

# McLean, Koehler, Sparks & Hammond

Certified Public Accountants/Business Consultants

## Nonprofit Organizations

### Budgeting and forecasting: Some tips and resources

*A young employee began his career with a large social services agency. At the end of his second week of employment, he was called into the boss's office and given a \$300 annual raise.*

*"Am I that good?" he asked.*

*"No," the boss replied. "You're not bad, but your budget line was just increased by \$300 for the new fiscal year. So I can now afford to pay you that much more."*

This tale illustrates the concept that all nonprofits must adhere to: If it's not in your budget, you can't spend it.

The budget is the spending plan, or forecast, that tells you what you can spend your money on and exactly how much you can spend. It also tells you where your revenue is coming from and how much is expected from each revenue source.

If you need an item not specified in your budget, the budget must be modified prior to a purchase.

A generic budget template in Excel is available free for download at [www.kiwipartners.com](http://www.kiwipartners.com). It can greatly expedite the budgeting process.

The budgeting process is performed in a variety of ways, ranging from the arduous "zero-based budgeting" – where all budget lines start at zero, and any increases to a line must be justified – to the simplistic "let's use this year's actual figures as next year's budget."

Zero-based budgeting is optimal for a new project. For continuing projects, using your actual revenue and expense – your historical experience – and then modifying for expected changes may be the way to go. Here is an approach to get you started.

**Salaries.** Salaries generally make up the bulk of a nonprofit's budget. List all current personnel as well as job title and rate of pay. Add any vacant positions. Annualize the pay, and you have your salary budget. Add an additional column for a percentage salary increase as well as a column showing how increased salaries will affect the budget.

**Fringe benefits.** Many fringe benefits are based on salary, so once you have the salary numbers, these are easy to figure. The rates and methods of calculation for each fringe benefit can be found on your quarterly payroll tax returns (i.e., FICA, unemployment). Use vendor invoices for health insurance, life insurance, dental insurance, disability insurance, workmen's compensation insurance, etc., and your employee benefits handbook for items such as deferred compensation match.

By using a template, such as the one available free for download at [www.kiwipartners.com](http://www.kiwipartners.com), increased visibility is given to how much each benefit costs the organization as well as how much it costs to employ each individual.

**Other than Personnel Service (OTPS).** The final section of the expense portion of the budget is the OTPS section. Annualize the current year's OTPS expenses and insert them in your model. Review each line and adjust them up or down according to the organization's needs. For example, check all leases to see if "rent expense" needs to be changed.

**Revenue.** Last, prepare the revenue portion of the budget. Annualize the current year's revenue, and then review it line by line – adjusting it up or down based on your knowledge of the organization. For example, if you're aware a \$50,000 funding source is giving you \$75,000 next year, a budget line increase is in order.

Once your budget is together, you know if you're forecasting a surplus or deficit for the year. Now review the entire budget and adjust for salary increases, new lines, terminated lines and program changes from this year to next.

Finally, the entire budget needs to be examined for achievability.

By monitoring monthly the actual income and expense versus the budget, and explaining any variances, you should be well aware of any modifications needed.

Call our firm for assistance in setting up a budget.

### **Helpful Budget Web Sites**

**Budget software** – Most of these sites have trial copies or a Web demo. These can greatly aid in the budget preparation process:

- [www.centage.com/products/budgeting.asp](http://www.centage.com/products/budgeting.asp) - Budget Maestro
- [www.projectedfinancials.com/Budgeting.htm](http://www.projectedfinancials.com/Budgeting.htm) - Projected Financials Budget & Forecasting Module
- [www.nfpaccounting.com/software/Budget-Preparation.htm](http://www.nfpaccounting.com/software/Budget-Preparation.htm) - Kintera Fundware Budget Preparation Module
- [www.sagenonprofit.com/products/fundaccount/modules/budget/default.aspx](http://www.sagenonprofit.com/products/fundaccount/modules/budget/default.aspx) - MIP Budget Preparation Module
- [www.prophix.com/solutions/prophix\\_features.php#Budgeting](http://www.prophix.com/solutions/prophix_features.php#Budgeting) - Prophix Budgeting Module
- [www.simpleplanning.com/Financial%20Calculators/BudgetPlanner.html](http://www.simpleplanning.com/Financial%20Calculators/BudgetPlanner.html) - Downloadable, inexpensive Excel spreadsheet
- [www.claritysystems.com/default.asp?item=claritybudgeting](http://www.claritysystems.com/default.asp?item=claritybudgeting) - Clarity Budget Module
- [www.netbudgets.com/Products/main.html](http://www.netbudgets.com/Products/main.html) - NetBudgetsBudgeting Module
- [www.upyourcashflow.com/products/software.php](http://www.upyourcashflow.com/products/software.php) - Up Your Cash Flow

**Budget information** – These sites offer tips on budgeting and other office procedures:

- [www.npguides.org/guide/budget.htm](http://www.npguides.org/guide/budget.htm) - Sample budget & proposal – a grant writing tool for nonprofit organizations
- [www.managementhelp.org/finance/np\\_fnce/np\\_fnce.htm#anchor1824619](http://www.managementhelp.org/finance/np_fnce/np_fnce.htm#anchor1824619) - Basic Guide to Non-Profit Financial Management by Carter McNamara
- [www.muridae.com/nporegulation/accounting.html#other\\_resources](http://www.muridae.com/nporegulation/accounting.html#other_resources) - Critical Issues in Financial Accounting Regulation for NonProfit Organizations
- [www.toolkit.cch.com/text/P06\\_4001.asp](http://www.toolkit.cch.com/text/P06_4001.asp) - Business Owners Toolkit, includes small office/home office guidebook, checklists, business plans, forms, templates, etc

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McLean, Koehler, Sparks & Hammond helps owners and business leaders become more successful by providing innovative financial, technology and management solutions for every stage of their organizations' life cycle. For more information on this article or MKS&H, please send an email to [info@mksh.com](mailto:info@mksh.com) or call 410.296.6200 and the marketing director can put you in touch with the right department.

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