



Planning for nonprofits and philanthropy

# Budgeting for High-Performing Nonprofits

# Budgeting

for High-Performing  
Nonprofits



**Like a strategic plan, your nonprofit's budget is a kind of game plan for achieving an organizational vision. Craft it to reflect – and to accomplish – your goals and objectives. Here are some rules of thumb.**

- **Understand your baseline.** Line up three consecutive years of budget history (two past, one current) to place next year's budget in context. Three years of history helps mitigate the effects of any single-year aberration.
- **Project into the future.** Choose a three- or five-year time horizon and project out so next year's numbers make sense in the context of your nonprofit's long-term vision. In a multi-year budget you can show the anticipated impact of new investments, like a program introduced one year that will draw new support in the next.
- **Identify risks and mitigants.** Calling out the risks inherent in your budget (e.g. funding loss, reduced enrollment) shows you're thinking critically and realistically about prospects for the future. Pair each risk with a viable plan (e.g. invest in fundraising, resize a program) to demonstrate that the budget is not built on hot air.
- **Prioritize based on strategy.** Design a simple filter for budget decision-making such as: 1) fulfills a strategic objective; 2) meets a pressing need; and 3) likely to attract needed support. Assign points to proposed initiatives so decisions are made with clear criteria.

## Your budget tells a story.

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**Your budget tells the story of your nonprofit in numbers: the organization's financial health, its priorities, aspirations and personality. Construct your budget with your audience in mind. You can even show it more than one way:**

- **Funders like programs.** Your donors want to see their dollars have impact. Consider organizing your fundraising budget by program rather than by function and attribute a percentage of indirect costs (e.g. administration, facilities, fundraising, et.al.) to each program so that mission fulfillment (the “business” of the nonprofit) is crystal clear.
- **Boards like balance.** It takes money to make money, so highlight any capacity-building investments you intend to make in your operating budget (e.g. an additional grant writer, expanded recruitment, a second museum store) showing a payoff in increased revenue next year and the year after that.
- **Mind the gaps.** Highlight potential gaps in your budget and provide more than one scenario for filling them. Give your staff and your board a way to identify the roles that they can play in filling the gaps and realizing your collective vision.
- **Decision makers like information.** A narrative should accompany your budget, and should be more robust than mere footnotes. Peg the prose to each major budget category to complement your spreadsheet, adding nuance and demonstrating a firm grasp of the numbers and their origin.

## Budgeting is a team sport.

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Whether you “zero-base” your budget each year, or update the one that’s come before, budget-building is an opportunity for engagement and education. When key staff and board members get to know the numbers, they also “own” the numbers and share responsibility for the outcomes you wish to achieve.

- **Form a diverse committee.** Engage a representative selection of staff in budgeting from outside the finance office. You’ll bring transparency to a process many find mysterious, and gain important allies – ambassadors – in defense of sometimes difficult decisions.
- **Start the budget process early.** Form your budget committee at the seven-month point, just after mid-year figures are compiled and budget adjustments are made. Good budgeting takes time.
- **Keep the board focused.** Your governing body’s time is best spent on overall organizational effectiveness. They should also see their role in generating resources. Carefully construct budget materials to avoid the weeds by combining small numbers, and indicating the impact the board can have on the big ones.
- **Set regular reviews.** Insist that your budget be reviewed by staff and board quarterly. Adjust your budget right after mid-year if income projections are off, unexpected costs arise, or an opportunity too good to pass up has come along.

## Good budgeting policies and practices.

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State and Federal requirements have encouraged nonprofits to put important standard policies and practices in place. Here are more that good sense requires:

- **Give staff latitude.** Set a reasonable dollar threshold for budget modifications during your fiscal year; small changes should need no management approval. You increase efficiency and give department managers a healthy degree of control over changes that are unlikely to impact the organization overall.
- **Keep the board at 30,000 feet.** Set a reasonable threshold – by percent of overall budget – below which changes in budget allocations need no board approval. This keeps the board focused on the big stuff – issues and opportunities that have real impact.
- **Handicap your fundraising goals.** When budgeting, enumerate the funding sources you can really count on; apply a small discount as a hedge for disappointment. For less-certain prospects, list an ask amount for each; then apply a hefty discount (typically 66%) to set a credible projection.
- **Always compare YTD.** Show year-to-date comparisons for immediate-past and current years when you report on budget performance each quarter. You'll find the YTD comparison alleviates concerns that are timing-related, and boosts confidence in your financial picture when you're doing better than last year.

## Nonprofits can profit.

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Nonprofits can “profit” by generating a budget surplus each year. Your surplus is the capital you need for health and for growth.

- **Give your surplus a purpose.** Because some funders still believe that only deficits demonstrate need, help them appreciate the value of a budget surplus by designating its compelling use each year, like new equipment purchases, small capital improvements or new program investments.
- **Build a healthy reserve.** Put some surplus in the bank as operating capital. Three months’ payroll is a rule of thumb for cash-on-hand to run responsibly. Organizations that experience long delays in government reimbursements, or dramatic fluctuations in cash-flow cycles may need more.
- **Treat your reserve like endowment.** Investment and spending policies designed to govern endowment should be applied to large reserves – sometimes called “quasi-” or “board-designated endowment.” Besides a reliable annual income stream, quasi-endowment makes it easier to borrow when it is time to finance a big project.
- **Leave depreciation to your audit.** Leave depreciation off your budget (or below the line), but account for replacement costs in your operating expenses, so your audience understands the true cost of operations.

Visit The Wallace Foundation’s “Resources for Financial Management” for an excellent set of guidelines and templates for nonprofit budgeting and financial management.

<http://www.wallacefoundation.org/knowledge-center/Resources-for-Financial-Management/Pages/Planning.aspx>



# About Us

## Plan A

## Advisors

**Plan A** was founded in 2013 by Evan Kingsley and Adam Gaynor as a new kind of **consulting** practice to design and facilitate **highly individualized** approaches to the unique needs of clients, their audiences, leadership, and financial and organizational platforms.

Together they have more than **40 years of experience** in nonprofits, social enterprises, philanthropy and organizational development across the **widest range** of organizations, institutions and philanthropies.

Plan A works with the **board and executive leadership** of agencies, institutions, organizations and funders to design the most **effective and efficient paths** to setting and meeting **realizable goals**, driven by a **strong and compelling vision**.

Plan A projects include **strategic and business planning, governance, mergers and fundraising**.



Ready to set an introductory meeting? Please get in touch. We welcome your inquiry and take great pride and pleasure in guiding you and your organization to the right solution for your needs.

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