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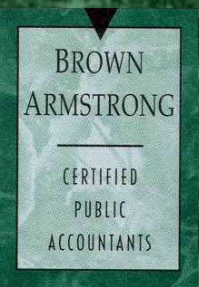
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KERN ALLIANCE FOR NONPROFITS SILVER LINING SERIES PART I

BUILDING A BUDGET: PULLING INFORMATION, KEEPING IT REAL, STAYING ON TRACK

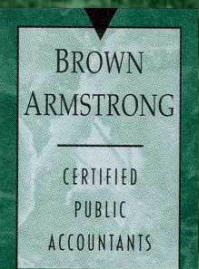
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Learning Objectives

- Recognize steps to build a realistic and controllable budget.
- Differentiate between various types of revenue sources available to NFPs.
- Recognize common issues that arise during the budgeting process.
- Determine ways to increase accountability in a NFP's budgeting process



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Budgeting

What is a budget?
Why do I need a budget?
Who prepares the budget?
When to prepare the budget?



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What is a Budget?

- A budget is a planning tool that reflects and organization's programs, mission, and strategic plan.
 - The budget is the financial interpretation of the strategic plan.
 - Establish benchmarks
 - Measure financial health from year to year
 - Determine priorities.



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Stages in the Budgeting Process

- Planning
- Creation
- Approval
- Implementation
- Monitoring and Forecasting



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Stage I - Planning

- Document and communicate the budgeting process
 - Period budget will cover
 - Strategy
 - Trends
 - Accrual versus cash
 - Surplus or deficit?
- Assemble team to build budget
- Develop timeline



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Stage 2- Creation

- Income and Expenses
- Look back period
- Finance Committee
- Be REAL



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Stage 3- Approval

- Operating Budget
- Finance Committee
- Alignment with Strategy
- Board of Directors-Vote



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Stage 4- Implementation

- Final Version
- Share with Staff
- Electronic Copy
- Update Accounting System



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Stage 5- Monitoring & Forecasting

- Budget to Actual- Financial Statements
- Variances- Line Item, Department, Overall?
- Forecast Projected Results



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Budgeting Methods

- Incremental Budget- actual results
- Zero-based Budget- fresh start
- Income Based Budget-income sources
- What if Scenarios-special projects or programs

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Types of Budgets

- Break-even Budget- revenues equal to expenses
- Surplus Budget- revenues exceed expenses
- Deficit Budget- expenses exceed revenues



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Budgeting for Revenue and Expenses

- Revenue- Consider funding strategies and development plans.
- Sources:
 - Contributions
 - Special Events
 - In-Kind
 - Federated Funds/United Ways
 - Federal, State, and local Government Funding
 - Rental Income
 - Program or Service Fees
 - Sales of Product or Inventory
 - Unrelated Business Income
 - Interest Income



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- Diversification of Revenue- steady revenue sources
- Other Funding Sources- Line of Credit, Credit Card, etc.



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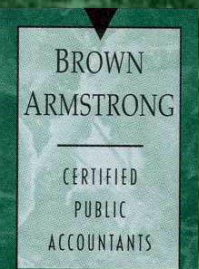
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- Expenses- dependent on activities
- Consider staffing early in process
- Salary increases
- Additions vs reductions
- Benefit plan changes
- Staffing capacity- hours/days available for work



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- Fixed versus variable costs
 - Fixed costs happen no matter what
 - Variable costs are associated with length of time and participants.
- Direct versus indirect costs
 - Direct costs are associated with a specific project or program
 - Indirect costs (overhead) might be needed to carry it out.



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- Resource allocation- administrative, fundraising, and program expenses
- Operating reserves- sustainability
- Cash flow needs
- Predict year-end financial position



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- Consider operating costs not associated with a revenue source.
- Infrastructure- information technology, administrative and financial systems, staff training, fund development.
- Depreciation expenses- “funding depreciation”
- Capitalization policy
- Capital budget- long-term asset strategy
 - Funding strategy- operating reserves, operating budget, in-kind donations or capital campaign, debt financing.



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Personnel-Related Expenses

- Salaries or wages- program related
- Estimated “merit” increases
- Estimated cost-of-living (COLA) increases
- Bonuses
- Increase in legal minimum wage
- Union-management compensation agreements
- Fringe Benefits
 - Insurance
 - Retirement
 - Child care
 - Other



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Personnel-Related Expenses (continued)

- Uniform and clothing, footwear, tools, etc.
- Hiring costs
- Temporary, part-time or season employees
- Consultants and contractors
- Volunteer costs



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Facility-Related Expenses

- Rent or mortgage payments- any changes?
- Utilities- gas, electricity, water
- Telecommunications- phone, fax, internet, cell phones
- Furnishings
- Contracted services- janitor, payroll, security
- Maintenance
- Depreciation
- Leases- photocopier

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Other Expenses

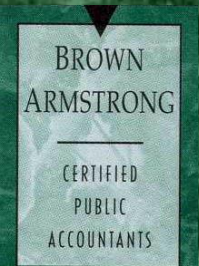
- Supplies- letterhead, paper, toner
- Office equipment
- Computers/software
- Dues, memberships, subscriptions
- Travel, mileage, parking
- Marketing and advertising
- Postage, shipping, delivery
- Website
- Professional development, staff training
- Meetings, conferences
- Special events



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General & Administrative Expenses (indirect)

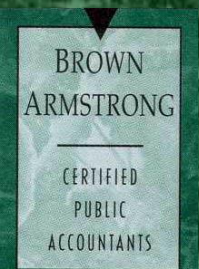
- Executive and management staff
- Consultants
- Accounting
- Financial audit
- Insurance
- Fundraising
- Evaluation
- Reports
- Front desk, reception
- Bank fees
- Other



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Sample Budget Worksheet- Basic

Organization Name:			Fiscal Year Period:	
	Current Budget	Current YTD Actuals	Previous FY Budget	Previous FY Actuals
Revenue				
Contributions				
Government Funding				
United Way				
Fundraising Events				
Program Income & Service Fees				
Interest Income				
Miscellaneous				
Total Revenue				
Expenses				
Staff Salaries, Wages & Taxes				
Occupancy				
Insurance				
Travel & Meetings				
Equipment				
Supplies				
Development & Training				
Printing & Copying				
Telecommunications				
Postage & Delivery				
Depreciation				
Other				
Total Expenses				
Surplus/(Deficit)				



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Budgeting Pitfalls

- Building a budget without a clear strategy or plan
- Budgeting without input from staff and volunteers
- Not including a contingency plan
- Making it too complicated
- Unrealistic expectations



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Building a Budget without a clear strategy or plan

- This results in each department spending for its own plans and not an integrated approach for the entire organization.
- Often a result of preparing budget at the last minute.
- “If you fail to plan, you plan to fail”



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Budgeting without input from staff and volunteers

- If the organization has a high number of volunteers, there needs to be a process to allow them to provide input; otherwise, there will not be buy-in and support of the process.
- Budget discussions usually take place on the executive level- need to include staff input for an overall integration and support of the budget.



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Not including a contingency plan

- Unanticipated variances
- New opportunities
- Surplus/Deficit
- Discretionary amount



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Plugging Fund Development

- When using fund development to cover costs, need to make sure there is an underlying plan to support it; otherwise the fund development staff will be set up for failure and the organization might have a potential deficit.



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Revenue Issues- Restricted Funds

- Budgeting Impacts-
 - Scenario planning
 - Expenses
 - Cash flow
 - Track
 - Monitor
 - Report



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Revenue Issues- Grants

- Budgeting Impacts-
 - Planning
 - Coordination
 - Effective communications
 - Monitoring
 - Documentation



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Revenue Issues- Grants

- Grant Management Process-
 - Include realistic estimates
 - Implement accounting system to track funds
 - Timeframe and calendar
 - Funding requirements
 - Monitoring and reporting
 - Grant agreement and special notes



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Expense Issues

- Not budgeting for capital expenditures
- Plugging fund development
- Not including depreciation



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Expense Issues

- Example- Depreciation
 - The organization does not budget for depreciation
 - Depreciation is a required expense
 - The organization shows a deficit at year-end
 - The organization shows cumulative deficits over time due to this budgeting choice.



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Oversight and Monitoring

- Board of Directors- Ultimate responsibility for allocation of resources and oversight.
- Finance Committee- Review budget and provide feedback and recommended any changes.
- Management and Budget Team- Develop goals and guidelines for the budgeting process and complete the budget.



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Financial Reporting

- Monitoring the budget is done through financial reporting and acts as a tool for oversight.
 - Board and Finance Committee
 - CEO and Finance Team
 - Budget Managers
- Accounting Systems
 - Compare actual results to the budget
 - Comparing actual results to prior year results

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Policies and Practices Affecting Budgets

- Budget policy versus practices
- Fund development policy aligned with budget
- Purchasing policy authority and limits
- Operating Reserve policies



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Creating an Operating Reserve- “Rainy Day” Fund

- Operating reserves are the portion of unrestricted net assets that the board of directors designates for reserves.
- An operating reserve policy should outline the objectives for reserves and how and when they will be used.

Rainy Day Funds



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Creating an Operating Reserve (continued)

- Best practice- a minimum of 3-6 months
- Each NFP should go through a process to determine the number of months that fits its business model based on sources of revenue and risk areas.
- Each NFP should build and sustain an operating reserve plan.
 - Increase reserves by planning for a budget surplus.
 - If need to draw from operating reserves, have a plan to replenish.



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Cash Flow Management and Concerns

- Cash flow projections- cash flow budget
- Line of credit
- Budget gaps

CASH FLOW



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Budgeting in Context

- Invest time and effort into budgeting as an integrated planning and monitoring tool.
- Be inclusive in assembling core budgeting team and communicating the initial process, overall budget, and actual results for buy-in and support.
- Strong board oversight and financial stewardship are essential to successful governance of the organization.
- A resilient budgeting process can help grow and improve a NFP's ability to achieve its mission.



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10 Step Annual Budget Checklist



A budget is a planning tool that reflects an organization's programs, mission, and strategic plan. Typically the budgeting process should begin at least three months before the end of the fiscal year to ensure that the budget is approved by the board of directors before the start of the new year.

1. Determine timeline

- ☐ Set target date for board approval
- ☐ Allow time for each step and for review and discussion
- ☐ Approve before beginning of fiscal year

2. Agree on goals

- ☐ Prioritize program delivery goals
- ☐ Set organizational financial goals
- ☐ Clarify annual goals from strategic plan

3. Understand current financial status

- ☐ Review current year income and expense compared to budget
- ☐ Forecast to the end of the year
- ☐ Analyze and understand any variances

4. Agree on budget approach

- ☐ Assign roles and responsibilities
- ☐ Agree on authority to make decisions
- ☐ Agree on how much uncertainty can be included (how many unknowns)

5. Develop draft expense budget

- ☐ Determine costs (expenses) to reach program goals
- ☐ Determine costs to reach organizational and strategic goals

6. Develop draft income budget

- ☐ Project income based on current fundraising and revenue activities
- ☐ Project new income based on new activities

7. Review draft budget

- ☐ Verify that the draft meets program and organizational goals
- ☐ Review and discuss all assumptions
- ☐ Make adjustments, based on goals and capacity, to match income and expenses
- ☐ Review final draft for all goals and objectives

8. Approve budget

- ☐ Present to any committees as needed
- ☐ Present to the board for approval

9. Document budget decisions

- ☐ Create a consolidated budget spreadsheet and file
- ☐ Write down all assumptions

10. Implement budget

- ☐ Assign management responsibilities
- ☐ Incorporate into accounting system
- ☐ Monitor and respond to changes as needed

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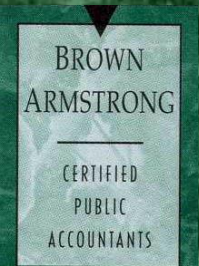
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Resources

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- Blue Avocado
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