Meaningful Budgets: What You Need to Know

Frequently Asked Questions:

Where do the numbers come from? If you are at the very beginning of the budget development process, these ideas might help you get started:

- Use real numbers whenever you can. If you know the amount you will pay for insurance this year, use that exact amount. If your phone bill is the same each month, use that amount in your annual budget.
- Use 2- or 3-year averages for expenses that vary each month. Look at your actual expenses over the past two or three years and calculate the average. Be sure to make adjustments if you know there is a reason why these costs will be different in the coming year.
- Gather multiple perspectives. Rather than have one person prepare the organization's budget, make sure that you have multiple people providing input. This is a great project for your finance committee. While you might project telephone costs at the same rate you have paid for the past five years, another committee member might look at that number and suggest a different, less expensive phone service.
- Document your assumptions and calculations about where the numbers come from. For example, if you estimated $45 per person registering for an event or $100/month for postage, write it down—and keep those notes handy. Those notes will be valuable as you review your budget each month and when you get ready to prepare next year's budget.

What's the difference between an operating, project, and capital budget? Your annual budget typically is your operating budget—what you expect for income and expenses. Some organizations create project budgets to track a specific event or campaign. Capital budgets typically refer to multi-year, long-term projects like capital campaigns or major expense campaigns (like a building purchase).

As a nonprofit organization, do we need to have a break-even budget every year? A break-even budget is one in which your projected income matches your projected expenses. When you subtract your expenses from your income, the sum will be zero. While that sounds like a good business practice, there may be times when you want your income to exceed your expenses. If you need to build up your cash reserves, for example, it may take several years of having less expenses than income (e.g., a surplus budget). Likewise, if you are planning an exciting but costly program that will require some cash reserves, your annual income may not be sufficient (e.g., a deficit budget). Whether yours is a break-even, deficit, or surplus budget depends on what your organization plans to accomplish. Remember, your budget is a strategic tool to help you accomplish your goals.

What is the ideal percentage of overhead costs? Overhead or sometimes referred to as "indirect" or "administrative" costs are as difficult to compute as they are to describe. Overhead costs are essential. These are the expenses that are required to run the organization and keep your doors open. Program costs refer to the services you offer. Some sources, like the better business Bureau, say that no more than 35% of your expenses should be overhead. Grants sometimes require no more than 20%. But the real question is what constitutes "overhead". The salary of your executive director may seem like an overhead or administrative cost. But if that executive director provides technical assistance to members or teaches classes for families, at least a portion of that salary should be classified as program. A common rule of thumb is to make an effort to keep overhead within 30% of your total operating budget and make sure that the board understands how you are reporting overhead.

Where can I go for more ideas? Here are a few sites with great ideas for creating and managing a budget:

www.jitasagroup.com
www.dummies.com
www.councilofnonprofits.org
www.blueavocado.org

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