Two Perspectives

- Mechanics of budgeting and planning
- Preparing for and responding to funding crises

The Budget Process

- Document the budget
  - Shows spending priorities and revenue expectations
  - Identifies resource shortfalls or surpluses
  - Provides action plan to achieve strategic goals
  - Facilitates adjustments throughout year
  - Provides tool for measuring outcomes

- Collaborate on the budget
  The budget should be coordinated by the key financial manager, with significant input from board and other staff:
  - Executive Director
  - Key Fundraiser
  - Program Managers
  - Outside CPA

- Roles in the process (not in slideshow)
  - Board’s role in budget process
    - Participates actively in creating development plan
    - Determines programmatic priorities
    - Establishes policies
    - Use of accumulated fund balances
    - Level of detail for official budget
    - Approves new initiatives
      - Activities
      - Staff positions
      - Capital projects
    - Reviews and approves official budget
  - CEO/Executive director’s role in budget process
    - Obtains staff input on potential new initiatives
Budgeting and Financial Planning in Uncertain Times
NC Center for Nonprofits *Embracing Uncertainty* Conference

*Mig Murphy Sistrom, CPA*
*Jim Barrett, Pisgah Legal Services*

- Coordinates board-level planning and communicates priorities to program managers and key financial manager
- Works closely with development committee and key fundraiser on development plan
- Approves and monitors budget action plan
- Coordinates staff efforts
- Reviews budget and maintains working knowledge of general themes

**Program managers’ role in budget process**
- Works with executive director to identify any new initiatives for proposal to the board
- Identifies types of direct expenses for program
- Works with key financial manager to
  - Identify types of indirect expenses
  - Develop cost estimates for direct expenses
- Maintains a working knowledge of budget variances throughout the year

**Key financial manager’s role in budget process (\(*=\) steps that might involve CPA)**
- Creates and manages budget action plan*
- Designs formats for worksheets*
- Assists executive director and key fundraiser in estimating realization probabilities for development initiatives*
- Assists program managers in forecasting revenues and expenses*
- Works with outside CPA on indirect cost allocations
- Reviews forecasts by program managers, and develops forecasts for overhead activities*
- Prepares consolidated budget*
- Monitors actual performance against budget

**CPA’s role in budget process**
- Assists in indirect cost allocations
- Assists in other areas as needed:
  - Creating budget action plan
  - Designing spreadsheet templates
  - Working with fundraising staff and volunteers to estimate realization probabilities

**Budget action plan**
- Steps in process
- Person responsible for ensuring performance of each step
- Deadline for each step

*(See sample budget action plan)*
Break down budget into logical components
- Month or quarter
  - Determine minimum acceptable interval
- Class
  - Design accounting system carefully

Budget scenarios
Plan A and Plans B-Z
- or -
Proposed budget and alternative scenarios
(See sample scenario calculations)

Addressing an unexpected funding cut
“Never let a good crisis go to waste.”
- Rahm Emanuel, Mayor of Chicago

Planning Ahead = Our Job
- What funding is time-limited?
- What funding may become available?
- Unrestricted funding to fill the gaps
- How’s that annual campaign?
- Maintaining the three-month reserve just in case...
- Growing the endowment

Funding Disappearing: a crisis is a terrible thing to waste
- Challenges usually provide opportunities
  - can we replace federal grant funds with local funds?
  - can we “use” the budget shortfall to eliminate an ineffective program?
  - can we build back a new, more effective program that attracts consistent funding?

Evaluate
- Program effectiveness
- Personnel effectiveness
- Which programs “sell” best
- Which programs are not financially sustainable
- What is expendable under various contingencies?
(A confidential process with CFO & leadership)
How To Replace Funding
- More from every type of source because we don’t want to disadvantage children to suffer
- Use the urgency to build the annual campaign
- Replace federal and state funding with more reliable local dollars
- Market the most compelling case to be made, ideally a basic need

Magic Tricks
- Leverage various possible funding sources against each other
- Challenge gifts – early and often – in sequence

Reducing Staff
- When cash flow calls for severe cost-cutting
- Get legal advice first
- It’s a Board decision
- Take care with the messages to staff
- Make public message fit fundraising efforts
- Don’t overlook survivor’s guilt

Woes of a Legal Aid Program
Numerous funding cuts across 35 years

Results
Repeated Cuts Yield:
- an Adaptable Staff
- 8 Programs
- a Budget 4x Larger
- 15,000+ people served annually

Solutions:
- Use normal attrition to buy time
- Special campaign for three-year pledges
- Increased county funding
- Recover federal funding
- Double down on community partnerships to obtain sub-grants
  [leverage + challenge gifts = success]

Attitude is Key:
We thought we could
(Instead of thinking we could not)

- **Outcome:**
  - The Mountain Violence Prevention Program is considerably larger than ever, with more local support and more federal grant dollars
  - Now prepared for a $100,000 annual cut in VAWA funds – but hoping for the best
    (Future cuts are more than likely)

**Capturing Costs by Category**

- **Cost categories**
  - Activities – all categories included in final budget
  - Overhead activities – supporting functions
    - Management & General (aka Business Management)
    - Fundraising
  - Program activities - functions directly related to mission (including program management)

- **Direct vs. indirect costs**
  - Direct costs are expenses that are entirely related to one specific activity
  - Indirect costs are expenses that are shared among several activities

- **Overhead ≠ indirect**
  - **Overhead** is costs to manage the organization unrelated to its mission; supporting costs
  - Overhead includes direct overhead costs + a portion of indirect costs

- **Assignment vs. allocation of costs**
  - Costs can be distributed one of two ways:
    - Directly **assigned** to activities
    - or -
    - Indirectly **allocated** to activities based on reasonable estimation methods

- **Sample allocation methods**
  
<table>
<thead>
<tr>
<th>Type of Natural Expense</th>
<th>Cost Driver</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting &amp; processing</td>
<td># transactions processed</td>
</tr>
<tr>
<td>Occupancy (rent, utilities)</td>
<td>Square footage</td>
</tr>
<tr>
<td>Staff training &amp; development</td>
<td># staff members</td>
</tr>
<tr>
<td>Office supplies</td>
<td># FTEs (full-time equivalencies)</td>
</tr>
</tbody>
</table>
Approach to budget spreadsheets

- Consider what information is needed:
  - Master budgets
    - What level of detail does board expect in official (board-approved) budgets?
  - Internal budgets
    - What information is needed to create master budgets?
    - What information is needed for internal analysis?

- Sample spreadsheet approach
  (See illustration of sample spreadsheet approach)
  - Master budget – PDFs for board
  - Consolidated budget – consolidation of work in other files to create master budget PDFs
  - Indirect costs – allocation of shared costs to each class
  - Budgets summary file – interim analysis showing revenues and expenses by class; finalize pre-consolidation
  - Personnel budget – the only file with sensitive data
  - Shared costs – calculation of shared costs to be allocated
  - Base budgets – calculations of revenues and direct costs for each class
  - GL detail + budget history – historical data for budget managers to review as part of preparing base budgets

Key Goals for Financial Stability

- Diversify funding so that no source provides more than 10% of the budget
- Seek more funding than needed so you will receive enough
- Spread management, fundraising, and non-personnel costs over several programs
- Prioritize building the most reliable funding sources and invest in fundraising staff accordingly
- Develop staff versatility and adaptability
- All staff involved in fundraising from hiring onward
- Grow an endowment if possible
- Maintain three months’ reserve
- Maintain positive attitude; don’t say what can’t be done until you have really tried
- Make the track record of results; then make the case to continue or expand those results
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Jim Barrett, Pisgah Legal Services

- Develop and rely upon the core competencies of the organization – no matter what
- Monitor cash flow monthly and budget ahead to fundraise in time to meet budget

Follow-up questions? Feel free to contact us!
<table>
<thead>
<tr>
<th>Task #</th>
<th>Task Description</th>
<th>Deadline</th>
<th>Responsible Party</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Determine what classes will need budgets</td>
<td>Friday, December 22, 2017</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>2</td>
<td>Determine any changes needed to accounting system structure.</td>
<td>Friday, December 22, 2017</td>
<td>Ed &amp; Mig</td>
</tr>
<tr>
<td>3</td>
<td>Prepare base budget templates and send to Ed to review.</td>
<td>Friday, December 29, 2017</td>
<td>Mig</td>
</tr>
<tr>
<td>4</td>
<td>Review templates. Note any questions/comments. Send back to Mig.</td>
<td>Friday, January 05, 2018</td>
<td>Ed</td>
</tr>
<tr>
<td>5</td>
<td>Finalize template from follow up notes/questions from Ed, and send to Ed to distribute to budget managers to complete.</td>
<td>Tuesday, January 09, 2018</td>
<td>Mig</td>
</tr>
<tr>
<td>6</td>
<td>Following written instructions, spend 2-3 hours on each base budget to draft calculations and identify questions. (call Mig if stuck.)</td>
<td>Tuesday, January 23, 2018</td>
<td>Budget Managers</td>
</tr>
<tr>
<td>7</td>
<td>Lead workshop to help with calculations and discuss process.</td>
<td>Tuesday, January 23, 2018</td>
<td>Mig/Budget Managers</td>
</tr>
<tr>
<td>8</td>
<td>Prepare accounting fees budget.</td>
<td>Saturday, January 27, 2018</td>
<td>Mig</td>
</tr>
<tr>
<td>9</td>
<td>Prepare template for planned salaries.</td>
<td>Saturday, January 27, 2018</td>
<td>Mig</td>
</tr>
<tr>
<td>10</td>
<td>Complete schedule of planned salaries by position.</td>
<td>Wednesday, January 31, 2018</td>
<td>Ed</td>
</tr>
<tr>
<td>11</td>
<td>Prepare template for time allocations.</td>
<td>Sunday, February 04, 2018</td>
<td>Mig</td>
</tr>
<tr>
<td>12</td>
<td>Prepare planned time allocation by position.</td>
<td>Sunday, February 11, 2018</td>
<td>Ed</td>
</tr>
<tr>
<td>13</td>
<td>Complete Draft 1 base budget worksheets and send to Ed for review.</td>
<td>Sunday, February 25, 2018</td>
<td>Budget Managers</td>
</tr>
<tr>
<td>14</td>
<td>Review base budgets. Work through questions/comments with budget managers as needed.</td>
<td>Sunday, March 04, 2018</td>
<td>Ed</td>
</tr>
<tr>
<td>15</td>
<td>Budget managers address notes from Ed. Update base budgets as needed.</td>
<td>Monday, March 12, 2018</td>
<td>Budget Managers</td>
</tr>
<tr>
<td>16</td>
<td>Send Draft 2 base budgets to Ed when completed by due date.</td>
<td>Monday, March 18, 2018</td>
<td>Ed</td>
</tr>
<tr>
<td>17</td>
<td>Prepare depreciation budget.</td>
<td>Sunday, March 18, 2018</td>
<td>Mig</td>
</tr>
<tr>
<td>18</td>
<td>Prepare base budgets summary.</td>
<td>Thursday, March 22, 2018</td>
<td>Mig</td>
</tr>
<tr>
<td>19</td>
<td>Review Draft 2 base budgets and meet with Ed/budget managers to revise as needed. Revision = Draft 3 = source for budget to present to Fin Cmtee</td>
<td>Saturday, March 31, 2018</td>
<td>Mig</td>
</tr>
<tr>
<td>20</td>
<td>Allocate shared costs and consolidate Draft 3 budgets by activity into master budget and send to Ed.</td>
<td>Friday, April 06, 2018</td>
<td>Mig</td>
</tr>
<tr>
<td>21</td>
<td>Review master budget.</td>
<td>Sunday, April 08, 2018</td>
<td>Ed</td>
</tr>
<tr>
<td>22</td>
<td>Send draft master budget to Finance Committee</td>
<td>Monday, April 09, 2018</td>
<td>Finance Committee Members</td>
</tr>
<tr>
<td>23</td>
<td>Review master budget in detail before Finance Committee meeting</td>
<td>Monday, April 16, 2018</td>
<td>Members</td>
</tr>
<tr>
<td>24</td>
<td>Present draft master budget at Finance Committee meeting</td>
<td>Monday, April 16, 2018</td>
<td>Ed/Mig</td>
</tr>
<tr>
<td>25</td>
<td>Revise budgets as directed by Finance Committee, if needed (Draft 4)</td>
<td>Saturday, April 21, 2018</td>
<td>Mig</td>
</tr>
<tr>
<td>26</td>
<td>Review final master budgets</td>
<td>Tuesday, May 01, 2018</td>
<td>Mig</td>
</tr>
<tr>
<td>27</td>
<td>Send master budget to Board of Directors</td>
<td>Wednesday, May 02, 2018</td>
<td>Ed</td>
</tr>
<tr>
<td>28</td>
<td>Present draft master budget to board</td>
<td>Wednesday, May 16, 2018</td>
<td>Ed/Mig</td>
</tr>
<tr>
<td>29</td>
<td>Revise budgets as directed by board, if needed (Draft 5)</td>
<td>Saturday, May 19, 2018</td>
<td>Mig</td>
</tr>
<tr>
<td>30</td>
<td>Distribute copies of final budgets to board and budget managers</td>
<td>Sunday, May 20, 2018</td>
<td>Ed</td>
</tr>
<tr>
<td>31</td>
<td>Monitor actual performance on budgets throughout year</td>
<td>ongoing</td>
<td>Ed</td>
</tr>
<tr>
<td>32</td>
<td>Report to board periodically on budget status as required by policy</td>
<td>quarterly</td>
<td>Ed</td>
</tr>
<tr>
<td>33</td>
<td>Work with budget managers to update budgets as needed</td>
<td>ongoing</td>
<td>Ed/Mig</td>
</tr>
</tbody>
</table>
## Nonprofit X

### FY19 Budget

#### Alternative Budget Scenarios

<table>
<thead>
<tr>
<th>Class</th>
<th>Program A</th>
<th>Program B</th>
<th>Program C</th>
<th>FND</th>
<th>UBM</th>
<th>OTQ</th>
<th>ITQ</th>
<th>Total</th>
<th>Comments on scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>500,000</td>
<td>200,000</td>
<td>650,000</td>
<td>-</td>
<td>670,000</td>
<td>-</td>
<td>-</td>
<td>2,020,000</td>
<td></td>
</tr>
<tr>
<td>Direct Costs</td>
<td>275,000</td>
<td>185,000</td>
<td>675,000</td>
<td>31,000</td>
<td>147,000</td>
<td>115,000</td>
<td>685,000</td>
<td>2,113,000</td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>225,000</td>
<td>15,000</td>
<td>(25,000)</td>
<td>(31,000)</td>
<td>523,000</td>
<td>(115,000)</td>
<td>(685,000)</td>
<td>(93,000)</td>
<td></td>
</tr>
</tbody>
</table>

### Positive/(negative) effect of alternative budget scenarios:

1. **Scenario 1: scale back Program Associate position**
   
<table>
<thead>
<tr>
<th>Effect</th>
<th>Positive</th>
<th>Negative</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>20,000</td>
<td>31,200</td>
<td>11,200</td>
<td>11,200</td>
</tr>
</tbody>
</table>

   This replaces the FT Program Associate with a 20-hr Program Coordinator at $35k with no benefits. Would likely lose the benefits of current employee's institutional knowledge. Would not be able to pursue planned ABC activity and would reduce Program A revenues.

2. **Scenario 2: replace Development Manager with consultant**
   
<table>
<thead>
<tr>
<th>Effect</th>
<th>Positive</th>
<th>Negative</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>(40,000)</td>
<td>(70,000)</td>
<td>66,200</td>
<td>43,800</td>
</tr>
</tbody>
</table>

   This will likely limit some fundraising activities, delay donor cultivation and lower anticipated revenue. May be some disagreement on amount of revenue that would be lost.

3. **Scenario 3: eliminate salary increases**
   
<table>
<thead>
<tr>
<th>Effect</th>
<th>Positive</th>
<th>Negative</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,400</td>
<td>10,400</td>
<td>10,400</td>
<td>10,400</td>
</tr>
</tbody>
</table>

   Without this scenario, budget reflects 2% across-the-board increase for non-executive personnel.

4. **Scenario 4: reduce mid-year board meeting to 1 day**
   
<table>
<thead>
<tr>
<th>Effect</th>
<th>Positive</th>
<th>Negative</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,200</td>
<td>2,200</td>
<td>2,200</td>
<td>2,200</td>
</tr>
</tbody>
</table>

   Would compress time for action items to the evening before a full-day session the next day. Could compromise the Board's ability to make decisions as a group.

5. **Scenario 5: hold virtual Finance Committee meeting (instead of planned live meeting)**
   
<table>
<thead>
<tr>
<th>Effect</th>
<th>Positive</th>
<th>Negative</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,700</td>
<td>1,700</td>
<td>1,700</td>
<td>1,700</td>
</tr>
</tbody>
</table>

   Could compromise the Finance Committee's ability to make decisions as a group.

6. **Scenario 6: increase registration fee for fall conference by $100**
   
<table>
<thead>
<tr>
<th>Effect</th>
<th>Positive</th>
<th>Negative</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>80,000</td>
<td>80,000</td>
<td>80,000</td>
<td>80,000</td>
</tr>
</tbody>
</table>

   Registration would still be commensurate with similar conferences. Board has been reluctant to increase registration amount in past.

7. **Scenario 7: eliminate Program B**
   
<table>
<thead>
<tr>
<th>Effect</th>
<th>Positive</th>
<th>Negative</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>(15,000)</td>
<td>11,000</td>
<td>48,000</td>
<td>44,000</td>
</tr>
</tbody>
</table>

   Would save funds but would significantly hamper ability to achieve mission. 100% of program revenue is from NC Dept of X.
Nonprofit X

**FY19 Budget Worksheets Outline**

*Files are listed in order of summarization - summaries at top, details at bottom
Sheets within files will include summary data at front, details further back*

**PDFs for presentation (master budget)**
- Consolidated Budget by Account; comparison to FY18 budget
- Consolidated Budget by Class; comparison to FY18 budget
- Consolidated Budget by Class and Line
- Summary Sheet for each Class - Summarized version of line item budget

**Consolidated Budget File**
- Consolidated Budget by Account; comparison to FY18 budget
- Consolidated Budget by Class; comparison to FY18 budget
- Consolidated Budget by Class and Line
- Program A Totals Sheet
- Program B Totals Sheet
- Program C Totals Sheet
- Unrestricted Revenue/Business Management Expenses (UBM) Totals Sheet
- Fundraising (FND) Totals Sheet
- copy of IDC Summary Sheet
- copy of Program A Base Budget Summary Sheet
- copy of Program B Base Budget Summary Sheet
- copy of Program C Base Budget Summary Sheet
- copy of UBM Base Budget Summary Sheet
- copy of FND Base Budget Summary Sheet

**Indirect Costs File**
- IDC Summary Sheet - row for each expense acct (including personnel accts); set of columns for each class by qtr
- allocation of non-personnel (OTQ) shared costs - row for ea expense acct; set of columns for each class by mo
- copy of Allocation Rates (from ITQ file)
- copy of OTQ Summary Sheet
- copy of Personnel (ITQ) Summary Sheet (no sensitive data here)

**Budgets Summary File**
- prepared once below files are available. Show revenue, expenses, cost allocations by class, so Ed can see what surplus/deficit will be by class

**Personnel Budget File**
- Personnel Summary Sheet - summary of total costs by GL acct by quarter by class
- Allocation Rates Summary - summary of OTQ and ITY rates
- Summary by Position and Class - row for each position, columns allocating costs by GL acct by quarter
- supporting sheets to calculate total costs by month for each GL acct (benefits, taxes) for each position

**Shared Costs Workbook for non-Personnel Shared Costs (OTQ)**
- Instruction Sheet - similar to Base Budget Workbook, but modified to reflect that these are shared costs that will be allocated
- [name of activity] Shared Costs Summary Sheet - row for each account; column for each month - no raw numbers in this sheet (all cells linked to supporting sheets)
- as many supporting sheets as needed
**Base Budget Workbook for each activity**

- Instruction Sheet - instructions for budget managers to document calculations
- [name of activity] Totals Sheet - row for each account; column for each month - no raw numbers in this sheet (all cells linked to supporting sheets)
- as many supporting sheets as needed for calculations in staff-designed format

**GL + Budget History files**

- Budget and actual amounts for the last FY
- GL detail for last 4 quarters, with cost allocations manually deleted
- pivot table of GL acct totals by source name by month
- (one file for each base budget class)