Creating An Organizational Budget

“Analyzing, Prioritizing, & Allocating Resources....”
• **MISSION:** Supports the "Mission" of your organization

• **FINANCIAL HEALTH:** Helps you maintain control over your organization's finances

• **COMPLIANCE & ACCOUNTABILITY:** Shows funders & other stakeholders how your organization is using/spending [their] money

• **ONGOING FUNDING:** Required component for grant applications

• **ANNUAL PROGRAMMATIC & FINANCIAL GOALS:** Ensures that your organization has a set of shared programmatic and financial goals that are needed for long-term sustainability of your Organization

• **INCLUSIVE PROCESS:** Brings staff from the finance, program, and development functions of your organization to focus on a common plan for the upcoming year.
Elements of an Annual Budget

- **PROJECTED EXPENSES**: This is the amount of money you anticipate spending in the upcoming fiscal year, which are broken down into line items (categories) that you expect to spend (salaries, utilities, etc.).

**FISCAL YEAR (FY)**: This term means "financial year," and is the calendar that you use to figure your annual (yearly) operating budget. It also determines when you file tax forms, get audited, and close your financial records/books.

**General Standard Fiscal Year Calendars**:

- **Businesses**: January 1 - December 31.
- **Federal Gov’t**: October 1 - September 30.
- **State Gov’t**: July 1st – June 30th

**Major Funders**: Many adopt a FY that aligns w/that of their major funders. An annual organizational budget is prepared specifically to cover your upcoming fiscal year & it should be prepared and ready before the next FY starts. In many organizations, the Board of Directors needs to approve the organization’s Annual Budget before the beginning of the next FY.
Elements of an Annual Budget...

- **INCOME**: The amount of money you expect to take in for the coming FY, broken down by sources (e.g. the amount expected from each funding source, including grants and contracts, fundraising efforts, memberships, & sales of goods or services).

- **INTERACTION OF EXPENSES & INCOME**: Assigning expenses in accordance with funding sources. For instance, in many cases, funding is already allocated/assigned as a condition of the funding whereby a funder agrees to provide money for a specific position, project, activity, equipment, etc. Thus, it is important to build any funding restrictions into your organizational budget, so can ensure to spend the money as you have told the funder that you would.

- **MAKING ADJUSTMENTS**: Your organizational budget generally starts w/estimates & it is adjusted to reflect actual spending to be as accurate as possible moving forward and to keep track of what's really happening.
Why You Should Prepare Budget...

- **GOALS**: Understand your organizational & funding goals.
- **PLANNING**: It gives you the real picture. Accurately shows what you can afford & where the gaps in funding are; allows you to plan beforehand to meet needs, and decide what you’re actually able to do in a given year.
- **EFFECTIVENESS**: It encourages effective ways of dealing with money issues. Shows what you can’t afford with known income, motivates you to be creative -- & successful -- in seeking out other sources of funding.
- **PROPOSAL INFO**: It fills the need for required information for funding proposals & reports to funders & community.
- **DISCUSSION**: It facilitates discussion of the financial realities of your organization.
- **CONTROL**: It helps you avoid surprises & maintain fiscal control.
Steps in Planning & Gathering Information…

“To Create a Budget…”
Preliminary Information...

- Determine what you need to spend money on for the next year
- Define your organizational, program, project priorities
- Define programs/activities advance your mission
- # of staff, salaries benefits, consultants, etc.
- Define supplies, equipment, transportation, insurance, utilities, rent, etc. to run activities
6 Steps for Estimating Expenses...

1. Develop ways to estimate (e.g. average, highest bill x 12 mo, conservative salaries, etc....add miscellaneous category..)

2. Estimate your annual ‘fixed or administrative’ expenses (e.g. salaries, benefits, rent/mortgage, insurance, utilities, phone, internet, basic standard office supplies, mailing, equipment, etc.)

3. List expenses by program/activities (e.g. supplies, equipment, etc.)

4. Other expenses the organization cannot do without (e.g. loans, legal, consultants, annual audit, etc.)

5. List those things you would like to purchase, but do not yet know if you can afford (e.g. positions, new program budget, etc.)

6. Add up all of your expenses and this is your estimated projected annual organizational budget amount
9 Steps for Estimating Income...

1. List all income and estimates that you can expect from all funding sources...those that have committed to funding your organization.
2. List any “fundraising” activities & estimate amount you anticipate raising for the year (conservative and based on previous year).
3. Estimate any fees or service charges & annual anticipated income.
4. Project any membership dues (if applicable).
5. If you sell products...pens, t-shirts, books, etc....estimate annual income from projected sales.
7. Project any investment, endowment, annuity, or interest income.
8. List any other income expected from any other sources.
9. Add up all the income you have listed and the total is your projected income for the year.
1. Use a spreadsheet to layout and calculate your budget (e.g. Excel or financial software) and put your funding sources across the top and assign to expense categories listed on the left-side:

<table>
<thead>
<tr>
<th>Costs</th>
<th>Dept of Health</th>
<th>United Way</th>
<th>Member Dues</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$ 15,000</td>
<td>$ 2,500</td>
<td>$ 2,500</td>
<td>$ 20,000</td>
</tr>
<tr>
<td>Fringe</td>
<td>3,000</td>
<td>500</td>
<td>500</td>
<td>4,000</td>
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<tr>
<td>Supplies</td>
<td>300</td>
<td>200</td>
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<td>500</td>
</tr>
<tr>
<td>Equipment</td>
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<td>1,500</td>
<td>0</td>
<td>3,000</td>
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<tr>
<td>Phone</td>
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<td>0</td>
<td>550</td>
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<tr>
<td>Utilities</td>
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<td>200</td>
<td>0</td>
<td>700</td>
</tr>
<tr>
<td>Insurance</td>
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<td>200</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>Rent</td>
<td>4,000</td>
<td>500</td>
<td>0</td>
<td>4,500</td>
</tr>
<tr>
<td>TOTALS</td>
<td>$ 25,500</td>
<td>5,750</td>
<td>3,000</td>
<td>24,250</td>
</tr>
</tbody>
</table>
• **Assigning Restricted Funds**: A spreadsheet layout, as described, easily allows you to assign restricted funds to the appropriate line item (e.g., $18,000 from Dept of Health can only be used for salaries and benefits...you know you have to get the remaining $6,000 elsewhere)

• **Compare Income/Expenses:**
  - **Balanced**: If they are equal, than you have a balanced budget
  - **Surplus**: Income is more than expenses; put excess into new programs, save, buy from “wish list...” etc.
  - **Deficit**: Expenses more than income – make more $ or cut costs
• **ESSENTIAL COSTS:** Look at essential expenses of the organization;

• **DECREASE COSTS:** Cut back on tangible expenses or the cost of services if possible...or other possibilities might include:
  - Reduce staff hours from 40 hrs week to 30 hours
  - Reduce position(s) to less than full-time
  - Lay-off one or more positions
  - Last resort...you can take out a loan
Budget Format...

• **Overview:** In addition to the “spreadsheet” format....a good budget layout is one that is easy for all staff to understand (see handout)
  - List Projected Income by Sources
  - List Projected Expenses by Category/Line Item
  - Take Income less Expenses to project your annual need, surplus, etc.

• Your board will more than likely want both budget layouts to get a detailed budget and a snapshot of the overall budget
When submitting grant proposals, sometimes listing the budget justification as follows is an acceptable means of explaining each line item for that which you are requesting funds:

**Salaries**
- Director/Coordinator: 20 hr./wk. x $17.00/hr. x 52 wks = $17,680.00
- Health Educator: 30 hr./wk. x $14.95/hr. x 52 wks = 23,320.00
  - Total salaries: $41,000.00

**Benefits (@15% FT)**
- Full-time Staff $41,000 x .15 = $6,150.00
Final Recommendations…

• **REVIEW**: It is critical to review your organizational budget on a regular basis & generally once a month is feasible…

• **Actual Vs Estimated Costs**: Keep track of your actual expenses to maintain accuracy and adjust costs to date…

• **Double & Tripe Check**: It is important that you check and recheck your numbers to ensure accuracy and avoid overspending or under spending…have 2 or 3 people review for accuracy

• **Financial Condition**: Your organizational budget should always provide an “up-to-the-minute” snapshot of your organization’s financial picture
Additional Considerations…

There are resources that are available to assist you with managing your organizational budget, including:

- Hire a Bookkeeper or CPA (position or on contract basis)
- SCORE & Other Government & Non-Profit TA Organizations (e.g. FNDI)
- Educational Institutions…University Accounting Program Students (Undergraduate & Masters Programs)
- Sharing a position with another organization is another viable possibility
Additional Considerations...

The following handouts will assist you in the development of creating an accurate annual budget for your organization:

- Master Operating/Annual Budget & Overview Budget Template
- Non-Profit Financial Mgmt Self-Assessment Tool
- Fundraising Template
- Annual Audit Checklist
In Review….

Your "Annual Organizational Budget" will….

- Assist you in examining your organization’s priorities
- Produce an accurate balanced budget for the upcoming fiscal year
- Help maintain control over the organization’s finances
- Help guide the work of the organization
- Allows you to give accurate financial reports to funders and to spend their money as promised
- It provides clear guidelines as to what you can spend, on what, & when
- Tell you how much & prioritizes the funding you may need to raise to balance your budget…
Questions...