



## **BOARD ORIENTATION: BUDGETS**

By Nan Stoops, executive director

### **Overview**

Each year in November, staff will prepare a draft budget for the following fiscal year. (The Coalition's fiscal year is January through December.) At the January Board meeting, the Board reviews, amends, and approves the budget.

Careful and thoughtful analysis of budgets makes your monthly and annual reviews of financial statements much easier. The Board has the responsibility to oversee fiscal planning and activities, and budget review is the starting point for this task.

As significant changes in income and expenses are anticipated by staff, they are reported at Board meetings. Depending on the nature of the change, Board approval for specific changes may be required.

Budgets are typically several pages in length. The first page provides detailed income projections, organized by broad categories of income and revenue. The following pages provide detailed expense projections, again organized by broad categories of expenditure. Often, there will be attachments that provide still greater detail about salaries and/or large program areas (such as the annual conference).

The budget may also be presented with a "program spread." This will show the relative costs of operating the Coalition's major program areas in the given year. It is a useful tool for comparing our use of resources to our stated goals and priorities.

Some common terms that are used in budget discussions are:

- "line item" – a specific kind, or line, of income or expense in the budget (e.g. "phone")
- "income" – money that is given, granted, or contracted to the Coalition
- "revenue" – money that is earned by the Coalition (typically through sales or training fees)
- "excess" – the amount by which income exceeds expenses at the end of the fiscal year, similar to "profit"
- "deficit" – the amount by which expenses exceed income at the end of the fiscal year, similar to "loss"
- "allocation" – the designation of an amount of money to spend or bring in.

## **What to Look For**

1. What is the bottom line?  
Look at the “excess/deficit” projected for the year. Is it positive or negative? How large is it? Do you want it to be as large as it is, or should funds be allocated differently? How will the Coalition’s net assets at year’s end be affected? Are there any long-term funding trends that you should know about?
2. Are we maintaining a diversified funding base?  
Is there a desirable balance of income across our primary sources: contracts, training fees, membership dues, foundations, donations, and sales? Have any income sources changed dramatically from the previous year and why? What portion of income is committed and what portion is pending or unknown?
3. What is our ability to meet basic operating expenses over the course of the year?  
What amount will we pay monthly in personnel, occupancy, and minimal postage, printing, and supplies? Is there sufficient cash flow (money in) to support operating expenses? Are existing assets liquid enough and will they be drained at any point in the year?
4. Are we spending our money the way we want to?  
Is the program budget consistent with the Coalition’s goals and priorities? Is staff time properly allocated to the various programs? Are there any programs that consistently “drain” our resources and is this intentional? Are you satisfied with the amount/percentage spent on administration and fundraising?

## **Final Notes**

Staff takes a very conservative approach to budgeting. This means that we use conservative estimates for income and liberal estimates for expenses. This strategy has served us well in years past and has helped the Coalition to plan for and accommodate growth.

Ask questions. Fund balances, depreciation, cash flow, assets and liabilities are often overlooked. The details can be confusing and boring. But they are very important to the financial and, therefore, programmatic health of the organization. So, take time, talk with staff, and remember that no question is too silly to ask.



## **BOARD ORIENTATION: FINANCIAL REPORTS**

The financial report you receive for each month has two components: the “Balance Sheet” and the “Financial Statement” (also known as the income statement).

### **Balance Sheet**

The balance sheet is often the most overlooked and least understood aspect of financial reporting, but it is the single best tool for assessing the financial position of an organization at a given point in time.

The balance sheet is divided into three sections: “Assets” (what we own), “Liabilities” (what we owe), and “Net Assets” (what we are worth).

Under “assets,” you will see the status of cash (checking, savings, investments), receivables (money earned but not yet received), and property (inventory and furniture). We try to keep a comfortable amount of money in cash accounts that are easily accessed. We shop for interest rates on savings and certificates of deposit to maximize our funds. Inventory typically includes our stock of books, videos, manuals, t-shirts (anything consumable). And furniture is furniture. It is also equipment (copier, computers, etc.). On the balance sheet, there are two figures that describe the value of the Coalition’s furniture: “furniture” is the accumulation of what we paid originally; “accumulated depreciation” is how the value has decreased over time.

“Liabilities” refer to those items, also called “payables,” that we would be obligated to pay if we closed the Coalition on the day of the financial report.

“Net Assets” is a very important and informative section of the balance sheet. The “unrestricted balance” represents the accumulation of income over/(under) expense since the beginning of the organization. (“Net change” is income over/(under) expense for the current fiscal year.) Net assets are not cash and, therefore, do not relate to our ability to meet current financial obligations. But they do say a lot about our ability to manage money over time. “Restricted” funds are money received in one fiscal year that is to be held for and spent in the following year(s), such as multi-year grants, membership dues, and training fees.

The Board may choose to assign a portion of unrestricted net assets into various reserve funds. Common reserve funds are "depreciation" (to replace old furniture and equipment) and "reserve" or "emergency" (to be used as emergency operating reserves in the event of unexpected funding cuts). These funds are not actual cash reserves with separate accounts; rather, they represent the Board's recognition of the need to plan for unexpected financial crises. Each year, as part of the annual audit, the Board may decide to designate part of the unrestricted net assets to reserve funds. This is especially true if the Coalition consistently spends less than it brings in. The amounts established in reserve funds remain constant unless changed officially by Board action.

### **What to Look For**

1. It is important to watch the figures for "net change" and "unrestricted current balance" for all net assets listed. Remember that "net change" = year-to-date income minus expense. If the net change becomes a negative number at some point in the year, the Board should know why and if this was planned in the budgeting process. Conversely, if the net change is a large positive number, the Board should understand why and how it relates to what is projected for the end of the fiscal year.
2. When comparing assets and liabilities, an important question to consider is: do we have enough cash to pay off our current liabilities? And, beyond that, is there cash to cover most or all of the Board designated reserve (if it exists)? This is a pretty conservative cash "plan," but it does increase security.

### **Financial Statement (or Income Statement)**

The financial statement provides a summary of the fiscal activity during the month of the report. It also provides an opportunity to compare cumulative fiscal activity to the projected budget for the entire fiscal year. This information is provided in a variety of columns on the statement and is organized by "revenue" (or income) and "expenses."

The most important columns to look at are the "YTD" (year-to-date) and "Current Month." YTD provides the total amounts of income and expenses, by line item, that have happened during the fiscal year up to the date of the report. Current month provides the same information for the given month only.

### **What to Look For**

1. What amounts are reported on the "excess/deficit" line (bottom of the page) for the YTD and Current Month columns? Is the YTD excess/deficit within the expected range for the given time in the fiscal year? If not, what is the implication for year's end?
2. In the Current Month column, are there any unusually large line items in either revenue or expenses? Were these included in the original budget?

3. Is financial activity reported in a way that is readable, understandable, and fully disclosing of the information you want? If not, what changes to format and/or content are needed?

## FINAL NOTES

Non-profits often believe that it is best to strive for a “balanced budget.” We have been conditioned to think this way by funders, supporters, and service recipients. Carrying a surplus, or positive net assets, and having money in the bank makes some people uneasy because of the appearance of profit at the expense of mission.

Responsible management of a non-profit in a for-profit world is a test, both philosophically and financially. More and more, it is acceptable, even desirable, for non-profits to build large, sustainable net assets that will help carry them into the future. Grantmakers and donors view this as a sign of organizational stability and health. And it reduces stress on Board and staff alike.

Over the past several years, the Coalition has done a good job of building its net assets. Our fiscal well-being is due, primarily, to staff and Board approaching financial matters proactively, conservatively, seriously, and thoroughly.

(excerpted in part from “Measuring Financial Health,” by Susan Kenny Stevens, in Foundation News, Sept/Oct 1988)

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