



Transcript

January 5, 2020

Episode 3

Budgets

Co-Hosts: Brittany Wilson (B) and Nia Wassink (N)

B: I'm Brittany Wilson.

N: And I'm Nia Wassink.

Both: And this is, The Nonprofit Reframe

B: Together, Nia and I have over thirty years of nonprofit experience. We've worked the program side, the business side, and everything in between.

N: We are reframing the nonprofit experience by challenging the status quo because we know that nonprofits and their staff are undervalued, under-resourced and unrelenting.

B: All right well it a New Year.

N: Happy New Year to you!

B: Happy New Year to you too! Happy 2020!

N: What a year it's going to be.

B: So much fun. 2019 is behind us, that means 2019's budget is behind us.

N: Woo Woo!

B: If you are on a calendar budget year, calendar fiscal year then this New Year also means a new budget for you.

N: New Year, New Budget, great time to be alive!

B: Let's talk budgets!

N: Oh gosh, budgets. I feel like this is one of those things where nobody really teaches you how to do it and yet everybody in nonprofit is expected to know how to do it and do it well. And most people don't, and it becomes such an infuriating process

B: Well it informs your whole year. So, it's something that you create that then impacts all your decisions that you make throughout the year. So, I mean it's really important and it's not always an exact science, and sometimes I believe it's not created with all the people in the room that should be there.

N: Oh absolutely. Well let's start at the top. If you're looking at your budget, that's the revenue side. Brittany, as a fundraiser, I'm sure you've got some feelings about that part of the budget.

B: I do, I do! So being a fundraiser, you know looking at revenue, being a big part of the revenue. Some places you are the entire revenue, fundraising's the entire revenue. But other places I've worked, we've had different revenue line items that come in like Program fees, that sort of thing. I will say that one of the places that I used to work at, the way we put our budget together so much fun. I would sit down and I would do the revenue side of things and I would always.

My first draft would be ultra conservative I always joke that the only area in my life that I'm really conservative is when it comes to budgeting in my professional life.

N: Making your goals for next year.

B: Yet nobody ever looks at me and says, "Oh Brittny, she's the conservative one, don't listen to her", anywhere else, except for in nonprofit work when it comes to budgets, so I find that really fascinating. But yeah, so I you know create a conservative budget and then the program side along with the CEO or the ED would create the expenses. They would kind of create their dream expense budget and then we would come together and have an unveiling.

N: I like to think about it like, what was that show, Survivor? Where you all put your names in and then they slowly unveil who's gonna leave at the end through this big ceremony.

B: Exactly

N: Tiki torches, the whole nine.

B: I show you my number, you show me yours and then let's see the differences between the two. It was usually quite large, the difference could be hundreds of thousands of dollars and then it was back to the drawing board for draft number two, where okay I'll add in a little padding in places that I knew we could probably stretch and do more, but for the first round and I didn't want to show that card. Because you don't want to show all your cards at once because then they're going to say, "Oh, well we can add more" Because you know they are always going to ask you that, always.

N: Because they always want to do more!

B: Because they always want to do more, exactly. So then we try to do back and forth, back and forth, back and forth, until we can finally come to a number that we can both agree on. How have you done them in the past?

N: Well, it's interesting. So I've been on all sides of this. I've been the fundraiser in the room trying to make my revenue projections. I've been the ED overseeing all of it, which is interesting when I was with the small organization, you know I didn't have a program director or development director and all those folks to go to. So my team and I would have an annual planning session. You know, what we're going to be doing next year? What kind of programmatic changes are we expecting? Where do we need additional investment? And then I would massage the numbers myself, which is much less fun than your way. It's just me in my office trying not to cry, thinking about how we are going to get through next year.

B: Feeling the full weight of responsibility on your shoulders.

N: Oh my gosh, like maybe we can get an extra pizza party out over here if I just get one more donor over there.

B: Yeah.

N: It's a stressful process, I think across the board. I think in your situation, in that scenario describing, I think it's especially difficult because you often end up with programmatic staff who don't fully understand the fundraising side. How many times has somebody come to you even external to the organizations that will can't just fundraise for that?

B: Can't you just get a grant for that?

N: I'll just go out to the grant tree behind the building and find that. That's not how that works!

B: I've had this grant the whole time, I've just been holding it from you and so here surprise you got it!

N: Oh, you wanted to double that program? Now you can, here you go.

B: Just been waiting for you to ask.

N: That does certainly cause some tension, but you also, I don't know if you've ever been this position, have you ever had somebody else impose unrealistic fundraising expectations on you?

B: Oh you mean just say what they want the budget to be but not create a strategy to get to that?

N: Yeah, yeah, yeah, yeah.

B: I love the we're just going to raise it by X. percent, across the board, but then there's no real conversation around how that twenty percent increase is going to happen.

N: Yeah, I love when the revenue side has also been increased so significantly and yet there has been no additional expenses put in for fundraising. Yeah, so I clearly need more donors, but I don't have more money to mail them, or do advertising, or go out to more lunches. I have the exact same confines and yet need to find more money from this rock

B: Well and I think that ultimately that's what we're trying to get to, is that the more people that you can have at the table, informed about what the budget is going to be, helping to create the budget. I'm not saying you're going to have everybody agree on it, budget's make people uncomfortable, period. Or setting goals and for some people that's really

scary, I mean because ideally you're pushing the boundaries of those goals a little bit further than your comfort zone. So you can create a budget that is just comfortable that's status quo, maybe it's flat the year before, but ideally you want to be growing every year, so you're pushing different revenue channels hoping that you're going to get it, but it's really an art of recognizing that each revenue channel has its own level of volatility and different things can impact that, right? So you have grants, let's say you get federal grants, let's say you get a lot of federal grants and all of a sudden that money is cut at federal level. That's out of your control, now you're not getting as much money from that, so how are you going to make it up? So you need to make sure that your revenue streams are diversified and so that when one of them takes a hit, hopefully it's not that big of a hit, but if it takes a hit there's another one that can maybe help buoy up so that ultimately you get to that number at the end of the year.

N: I think that kind of, I'd say philosophy around budgeting is what I ascribe to as well. You have that year end number, this is how much revenue we need, our expenses need to be below this and exactly how we get to those numbers it's going to change throughout the year.

B: Absolutely.

N: To expect a nonprofit to be exactly as anticipated for the next twelve months is entirely ridiculous.

B: No, and where that will bite you in the ass, is if you're re-budgeting halfway through the year.

N: Not re-forecasting, re-budgeting?

B: Re-Budgeting.

N: Oh my gosh

B: So when you decide, "oh my gosh we're doing so well." So maybe we're budgeting for deficit and we know that there's going to be a deficit, but we're doing so well the first half of the year let's re-budget which makes our budget look like it has less of a deficit, but any gain that you have been able to get in the first six months you've now lost.

N: Right.

B: And for me I mean that's just how I think and how I work so I know if I have an event that has done particularly well and I've exceeded the budget on that event, well then that's it extra money, extra cushion for maybe some of these other revenue streams they don't perform. Maybe that's going to help offset this grant that we've gotten for the last four years, but now all of a sudden the foundation has changed their funding focus and they deny our grant.

N: Right, right. Well, I think that this nuance is often where boards get hung up because they don't necessarily understand all those complexities and volatility and I mean how often have you had boards ask you the percentage chance that each of these line items are going to hit, especially when it comes to grants.

B: Absolutely.

N: I mean, if you are on a board and you are asking your development staff to give those kind of numbers, I promise you, you they are making them up.

B: I'm one hundred percent making them up. I'm either making them up to give you an answer or I'm pulling out my soapbox and jumping on it to talk to you about how that's an unfair question ask. Either way, you're not winning.

N: It's a really tricky thing too because budgets, I think it's one of the few areas where the board understands that part of their fiduciary responsibility in that, they have to approve one? And they need to understand if the organization is performing against it. They might not understand all the details beyond that, but they recognize it is an important thing they do and yet most boards don't actually do it all that well.

B: Right.

N: I know I was working with a client recently and they have a board that has a real varied background when it comes to finance, which most board do. You know you've got the folks to really get it they want the details they want to understand and the folks who are like I don't even know how to read a financial statement.

B: Right

N: I was recommending this really robust process. So the staff comes forward with a budget draft, the finance committee works with them and they get it to draft two. Then they have a workshop with any board members who could come so that they can really understand, ask questions...

B: Oh my gosh, that's such a great idea because there's been so many times that I've been in a board meeting where there's one person that takes issue with something and they take over the entire board meeting with this concern that they have. Not that it's not a valid concern, but now you have eighteen other board members that weren't concerned

and now all of a sudden are like, wait should be concerned and you're at the point where you are supposed to be passing the budget.

N: And it's too late for that question!

B: Exactly. So to have a workshop forum, I think it's so smart to give people the opportunity because there's people that want to see everything and they should have access to that, but it doesn't mean that everybody needs that.

N: Right, exactly. And, the budget, you've got the numbers, but it's really the narrative behind it you know. Are we investing in programmatic growth? Do we know expenses are going up and that's why these numbers are bigger? You want to be able to have that conversation that you can't just read in a spreadsheet and that's why I really recommend that this longer process, you know after the workshop and then it goes to a board vote, so that everybody's had opportunity to really understand and feel like they are excited about what this budget means for the organization. Because that that's the key, we want people to see a budget, pass it for the next year and be excited because what that means is the organization's growing or changing or doing something new and innovative. It is the numbers behind a really exciting year.

B: If your budget already has you feeling defeated before you've even started, it is not going to be an impactful year. And that goes back to making sure that people are at the table. So you know, sometimes maybe you're the Development Director and you are a staff of one in the fundraising department and so you're doing all of that yourself around kind of estimating your grants or your events, your major donors, your individual donors, but then other times you might have a department with different people heading up those different revenue streams. And so, if I have a grants manager, I want my grants manager to be sitting down with me and forecasting what we think is going to come in and helping them, making sure they recognize that this is a team effort that, you know we are coming up with a number, and while it may still be a stretch outside your comfort zone because at the end of the day that's what I end up having to do as Development Director or VP of Development is say okay, Grants Manager, what do you think's going to come in, it's X. I'm going to add another, you know, ten thousand dollars, twenty thousand dollars in prospect grants to that. And I recognize that's a stretch, but we're going to do that together, so that each person is invested in what that budget is and goes into the year excited about the challenge. If they feel that it is outside of their reach, that it's unrealistic then it's over before it starts.

N: Oh yeah

B: And that's how you have turnover and burnout, I mean one of the ways in nonprofits. So it is important that you make sure that people have a voice in it especially the part of the budget that pertains to them and just like you said that goes with program as well so they recognize what the cost of their program is and where that money is coming from.

N: Well yes, and so they can have a say in where things are spent. When I was executive director we would always spend time going through the budget as a team because I want folks to really understand where we're going to be investing in the year ahead. I wanted them to have a say if they if they were seeing areas where we were under investing. You know, maybe we need more professional development in our budget, maybe we need more food in our budget, whatever it is. Actually that's a good story here. I was working with my board when I was Executive Director and we had, it was a pretty tight budget year and we're working on growing the programs and we didn't yet have you know all the revenue line up. Which is what happens, right? You start new programs, you change them and funders want to wait and see how it goes before they invest. And I had one board member who was really, really fiscally conservative and we were also sitting on significant reserves, so the risk of this budget was really minimal to the overall success of the organization. She was a nitpicking on different things and she came to this food line item and she said, "I really don't think we should be spending so much on food."

B: Did she think it was just food for the break room for the staff?

N: Well it was actually, it was it was for our staff and volunteers, but we were in a high trauma environment and I knew if my staff went to court that morning, they heard a horrific story of child abuse, they were going to have lunch sitting in the break room waiting for them when they got back. We're going to sit together, we're going to be in community together and support each other and bond. And we did that over food and that was a really important part of ensuring that my staff were taken care of. And that's something where I think again with boards, which are primarily made up of for profit folks, they don't understand that. You sell copiers during the day, which is great and I love copiers and you aren't in a high trauma environment.

B: Right, exactly, it's different.

N: Yeah, you're not relying on this team of people who you need to slow down and be with because you're going through and seeing some real shit together.

B: Well and that goes back to the values of your organization and the culture that you want to create. And that's what I think is so great about some of these organizations. I mean you're small enough that you can create whatever culture you want. And yes, obviously you have a fiscal responsibility that you're not spending lavishly, but at the same time you're talking about lunch.

N: Right, exactly.

B: And that's going to make the difference of somebody feeling supported in the work that they're doing and wanting to come back to work the next day and saying I'm out here I'm not meant for this.

N: Exactly yeah. What do you think about zero based budgeting?

B: That's interesting. Well...

N: While Brittney thinks of the response, I should say for those of you who aren't familiar. It is really common in no profits and it's become this expectation from a lot of funders especially that the revenue and expenses in your budget will net zero, so you're not making an actual profit at the end of the year.

B: Well I think it's unrealistic. I think we fake the numbers to make it look like a zero based budget, when it's not. Sorry, but I do and/or we set unrealistic expectations. I think it also just sells the organization short from a business standpoint.

N: Yeah, can you imagine any for-profit company saying we're not going to make any money this year. We're not going to be able to do any infrastructure investment in the future or anything like that, all we have are the next twelve months.

B: But the reason that we're doing it is for funders.

N: Yeah, of course.

B: The reason we're doing it is because allegedly that's what foundations and grantors want to see and so we don't want to submit a budget to funders that says any different.

N: Well I think the issue is that the narrative around that has been, if we show that we're going to make a profit, I'm basically saying to a funder, your money is going into our savings account. When what we're actually saying is, you are part of what's going to ensure that the future of the organization is sustainable. Which is an issue in and of itself, we will, I promise, have an entire episode around what sustainability means or doesn't mean because it's not even real. For now, the thought that you as a funder, whether you're an individual donor, a foundation whatever, you only care about the next twelve months is ridiculous. You really should care that this organization is going to have money in their savings account to cover payroll when a grant gets behind in the mail. Right? Like it's a bigger picture conversation.

B: Well, and it is such a Catch-22 right? I mean we could do a whole episode about how we try to placate funders and play to funders so that we get their funding because what if you're not going to have a balanced budget? What if you're showing a deficit? What if you need their money so you're not in a deficit? But if they see that you don't have a zero based budget then all of a sudden, you're unstable.

N: Right, right. And I know we're gonna talk about the overhead myth and a future episode, like next week, but this all plays into it too right? Like the way that we massage the numbers to make it sound palatable for others when at the end of the day what we should say is this is how much money we need to get the work done, the work that our community desperately fucking needs, so if you want to join us come along.

B: Not only that it's like this is the money that we need to get the work done at status quo right now and then this is the money we need to actually do the real work that we want to do beyond that. So we all want to grow, right? We all want to grow our programming and in order to do that we need people to invest in the growth.

N: Right, absolutely.

B: #investinthegrowth

N: Brittney has now become our hash tag generator each episode

B: I love it! I love it! All right, so what are key takeaways from budgeting?

N: Well I think for the board, I'll say make sure that you provide a robust enough process that people can engage and understand the budget and also that it gets passed on time. I often say in training to board members, be better than Congress. Pass the budget before the end of the fiscal year! It's absolutely ridiculous, I actually have a number of clients

right now going into January without an approved budget because they didn't provide enough time for people to understand the numbers. And I'll also say to board members there is a level of trust and budgeting. You have to trust your chief executive and you want to ensure that they are equipped with what they need to be successful.

B: Well I just go back to though, the need for more board training.

N: Oh my gosh yes.

B: You bring up such a great point so you're out selling copiers. I don't know why that's our example, but let's just stay with it. And you maybe you don't you don't manage a budget of your own and then you decide that you're going to join a board for nonprofit organization and your handed a balance sheet and a P & L and you have no idea what you're looking at.

N: Yeah

B: So I do think that there is this unrealistic expectation that because you're serving on a board of directors that you understand the nuances. You don't need to be a finance maven, you just need to have a general understanding so you know what questions to be asked.

N: Exactly, yeah.

B: And so I do think that it's imperative that as nonprofit organizations we're providing our boards with those training opportunities whether it's happening in house or through an external service. I would also say a takeaway is that if you are a nonprofit staff member and you're listening to this and you're going into the new year and you feel defeated before you've even started because of your budget that was set for you without your input. To be bold and have that conversation to talk to your supervisor about it and ask if you can be part of the process next year.

N: Just send them our podcast, have them get really mad at us but then maybe it'll change.

B: Exactly, just a little passive aggressive note that says listen to episode three.

N: And we'll send you a sticker.

B: Well whatever your budgets are, whether you're just starting a new line or you're part way through the current one. We wish you the best of luck in 2020.

N: We know that at the end of the day everybody just wants to be successful and that's where the tension in budgeting comes about and what a great reason right because we all want to do really great in our jobs and for our missions. Brittny and I wish you the very best in the year ahead.

B: We'll see you next time

N: We would like to thank our sponsors. Mission Launch is a Colorado-based nonprofit consulting firm, focusing on fundraising and board governance. You can learn more at missionlaunchco.com. And Jake Walker Music who provides our theme music. You can find him at jakewalkermusic.org. Thank you so much.