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Budgeting for Nonprofits

A key component of financial sustainability is the commitment of board and staff to financial management that includes timely review of financial reports and advance planning. One way that board and staff plan for income and expenses in the future is by creating a budget. Approval of the annual budget is one of the fundamental building blocks of sound financial management.

For nonprofits with employees, creating the annual budget is usually staff's responsibility, but board members often review the proposed budget and the full board typically adopts the budget at a full board meeting. The approved budget then serves as a guide for financial activity in the months ahead. Budgets should not be written in stone, because the financial position of the nonprofit may change during the year.

An advertisement banner with a purple background. On the left is a white icon of a calculator with a dollar sign. To its right is the text 'Take Control of Your Nonprofit's Finances' in white. A white arrow points to a yellow button with the text 'Get the Guide'. To the right of the button is a yellow background showing a hand holding a tablet displaying a book cover titled 'The essential guide to nonprofit financial management'.

advertisement

A budget is a *guide* that can help a nonprofit plan for the future as well as assess its current financial health. It is good practice to periodically review the budget as well as compare it to the actual cash flow and expenses, to determine whether they are playing out as expected during the course of the year. It may be necessary to amend the budget during the year.

Budgets may be requested by parties involved in financial transactions with the nonprofits, such as banks, or by donors/grantmakers considering a gift to the nonprofit.

Mythbuster

Board members and staff who are new to the charitable nonprofit context may wonder, "*Does a nonprofit's budget have to break even?*" "*Can there be a profit?*"

- In [Should Your Budget Balance? No!](#), Kate Barr of Propel Nonprofits argues that break-even budgets are not only not required, but they are the biggest barrier to building reserves and ultimately a financially healthy organization.
- [When is a Deficit OK?](#) (Propel Nonprofits)

Understand - and budget for - true program costs

- [True program costs: Program budget and allocation template](#) (Propel Nonprofits)
- [Cost allocation primer video](#) (Propel Nonprofits)

More About Financial Planning

- Should your nonprofit have [operating cash reserves](#)?
- The National Council of Nonprofits is pleased to suggest two practical tools available for purchase, the [Budget and Cash Flow Toolkits](#), developed with the needs of small nonprofits in mind by the financial experts at the New York Council of Nonprofits.
- [Financial Management](#)

Additional Resources

- [10-Step budgeting checklist](#) (Propel Nonprofits)
- [The Art of Forecasting Contributed Revenue](#) (Nonprofit Finance Fund)
- [An Executive Director's Guide to Financial Leadership](#) (Nonprofit Quarterly, authors Kate Barr and Jeanne Bell)
- The [Nonprofit Financial Commons](#) has resources on budgeting and many other aspects of financial management.
- The Wallace Foundation's [Nonprofit Budgeting Toolkit](#) offers free guides and templates.

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