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Building a Robust Financial Foundation Planning & Budgeting Best Practices

**"Optimizing Budgets and
Budget Building Process and Strategies"**

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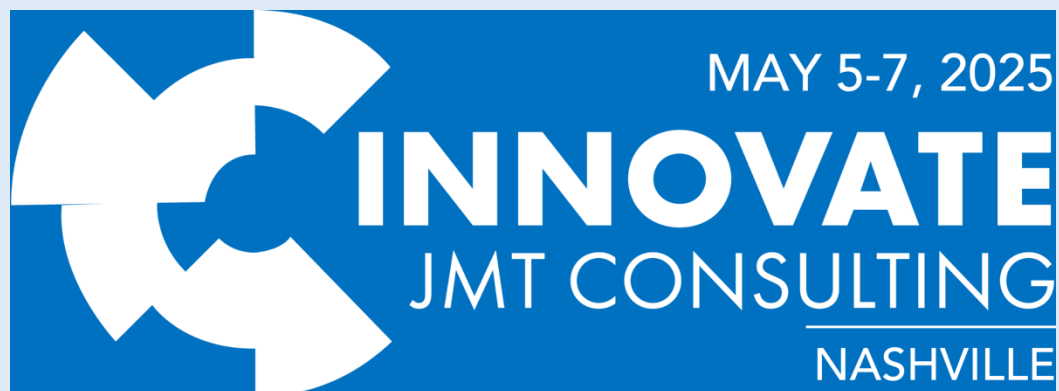
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Building a Robust Financial Foundation Planning & Budgeting Best Practices

*“Optimizing Budgets and
Budget Building Process and Strategies”*

May 6, 2025

Speaker: A. Michael Gellman, CPA, CGMA, Principal

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“Connecting Budgets to Project Managers and Staff”
Innovation Strategies and Tactics During Changing Times



What is so special about nonprofit organization budgets?

Nonprofits must manage acquisition of funds and use of limited resources

With the added heavy responsibility that they exist to support the “public good” while being governed by volunteers

“Connecting Budgets to Project Managers and Staff”

Innovation Strategies and Tactics During Changing Times



Budgets help nonprofits use (expend) limited financial resources in a manner that not only advances mission but also recognizes:

- **Capacity constraints**
- **Supports sustainability**
- **Promotes continuity**

“Connecting Budgets to Project Managers and Staff”

Innovation Strategies and Tactics During Changing Times

While Also Making an Allowance for

- Culture
- Management styles
- Assignment of budget responsibilities

Important elements of proactive working

- Budgeting systems
- Budget building processes
- Budget ownership and management

“Connecting Budgets to Project Managers and Staff” Innovation Strategies and Tactics During Changing Times



In this presentation

Will discuss actions and tactics you can use

**Enhance budget ownership and
budget building processes**

Learning Objectives



Topic I – Assessing the Budget Building Preparation Process



Topic II – Funding First Approach to Budgeting



Topic III – Budgeting for Salaries

Quick Takeaways



Topic IV – Decentralizing Budgeting Building Process, Documenting Budget Assumptions, True Full Costing, and Creating a Culture of Projections

Topic #1

Assessing Budget Building Process

1. Assessing Budget Building Process

- Stepping back once a year
 - Take a high-level assessment of your building budget process
 - Both a best practice and a proactive exercise

“Most nonprofits skip this important step”

1. Assessing Budget Building Process



There are three (3) important questions

Keep in mind

**As you work through budget building assessment
process**

1. Assessing Budget Building Process

1. Are critical users getting the budget-based financial tools they need to be successful?
2. Is budget “ownership” core to your organizational culture?
3. Is budget awareness driving planning and enhancing results?

1. Assessing Budget Building Process



When is good time to do annual assessment of your budget building process?

- Almost any time will work
- Key word here is “annual”
- Make assessment “regular checklist” procedure

1. Assessing Budget Building Process

Two (2) ideal time period choices:

- **Just after the Board has approved the budget**
- **Month prior to starting the budget building process**

Both starting points work well to

- **Look back**
- **Assess systemic performance**
- **How to make it better**

1. Assessing Budget Building Process

1. **Are critical users getting the budget-based financial tools they need to be successful?**

Key non-financial managers

(project managers, department heads, other senior mgmt.)

Decision-makers for use of organization's financial resources

Getting monthly budget reports that are

- Easy to comprehend
- Inherently useful to manage and monitor results

1. Assessing Budget Building Process

1. Are critical users getting the budget-based financial tools they need to be successful?

Make an honest assessment to see if these core non-financial managers are connecting to monthly budget reports

- Observe if they are interacting with budget reports
- Note how they refer to their monthly budget reports
- Are they connecting in a positive manner to budget reports or are they avoiding interacting with them?

1. Assessing Budget Building Process

1. Are critical users getting the budget-based financial tools they need to be successful?

Meet with them individually, concentrating on the users who are struggling to interact with the budget reports, and explore ways to eliminate usage barriers

What you will learn from these interactions will draw you to make changes to the monthly budget reports and increase their effectiveness, and help make them better and more-interested budget builders

1. Assessing Budget Building Process

2. Is budget “ownership” core to your organizational culture?

Getting non-financial managers to “own” their budgets is no small accomplishment

Pride of ownership always outperforms assignment of responsibility

Start by having them directly involved in the budget-building process

1. Assessing Budget Building Process

2. Is budget “ownership” core to your organizational culture?

Key Point to Ownership

Financial metrics equally important as program metrics

No program can be assessed only by programmatic results, nor can a program only be judged on financial results

What looking for is ownership of the synergistic balance between programmatic results and financial-related outcomes

1. Assessing Budget Building Process

3. Is budget awareness driving planning and enhancing results?

This question is interesting best viewed in group environment

Questions 1 and 2 are based on individual assessments

Is the organization doing a good job addressing:

Question 1

Getting easy to use budget-based tools into users' hands

Question 2

Granting “ownership” of budget to its users, making it a real part of the organization’s culture

1. Assessing Budget Building Process

3. Is budget awareness driving planning and enhancing results?

Organizations often forget the **main purpose of a budget**

“Ensure best possible use of limited resources and improve sustainability and fulfillment of mission, programs, and operations”

Walking through these three budget-process-assessment questions once a year will lead to enhancements in your budget building, improving outcomes, and utilization of limited financial resources

1. Assessing Budget Building Process

Discussion Questions #1

Does your organization perform regular annual assessment of your budget building process?

Yes [] No []

If No, do you see benefits from posting this question annually?

Yes [] No []

Please list potential benefits

Topic #2

Funding First Approach to Budgeting

2. Funding First Approach to Budgeting

Budgeting for revenue and support is usually hard to predict with accuracy

To help balance the art budgeting (intuition) with the science of budgeting (analysis) consider using a “funding-first” approach

2. Funding First Approach to Budgeting

Funding-first approach to budget building prioritizes
budgeting for revenue and support before assembling the
expense side of the budget

Front-end funding assessment and estimates will help
nonprofit organizations to better align and scale programs,
activities, and operations to available funding

2. Funding First Approach to Budgeting

Focus on Funding Risks

- Constituent demand for services
- Donor satisfaction
- Funder temperament

Will impact willingness of supporters to continue

- ❖ Purchasing services
- ❖ Donate
- ❖ Award funding

2. Funding First Approach to Budgeting

To facilitate this process
Separate funding sources into three categories

1. Revenue

- Earned income fees for service, sales of merchandise, advertising, service-based membership dues, etc.

2. Support

- Contributions, grants, sponsorships, awards, etc.

3. In-kind contributions

- Donated goods and services

2. Funding First Approach to Budgeting



- **Funding categories will react differently to changing conditions**
 - **Predicting future funding can be a real challenge**
 - **Relying only on past historical performance for continuing programs and operations can be misleading**

2. Funding First Approach to Budgeting

To assess, manage, and estimate future funding sources

Use a three-tier assessment scale

➤ **“Rock Solid”**

➤ (predictable, stable, and reliable)

➤ **“Vulnerable”**

➤ (exposed to external factors, changing economic conditions and sentiment)

➤ **“Shaky”**

➤ (new funding, deteriorating trends, grant renewals, and research extensions)

2. Funding First Approach to Budgeting

Notice change of order

➤ “Rock Solid”

- Will be relatively easy to document and explain, so start here

➤ “Shaky”

- Next – Will need extra documentation but will have little to no impact on total proposed funding because most of this funding will not be included in proposed budget

➤ “Vulnerable”

- “Last But Not Least” – Will be the most challenging requiring more documentation, supporting explanation, and thoughtful messaging

2. Funding First Approach to Budgeting



➤ “Vulnerable”

- Where art crosses paths with science
- Where risk vs. reward decisions reside
 - Documenting supporting case for these sources of funding will require analysis of trends and other factors, with supporting schedules (science)
 - Making “go vs. no go” decision will require elements of intuition (art) based on management confidence in expected outcomes

2. Funding First Approach to Budgeting



- **Complete the Rock Solid and Shaky tiers first**
- **Reserve extra time for the Vulnerable tier for in-depth discussions, risk analysis, and possible redrafting to get these funding sources to a sufficiently high enough confidence level to include in the proposed budget**

2. Funding First Approach to Budgeting



- ❖ **Using funding-first budgeting approach will help most nonprofits**
- ❖ **Increased confidence in funding from this approach will facilitate setting budget parameters for expenses**

2. Funding First Approach to Budgeting



Often organizations use the “hope and pray” method

Building out program and operational expense budgets based on high “hopes” to grow and do more, and then “praying” they can come up with adequate funding to match

Funding-first budgeting will help cure this over-aspirational approach

2. Funding First Approach to Budgeting

Discussion Questions #2

Polling Question #2 - Does your use organization prepare a funding risk and stability analysis?

- ☐ A. Annually before assemble operating budget for the next year
- ☐ B. Semi-annually
- ☐ C. When funding conditions change
- ☐ D. All of the above
- ☐ E. We do not prepare a regular funding risk and stability analysis

Provide Comments On Tactics Used:

Topic #3

Budgeting For Salaries

3. Budgeting for Salaries



There are advantages to preparing **separate labor budget isolated** from rest of budget building process

1. Providing effective early starting point for budget building process
2. Consider and evaluate workforce capacity
3. Resource allocation for labor
4. Performance assessment and related corrective action plans
5. Safeguarding confidentiality of salaries

3. Budgeting for Salaries



Allows for early picture of the workforce to consider

- Personnel
- Salaries
- Other compensation-related cost factors

Will help set stage for building a realistic and achievable budget for the next fiscal year aligned to meet organizational needs

3. Budgeting for Salaries

1. Begin by setting up a master labor budget worksheet
2. Labor budget worksheet will allow you to view individual salaries as well as the total organization cost of salaries
3. Show how compensation costs are expected to be divided (allocated) to programs, fundraising, and administrative (overhead) departments

3. Budgeting for Salaries



Labor budget worksheet will display how staff is planning to allocate their time and efforts

Accomplished by assigning time and effort percentages to areas of responsibility for each staff

Labor budget worksheet example

NOTE: THIS WORKSHEET INCLUDES
FICTITIOUS NAMES, POSITIONS, AND
AMOUNTS FILLED IN FOR ILLUSTRATION
PURPOSES, AND SHOULD BE ADJUSTED TO FIT
THE SPECIFICS OF YOUR ORGANIZATION.

LABOR BUDGET WORKSHEET

STAFFING (by Position)	ANNUAL SALARY 2024	ANNUAL SALARY 2025	DEPT #110	DEPT #150	DEPT #220	DEPT #230	DEPT #340	DEPT #360	DEPT #370	DEPT #800	DEPT #900	TOTALS
CURRENT STAFFING:												
CEO / EXECUTIVE DIRECTOR Linda Smith	205,000.00	205,000.00	10,250.00 5%	20,500.00 10%	41,000.00 20%	10,250.00 5%	51,250.00 25%	10,250.00 5%	10,250.00 5%	30,750.00 15%	20,500.00 10%	0.00 100%
DIRECTOR OF MEMBERSHIP & EVENTS Joe Smith	165,000.00	165,000.00	0.00	0.00	115,500.00 70%	0.00	49,500.00 30%	0.00	0.00	0.00	0.00 0%	0.00 100%
DIRECTOR OF DEVELOPMENT & F/R Mary Smith	120,000.00	120,000.00	12,000.00 10%	6,000.00 5%	12,000.00 10%	0.00	0.00	0.00	0.00	90,000.00 75%	0.00	0.00 100%
DIRECTOR OF EDUCATION & OUTREACH Tom Smith	110,000.00	110,000.00	0.00	0.00	0.00	0.00	110,000.00 100%	0.00	0.00	0.00	0.00	0.00 100%
PROGRAM STAFF Betty Smith	70,000.00	70,000.00	28,000.00 40%	0.00	14,000.00 20%	0.00	14,000.00 20%	7,000.00 10%	7,000.00 10%	0.00	0.00 0%	0.00 100%
PROGRAM STAFF Bob Smith	55,000.00	55,000.00	55,000.00 100%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 100%
PROGRAM STAFF Alexa Smith	65,000.00	65,000.00	0.00	0.00	0.00	42,250.00 65%	0.00	0.00	22,750.00 35%	0.00	0.00	0.00 100%
ADMINISTRATIVE STAFF Mike Smith	70,000.00	70,000.00	7,000.00 10%	0.00	7,000.00 10%	0.00	7,000.00 10%	0.00	7,000.00 10%	7,000.00 10%	35,000.00 50%	0.00 100%
FINANCE STAFF Michelle Smith	75,000.00	75,000.00	0.00	0.00	15,000.00 20%	0.00	0.00	0.00	0.00	0.00	60,000.00 80%	0.00 100%
CLOSED STAFF POSITIONS:												
CLOSED POSITION	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 0%
NEW STAFF POSITIONS:												
NEW POSITION	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 0%
NEW POSITION	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 0%
RAISE / BONUS POOL (2025)	0.00	50,000.00	50,000.00 100%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 100%
TOTAL SALARIES:	935,000.00	985,000.00	162,250.00	26,500.00	204,500.00	52,500.00	231,750.00	17,250.00	47,000.00	127,750.00	115,500.00	0.00
PAYROLL TAXES (8%):	74,800.00	78,800.00	12,980.00	2,120.00	16,360.00	4,200.00	18,540.00	1,380.00	3,760.00	10,220.00	9,240.00	0.00
BENEFITS (20%):	187,000.00	197,000.00	32,450.00	5,300.00	40,900.00	10,500.00	46,350.00	3,450.00	9,400.00	25,550.00	23,100.00	0.00
			16.47%	2.69%	20.76%	5.33%	23.53%	1.75%	4.77%	12.97%	11.73%	100.00%
			75.30%									

3. Budgeting for Salaries

You can now clearly see salary cost and assigned responsibility areas

Capacity and expected labor allocations can be easily assessed and repositioned

Next

How can you safeguard confidentiality of individual salaries?

Simple, just erase the salaries in first two columns and what is left is time and effort allocations



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LABOR ALLOCATION PERCENTAGES ONLY

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3. Budgeting for Salaries

Worksheet without salaries can now be shared with management and staff

Next

- 1. After time and effort allocations are adjusted, salaries are repopulated back into the worksheet**
- 2. Bottom portion of the worksheet is returned to staff to add labor into budgets without consequences of individual salary information being exposed**



Organization Name: _____

Sustainability Education 4 Nonprofits

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NOTE: THIS WORKSHEET INCLUDES FICTITIOUS NAMES, POSITIONS, AND AMOUNTS FILLED IN FOR ILLUSTRATION PURPOSES, AND SHOULD BE ADJUSTED TO FIT THE SPECIFICS OF YOUR ORGANIZATION.

LABOR ALLOCATION TOTALS ONLY

	2024 ANNUAL SALARY	2025 ANNUAL SALARY	PROGRAMS							FUNDRAISING	ADMIN	
			DEPT #110	DEPT #150	DEPT #220	DEPT #230	DEPT #340	DEPT #360	DEPT #370	DEPT #800	DEPT #900	TOTALS
TOTAL SALARIES:	935,000.00	985,000.00	162,250.00	26,500.00	204,500.00	52,500.00	231,750.00	17,250.00	47,000.00	127,750.00	115,500.00	0.00
PAYROLL TAXES (8%):	74,800.00	78,800.00	12,980.00	2,120.00	16,360.00	4,200.00	18,540.00	1,380.00	3,760.00	10,220.00	9,240.00	0.00
BENEFITS (20%):	187,000.00	197,000.00	32,450.00	5,300.00	40,900.00	10,500.00	46,350.00	3,450.00	9,400.00	25,550.00	23,100.00	0.00
			16.47%	2.69%	20.76%	5.33%	23.53%	1.75%	4.77%	12.97%	11.73%	100.00%
			75.30%									

3. Budgeting for Salaries



Front-ending budget building process around labor budget will provide extra time to think strategically about your workforce

Opportunity costs of delaying this planning can be high and potentially damaging

3. Budgeting for Salaries

Discussion Questions #3

Does your organization assemble a labor budget at the front-end of the budget building process?

Yes [] No []

If No, do you see potential benefits from adding this early procedure?

Yes [] No []

Please list potential benefits



- **Decentralizing Budgeting Building Process**
- **Documenting Budget Assumptions**
 - **Full Costing**
- **Creating a Culture of Projections**

4. Decentralizing the Budgeting Building Process

Historical trend analysis cannot be a substitute for inclusive, interactive planning that actively involves an organization's non-financial managers

(staff and management outside the finance/accounting department)

4. Decentralizing the Budgeting Building Process

Cannot ignore critical role

Non-financial managers play

**Implementing day-to-day
operational and financial decisions**

4. Decentralizing the Budgeting Building Process



Three critical drivers need to be addressed

- 1. Design your core budget systems to support your organization's key non-financial managers**
(senior management, program and project managers, department leaders)
- 2. Encourage your organization's key non-financial managers and their staff to own the process of building budgets**
- 3. Enhance interactive sharing of planning information among key non-financial managers and executive leadership**

4. Decentralizing the Budgeting Building Process

Most effective budget systems are designed to support non-financial managers

A budget system that supports non-financial managers will increase engagement with financial reports and promote feelings of ownership of the budget and respect for their input

Executive leadership often takes ownership away by over-dominating assembly process for next year's budget

4. Decentralizing the Budgeting Building Process



Allow key non-financial managers to assemble first draft of next year's budget in as "unfiltered" a manner as possible

To bring point home, we often refer to first draft of budget building process as the "Selfish Draft" to emphasize to managers that this is your budget and your opportunity to design your program, reorganize your department, make changes, and envision new outcomes

4. Documenting Budget Assumptions

Assumption Worksheet

Most Important Form
Documentation Behind Budget

“ITS ALL ABOUT DETAILS”

4. Documenting Budget Assumptions



Spending Smarter

Documenting Revenue and Funding Assumptions

4. Documenting Budget Assumptions

Very Easy to Have a “SALY” Budget

(Same As Last Year)

**Real Change Happens When Budget
Assumptions are Explained, Documented and
Detailed, and Open for Viewing**

Let's Look at an Example

ASSUMPTIONS AND PLAN-OF-ACTION WORKSHEET

DEPT# 152 DEPT NAME FALL GALA

DECEMBER - 0 -

4. True Full Costing



Not knowing the **“true” full cost of programs and activities** can cause future **planning mistakes**

This can lead to

- Lower asks for contributions
- Accepting underfunded grants
- Mispricing of registration, membership dues, and service fees
- Under-valuing sponsorships

4. True Full Costing



Knowing true full cost of programs and activities is essential

- Future strategic planning
- Realignment of programs and activities
- Allocation of resources

When most shared costs end up in G&A (indirect costs)

Program and activity costs will appear lower than reality

4. True Full Costing



True full cost of programs and operations are best tackled during the budget building process

Working collaboratively

Decentralizing budget planning and strategic use of resources

Addressing mission and constituent needs

Clearer and More Sustainable Picture of the Future Will Appear!!!

4. Creating a Culture of Projections

Three critical drivers

Need to be Addressed

Create a Culture of Projections

4. Creating a Culture of Projections



1. Supporting Key Non-Financial Managers

Budget systems supporting non-financial managers will increase:

- Engagement with Financial Reports
- Promote **Feelings of Ownership** of the Budget
- **Respect for Creative Input**
- Enhance Access to Overall Organizational Financial Picture

4. Creating a Culture of Projections



1. Supporting Key Non-Financial Managers

Encourage key non-financial managers to:

- A. Share Budget Progress Reporting at Management and Staff Meetings
- B. Let them Directly Participate in the Delicate Balancing Act of Comparing Resource Utilization with Mission, Program, and Administrative Effectiveness

4. Creating a Culture of Projections



2. Encouraging non-financial managers to own the process of projection-based planning

- Not over-rely on year-to-date budget comparisons and historical analysis as their only benchmarks for success
- Consider changing economic conditions, new input from the field related to constituent and funder needs, and other new information and changing conditions that will have an impact on future results

4. Creating a Culture of Projections



2. Encouraging non-financial managers to own the process of projection-based planning

- Encourage Non-Financial Managers to Share Information on Changing Conditions As Soon As Possible

Organization's ability to pivot is directly affected by how fast information is made available and acted upon

4. Creating a Culture of Projections



3. Enhancing the interactive sharing of planning information

Overall performance will be exponentially enhanced when projections are Shared among non-financial managers and executive leadership

Formalize this process by:

- Integrating regular projection discussions into monthly manager meetings
- Encourage informal sharing of planning projections through:
 - Cross-department Manager Planning Forums
 - Informal Coffee Hours
 - Committee Meetings

4. Creating a Culture of Projections



A shared process of looking forward, both individually and collectively is enlightening

Discussions themselves will have an impact on management decisions

Actual financial projections that result will be “icing on the cake”

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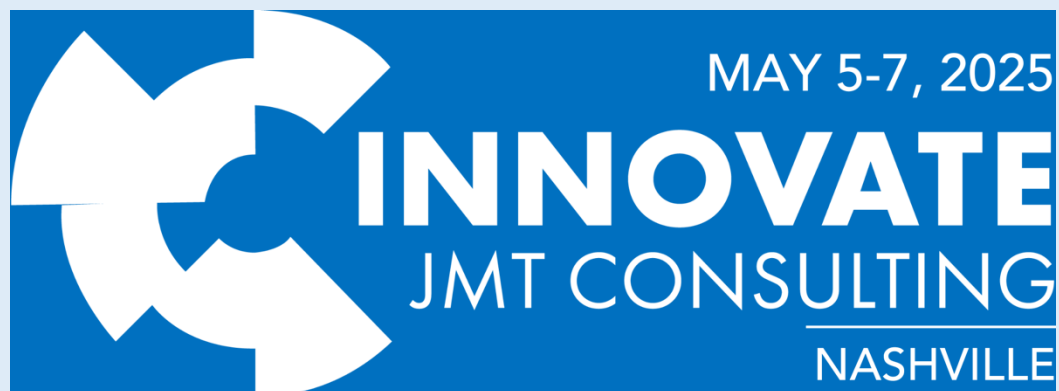
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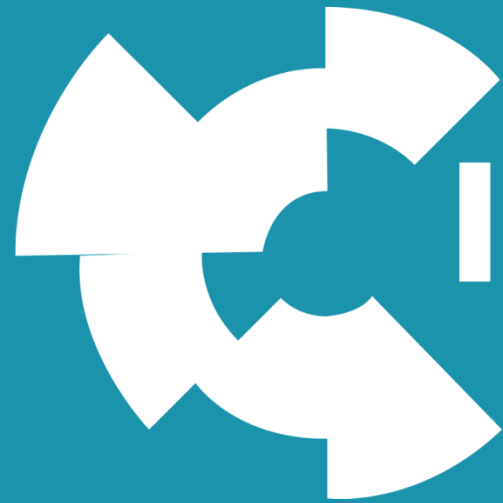
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