

Budget and Finance Basics for Nonprofits

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Community Foundations
of the Hudson Valley





Agenda

- Introduction to Financial Management
- Budgeting
- Financial Reports
- Q & A

Introduction to Nonprofit Financial Management

- Key Components of Nonprofit Accounting
- The Accounting Equation
- Structure of the Accounting System
 - Balance Sheet
 - Revenue and Expense Reports
 - Classification of Net Assets
 - Income and expenses are recorded by program objective
- Accrual Accounting




The Accounting Equation

Assets – Liabilities = Fund Balance or Net Assets

- Assets are things we own, such as cash in the bank, buildings, computers, vehicles, stocks and bonds, furniture, accounts receivable from individuals or foundations.
- Liabilities are debts, money that we owe to others. They can be accounts payable; for example, we use Fed Ex to send packages and we receive a bill at the end of the month for all deliveries.
- The difference between what we own (assets) and what we owe (liabilities) is what the organization is worth—our net assets. Income of all types increases net assets and expenses decrease it.





Structure of Accounting System (Chart of Accounts)

- Income and Expenses
- Balance Sheet
- Departments
- Source of Funds

Structure of Accounting System

Source of funds	Unrestricted				
	CFHV				
	United Way				
Departments					
	Administration	Development	Program 1	Program 2	Program 3
Income					
Contributed Revenue					
Earned Income					
Special Events Revenue					
Other Income					
In-Kind Contributions					
Expenses					
Personal					
Contract Services					
Occupancy					
Travel & Meetings					
Program Expenses					
Special Event Expenses					
Admin Expenses					
Net Surplus/Deficit					



Income & Expenses are Recorded by Program Objective or Department

Nonprofits record income and expense both by program objective or department and where the money comes from. An expense related to a specific program is coded to the appropriate department and source of funds (restricted grant or unrestricted revenue). Expenses are also recorded as administrative or fundraising because they support the entire organization. For example, the annual audit (administrative) or the annual cost of the fundraising software (fundraising).

Classification of Net Assets

Nonprofits distinguish between three types of net assets:

- Unrestricted—these are assets that have accumulated in the organization from unrestricted income: interest, earned income, excess of income over expenses, general operating grants. The organization may use these assets as they wish.
- Temporarily Restricted—these assets are restricted by the donor—either by time or by use. They remain as temporarily restricted until the restriction has been met. They are then released as unrestricted income. The Buffet Foundation gives an organization an operating grant that is to be used in a specific fiscal year. The Ford Foundation gives an organization that is to be used for a specific purpose: to support an afterschool program in the South Bronx.
- Permanently Restricted—these are funds, sometimes called an endowment, that cannot be used for operations. Generally, the investment income only is to be used per donor restrictions.



Accrual versus Cash Accounting

As individuals, we use cash accounting for our tax returns. Nonprofits are required to use accrual accounting. The differences between cash and accrual based accounting are as follows:

- Cash Basis Accounting
 - Income is recorded when cash is received
 - An expense is recorded when the bill is paid
- Accrual Basis Accounting
 - Income is recorded when earned
 - An expense is recorded when it is incurred or in the period to which it pertains. A deposit for a conference made at the end of the fiscal year would not be an expense until the following year when the conference is held.

Budgets

- Importance of budgets
- Types of budgets
- Role of budgets in the planning process
- Structure of budgets
- How to build a budget



Budgets



A budget can be thought of as the organization's plan of action, expressed in dollars. A budget describes and estimates the expected income from revenue sources and the expenditures that the organization will need to make to achieve its program objectives. Budgets are built from detail—with detailed budgets for each program area as well administration and fundraising.



What is a Budget?

A budget, the monetary expression of your objectives, outlines the financial resources required to implement your business plan.

Along with a work plan, the budget acts as a road map for your department or organization--guiding you in the implementation of your planned activities.



Why are budgets important?

- They insure that resources are spent only on activities that directly support organization objectives.
- They allow you to examine programs and projects with regard to their cost.
- They provide information for grant and contract applications.
- They ensure that you have the funds available to carry out planned activities.



Types of Budgets

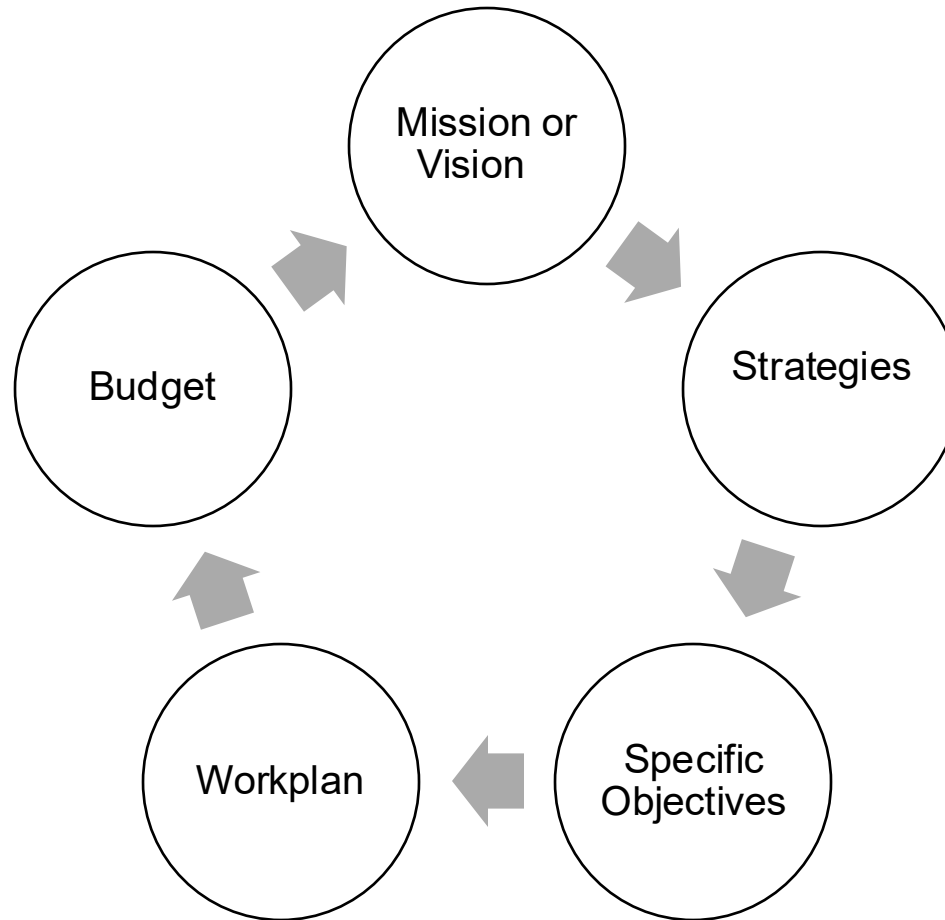
- Agency Budget
- Department Budget
- Project Budget
- Indirect/Overhead Budget



How do we build a budget?

- Start with your mission, strategies, and workplans.
- Identify ALL the resources required to implement the program or activity, whether or not you already have them.
- Determine where those resources will come from. They may be in-house, they may be donated, they may consist of volunteers.
- Based on your own experience or that of others and phone calls to vendors, determine how much those resources will cost.

Planning Process





Structure of Budgets

The budget format should:

- Tell the story of your agency, department, or project.
- Conform to the foundation or government format.
- Follow your agency's chart of accounts.



Indirect Cost Budget

Indirect Costs (also called Administrative Costs, or Overhead) are those costs incurred by an organization that cannot be readily identified with a particular program. These costs can include the bookkeeper, annual audit, rent, utilities.



Allocation of Administrative Costs

Administrative Costs can be allocated to programs in several ways:

- Salaries
- Program expenses
- Head count



Financial Reports

Internal

- Budget Comparison Report This report presents the financial results of operations against the annual budget over a given period of time.
- Balance Sheet (Statement of Financial Position). This report presents the financial position of the organization at a given point in time.



Financial Reports

External

- Annual Audit. An independent **audit** is an examination of the financial records, accounts, business transactions, accounting practices, and internal controls of a charitable **nonprofit** by an "independent" **auditor**.
- Tax Return (990) You can see these at Candid.org.

Questions for financials

Balance Sheet

- Do we have enough cash to pay our bills?
- How many months can we operate with the cash on hand?
- Is the organization stronger than it was a year ago?

Income Statement

- There is a large deficit? Why?
- Where does our financial support come from?
- What line items are concerning to you?
- Any thoughts about action to take going into the next fiscal year?



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