Nonprofit organizations continually grapple with maintaining and improving their operations, especially in today's volatile economy and a rapidly-changing world.
Good budgeting is critically important to the success of nonprofit organizations – that often have stretched resources, fluctuating funding, and/or heavy reliance on specific funding sources.

A well-formulated nonprofit budget allows for the best use of limited nonprofit resources and focuses on the primary goals and objectives of the organization.

What is Nonprofit Budgeting?

The process of building a budget is fundamentally a planning process. A budget is a financial document that provides an overview of how an organization is planning to spend its money. It is essentially the financial reflection of what a nonprofit business expects to accomplish over a 12-month period (annual budget).

Once adopted, the budget also becomes an essential financial management tool helpful in monitoring ongoing organizational activities throughout the year. With each reporting cycle, the organization compares
Operating Budget vs Capital Budget

The operating (broad scope) budget reflects the organization's planned financial activities for the year ahead, showing how much revenue it expects from which sources and how much it will spend on operations. It's a key tool in effectively and efficiently achieving the organization's stated purpose, and should always align with an organization's strategic plan. The operating budget must be centered around the primary goals and objectives of the organization.

The capital budget may include projects which will have ongoing effects on operations. (Virginia Society of Certified Public Accountants) The capital budget can also be used for construction and other big, one-time spending projects that often take more than a fiscal year to pay for.

Bigger nonprofits should also have a budget per each major event and each distinct department.

Importance of Budgeting for Nonprofits

A budget gives structure and substance to a nonprofit's plans. The budget makes a strong statement about the organization's intentions and plans as it indicates what the nonprofit expects to tackle in the coming years. As importantly, it provides a way to monitor progress. The budget also plays a key role in forcing organizations to prioritize their activities so as to determine those that are most critical for fulfilling their mission. A budget is, therefore, an imperative tool for nonprofits.

A nonprofit budget:

- Helps you focus on short and long-term strategic goals.

A nonprofit's activities are usually connected to the availability and timing of funding. If you do not plan your budget strategically, then your nonprofit may not be able to deliver its mission. A budget also allows organizations to set spending limits, keep costs in line with revenues, and grow by using their current resources to the maximum.

- Makes your Board members happy.
No more wasted meetings where everyone is confused and hours are spent making sense of your financials. A good budget lets your Board members easily understand which programs and initiatives are performing well and which aren’t, and give you better feedback and support.

– Keeps your donors informed.

Today’s donors want to know where their money is going. They care about transparency and want to give money wisely. There are even websites out there ranking different nonprofits based on how well they’re using their money. Once you have a complete and updated budget, you can then include some of that information on your website or in your fundraising emails.

These are only some of the many benefits a good budget brings to an organization.
Nonprofit budgeting takes time, especially if you’re new to it. Give yourself enough time to gather the necessary information and data, to think through and discuss the various elements of the budget, and to put it down on paper (or in Excel). Don’t rush the budgeting process.

Start working on the budget a couple of months in advance so you have sufficient time to get input from relevant stakeholders, present the budget to your Board and get their approval, and then present the budget back to the entire team.

Make sure that you clearly determine the roles and decision making processes that will yield the most effective information gathering, analysis, and decision making. Additionally, determine a timeline that ensures approval prior to the fiscal year-end.

Budgeting should ideally become a part of your nonprofit’s organizational culture, something everyone is aware of and contributes to. Mark the events in everyone's calendars, so that it becomes easier to repeat the process each year.

### Clarify the Context

Starting with what is, essentially, a future-oriented process – clarify the present context. Assess the financial and resource management decisions. Evaluate current financial health by analyzing the year-end forecast, current budget variances, and balance sheet strength. Then, take some time to reflect on and learn from programmatic and financial successes and failures.

Identify opportunities, threats, and emerging trends likely to influence your activities (both internal and external to your organization). Finally, get clear on and name the goals, organizational values, and priorities that you want to have reflected in this year’s budget.

It’s also useful to look at the financial trends for your programs over the past few years, and assess if each program is covering its direct costs, or contributing to overhead.

Articulate the main purpose of your budget and think about a structure that will best support that purpose. For example, if the main purpose of your budget is funder compliance – there might be some elements that you need to include in your budget that you otherwise wouldn’t.
3. Don’t Operate on Assumptions

While there will inevitably be some assumptions in your budget, try to work with real numbers as much as possible. Use last year’s numbers as a starting place and include any quotes from vendors or partners.

If you’re creating a budget for the first time, create as reasonable a list as possible of expenses. Then, assess your best and worst case scenarios for generating funding.

“Pro tip: When including assumptions in your budget, write them down in a separate document. This way, when someone asks about a number in the budget, you can easily explain it.

It’s very important to the success of your programs that your revenue and expense estimates are realistic. While there is generally space for hope and dreams in the nonprofit world, when it comes to budgeting – there isn’t. When putting in the numbers for your revenue, make sure you know exactly where funds will come from.

4. It’s a Team Effort

Involve your Board, your staff, and your volunteers in creating the budget. This not only helps create a more accurate and comprehensive budget but also ensures buy-in across the board.

An inclusive budgeting process can certainly be challenging and messy and with a great deal of debate. However, this approach to budgeting presents a great opportunity to bring in and unite various perspectives.

5. Get the Right Amount of Detail In

This one can be tricky to get right, but practice makes perfect. There should be enough lines in your budget to provide for a comprehensive understanding of the financial situation. However, the budget should be high-level enough so as to not be cluttered and overwhelming.
Pro Tip: Every accounting system has a chart of accounts which classifies the sources of revenue and the types of expenses you incur. Use the same categories in your budget to easily generate financial reports to funders and others.

6. Get Your Income Right

Revenue can be one of the more difficult parts of developing a budget – simply because it’s harder to forecast than expenses.

Organize your charitable gift income by source, e.g., individuals, foundations, corporations, net of special events, and any other income sources that might be relevant to your nonprofit. Nonprofit Finance Fund suggests to grade your expected revenue, using the letters A, B, C, and D to distinguish different levels of risk for each revenue source (e.g. “A” for most dependable, “B” less so, and so on, and then to assign each grant award a percentage that indicates the likelihood of receiving that grant in your next fiscal year. You’d
When estimating fundraising income, don’t forget to look at multi-year trends in your organization’s fundraising. Remove any gifts that you consider unlikely to repeat. Then, estimate likely gift increases per donor, based on the quality of the relationships. Don’t forget to track restricted and unrestricted funds, and how you are spending them. For example, if you tell your donors that all donations will go directly to program expenses, those are then restricted funds that you need to exclusively use to support programs.

Before putting the numbers down, talk to all foundation and corporate donors to determine the likelihood of their repeat gifts.

7. Figure Out Your Expenses

List expenses in the high-level categories of staff, contractors, occupancy, and support expenses (which all other program and operating expenses).

Consider segregating staff expenses as it usually comprises anywhere from 60% to 90% of an organization’s budget.

Differentiate between the program and other expenses. Donors and partners like to see how many are spent on the nonprofit’s mission versus executing the mission.

Keep in mind the difference between fixed and variable costs when you are tracking expenses. Fixed costs remain constant. They include items such as rent, loan repayments, and insurance. Variable costs are directly tied to events, increasing or decreasing and changing with each situation. Since you have some control over these expenses, this is where a lot of decision-making will happen.

“Pro tip: Include a formula subtracting expenses from revenue, even if the calculation points to a breakeven budget.

8. Make Cash Flow Your Priority
You need to know how your nonprofit’s cash flows and what to do if the cash doesn’t flow. If an organization expects all of its expenses in the first three months of the year and all of its revenue in the last three months of the year, the organization will be unable to pay expenses unless it has built up a large cash surplus. Plan your cash flows as well as your revenues and expenses. (Virginia Society of Certified Public Accountants).

Your Board members should have a direct role in developing cash flow projections, agreeing on the assumptions to use, and reviewing the projections carefully.

Separate Operational From Capital Budget

If you have a special project in mind, create a separate budget for it. Keep your main/operational budget focused on operations. For example, if you have it in your plan to buy new computers for your staff or to build a new website, create a separate budget for those projects.

These projects probably won’t be delivered every year, so separating your operational budget from your capital budget is the best way to go forward.

Don’t Forget About Non-Monetary Contributions

When budgeting, nonprofits sometimes make the mistake of forgetting to account for in-kind donations or volunteer hours. And these can make a big difference.

In-kind contributions of goods or services ("free" expenses and costs) should be budgeted at fair market value (FMV) for the new Form 990. These expenses and costs can include items such as office space, utilities, parking, security, staff hours, computers and other items provided by donors or a parent NPO. (Virginia Society of Certified Public Accountants).

For example, a volunteer hour is valued at $24.69. If you have 50 volunteers that each contribute 15 hours per month, that’s $18,517.5 per month that would have otherwise been an expense. Include that amount as both a revenue and an expense line item so they cancel each other out.
11. Don't Operate on a Shoestring Budget

Many nonprofits seem to not only operate on shoestring budgets but are also proud of it. Some nonprofit leaders may even be reluctant to show a surplus in their books, fearing the perception that they are not putting their resources to good use.

But, there’s a place in the nonprofit universe for a surplus in the budgets too. Reserves are critical to an organization’s long term sustainability. They can mean the difference between surviving a rough patch and being forced to close down. Having extra cash can help stabilize your nonprofit and absorb an unexpected delay in receiving funds, a shortfall in revenue for a special event, or unbudgeted expenses. Setting aside money for a surplus allows you to support future innovations and invest in your staff. The goal is to avoid the “nonprofit starvation cycle” of never having enough to invest resources in infrastructure, or having a budget that is “too lean” to effectively run the organization. (www.aafcpa.com)

Your annual unrestricted surplus should be sufficient to meet debt obligations, fund depreciation, and add to operating reserves. AAFCPAs recommends a 3-5% surplus operating budget each year, and 4-6 months of expenses in your operating reserves.

12. Monitoring the Budget Throughout the Year

Budgets are too often proposed, discussed, accepted, and forgotten. Once you have your budget, compare the predicted numbers to the actual figures every month in order to look for differences and establish why they occurred. When your organization is not in line with the budget, you should look at “why,” and what factors you can control or change. This is where the budget becomes an effective management and operations tool for your organization. This allows for a better overview, more speedy addressing of any potential issues, more nimble management of the staff and volunteers, and a more informed everyday decision-making process.

For example, based on this review you can determine which projects need to be updated and which areas/departments need to develop new ideas for your organization to reach its goals and move forward with its mission.
Good communication between the program, finance, and development departments and the Board are key to monitoring the budget during the year.

Free Nonprofit Budget Template

To help you get started we've created a basic nonprofit budget template. It will work as a framework regardless of your nonprofit's area of focus. Click here to gain access to the document.

At Donorbox, we strive to make your nonprofit experience as productive as possible, whether through our online donation system or through resources on our nonprofit blog.
Without an annual nonprofit budget, you’re essentially operating in the dark, and could easily overspend, winding up deep in debt or worse, unable to continue serving your beneficiaries.

The principles we shared in this guide are the fundamentals of sound budgeting for nonprofit organizations.

Leading a nonprofit organization is a constant balancing act. Nonprofit professionals continuously balance the current needs and demands of internal and external stakeholders, short-term priorities, and long-term vision.

For that, financial leadership is key. It helps nonprofit professionals adapt to the demands of the changing environment and maintain the balance needed for mission impact and sustained financial health.
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