

Essential Processes for Nonprofit Budgeting

Sept 28, 2023
1:00 – 2:45



Nonprofit Financial Series

 IntegralOrg

1

Land Acknowledgement

We acknowledge that what we call Alberta is the traditional and ancestral territory of many peoples, presently subject to Treaties 4, 6, 7, 8, and 10.

Namely: the Blackfoot Confederacy – Kainai, Piikani, and Siksika – the Cree, Dene, Saulteaux, Nakota Sioux, Stoney Nakoda, and the Tsuut'ina Nation and the Métis People of Alberta.

This includes the Métis Settlements and the Six Regions of the Métis Nation of Alberta within the historical Northwest Métis Homeland.

This Photo by Unknown Author is licensed under CC BY-NC-ND

2



Training Participation via Zoom



Mute your microphone when you are not speaking to help keep background noise to a minimum.



Use Chat and Reaction functions to ask questions and engage with other participants.



Use of video is recommended for this interactive and participatory workshop.



This session will be recorded and sent out to registrants once the session ends. All presentation slides and handouts will be made available.

3

Your facilitator *for*

Essential Processes for Nonprofit Budgeting

Stella Penner, FCPA, FCGA, CA

Consultant, Stella M. Penner Professional Corporation
Financial Educator *for* IntegralOrg



4



Overview

- The purpose
- Budget as planning
- Program budgets
- Connection to reporting
- Using the budget
- Practical considerations

5



Purpose

Why does your nonprofit organization need or want to budget?

6

When to introduce budgeting?



Level of financial resources

Authority vs. accountability over finances

External requirements

As part of good governance

7

When to introduce budgeting?

How much money?

- Too much \$ is flowing for informal financial reporting
- More transactions than can be remembered in detail
- Revenue from more than one source
- Spending for multiple activities
- Need to make sure \$ lasts for a given period



8

When to introduce budgeting?

Authority vs Accountability

- Is the person reporting on finances different from the custodian?
- Are there multiple persons who can authorize spending?
- How much "distance" between oversight and action?
- Who is accountable for goals being achieved?



9

When to introduce budgeting?

External Factors

- Funder-specific restrictions on use of \$
- Funding contract requires a budget
- Must report on financial outcomes
- May require audited report
- Ensure Funder A's \$ are not used on Funder B's activities



10

When to introduce budgeting?

Governance

- Board has fiduciary ("trustee") duties
- Board can't observe day-to-day
- Board can't make every decision in real time
- Budget is part of delegating to management, staff, and volunteers
- Clarifies roles and responsibilities



11

Planning

How does budgeting fit into organizational planning?

12

Planning Components



Activities & Deliverables
Resources
Spending
Adaptations

13

Planning Components

What do we do?

Your organization's purposes guide planning activities and programs. The planned activities require resources.

What activities can we deliver? To know the answer:

- What \$ are available
- What those activities may cost

This part of planning is the foundation for budgeting



14

Planning Components**Resources - Planning for \$\$ in**

- What resources may be available?
- Likelihood of each – certain, possible, maybe
- What actions are needed to bring \$ in?
- What would be the timing of inflows?
- Back up plans?



15

Planning Components**Costs and Spending**

- Estimate the cost to deliver planned activities
- Compare costs to projected \$\$ in
- Balancing those is the key to good budgeting
- Expect to go through multiple iterations, especially in early years or years of change



16

Planning Components

Adapting and Revising

Revise the budget in response to comparing expected \$\$ in to costs needed for activity delivery

- Start by reviewing priorities:
 - Strategic plan/organization purpose and goals
 - Funder-required deliverables; non-negotiables
- **Stratify** activities by *importance* and *urgency*
- Build in contingency plans – if less/more revenue received; if unexpected costs are encountered
- *Don't forget to consider* – donated materials, services, sponsorships, fees for service



17

Planning Components

Revise and Repeat

Build time into budget calendar to allow for multiple revisions

- Teamwork is critical – involve program leaders
- Revisit underlying assumptions about both costs and revenues
- Repeat process until budget policy parameters are met
- May need to involve board in tough decisions



18



19

Segment Budgets



Funders may require budgeting & reporting for just one piece of your activities

Will the reporting back to funder require audit?
Plan ahead.

How do these budgets connect to the overall organization budget and planning?

20

Segment Budgets Common Complexities

Total of all programs cannot add up to more than the overall budget

Shared costs may need to be allocated

Design accounting system to:

- Track costs by actual program allocation(s)
- Meet contract reporting format



Be careful when contract period is different from fiscal year



21

Segment Budgets Common Complexities

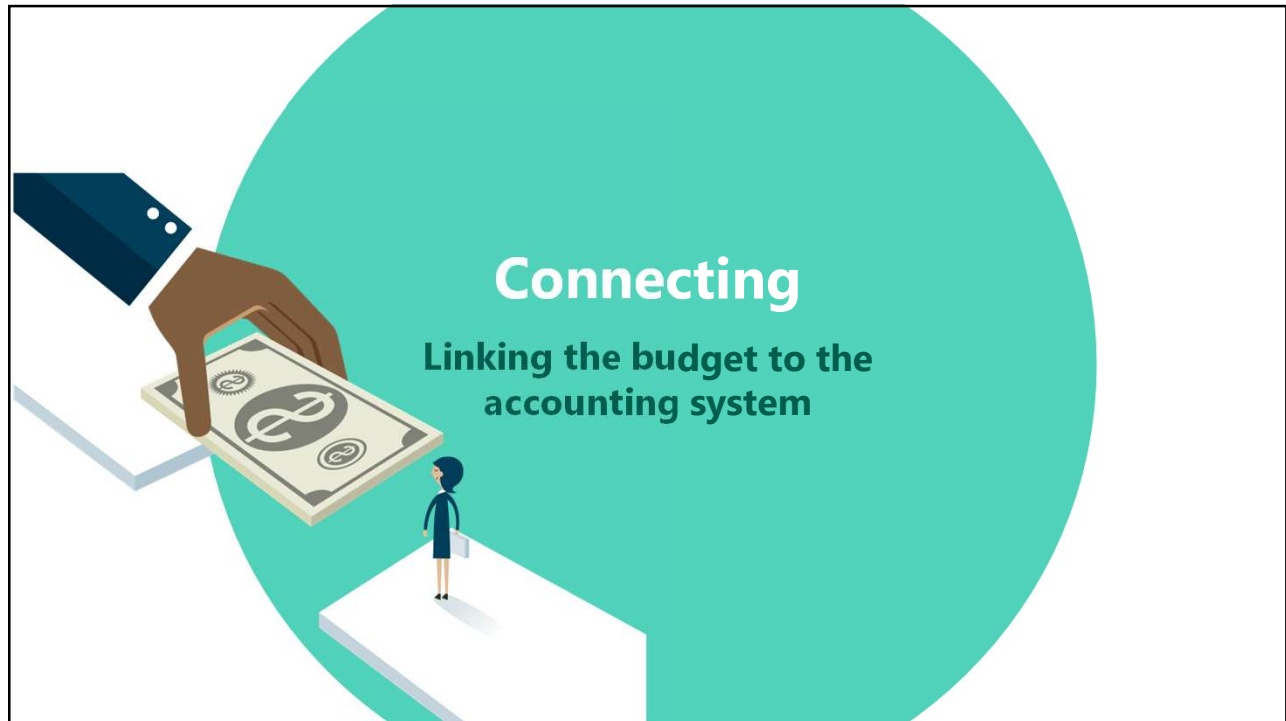
Understand grant contract definitions
(e.g., how are allowable admin costs determined)

Who is the organization's liaison with funder?
Finance and liaison should collaborate on:

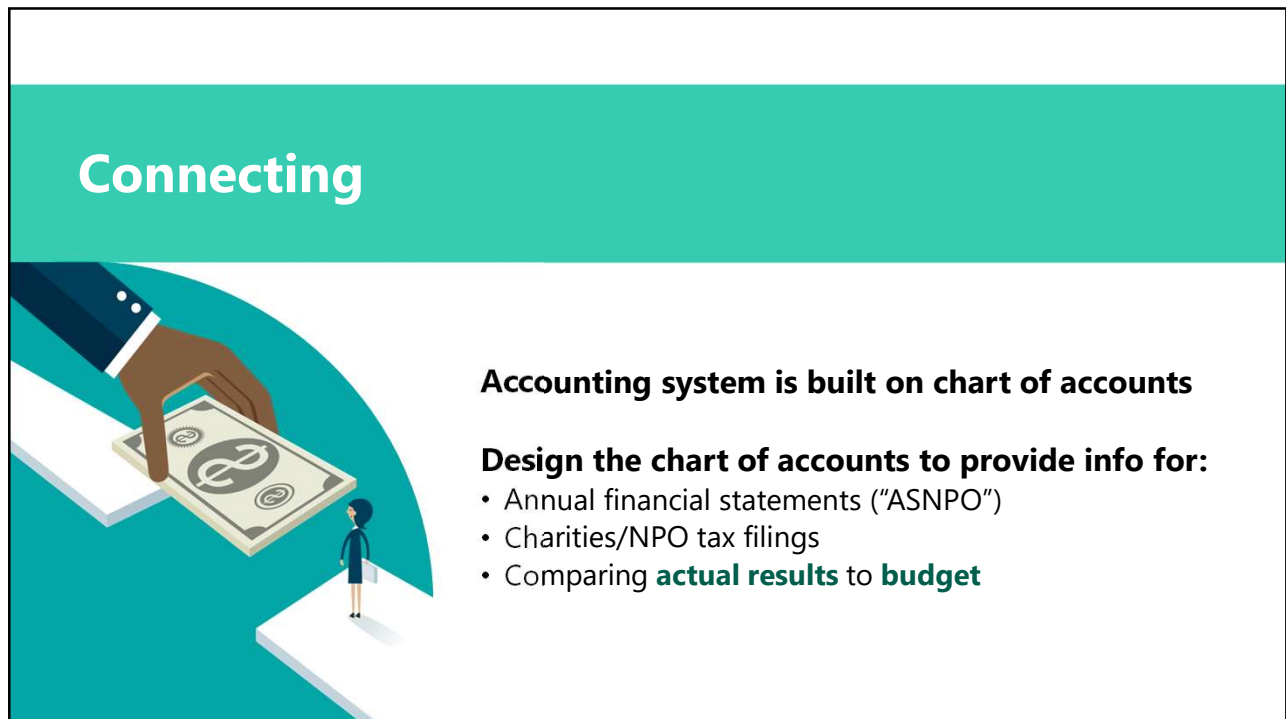
- Developing program budget
- Financial reporting to funder



22



23



24

Connecting

Accounting ↔ Budget



What revenue sources do we expect?

- Do specific costs have to be matched with specific revenue?

Defining costs by:

- **Function** – which program or deliverable does the cost support?
- **Object** – what is the nature of the cost?

A well designed chart of accounts should be able to sort your income statement (revenues and costs) both ways

25

Timing

Cash ↔ Accrual



When cash changes hands may not be when the event occurs

Revenue

- Fees may be paid in advance or after service is delivered
- Funders may pay in quarterly or annual installments, activities occur throughout the year

When do you report the **revenue** – when received *or* when “earned” by delivering the service?

When do you report the **expense** – when you pay the cheque *or* when the goods/services are received?

26

Timing Cash ↔ Accrual



Basing your budget on when cash will be received/paid is a cash flow projection, not a budget

Budget - match the revenue and expenses to when the activities occur



If grant contract period is different from fiscal year

- Some revenue may be carried over to be spent/planned for in the following year
- Don't report/plan to spend revenue that belongs to a different period

27

Cash ↔ Accrual Timing Differences – Solutions



Prepare a companion cash flow if there are significant timing differences

Regular report on balance sheet as well as statement of operations

Track deferred/unspent revenue by commitment

Teach the basic "language" of financial reporting to board and operational management

28



29

What does the budget tell you?

**Regular comparisons of budget to actual results.
Highlights where things did not go according to plan.**

Focus on exceptions

- Why is there a difference?
- Will it right itself (timing difference)?
- Do we need to change any actions to address?

30



Understanding Exceptions & Variances

Set parameters for investigation (amount or percentage).
Involve operational management in explaining variance.

Likely reasons for variance:

- Actual activities not same as plan (e.g., fewer/more meals served)
- Costs were not same as plan (e.g., the food cost more than expected)
- Timing differences (there were five weekends in the month instead of four)

31

Responding to Exceptions & Variances

Project to end of budget year

- Is this a problem, an opportunity, or timing difference?

Make and report a plan to adapt

See two sample formats on the next slide...



32

Budget/Actual Report Using YTD Budget

Financial report for the 6 months ended June 30, 2022				
Account	Actual YTD	YTD budget	YTD variance	Comments and plan
Grant A	25,000	50,000	(25,000)	This is a timing difference
Salary cost	25,200	32,500	7,300	Position Y was vacant for part year now filled
Facilities	6,500	6,500	0	
Spring Gala	500	2,000	1,500	Cancelled due to pandemic, \$ spent on volunteer gifts in lieu
Other	3,800	9,000	5,200	Obtained donated services
Total exp	36,000	50,000	14,000	
Net	(11,000)	0	(11,000)	

33

Budget/Actual Report Project to Year End

Financial report for the 6 months ended June 30, 2022						
Account	Actual YTD	Forecast remaining	Project to YE	Annual budget	Projected variance	Comments and plan
Grant A	25,000	75,000	100,000	100,000	-0-	Received end of quarter
Salaries	25,200	30,000	60,200	65,000	4,800	Position Y was vacant for part year now filled
Facilities	6,500	7,000	13,500	13,000	(500)	Utility rate increase
Gala	500	500	1,000	4,000	3,000	Cancelled due to pandemic, \$ spent on volunteer gifts in lieu
Other	3,800	11,200	15,000	18,000	3,000	Obtained donated services
Total exp	36,000	48,700	84,700	100,000	15,300	
Net	(11,000)	26,300	10,300	0	10,300	

34



Using the Reports

Looking ahead/respond to changes in real time

Performance measures

- Activity or program performance
- Financial performance
- Individual performance

Caution: consider controllable vs non-controllable measures

Value for \$?

- Are we delivering on our priorities?
- Are we allocating resources to our priorities?

35



Internal Control

- Timely budget reports can highlight **where money is not spent on approved purposes**
- Exception reporting is a chance to **investigate and recalibrate on a timely basis**
- Use of budgets clarifies who has **spending authority**
- Demonstrates **adherence to policy** and **progress towards goals**

36

Practical Considerations

Timing
Precision
Participants



37

Practical Considerations Timing

Work back from target approval date

Goal: approval before budget year begins

Consider your organization's policies

- Is budget approval required for authority to spend?
- Consider ED limitations/delegation

How many staff levels involved in process?

- Allow time for revisions at each stage

Availability of current year actual data
External party reporting requirements



38

Practical Considerations Precision

“Don't let perfect be the enemy of good

Exception Reporting: What levels of variances will require comment...

- ...to senior management?
- ...to the board?
- ...to funders?

Which revenues and expenses are subject to estimation?
e.g. amortization, accrued vacation pay



39

Practical Considerations Participants

Who gets a voice?

Staff driven process or board/ committee?

What do your board policies say about budgets?

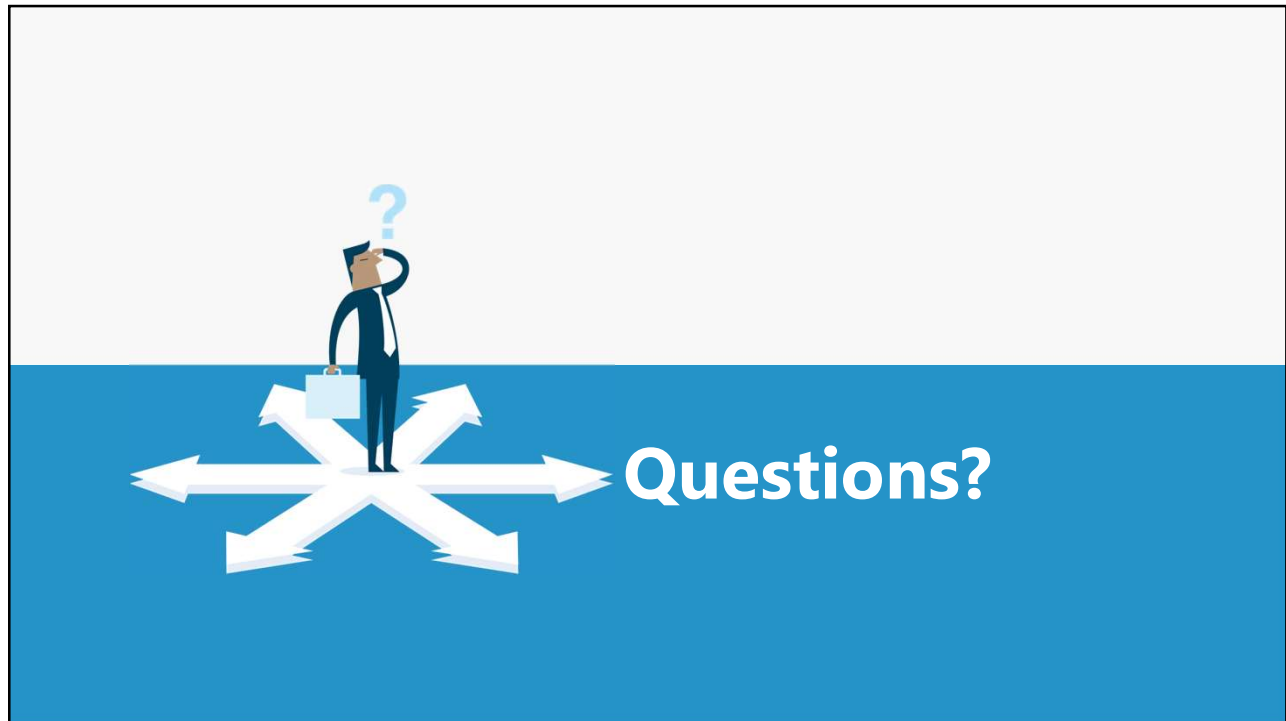
What do your management & financial policies say?

Who will be held accountable for meeting budget?

Who will be expected to explain variances?



40



41



42

When you have questions, IntegralOrg has services to help

**A virtual or phone conversation
or
A clinic, a 1-hour problem-solving
session between IntegralOrg
subject matter experts and your
team.**

You might have questions about

- Attaining charitable status
- Strategic planning
- Policies & bylaws (writing and review)
- Social enterprise legal structures
- Governance and board development

CONSULTATIONS ARE FREE OF CHARGE

Find out more at integralorg.ca/who-we-work-with/clinics/

43



Consultations | Workshops | Toolkits | Organizational Development Projects

**Go-to problem
solver for
your nonprofit**

- Governance
- Board Development
- Strategic Planning
- Risk Management
- Legal Compliance

www.integralorg.ca admin@integralorg.ca (403) 910-7279

44

Disclaimer



- All information or advice provided as part of this presentation is intended to be general in nature and you should not rely on it in connection with the making of any decision.
- IntegralOrg tries to ensure that all information provided is correct at the time of the presentation but does not guarantee the accuracy or completeness of such information.
- All content, information and advice is provided on an "as is" basis and IntegralOrg hereby expressly disclaims all liability for any action you may take as a result of relying on such content, information or advice or for any loss or damage suffered by you as a result of you taking this action.
- Neither IntegralOrg nor any of its employees or agents shall be liable for any damages either direct, indirect, special, consequential, punitive or other damages (including but not limited to financial losses, loss of data, loss of profits, loss of business, and business interruption) arising out of the use of the content, information or advice provided herein.