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Budgeting for Nonprofits

A key component of financial sustainability is the commitment of board and staff to financial management that includes timely review of financial reports and advance planning. One way that board and staff plan for income and expenses in the future is by creating a budget. Approval of the annual budget is one of the fundamental building blocks of sound financial management.

Creating the annual budget is initially staff's responsibility, but board members (usually those on the "finance committee" and/or "executive committee") often review the proposed budget and the full board usually adopts the budget at a full board meeting. The approved budget then serves as a guide for financial activity in the months ahead. Budgets should not be "written in stone" because the financial position of the nonprofit may change during the year.

A budget is a *guide* that can help a nonprofit plan for the future as well as assess its current financial health. It is quite common to periodically review the budget as well as compare it to the actual cash flow and expenses, to determine whether they are playing out as expected during the course of the year. It may be necessary to amend the budget during the year.

The budget is a document that is referred to many times throughout the year, and may even be requested by parties involved in financial transactions with the nonprofits, such as banks, and even by grantmakers when they are considering making a grant to the nonprofit.

Mythbuster

Board members and staff who are new to the charitable nonprofit context may wonder, "Does a nonprofit's budget have to break-even?" "Can there be a profit?"

- The article, [Nonprofit Budgets Have to Balance: False!](#) [1] (Blue Avocado) covers everything budgets: surplus budgets, break-even budgets, deficit budgets, and the misconception that a nonprofit's budget has to balance at the end of the year.

Cash or Accrual?

A nonprofit's budget can be based on a cash or accrual accounting method. Cash method budgeting may be more appropriate for smaller nonprofits, while accrual accounting is more likely to meet the needs of nonprofits that receive multi-year and restricted funding.

- [Cash versus accrual accounting: seeing the future not just the past](#) [2] (video from Nonprofits Assistance Fund)

Resources

Is it time to create your nonprofit's budget? Here are some resources to head your nonprofit in the right direction:

- [Annual budgeting for nonprofits](#) [3] (Maine Association of Nonprofits)
- [Budgeting: A guide for small nonprofit organizations](#) [4] (Virginia Society of Certified Public Accountants)
- [10 Step Budgeting Checklist](#) [5] (Nonprofits Assistance Fund)
- [A 5-step guide to budgeting for nonprofits](#) [6] (Wallace Foundation)
- [Nonprofit budget tips](#) [7] (CommonGoodVermont/Third Sector New England)
- [Balance Sheet Cheat Sheet](#) [8] (Nonprofits Assistance Fund) ([Instructions](#) [9])
- [An Executive Director's Guide to Financial Leadership](#) [10] (Nonprofit Quarterly, authors Kate Barr and Jeanne Bell)
- Should our nonprofit have [operating cash reserves](#) [11]?
- [Building a better budget \(even if you are allergic to numbers\)](#) [12] (Council of Nonprofits)

Tools you can use

The National Council of Nonprofits is pleased to suggest two practical software tools, developed with the needs of small nonprofits in mind by the financial experts at the New York Council of Nonprofits, that are available for purchase separately, or together, from the New York Council of Nonprofits. Discounts are available for nonprofits that are members of their [state association of nonprofits](#) [13]. These two software tools are useful for:

- (1) building a budget with proper cost allocation, and
- (2) tracking a nonprofit's cash flow. [Building a Better Budget and Cash Flow Toolkits](#) [14]

Others:

- [Program based budget builder](#) [15] free template (Wallace Foundation)
- [Proposal budgeting basics](#) [16] free tutorial (Foundation Center)
- [Cash projection template](#) [17] (Wallace Foundation)
- [Revenue scenario planning tool](#) [18] (Wallace Foundation)
- [Fiscal management activities calendar planning tool](#) [19] (Wallace Foundation)

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Links

- [1] <http://www.blueavocado.org/content/nonprofit-budgets-have-balance-false>
- [2] <https://nonprofitsassistancefund.org/resources/item/cash-vs-accrual-accounting-seeing-future-not-just-past>
- [3] <http://www.nonprofitmaine.org/answer/the-nonprofit-budgeting-process/>
- [4] <http://www.vscpa.com/Content/Files/vscpa/Documents/2011/Budgeting.pdf>
- [5] <https://nonprofitsassistancefund.org/resources/item/10-step-budgeting-checklist>
- [6] <http://www.wallacefoundation.org/knowledge-center/Resources-for-Financial-Management/Pages/A-Five-Step-Guide-to-Budget-Development.aspx>
- [7] <http://blog.commongoodvt.org/2012/12/learn-from-the-pros-nonprofit-budget-tips-for-a-healthy-new-year/>
- [8] <https://nonprofitsassistancefund.org/resources/item/balance-sheet-cheat-sheet>
- [9] <https://nonprofitsassistancefund.org/resources/item/balance-sheet-cheat-sheet-instructions>
- [10] <https://nonprofitquarterly.org/2011/12/25/an-executive-directors-guide-to-financial-leadership/>
- [11] <https://www.councilofnonprofits.org/tools-resources/operating-reserves-nonprofits>
- [12] <http://pages.omkt.co/archive/bWVzc2FnZV8yMjAwOTA5XzYyOF8xMDI2XzYyM0NDQ4>
- [13] <https://www.councilofnonprofits.org/find-your-state-association>

- [14] <http://www.eventbrite.com/e/product-purchase-budget-cash-flow-toolkits-for-nonprofits-tickets-10434821833>
- [15] <http://www.wallacefoundation.org/knowledge-center/Resources-for-Financial-Management/Pages/Program-Based-Budget-Template.aspx>
- [16] <http://grantspace.org/training/courses/introduction-to-project-budgets>
- [17] <http://www.wallacefoundation.org/knowledge-center/Resources-for-Financial-Management/Pages/Cash-Flow-Projections-Template.aspx>
- [18] <http://www.wallacefoundation.org/knowledge-center/Resources-for-Financial-Management/Pages/Revenue-Analysis-Worksheet.aspx>
- [19] <http://www.wallacefoundation.org/knowledge-center/Resources-for-Financial-Management/Pages/Fiscal-Management-Activities-Calendar.aspx>
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