# Sustainable Budgeting
# NOFA

Presented by Jane Van Buren
Noonmark Nonprofit Services
janevb@noonmarkservices.com

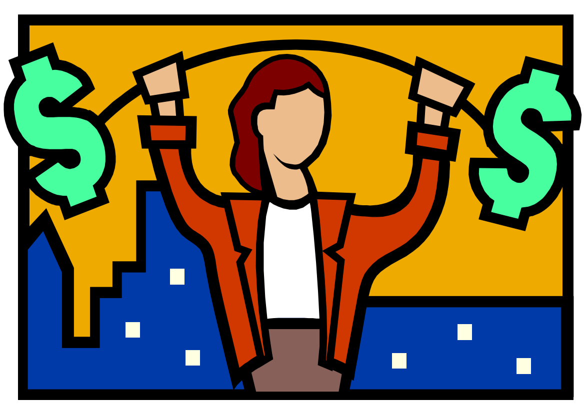
**What is Sustainable Budgeting?** The term "sustainable" is the method of using assets or resources so as to ensure the asset is not depleted or damaged in the future. Sustainable budgeting means building a budget that plans for and manages expenses and income efficiently and effectively to ensure future sustainability. Therefore, a sustainable budget must consider income, taxes, spending, future growth rates, inflation and unintended consequences.

## The Budget Process:

Too often budget preparation resembles making sausage—it is sometimes better not to know what goes into it! Instead of just enjoying the final product you need to examine the construction of the organization's fiscal plan.

Take the following broad steps when building a budget:

- Deconstruct your current programs and active ties and then reassemble to arrive at new budget figures.



- Estimate income figures based on what can realistically be expected to materialize in the course of the year.
- Build a budget that mirrors the larger goals of the organization.

***How do you do that?***

## Planning a Budget:

1). Evaluate existing and potential financial resources—ex., grants, membership dues, donations, rentals, advertising etc.

2). Examine the internal and external environment that affect the organization and funding—ex., regulations, permits, staffing

3). Review the cost and effectiveness of existing programs— ex., if it is losing money does it have other advantages such as increased public relations or visibility, is it acceptable given your mission, or is there a different organization that could do it more efficiently?

4). Examine alternatives to current practice and their financial implication—ex., raising fees, discontinuing programs.

## Building a Sustainable Budget:

1). Create a fiscal plan (budget) that covers one year—preferably 2 years or more. The 2nd year does not need to be as detailed.

2). Clearly outline all major assumptions—ex., we anticipate a 10% membership growth over 12 months, or the start of the winter farmers market with have $X in increased rental expenses and insurance and will have $x in increased revenue from membership and booth rental, or salaries will increase 5% on July 1, health insurance premiums are anticipated to increase 25% per year.

3). Obviously problems arise when expenses rise more quickly than revenue and you should build in a system of monitoring and adjustments.

4). Cash reserves should be a line item in your budget—generally 2% of income over expenses (profit) is considered reasonable.

## Expenses and Revenue: 2 perspectives to analyze your data

1st: Programmatic perspective—does program income exceed its expense? You need to make sure that you have an accounting system that captures all the necessary expenses so you can answer that question. This means capturing all relevant expenses including depreciation and expenses covered by donations so you can analyze the true cost of a program.

2nd:  Natural Classification of Income and Expense Perspective.  These are the expenses and/or income that are difficult to compare because they do not relate to a specific product or program but to the organization as a whole.  Sometimes called overhead or administration. Examples are interest income, professional fees, membership dues.  The challenge in budgeting is how to allocate these expenses/income across programs.

## Cash:

Cash and budgeting are related but should not have an influence on one another.  The budget is a plan, cash is the reality of what you have to operate with on a daily basis.  I recommend doing a cash flow monthly—projecting our 12 months.   This exercise will help you develop a more accurate budget for the next year, and will help you and your board better understand fluctuations in the income statement.

You should plan to build up your cash to have at least one month of operating costs on hand in case anticipated revenue fails to materialize.   If possible consider a line of credit if your cash flow is cyclical or irregular.

## Reserves:

Reserves are a safeguard for a rainy day and allow for seasonal adjustments.  Reserves allow the organization to continue operating when income falls unexpectedly.   How much to have in reserves is different for every organization.  Reserves are generally invested, cash on hand, which I mentioned above is liquid, but may be a part of your reserve goal

**3 Steps to Ensure Adequate Reserves:**

1. Determine the necessary level (6 months is a good goal).
2. Create financial policies supporting that goal.
3. Monitor and adjust expenses regularly, allocate assets to liquid or short term funds as needed.