

Financial Management for Non-Profits - Budgeting 101

Key guidelines

- Non-profit organizations must have a Board of Directors. Young or small non-profits tend to have "working Boards", who act as extra, volunteer staff; more established organizations have "governance" Boards, who focus on "dollars and direction"¹
- Staff should take care of the operational details and financial management, and the Board kept informed (but not overly involved in the day to day management) - balance appropriate roles and accountability.
- All non-profits are inspired by, and file their paperwork with, a mission... and to continue receiving the tax benefits of a non-profit designation, all project work and related revenue will be consistent with your mission.
- Non-profit organizations bring in revenue from multiple streams... but don't make any profits -- all revenue goes to fund the mission (programs, G&A, endowments) and you don't have to pay taxes because your non-profit is providing a social good.
- Violate the last two and you risk your non-profit status.
- Be strategic in your investments and detailed in your record keeping - don't overspend, do projects that will have a multiplier effect on outcomes, be passionate, but work with the world as it is, not as you wish it to be.

There are four key documents in non-profit financial management². This is very similar to corporate, but with a few slight modifications in line items and allocations.

- Budgets,
- Profit and Loss (P&L),
- Statement of Cash Flows,
- Balance Sheet

Unlike other financial statements, budgets are future-looking guidelines, and are based on (realistic) assumptions, so the Board approves the guidelines and assumptions and periodically (at quarterly Board Meetings?) reviews actual to budget performance, grants won/denied/pending, and other topics. The project management, weekly/monthly budget to- actual, and grant allocation, however, remains an internal management, not Board responsibility. Given the uncertainty of funding levels in non-profits, it's good to develop (and present to the Board) probable, upside and downside scenarios, list and discuss the associated budget assumptions, risks, and actions you may take to mitigate risk and maximize opportunities.

So, some specifics... the organization or agency manages the allocation of grant monies according to the agreement with funder - eg 10% for G&A (general and administrative expenses) and the rest for various project line items - any big change during the course of the project needs to be approved by the funder (they have metrics they must report on too). And the money will be allocated toward a budget line item like Contributions, Special Events Revenue, Fees & Grants - Government, Program Service Fees, Investment Income, Miscellaneous Revenue, other line items pertinent to your organization's activities.

In the organization-wide budget, you would allocate the grant money to Contributions (or Fees & Grants-Government); in the project budget, you'll allocate according to expenses sustained (and into the miscellaneous budget line items).

¹ Ask for a copy of our Board Development 101 or download it from [here](#).

² Ask for a copy of Basic Financial Planning & Management, or download it [here](#).

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If you would like help on preparing your budgets or financial plan, developing your Board, or other Development and Management issues, please contact us at info@glocalconsultantsgroup.com or +1-773-218-8270 / +1-347-480-8679.