“On the other hand, their accounting procedures are impeccable.”
THE BASICS OF NON-PROFIT BUDGETING & CASH FLOW PROJECTIONS

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GOALS FOR TODAY

Goals
Learn the basics of why budgeting is important, how to put together a useful budget, and get answers to your budgeting questions!

Ground Rules
- Interactive session of learning together
- There are no dumb questions
- Share current practices
- Provide your email address for follow up questions
OUTLINE

WHY?
QUALITIES OF AN EFFECTIVE BUDGET
THE BUDGETING PROCESS
BUDGETING BEST PRACTICES
PROJECTING CASH FLOW
COMPONENTS OF THE BUDGET
SHARE HELPFUL IDEAS
WHY?

"It was at this point, gentlemen, that reality intruded."
WHY?

Budgets have a number of benefits for nonprofits:

1. First, a budget helps an organization focus on short- and long-term strategic goals, which are generally connected to the availability and timing of financial resources.

2. In addition, the organization’s board uses the budget in its oversight of operations. When the board approves a budget, it is approving the use of resources for specific purposes.

3. A budget is also a financial control that sets spending limits and attempts to keep costs in line with revenues.
WHAT IS A BUDGET?

A budget is simply a financial plan that serves as a guide for month-to-month operations. It generally tells where the organization has been, how it is utilizing resources during a particular time, and how it is expected to reach its goals from a financial perspective.
WHAT IS A BUDGET?

An Operating Budget shows what the organization will earn in revenue vs. what the organization will incur in expenses from operations.

A Capital Budget shows what an organization will spend on capital items i.e. equipment, furniture, etc.

A well developed and executed budget is one of the keys to financial stability, growth and fulfillment of an organization’s mission.
AN EFFECTIVE BUDGET IS...

**Realistic** – If a budget is to serve as a guide for fundraising efforts and program activities in the coming year, it must be well-reasoned and reflect current conditions. Unsubstantiated revenue projections and “wild guess” cost estimates will render a budget ineffective as a management tool.

**Consistent** – A budget must be consistent with short- and long-term strategic plans, and remain in line with the organization’s mission.

**Flexible** – Budgets are based on a combination of facts and assumptions. If actual events and conditions vary from these assumptions, there must be opportunities to amend the budget to address revenue shortfalls and windfalls, and unexpected expenses.

**Measurable** – The basis on which the budget is created should be the same basis on which the books are maintained.
WHAT DOES A BUDGET LOOK LIKE?

- A Budget can be in monetary or non-monetary units e.g. units sold, hours, etc.
- “Cash” vs. “Accrual” Budgets
- A Budget is usually for one year but can be developed for multiple years

Most importantly, the Annual Budget must be compared to actual financial performance during the year and variances must be investigated
THE BUDGETING PROCESS

"First rule—what happens in accounting stays in accounting."
STEP 1: PLANNING THE PROCESS

• Make it a Team Effort! This will improve the accuracy of information and commitment to the plan

• Lead the coordination: Even in the smallest organizations, involve the board of directors, finance committee members, executive officers and staff. Include everyone who needs to be involved

• Agree upon and communicate key definitions, assumptions and templates/tools

• Set timelines and key deadlines. Clearly communicate responsibilities, expectations and deadlines to everyone involved
STEP 2: PROGRAMMATIC GOAL SETTING

Clearly identify programmatic objectives that are aligned with the mission and strategic plan.

- *Short Term Goals & Objectives are necessary*
- *Long Term Goals (3+ years) are ideal*

Determine the financial resources needed and available to achieve program goals

Get board agreement on goals and assumptions.
STEP 3: DETERMINE PROGRAMS & ACTIVITIES FOR THE BUDGET PERIOD

• Numbers cannot be put on paper until management, staff, and volunteers have determined the programs and activities that are either expected or desired for the coming year.

• Conversely, known budget cuts may determine what programs and activities are possible, based on known funding.

• Project staffing requirements and salary and benefit assumptions are based on program goals.
STEP 4: INFORMATION GATHERING

Research and gather information about income and expenses based on program goals and assumptions.

Construct budget details by program.

Communicate regularly to avoid duplication of effort and to share information and assumptions.

Document! Don’t rely on memory. Write down assumptions and formulas. This will be very important in managing the budget throughout the year.
STEP 5: DEVELOP A DRAFT BUDGET

- One person compiles all information, reviews it for consistency and redistributes to everyone involved.

- To better facilitate decision-making, include previous year budgeted amounts and actual totals, the current year budget amount, and month-to-month actual amounts. This type of information reduces the number of questions from participants, makes review easier, and helps approvers make more informed decisions.

*Leave plenty of time for review and revisions.*
STEP 6: REVIEW/MODIFY THE DRAFT

• Review the Draft Budget with the key program managers and executives who have provided input. Document input, recommendations and final revisions.

• The finance committee is generally responsible for reviewing the Budget and key assumptions, asking questions, and recommending modifications before a final draft is presented to the board for approval.

These steps may take more than one round of revisions. Allow enough time to address questions, recommendations and make revisions.
STEP 7: FINAL APPROVAL

• Distribute information to the board prior to the board meeting, including Budget Draft, program goals and other supporting information.

• Have program and development committees play a role in making an informative presentation to the board based on the opportunities, challenges and resources behind the budget numbers.

• The finance committee or treasurer typically presents the budget proposal to the board. Anticipate additional changes. Once everyone is satisfied, the board approves the budget and it becomes the final budget for the year.
STEP 8: MONITOR BUDGET ACTIVITY

• Communicate budget, program goals and timelines for the next year to staff
• Enter the budget into the accounting system
• Review actual income and expense compared to the budget on a monthly, weekly, or even daily basis
• Investigate variances between budget vs. actual numbers
COMMUNICATE FINANCIAL ACTIVITY

• Communicate budget performance to your Directors & Board
  • Monthly Reporting Suggestions:
    • Balance Sheet
    • Profit & Loss Budget Performance (Summary & Detailed)
    • A/P & A/R Summaries
    • Cash Flows
    • Alternate “Previous Year Comparisons”

• According to your organization's accounting policies, you may update/revise the budget as there are changes during the year (follow policy on board approval.)

THE REAL WORK BEGINS ONCE THE BUDGET IS APPROVED!
Planning and Goal Setting MUST be completed before the Budgeting Process

Gain and document Upper Management Support and “Buy In”:
- Create/Update the Board Budget Approval Process as needed
- Create/Update the Business Manual “Budget Section” for process clarity

Work closely with revenue-generating staff for accurate revenue & cash flow projections

De-centralize: Involve managers with budget management oversight -
- To ensure goals and work plans align with the revenues and expenses
- To foster input into their budget development so they “own” their budget

Know the technical and financial abilities of the Budget participants

Create Reasonable Timelines, Strong Tools and Training (as needed)
Budget capital expenditures

Budget a surplus

Budget temporary and permanently restricted revenue

Monitor budget vs. actual performance and communicate this monthly

Manage your Annual Operating Budget and Audited Financial Statements

The Budget is only as useful as it is accurate, complete and current.

*The budget should always be flexible and have contingency plans for when things don’t go as well as expected, and when they go better than expected. This is simply good management, good stewardship of your supporters’ money, and a major step toward fulfilling your mission.*
CASH FLOW PROJECTIONS

• Projecting cash flow is a vital step in assuring that financial resources are available when and where they are needed in your organization. Not having cash available to cover expenses at the right time can be as detrimental to an organization’s financial health as not having access to the cash at all.

• A cash forecast generally projects cash receipts and disbursements for each month of the year, based on historical financial reports and personal experience, past budgets, and informed guesses.

• Simply dividing the budget total by the 12 months in the year is not an accurate reflection of actual cash needs in any given month.

• An effective cash flow forecast includes projections of when cash will be received, and when it will be needed to meet payroll, pay vendors and make fixed asset purchases.
CASH FLOW PROJECTIONS

• Prepare a cash flow projection with your budget that includes:
  • Cash, Beginning of Period
  • Add: Sources of Funds
  • Less: Uses of Funds
  • Cash, End of Period

• Monitor and adjust cash flow projections monthly
• Review rolling 12 month cash flow projections with management and the board

KEEP IT ACCURATE, KEEP IT CURRENT
CASH FLOW PROJECTIONS

• Organizations may experience excess revenues in a given month. This may be cash that will be needed later in the year or in a future year.

• Policies should be in place to invest excess funds, hold them in reserves, or otherwise manage them until they are needed.

• Conversely, policies and procedures should also be in place to cover cash shortfalls, i.e., a line of credit.
## CASH FLOW PROJECTIONS

### FY 13

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>August</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Cash</td>
<td>131,483</td>
<td>81,105</td>
<td>63,374</td>
<td>4,230</td>
<td>10,460</td>
<td>20,322</td>
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<tr>
<td>Add: Accounts Receivable</td>
<td>61,622</td>
<td>87,269</td>
<td>97,856</td>
<td>120,230</td>
<td>79,588</td>
<td>390,450</td>
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<tr>
<td>Add: Line of Credit</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>235,274</td>
<td></td>
</tr>
<tr>
<td><strong>Total Cash Balances Estimated</strong></td>
<td><strong>193,105</strong></td>
<td><strong>168,374</strong></td>
<td><strong>161,230</strong></td>
<td><strong>124,460</strong></td>
<td><strong>325,322</strong></td>
<td><strong>410,772</strong></td>
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<tr>
<td>Less: Payroll Expense</td>
<td>60,000</td>
<td>60,000</td>
<td>60,000</td>
<td>60,000</td>
<td>60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Less: Operating Expenses</td>
<td>40,000</td>
<td>35,000</td>
<td>32,000</td>
<td>32,000</td>
<td>45,000</td>
<td>40,000</td>
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<tr>
<td>Less: Capital Outlays</td>
<td>12,000</td>
<td>10,000</td>
<td>65,000</td>
<td>22,000</td>
<td>200,000</td>
<td>15,000</td>
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<tr>
<td>Less: Line of Credit repayment</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>225,274</td>
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<tr>
<td><strong>Total Cash Outlays Estimated</strong></td>
<td><strong>112,000</strong></td>
<td><strong>105,000</strong></td>
<td><strong>157,000</strong></td>
<td><strong>114,000</strong></td>
<td><strong>305,000</strong></td>
<td><strong>340,274</strong></td>
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<tr>
<td><strong>Ending Cash</strong></td>
<td>81,105</td>
<td>63,374</td>
<td>4,230</td>
<td>10,460</td>
<td>20,322</td>
<td>70,498</td>
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*******- In Nov our line of credit will be utilized shortly to overcome our cash shortage.
In December we expect a foundation grant of $250,000 that will allow this to be repaid.
SHAREING HELPFUL IDEAS

TechSoup.org: discounted software (QuickBooks) and also has older computers, monitors, etc; only works with non-profits.

Download.cnet.com: some discounted types of software and lots of freebies

The Nonprofit Financial Managers, Boston, MA, npfm.org: open to all, meets monthly, membership available

Others?
SOURCES AND RESOURCES


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