

The Budget-Building Book for Nonprofits

A Step-by-Step Guide for
Managers and Boards

SECOND EDITION

MURRAY DROPKIN

JIM HALPIN

BILL LA TOUCHE

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Praise for *The Budget-Building Book for Nonprofits*

First Edition

“This is a book every nonprofit needs.”

—Peter F. Drucker

“Provides clarity, strategy, and utility to the financial and asset management of social-sector organizations.”

—Frances Hesselbein

“This book is clear, insightful, and required reading for all who are responsible for the success of not-for-profits. If you work for or run a not-for-profit agency, you should read this book.”

—Peter Block, author of *Flawless Consulting* and *The Empowered Manager*

“*The Budget-Building Book for Nonprofits* is a definitive and practical guide to the art of budgeting. It is well-written and reliable, as well as easily understandable.”

—Ronald J. Werthman, vice president, finance/treasurer, and CFO, Johns Hopkins Health System, The Johns Hopkins Hospital

Second Edition

“This book is the gold standard for providing executives and managers with information essential to making the best decisions for their organization, and it will give them the confidence in their fiscal systems that they need in the competitive world of nonprofit management.”

—Don Sykes, former director, Office of Community Services for the Clinton Administration and President, Community Development Solutions

“This book is an indispensable step-by-step guide for managers of not-for-profits. Written in clear language easily understood by the layman, it contains guidance on both proper procedures and the real-world challenges of getting the organization to adopt them. The worksheets and sample forms alone are worth the price.”

—Elizabeth Rosen, retired chief financial and systems officer, The Morgan Library and Museum

“Everything you ever wanted to know about budgeting and didn’t know who to ask is contained in this second edition of *The Budget Building Book for Nonprofits*. It’s practical, sophisticated, and contains many useful forms and examples. Whether you are an experienced nonprofit executive, board member, or finance person or new to the field, you will want to add this budget book to your library. It’s a tremendous resource for everyone who works or volunteers to support the nonprofit sector.”

—Carol Wolff, executive director, Area Health Education Center, Camden, New Jersey

“The second edition of *The Budget-Building Book for Nonprofits* presents a primer for managers with limited financial expertise and resources in nonprofit settings. In my 20 years of consulting to behavioral health systems, these kinds of adjustments are often the critical difference in the financial health of an organization. This book should be mandatory reading for the non-financial administrator of any nonprofit organization.”

—Harvey E. Hoffman, president, Healthcare America, Inc.

“Too often the process of building a budget in nonprofit organizations fails to receive the attention and focus appropriate to its importance. When a properly constructed budget is used effectively it represents far more than a simple spending plan. Rather, it becomes a guiding statement of values and priorities and a road map for how the organization plans to achieve its goals for the budgeting period. That view—carefully honed by these highly skilled authors after many years of experience on the front lines—is well captured in this second edition of *The Budget-Building Book for Nonprofits* and forms the foundation for the practical methods so clearly presented. Nonprofit executives and their boards of trustees alike will be well-served by this edition and well-advised to make it their own.”

—Alan G. Kaufman, former director, New Jersey Division of Mental Health Services, and president, Argus Solutions for Behavioral Health

“The budget-building book is a clear, well-written guide for nonprofit managers, whether experienced or new to the job, and demonstrates the importance of the budgeting process. Using plain language and real-life examples, the authors provide a comprehensive and systematic approach to developing and monitoring the budget. It should be required reading for all nonprofit managers and boards.”

—Irwin Nesoff, associate professor and director of the New Jersey Institute for Nonprofit and Social Work Management, Social Work Department, Kean University

Spotlight Review (of the First Edition) on Amazon

★★★★★ **Budget Management**, April 23, 2006

By Alex Nalicat “nalicat” (CA, USA)

When I purchased this book I thought it might be outdated for my organization. I was wrong; this is an excellent budget workbook. The authors did an excellent job in bringing to light the complex and problematic issues of budgeting for nonprofit organizations, and they take you step by step through the process. *The Budget-Building Book for Nonprofits* covers everything from starting a budget to the financial reporting of the budget. This book also provides numerous samples of budgets. If you're a budget manager or director, this book should give a fresh new way to look at the budgeting process.

The Budget-Building Book for Nonprofits

A Step-by-Step Guide for Managers
and Boards

Second Edition

**Murray Dropkin
Jim Halpin
Bill La Touche**

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Software

CMS Nonprofit Budget Builder

First Edition

Dedicated to Thomas H. Gregory, a great friend and mentor

Second Edition

**Dedicated to Bill La Touche, coauthor of the first edition
of this book and a great friend, mentor, and writer**

Preface

DESPITE AN INCREASINGLY complex regulatory atmosphere and shrinking funding sources, the nonprofit sector continues to grow in size and importance. Recent Internal Revenue Service (IRS) statistics identify approximately 1.8 million tax-exempt organizations in the United States, not including organizations claiming tax exemptions as religious organizations. In recent years as many as ninety thousand applications have been received by the IRS requesting tax-exempt status. The number of Americans who are in some way involved with tax-exempt organizations continues to expand at an incredible pace. According to the IRS the tax-exempt sector had total assets of \$3.7 trillion and revenues of \$1.2 trillion as of the end of 2002. Tax-exempt organizations are a major employer and a vibrant part of the local and national economy.

The ways in which nonprofits are supported, regulated, and monitored by government makes them far more complex than comparable commercial organizations in almost every area of operation. Nonprofits are subject to a much wider range and a greater degree of government and private regulation and oversight than are most commercial entities. Thus nonprofits may have more complex accounting systems, budgeting processes, auditing procedures, taxation considerations, and financial and organizational management concerns than for-profit organizations do.

News of financial mismanagement in tax-exempt organizations always seems to get magnified in the press and in public discussions. Donors and government funding sources react very quickly to news of a nonprofit's financial problems because such organizations are supported with public funds and routinely scrutinized by the public. Sometimes tax-exempt organizations take public positions that are not popular; this may also make them especially vulnerable to bad press.

Recent legislation aimed at “reforming” the oversight of nonprofit organizations, modeled after the Sarbanes-Oxley federal law, has been passed by some state legislatures and is being considered by a number of others. The new legislation has increased the scrutiny of the financial operations of nonprofit organizations. In the long run such legislation may strengthen the tax-exempt community, because stronger financial controls are important. However, in the short run such pressure finds nonprofits increasingly under the microscope of government and other regulatory agencies. This, coupled with greater competition for funds, has forced many nonprofits to reevaluate everything from how they conduct day-to-day operations to their overall strategic plans, in order to stay viable.

We found out very early in our work with tax-exempt organizations that underlying every aspect of nonprofit operations is the budget. The budgeting process is the foundation on which any nonprofit’s long-term and short-term health rests. Budgets are required before organizations can apply for funds from most funding sources. Yet our search for information yielded very few budgeting resources written specifically to offer step-by-step guidance to nonprofit managers, boards of directors, financial staff, and the consulting and accounting professionals that serve them. The purpose of this workbook is to offer practical assistance to the people involved in preparing budgets for nonprofit organizations.

Since 1965, we have been assisting small (\$100,000), medium (\$10 million), and large (\$2 billion) nonprofit organizations to plan, develop, process, and implement program, capital, operating, zero-based, department, cash flow, and various other budget programs, analyses, and reports. We have trained thousands of board members, financial staff, managers, and program staff in proper budget preparation. We have also trained funding-source staff at government and private organizations. What we have found, across the board, is that the tools available for budgeting are difficult for anyone other than highly specialized financial professionals to understand, are difficult to apply to the unique circumstances in which many nonprofits operate, or are wonderful in their explanation of the theoretical principles but do not detail the nuts and bolts of budgeting.

We wrote this workbook to offer nonprofits and their stakeholders a comprehensive and systematic approach to developing and monitoring a budget. One of our most important objectives was to create a resource that is understandable and useful to those with no financial background as well as those with formal financial training. To accomplish this objective we have incorporated detailed explanations, checklists, worksheets, examples, and simple-to-use forms to address every phase of the budgeting process.

The first edition of this book has been very well accepted, and many organizations are using it to help guide staff through the budget process. A number of colleges and universities are using the first edition for courses on budgeting and