



Nonprofit Budgeting: How to Plan for Success

September 12, 2019



To Receive CPE Credit

- › Individuals
 - Participate in entire webinar
 - Answer polls when they are provided
- › Groups
 - Group leader is the person who registered & logged on to the webinar
 - Answer polls when they are provided
 - Complete group attendance form
 - Group leader sign bottom of form
 - Submit group attendance form to training@bkd.com within 24 hours of webinar
- › If all eligibility requirements are met, each participant will be emailed their CPE certificate within 15 business days of webinar

Presenters



Emily George, CPA
Senior Managing Consultant
egeorge@bkd.com



Nikki Kubly, CPA
Director
nkubly@bkd.com



Neely Duncan, CPA
Partner
nduncan@bkd.com

Today's Topics

1

Overview of the Budget Process

4

Key Steps of Budgeting

2

Budget Committees & Priorities

5

Other Considerations

3

Budget Timeline

1

Overview of the Budget Process

Overview of the Budget Process

Importance of
Budgeting

Budget Type
Consideration

Budget Timeline

Overview of the Budget Process

Mission Evaluation &
Program Needs

Review Program
Achievements &
Assess Profitability

Strategies for
Understanding &
Communication

9

Everyone needs a trusted advisor.
Who's yours?

BKD

Budget Process

10-Step Checklist

- › Determine timeline
- › Agree on goals
- › Understand current financial status
- › Agree on budget approach
- › Develop draft expense budget
- › Develop draft income budget
- › Review draft budget
- › Approve budget
- › Document budget decisions
- › Implement budget

10

Everyone needs a trusted advisor.
Who's yours?

BKD

Key Considerations

- › How long to budget for, *i.e.*, quarterly, annually, multiple years
- › Monthly budget vs. annual budget
- › Financial performance & budget performance of prior year(s)
- › Cash reserves
- › Capital budget
- › Individuals involved in budgeting
- › Management by exception (large, trending & eternal)

11

Everyone needs a trusted advisor.
Who's yours?

BKD**2**

Budget Committees & Priorities

Board Members & Budget Committee

Members are responsible for

- › Familiarity with prior years' activities
- › Objectives of the strategic plan & impact on budget
- › The overall well-being of the organization
- › Basic knowledge of budgeting
- › Budget timeline & timing of revenues & costs
- › Approval of final budget prior to beginning of new fiscal year

14

Everyone needs a trusted advisor.
Who's yours?

BKD

Budget Priorities – Why Does This Matter?

- › Determine & tie into mission & strategic plan
- › Revenue diversification & sustainability
- › Evaluate funding deficits & impact on programs
- › Evaluate cost centers
- › Consider all expenses

15

Everyone needs a trusted advisor.
Who's yours?

BKD

3

Budget Timeline

Budget Timeline

- › Several months in advance
- › Targeted due dates & accountability for not meeting them
- › Do not push the board into making a decision based on poor timing
- › It should be a living document, but always ensure any changes are approved by the board & that you keep the column of the original budget to assist in preparing the next year & understanding of projections

4

Key Steps of Budgeting

Overview of the Process

- › Define your programs
- › Establish format & structure for accounting
- › Identify direct & indirect costs
- › Select allocation approach & methods
- › Allocate staff salaries, benefits & taxes
- › Assign direct expenses
- › Allocate direct costs by an appropriate method
- › Identify program specific & general income categories
- › Allocate indirect (administrative) costs
- › Allocate fundraising costs
- › Bring it together for a review

Considerations

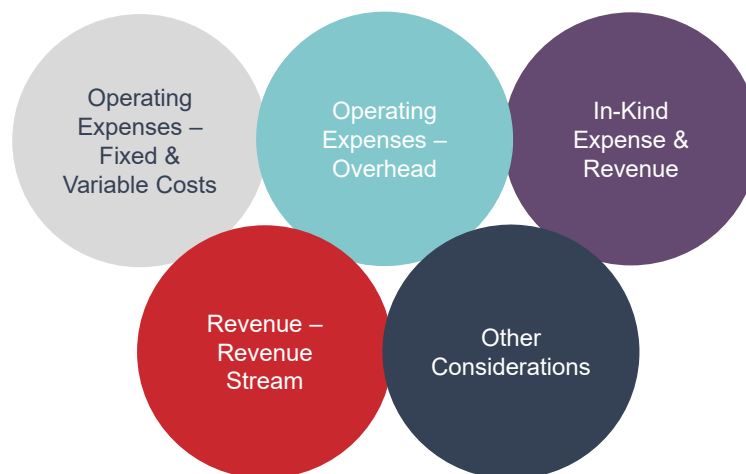
- › Nonfinancial data considerations are a must
- › Direct costs that relate to specific programs or projects
- › Indirect/shared costs
- › Capital expenditures
- › In-kind items
- › Programs covered by contributions & grants without donor restriction entails a budget with elasticity to accommodate the unexpected

21

Everyone needs a trusted advisor.
Who's yours?

BKD

Key Steps of Budgeting



22

Everyone needs a trusted advisor.
Who's yours?

BKD

Step 1 – Expenses: Fixed Costs

Fixed costs first

- › A fixed cost is a cost that does not change with an increase or decrease in the amount of goods or services produced
- › Fixed costs are expenses that have to be paid by a company, independent of any business activity.
- › What are your top FIVE fixed costs?

23

Everyone needs a trusted advisor.
Who's yours?

BKD

Step 1 – Expenses: Fixed Costs

Examples

- | | |
|-----------------------------------------------|---------------------------------------------------------------|
| › Key staff (not paid based on variable data) | › Insurance |
| › Rent | › Amortization & depreciation |
| › Taxes, fees & interest payments | › Accounting & legal fees |
| › Utilities | › Signed contracts |
| › Debt obligations | › Leases, if long term |
| | › Price per unit expenses that tie directly to earned revenue |

24

Everyone needs a trusted advisor.
Who's yours?

BKD

Step 2 – Expenses: Overhead

Overhead expenses

- › Costs that may not relate to a specific project but are necessary for its completion

Examples

- › Postage
- › Telephone
- › Internet
- › Copier usage
- › Supplies
- › Security
- › Management company/time
- › Staff development

25

Everyone needs a trusted advisor.
Who's yours?

BKD

Step 3 – Expenses: Variable Costs

Variable costs

- › Fluctuate based on activity level
 - For example, the cost to vaccinate more clients in a health clinic would fluctuate based on the number of clients & environmental factors such as a flu outbreak
- › Incremental expenses, which occur when a particular action is taken
 - For example, when a certain amount of money is raised, a new program will be launched

26

Everyone needs a trusted advisor.
Who's yours?

BKD

Step 3 – Expenses: Variable Costs

Other types of variable expenses

- › Outliers such as repairs & maintenance that is more significant than in prior years or less significant
- › New staff or staff layoffs
- › Consider expenses with typical spikes/increases such as insurance/benefits/compensation
- › Consider legal, accounting, professional services & consulting

27

Everyone needs a trusted advisor.
Who's yours?

BKD

Step 4 – In-Kind Expenses

In-kind contributions/expenses

- › Budget items you know you will receive in both revenue & expense
- › Consider impact if in-kind is not donated
- › Think of items from related parties, office space, utilities, parking, security, staff hours, computers, food, medical services, accounting services, legal services, marketing services, etc.
- › What are your top five in-kind items?

28

Everyone needs a trusted advisor.
Who's yours?

BKD

Put Away Your Expense Work

- › Put away your expense work so that you don't inadvertently set revenue based on the expenses
- › Create an independent projection
- › It must be realistic
- › Budget by revenue stream using different methods

30

Everyone needs a trusted advisor.
Who's yours?

BKD

Step 5 – Revenue

- › **Estimate anticipated revenue including**
 - Memberships
 - Contributions, bequests & split-interest agreements
 - Grants
 - Earned income, conference fees, items sold
 - Special events
 - Investment income

31

Everyone needs a trusted advisor.
Who's yours?

BKD

Step 5 – Revenue: Revenue Streams

- › Budget by revenue stream & for each stream consider
 - How many people per revenue item
 - Recurring or one time?
 - Collectibility & timing of the cash receipts
 - Timing of the events
 - Likelihood of receiving grants

32

Everyone needs a trusted advisor.
Who's yours?

BKD

Step 5 – Revenue: Contributions

- › Considerations
 - How much do we expect to raise?
 - Are the expectations realistic? Is there a history of increases in the past?
 - Has a major contributor had a good year or a bad year financially?
 - What are the fundraising possibilities of the organization itself?
 - What are the costs of fundraising? How much does it cost us to raise a dollar?
 - Look at key metrics

33

Everyone needs a trusted advisor.
Who's yours?

BKD

Step 5 – Revenue: Special Events

- › What are the realistic revenue expectations by type?
 - Sponsorships
 - Tickets
 - Auctions & raffles
- › Compare your events to prior-year actuals for at least three years
- › “Suggested donations” verse a fee for a fundraiser
- › Key data: number of attendees & overall costs per attendee
- › Cost considerations – fixed & variable costs

34

Everyone needs a trusted advisor.
Who's yours?

BKD**5**

Other Considerations

Capital Budgeting

- › Planning for large, long-lived expenditures
- › Decisions generally are made by a capital budgeting committee who
 - May choose between project proposals
 - May make decisions about special expenditures
- › Key considerations
 - How will we fund it? Endowments, contributions, etc.
 - Timing of cash flows – the amount of time it is estimated to take for the project to return the original investment
 - Net present value – the present value of the estimated cash flows less initial cash outflows of costs

37

Everyone needs a trusted advisor.
Who's yours?

BKD

Grants & Restricted Funds

- › Can the NFP comply with the grantor's requirements?
 - Restricted use of funds
 - Matching contributions
 - Long-term purposes
 - Indirect & overhead cost allowance
 - Administration costs of the grants
- › Do separate accounting reports need to be provided to the grant-giving organization?

38

Everyone needs a trusted advisor.
Who's yours?

BKD

Changes to Budgets

- › Should be board-approved
- › Continue comparison to original budgeted amounts as well as revised budget
- › Does it really need a revision?
 - Don't revise just to meet the budget
 - Only necessary if you have to cut programming, staffing, etc.
- › Emergency items

39

Everyone needs a trusted advisor.
Who's yours?

BKD

Five Key Takeaways

A well-planned budget is the key to success & financial transparency



41

Everyone needs a trusted advisor.
Who's yours?

BKD

Five Key Takeaways

1

Budget type

Carefully budget for your planned outcome

2

Budget priorities

Evaluate mission & strategic plan to budget for expected outcomes

3

Budget timeline

Plan your timeline with the end in mind

42

Everyone needs a trusted advisor.
Who's yours?

BKD

Five Key Takeaways

4

Key steps of budgeting

Financial & nonfinancial considerations are critical

5

Budget changes

Memorialize the approved budget but track changes & updates based on budget change approvals

43

Everyone needs a trusted advisor.
Who's yours?

BKD

Questions?

Continuing Professional Education (CPE) Credit



BKD, LLP is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.nasbaregistry.org

CPE Credit

- › CPE credit may be awarded upon verification of participant attendance
- › For questions, concerns or comments regarding CPE credit, please email the BKD Learning & Development Department at training@bkd.com

46

Everyone needs a trusted advisor.
Who's yours?

BKD

Thank You!

bkd.com | [@BKDNFP](https://twitter.com/BKDNFP) [@BKDGov](https://twitter.com/BKDGov) [@BKDHigheEd](https://twitter.com/BKDHigheEd)

The information contained in these slides is presented by professionals for your information only & is not to be considered as legal advice. Applying specific information to your situation requires careful consideration of facts & circumstances. Consult your BKD advisor or legal counsel before acting on any matters covered

BKD
CPAs & Advisors

BKD Thoughtware®

- › Webinars, seminars & articles
- › Many are CPE-eligible

