Learn from the Pros: Nonprofit Budget Tips for a Healthy New Year

- December 11, 2012
- By Common Good Vermont Coordinator

This article originally appeared on ***Third Sector New England's*** *website.*

Non-profit Budget Tips for a Healthy New Year

By ***Kay Snowden***

Fiscal Sponsorship Program Director

Your new fiscal year may have begun on January 1, or perhaps you're gearing up to begin next year's budget planning process. Either way, a sound budget can help you keep your programs on track.

Kay Snowden, at TSNE since 1998 and currently a member of TSNE's Fiscal Sponsorship Program, offers TSNe-Bulletin readers a few sure-fire budget tips to help you develop and maintain a healthy budget for your nonprofit.

Budget Tips to Help Keep Your Program on Track

Tip #1: Match your budget line items to your organization's chart of accounts.

Every accounting system has a chart of accounts which classifies the sources of revenue and the types of expenses you incur. These include salaries and wages, rent, telephone, promotional items like T-shirts, printing, etc. If you use the same categories when you budget, you will be able to monitor your expenses against your budget and more easily generate financial reports to funders and others.

Some contracts and grants may require that you use their categories. In that case, you should establish a clear map from your system to theirs (e.g., office expenses may include telephone, printing and your Internet connection).

If your system's chart of accounts doesn't fit your needs as a manager, talk to your accountant/bookkeeper about modifying the chart of accounts or creating sub-accounts. Consistent accounts (and a clear understanding of account definitions) can save major headaches when reports are due.

Tip #2: Estimate a pooled fringe benefit rate for staff.

Every employee has a specific mix of payroll taxes and benefits. The former includes Social Security, Medicare and unemployment insurance, and the latter includes such benefits as pensions and medical, life and disability insurance. Rather than estimating the cost of the tax and benefit package for each employee, I recommend that you pool the costs for all employees.

Remember that you budget only for the employer share of these costs. You can divide the total fringe cost by the total salary cost to determine a "fringe rate" which can be applied uniformly to employees.

If some benefits (like health insurance) are limited to employees who work a certain number of hours, you may want to have 2 rates, one for full-time or benefit-eligible employees and one for part-time employees who are not eligible for the same benefits. This simplifies the process of budgeting especially for program and/or grant budgets, safeguards confidentiality of an employee's choices, and protects your nonprofit against any perception that lower-cost staff are favored in hiring or staff assignments.

Tip #3: Check before you budget to determine the proper classification for part-time personnel.

People who work for you generally need to be classified as employees, even if they are part-time or temporary. Even if someone who works for you doesn't seem like a regular employee, chances are the government thinks they are. *And the federal and state governments have the authority on this one.*

There are IRS guidelines (begins on page 3) covering who can be considered an independent contractor and who must be considered an employee. Some states, Massachusetts for instance, have even more stringent tests.

State regulations regarding classification and pay rates are often different than federal requirements.

There are some exceptions to Tip #3:

- You can compensate a volunteer (e.g., speaker, focus group participant) who helps at a one-time event with a one-time nominal fee.
- You can pay someone in a bona fide training program run through a qualified institution according to a pay structure different from minimum wage.

Be sure you get solid advice from a wage and hours specialist or attorney in your state before you pay someone as other than an employee.

Tip #4: Don’t forget to include indirect costs in your program budgets.

Usually an organization that has more than one activity or program will have some administrative or indirect costs which aren’t easily assigned to specific programs. Typical indirect costs include the cost of your accountant, auditor, property and liability insurance, rent for at least central or support staff and some portion of staff time. You can usually recover a portion of these shared expenses through budgeting for indirect costs charged to programs, subject to the restrictions and requirements imposed by funders.

Tip #5: Be conservative/realistic about your projected revenue.

In my experience, small nonprofits are more likely to fall short on the revenue side than to exceed their budgeted expenses. Be sure you identify whether the funds you’ve budgeted are *committed, likely* or *possible*. It’s better to tack a newly funded program onto your budget later in the year when its funding is confirmed, than to have to cut back midyear when funds don’t come through.

Tip #6: Involve staff at all levels in the budgeting process.

Budgeting is planning, and you’re much more likely to have your staff on board if you work through your plans together. This is particularly true with program expenses (as opposed to administrative expenses).

Someone else may be able to think of things you hadn’t included, or to suggest a different, more effective way of delivering a service. Including others is a great way to increase staff accountability, expand financial understanding and enhance buy-in.

Tip #7: Keep notes to document the assumptions you’ve made in developing your budget or the source of an estimate.

You can use the “comment” feature of a spreadsheet, or type your notes in text or keep them in a file. Your budget will almost certainly change between now and the end of the year. It’s helpful to be able to refer back to the assumptions on which you based your budget.

Tip #8: Add in a little cushion if at all possible to take into account the unknown.

It is advisable to budget for *contingency* or *miscellaneous,* which allows you to absorb some unexpected demands or cost increases without upsetting the entire budget.

The less predictable your budget is, the more you need to have this cushion. For established nonprofits with highly predictable personnel costs, a contingency of about 5 percent of non-salary costs would be appropriate. If you are in a transition period or know that your funding or costs are not very predictable, you might want a larger cushion.

An Important Part of Non-profit Success

Your nonprofit's budget process, its creation and monitoring, is a critical component of its programmatic and financial management. A common complaint among non-profit managers is that ownership of their organization's financial health is held by too few people. The stress of that burden is heightened when financial projections are unrealistic.

If you keep these tips in mind, aim to be realistic, and involve staff and board in the budget process, you should see benefits to your own health as well as that of your organization.

About the Author: Kay Snowden joined Third Sector New England as a senior consultant in 1998. She has an MBA from Yale University and has been consulting to non-profit and public sector organizations for over 25 years. Her areas of special knowledge include financial analysis, budget projections, business plan development, institutional strategic planning, market assessment and strategy formulation.

Source: http://blog.commongoodvt.org/2012/12/learn-from-the-pros-nonprofit-budget-tips-for-a-healthy-new-year/