



Budgeting for Nonprofits

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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.

It is likely that the nonprofit's budget will be referred to many times throughout the year - by staff and board members who play different roles within a nonprofit. Budgets may even be requested by parties involved in financial transactions with the nonprofits, such as banks, or by donors/grantmakers considering a gift to the nonprofit. If and when you share the organization's budget outside the organization, make sure to stress that the budget is reviewed periodically throughout the year and revised as needed - not set in stone. Sometimes when people ask for the nonprofit's "budget" what they are seeking can be satisfied by sharing a copy of the most recently filed IRS Form 990 that shows a nonprofit's operating expenses and revenue during a fiscal year.

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!](#) (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.
- [When is a deficit ok?](#) (Propel Nonprofits)

RESTRICTED FUNDS DEMYSTIFIED

- [Managing Restricted funds](#) (Propel Nonprofits)

BE SURE TO UNDERSTAND TRUE PROGRAM COSTS

- [Own your own costs](#) (National Council of Nonprofits)
- [True program costs: Program budget and allocation template](#) (Propel Nonprofits)
- [Cost allocation primer video](#) (Propel Nonprofits)
- [Program based budget builder](#) free template (Wallace Foundation)

RESOURCES

[MEMBER LOGIN](#)

Find Your State's Contact

- [Fundraising on a budget and understanding the fundraising budget](#) (Nonprofit Quarterly, author Simone Joyaux) (includes general background on nonprofit budgets)
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- [Budgeting: A guide for small nonprofit organizations](#) (Virginia Society of Certified Public Accountants)
 - [10 Steps budgeting checklist](#) (Propel Nonprofits)
 - [A 5-step guide to budgeting for nonprofits](#) (Wallace Foundation)
 - [Is your nonprofit heading for a financial crisis?](#) (Joan Garry)
 - [Balance Sheet Cheat Sheet](#) (Propel Nonprofits)
 - [An Executive Director's Guide to Financial Leadership](#) (Nonprofit Quarterly, authors Kate Barr and Jeanne Bell)
 - Should our nonprofit have [operating cash reserves](#)? (National Council of Nonprofits)
 - [Building a better budget \(even if you are allergic to numbers\)](#) (National Council of Nonprofits)
 - [Making your budget the backbone of your nonprofit](#) (Nonprofit Finance Fund)

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](#). 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](#)

Others:

- [Proposal budgeting basics](#) free tutorial (Foundation Center)
- [Cash projection template](#) (Wallace Foundation)
- [Revenue scenario planning tool](#) (Wallace Foundation)
- [Fiscal management activities calendar planning tool](#) (Wallace Foundation)

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