During an interview with staff members at the New York Council of Nonprofits, Jenny Chandler, Vice President at the National Council of Nonprofits, learned how to build a better budget:

In an effort to get over my allergy to numbers, I spoke with the terrific finance team at the New York Council of Nonprofits: Kelly Mathews (Chief Operating Officer), Michelle Jarvais (Chief Fiscal Officer), and Elizabeth Mathews (Senior Accountant), who shared with me their “6 P’s” approach to nonprofit budgets. See if you can find the “P’s” in their advice!

Jenny: When you work with nonprofits to build a “better” budget, what are your goals?

Michelle: We’re going for a strategic process that helps you plan – not just taking last year’s numbers and updating them. We encourage nonprofits to look a few years ahead and take a multi-year approach because that will result in a better budget.
**Kelly:** In my work with nonprofits I often see folks not thinking through the long-term effects of short-term decisions. An example would be a simple cost-of-living adjustment. It’s great in the year it’s given – it bumps up salaries and boosts morale. But has the nonprofit projected out the impact of that adjustment for the next few years? It’s going to change the revenue requirements for many years to come. That could be huge.

**Michelle:** We encourage nonprofits to think of their budget as a living, breathing, guiding document. Your budget is not something that’s approved by the Board of Directors and then locked in stone for the rest of the year. It’s never going to be static. It’s going to change month-to-month. It’s normal for the actual numbers to turn out differently than you projected when you drafted the budget, so a “better budget” is one that changes with the nonprofit’s experience.

**Jenny:** It sounds as if you are suggesting that the board-approved budget should be formally amended throughout the year?

**Michelle:** Perhaps. Many organizations approve at least one budget revision annually. But sometimes adjustments are anticipated and reflected in the budget narrative so that a formal amendment isn’t necessary. If the narrative is thoughtfully drafted it will explain potential variances and alert the board to alternate scenarios.

**Jenny:** Wait a minute. You just said, “narrative” – You mean budgets aren’t just numbers on an Excel spreadsheet?

**Michelle:** No! A budget acts like a narrative when it tells the nonprofit’s story through the numbers. But it’s also useful to add short narrative explanations for various entries so that those reviewing the budget: -- program staff, the finance committee, and board members – are aware of the underlying rationale for the numbers, or alerted to the reasons why a number in this year’s proposed budget is different from last year’s, for instance.

**Jenny:** You just mentioned some “P’s” – People who help build and approve the budget. Program staff? What’s their involvement?

**Elizabeth:** Program staff are the folks who will know the expenses of their programs and will have a wish-list of expenditures that they’d like to include in the budget planning process. It’s helpful to interview them during budget planning time and make them aware that some of the overhead costs for the entire operations (rent,
insurance, utilities, internet etc.) will be allocated to their program budget. We need to help all staff understand the full costs of delivering services, which is more than just direct program expenses. In the budget we refer to those indirect and administrative costs as “shared costs,” which fosters the sense that we’re all in this together. We don’t want those shared costs to be covered up or overlooked when the fundraising staff are writing proposals for grants. We need to know our full costs and embrace them, and accurately reflect them in the budget for each program. That’s being transparent, and it’s also building a better budget.

**Jenny:** What are the biggest myths about budgets?

**Kelly:** That they are static, and that they are for one-year only. Better budgets are flexible as Michelle explained, and they are also forward looking and multi-year, so they can accurately reflect not only multi-year funding sources, but also projects that extend beyond one fiscal year. Also, if you start from scratch (we call this a “zero-based budget”), you can think about what you really need to make a program or activity successful. What would it cost if you built it from the ground up? Don’t be bound by last year’s budget.

**Jenny:** What’s an unexpected speed bump for budget builders?

**Michelle:** Politics. You can’t avoid it. Staff may try to out-hustle each other to secure a greater slice of the budget pie. Office politics play a role in budgets!

**Jenny:** What do you like best when building a budget?

**Elizabeth:** It’s a process that keeps everyone in the loop. An example is office supplies. The office manager puts in the supply order. If s/he is aware of how the budget is a guiding document for supplies throughout the year, s/he can monitor the expenditures and push back if someone is requesting supplies that won’t be approved. S/he can help out the rest of the team by being proactive.

**Jenny:** Is building a budget an art, or a science?

**Michelle:** Both. It’s a science because you need to rely on a process and policies that tell you who approved the budget and how it’s developed... But it’s an art because you are making projections about the future that are unknown. So you try to be creative in thinking of all the “what if’s” and plan for alternate scenarios for cash-flow or revenue sources. It all ties together – the planning, the process, the policies, the people, the politics, and in the end – the product. A better budget.