Budgeting Guide for Start Up Nonprofits

As a startup nonprofit, there are many priorities to tackle on your to-do list. Planning your budget for the myriad of activities, especially when you're just getting started, can fall by the wayside. This would be a mistake! Creating a budget, planning finances for the future, and analyzing financial data will set you apart early on as an organization to funders and partners, and make daily and strategic planning easier.

And whether you're the CEO of your nonprofit or a new staff member, it's important to understand how your organization's budget is structured and contributes to the nonprofit's operations.

Budgeting properly and analyzing the financial health of nonprofits is important, both for fundraising requests, and for managing general operations. Budgeting can help by:

- Helping you analyze and track organizational health
- Planning crowdfunding and fundraising campaign
- Identifying funding needs and how crowdfunding can play a role in filling those gaps
- Applying for grants
- Providing updated financial data to funders.

Purpose of This Guide

This guide will provide startup nonprofits with an overview of budgeting — what information to track and how, and how to analyze your organization's financial health. We'll also discuss framework and tools to set-up, adjust, and analyze your own budget and financial planning, at any level of the organization.

For the purposes of this guide, we will use the example of an after-school educational program. This fictional nonprofit provides extracurricular activities, such as sports, to kids in their community. We'll call the nonprofit "After School Fun." After School Fun (ASF) has been operating informally with support from two generous donors but now they are running a crowdfunding campaign to scale and start offering their extracurricular activities at five new schools. They charge a small fee for their programs, and the remainder is covered by their generous donors and partners.

What to Track In Your Budget

That pile of receipts and jotted notes won't cut it when it comes to budgeting. Startup nonprofits should keep track of their expenses and revenues (fundraising donations or service fees) in a spreadsheet or other bookkeeping system. This makes the data accessible to individuals at all levels of the organization with flexibility for adjusting the data as budgeting needs change.

Startup Costs / Upfront Investments

As a startup nonprofit, you're already aware that you have initial expenses before you have your real operational expenses. These startup expenses might include the costs involved in crowdfunding, or what you're hoping the crowdfunding will cover. Other startup costs might include initial costs for branding and logo, equipment, and first staff member salaries.

It's important to differentiate between what might be startup and one-time initial costs and regular costs. Some startup costs might transfer over to the regular budget, while others may not need to be included in future budgets.

In our example, let's say ASF needs startup investments to cover costs for the crowdfunding campaign and video, and hopes the campaign and a generous corporate partner will cover the staff and supplies required to offer programs in two schools. While staff salaries and initial supplies will need to be included in ASF's regular budget, the branding and logo design costs for starting the crowdfunding campaign are one-time costs that won't be included in future budgets.

Regular Budget

Regular nonprofit budgets should be split between expenses and revenues, with expenses split between program, and general and administrative expenses.

It's important to differentiate between program and other expenses because many donors like to understand the difference between administrative and program costs. It shows donors and partners how many dollars are spent on the nonprofit's mission versus executing the mission. There is a misconception in the nonprofit space that healthy and good nonprofits have low administrative and fundraising costs, and spend the majority of their funding on program costs. While this is not a strong policy for running a strong nonprofit, it is still widespread. It's important to separate program, administrative, and fundraising expenses. Separating these costs also serve as checks against how your organization is distributing its funds.

Program Expenses

Program expenses are the costs that are directly related to running your programs. For ASF, that includes anything related to running the extracurricular programs, including staff and supplies (i.e. soccer balls). The salaries for staff facilitating activities are program expenses. Their program expenses also include program advertising and staff training and travel costs.

General and Administrative Expenses

These expenses include salaries for administrative, support, and fundraising staff. Also included in this section might be rent, utilities, and technology for office space, and legal and other miscellaneous expenses. Notably, all fundraising costs are tracked in this category.

ASF has one full-time fundraiser, and their salary falls under this category. They also rent a small office space. Their program director and activities staff salaries and program budget are tracked in program expenses.

Fixed and Variable Costs

It's important to keep in mind the difference between fixed and variable costs when you are tracking expenses. Fixed costs could include staff salaries and building rent. Variable costs are those that vary based on need or market prices.

For example, for ASF, the price of renting field space for soccer practice could fluctuate throughout the year or based on need (seasonal need or programmatic changes). It's important to understand which costs are fixed and which are variable–as fixed costs are more static throughout the year and may need to be funded no matter what, whereas variable costs can change and can possibly be adjusted with program changes or substitutions.

Revenue and Profit

Revenue is the money you receive as an organization. This includes donations and fees for service, and any other products sold.

For example, ASF charges $5 per student per session, so their revenue would be the total number of students served multiplied by $5 each. They also have individual donors, and crowdfunding donations that are counted as revenue.

It’s important to track your nonprofit’s revenues because combined with looking at your expenses, it helps you understand your profits and whether you have enough money to sustain operations or whether donations need to increase or expenses decrease.

Just because you are “nonprofit” doesn’t mean you can’t, or shouldn’t, make a profit. Your profit is the total revenue–donations and other sources–minus the total costs to run the organization. Nonprofits, just like any other business, should aim to make a profit to maintain a healthy organization, allow for scaling, and have emergency funds as needed.

Cash Flow

Another method for tracking your budget is to track and project cash flow for the year. The best way to do this is to track cash inflow–revenues and donations–and cash outflow–expenses. This helps you better understand when you have revenue coming in and expenses going out, on a monthly and yearly basis.

For example, maybe your main donor only sends you one big check a year in January. While that check supports a large portion of your expenses, you have to make sure you evenly distribute it throughout the year, or you might not have enough cash to cover expenses at the end of the year.

For ASF, they know they have one donor that contributes a large amount in February, and another high-level donor in July. They have monthly expenses, and know that they have increased expenses for a fundraising event they host every June. They have to allocate their cash from their big and small donors and program fees accordingly. By creating a monthly cash flow, they can better predict their funding needs.

Restricted and Unrestricted

It’s also important to track restricted and unrestricted funds, and how you are spending them. When you are running a fundraising campaign and say that all donations will go directly to program expenses, those are restricted funds that you need to use to support programs.

Fees for service could also be considered restricted funds. If you are running a general fundraising campaign and don’t specify direct funding, those donations are unrestricted and you can use them at your discretion. This distinction, and maintaining an even balance of both types of funds, is critical for organizational health. If you only have restricted funds, you won’t have enough money to support your overhead costs.

Nonprofit staff members should be aware of the difference between restricted and unrestricted funds, so that they can understand the differences between program budgets.

For ASF, tee soccer program has restricted funding from a donor with a special interest in soccer, but the basketball program is supported by unrestricted funds, which are more limited.

Assumptions and Other

When setting up a budget, it’s important to lay out your assumptions, on the spreadsheet or an accompanying document. This not only helps you remember how you came up with certain figures, but it helps any staff member, potential donor, or advisor looking at the budget understand it better.

Your assumptions could include the number of beneficiaries you are working with, the number of staff, amount of supplies or equipment. When making a budget, it’s also important to track inflation and fringe benefits, especially if you are building a projected budget over several years.

Inflation accounts for slight increases in cost over time, and fringe benefits are the non-salary costs for employees if you offer (or plan to offer) benefits to your staff as you grow as an organization.

Analyzing Your Budget

Once you're up and running and keeping track of your budget, you can analyze your budget by looking at your ratios. Ratios help you understand how you are doing financially, and can be used in a number of ways:

- Help you identify changes over the years
- Included in strategic planning and performance metrics
- Shared with staff, donors, and advisors for both successes and benchmarks for improvements
- Help staff members understand where and how they can improve their own departments budgeting, and how their work contributes to the overall organizational health

Here are a few ratios that might be helpful, especially in the startup stage.

Fundraising Efficiency: Total Donations/Total Fundraising Expenses

This tracks the average amount of money raised per dollar spent on fundraising, and shows how efficient your fundraising efforts are.

Reliance Ratio: Largest type of revenue/Total Revenue

This ratio shows the potential risk of major reduction in funding if this source is reduced or stops.

Programs Expense Ratio: Program Expenses/Total Expenses

This is how much money you are spending on program expenses. A benchmark is 80%, but it's not a hard and fast rule, and depends on your organizational needs.

Overhead Ratio: Management, Administrative and Fundraising Expenses/Total Expenses

This is how much money you are spending on non-program expenses. A benchmark is 20%, but it's not a hard and fast rule, and depends on your organizational needs.

Days Cash on Hand: Total Available Cash/(Expenses/365)

This is how many days your organization could operate if all income suddenly became unavailable (all donors stop supporting you, or you spent all your money). 90 days of cash on hand is a good benchmark.

Restricted Funds Ratio: Restricted Funds/(Restricted + Unrestricted Funds)
This ratio tells you if you have a healthy balance of funds to support both overhead and programs. You can also use this to compare to your program and overhead needs to understand if you have enough in each type of fund to support your expenses.

Actionable Next Steps

Now that you understand the basic of nonprofit financial planning better, meet with your team and create budget and cash flow.
As your organization grows, or if you're already operational, analyze your budget using the suggested ratios, and assess whether you can make improvements in your budget–perhaps you can be more efficient at fundraising, or you should adjust expenses to have more days'cash on hand.
Check out these other resources to set you up for strong financial health and success:

- GrantSpace Budgeting Examples
- Foundation Center Budgeting Tutorial
- Wallace Foundation Budgeting Guide