?
  - Where should you be on goals?
  - Where any assumptions incorrect?

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## Step 1: Setting Context and Goals

- Look at external environment
  - Is there new competition?
  - Have the needs of your constituents changed?
  - How is the funding environment or economic condition?
    - Is it time to be aggressive?

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## Step 1: Setting Context and Goals

- Look at external environment
- Articulate goals
  - Program priorities – BE CLEAR!
  - Stretch versus core

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## 2011 Budget Goals

As of Sept 15, 2010

Overall Goal	2011 Objective
Stabilize programs and ensure highest quality	Salary increases to all staff Replace computers and equipment Increase direct client support
Improve on key financial health indicators	Build cash reserve Reduce overhead rate Obtain line of credit
Maximize fundraising effectiveness	Increase endowment income Increase board role in fundraising Build temporarily restricted balance Maximize cost recovery in foundation grants

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## Step 1: Setting Context and Goals

- This step is often skipped!
- Very important, because it can be done with focus on mission – takes the emotion out of financial decisions.
- Really is what makes the budget the crossover from the strategic plan to operational plan.

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## Step 2: Estimate Costs

Key points to remember:

- We started with what the organization *wants* to do versus what the organization *has money to do*. This step should look at the costs for accomplishing the goals.
- Use historical data, but factor in price increases.
- Where do we start?

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## Step 2: Estimate Costs

### Personnel Costs!

- Create a staffing plan.
- Again, not based on who is currently working there and how they are funded, but rather how many people you need to cover your goals.



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## Staffing Plan

- Used to determine personnel related costs for each activity.
- Also typically used to allocate shared costs.
- What are shared costs?



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## Shared Costs

- Also called common costs
- Those costs that are shared or common to multiple activities (programs, admin and fundraising).

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## Shared Costs

- Also called common costs
- Those costs that are shared or common to multiple activities (programs, admin and fundraising).

### Typical Shared Costs

- Rent
- Liability insurance
- Telephone, utilities
- Technology
- Office supplies

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## Shared Costs

- Also called common costs
- Those costs that are shared or common to multiple activities (programs, admin and fundraising).

### Typical Shared Costs

- Rent
- Liability insurance
- Telephone, utilities
- Technology
- Office supplies

*Who Budgets for Shared Costs?*

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## Budgeting Core vs. Expanded

- Think about what is new and what is the core of your program?
- Can we realistically just keep adding services or tasks?
- Who will pay for new services?
- Is there new technology or theories that will help us deliver on our mission?

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## Step 3: Forecast Income

### Contributed Support



### Earned Revenue




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## Step 3: Forecast Income



### Sources of Support

- Individuals
- Foundations / grants
- Corporation
- Special events
- Planned giving

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### Step 3: Forecast Income

#### Contributed Support

- Put together a plan.
  - Prospects into donors.
- Look at historical data
- What is happening with the economy?
- What is your return?

#### Sources of Support

- Individuals
- Foundations / grants
- Corporation
- Special events
- Planned giving

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### Grant Support Considerations

- Discounting grant asks and cultivation of foundations.




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### Grant Support Considerations

- Discounting grant asks and cultivation of foundations.
- Timing of restricted grants and ability to earn income.

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## Grant Support Considerations

- Discounting grant asks and cultivation of foundations.
- Timing of restricted grants and ability to earn income.
- Building up temporarily restricted net assets.

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## Step 3: Forecast Income



### Earned Revenue

- Understand your true costs
  - Shared costs
  - Administrative costs

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## Understanding Your True Costs



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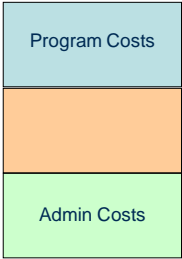
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## Understanding Your True Costs



Program Costs

Admin Costs

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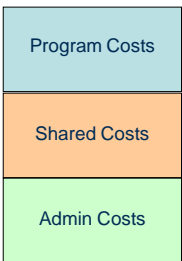
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## Understanding Your True Costs



Program Costs

Shared Costs

Admin Costs

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## Step 3: Forecast Income



Earned Revenue

- Understand your true costs
  - Shared costs
  - Administrative costs
- Are you competitive?
- Can your constituents afford that?

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## Step 4: Bridging the Gap

- Coming up to the perfect budget...
- First question . . .
  - Does the budget have to balance to zero?




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## Step 4: Bridging the Gap

- Coming up to the perfect budget...
- First question . . .
  - Does the budget have to balance to zero?
  - NO!!!!




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### Step 4: Bridging the Gap

- How much do you have in reserves?
- Do you need to build a reserve?
- What life cycle stage is your program in?



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### Step 4: Bridging the Gap

- What are your strategies for bridging the gap?



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### Step 4: Bridging the Gap

- Go back to the priorities that were set in Step 1.
- What is a high priority for the organization to accomplish this year?



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## Step 4: Bridging the Gap

- Cash flow projections:
  - Does the cash flow work for this budget?



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## Step 4: Bridging the Gap

- Cash flow projections:
  - Does the cash flow work for this budget?
  - Do you need to move income or expenses around?
  - Strategy / Operations / Finance



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## What about contingency budgeting?



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## Approving the Budget

Finance committee



Board Meeting

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## Approving the Budget

- Presentation is important as it is a key opportunity to focus the board on how to read and understand the financial statements.
- Drive the conversation with functional statements.

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## Step 6: Implement and monitor the budget

- Make sure chart of accounts is consistent with budget.
- Categorize income and expenses the same way you did in budgeting.
- Compare budget to actual.

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## Budget to Actual Reports

- How often do you prepare?
- Consider your audience.
  - What do they need to know?
    - Development
    - Program
    - Board

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## Budget to Actual Reports

- The Dashboard:
  - A visually engaging way to monitor key metrics for the organization and drive decision-making.
- Next week's Webinar!

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## Budget Projections & Updates

- How often do you do projections?
  - A. With one quarter left to go?
  - B. At the six month mark?
  - C. Every quarter?

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## Budget Projections & Updates

- Do you do actual approved budget updates?

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- 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

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## The Art & Science of Budgeting

Steve Zimmerman  
 Spectrum Nonprofit Services  
 stevez@spectrumnonprofit.com  
 www.spectrumnonprofit.com  
 414.226.2322

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