

The Budget Primer

Building and Using Budgets Better

Presented By

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AGENDA

- Scope and Time Frame
- Creation Methodology
 - Adjust last year
 - Zero based
- Creation Process
 - Expense
 - Revenue
 - Timeline and Responsibility
- After the Budget is Finished
 - Financial Control
 - Reporting
 - Case Study



SCOPE AND TIME FRAME

BUDGET SCOPES

- Operating – Day to day activities of the entire organization
- Capital – Investment activities of the organization
- Cash Flow – Cash in and cash out
- Program – Activities of one program, site, or department
- Grant – Activities supported by one grant or funding source

BUDGET TIME FRAMES

- Year
 - Most common
 - Fiscal year or grant year
- Month
 - Most precise
 - Must close monthly
 - Best for organizations with seasonal activities
 - Most common for cash flow budget
- Multi-year
 - Strategic planning
 - Long range forecasting



No Two Nonprofits are Alike

No one approach is best for all organizations.

CREATION METHODOLOGY

BUDGET CREATION METHODOLOGIES

- Adjust last year
 - Add a percentage
 - Inflation rate
 - Desired growth rate
 - Add significant changes
 - New sites
 - New staff
 - Changes in program design
- Zero based
 - Return to year zero (start from scratch)
 - Revisit all program plans
 - Revisit all assumptions

WHEN TO USE EACH METHODOLOGY

ADJUST LAST YEAR

- Service quantity cannot be controlled
- Confident that last year's budget is accurate
- Little concern about gaming the system

ZERO BASED

- Environment is rapidly changing
- Ample lead time
- Collaborative environment

CREATION PROCESS

ADJUST LAST YEAR PROCESS

- Estimate revenue growth or contraction from previous year
- Increase or decrease variable expenses to align with revenue change
- Increase fixed costs for anticipated inflation
- Expense increase or decrease may be
 - Proportional across organization
 - Weighted toward one program, project, or department

ZERO BASED PROCESS

- Start with volume goal for each program
- Determine inputs necessary to achieve volume
- Cost out each input
- Total costs of all inputs
- Add fixed costs
- Estimate revenue
- Align costs to revenue
- Repeat

ESTIMATING REVENUE

PARTNERSHIP BETWEEN FINANCE AND DEVELOPMENT

- Assess renewal of current contributions
- Assess prospects for new contributions
- Contribution assessment methodology
 - Divide into categories of likelihood
 - Assign quantitative probability of obtaining funding
- Assess earned revenue based on market trends
- Budget any other revenue
 - Investment earnings
 - Subleases
 - Administrative fees

TIMELINE AND RESPONSIBILITY

Senior Management and Board

Determine appropriate budget process for organization



Finance and Development

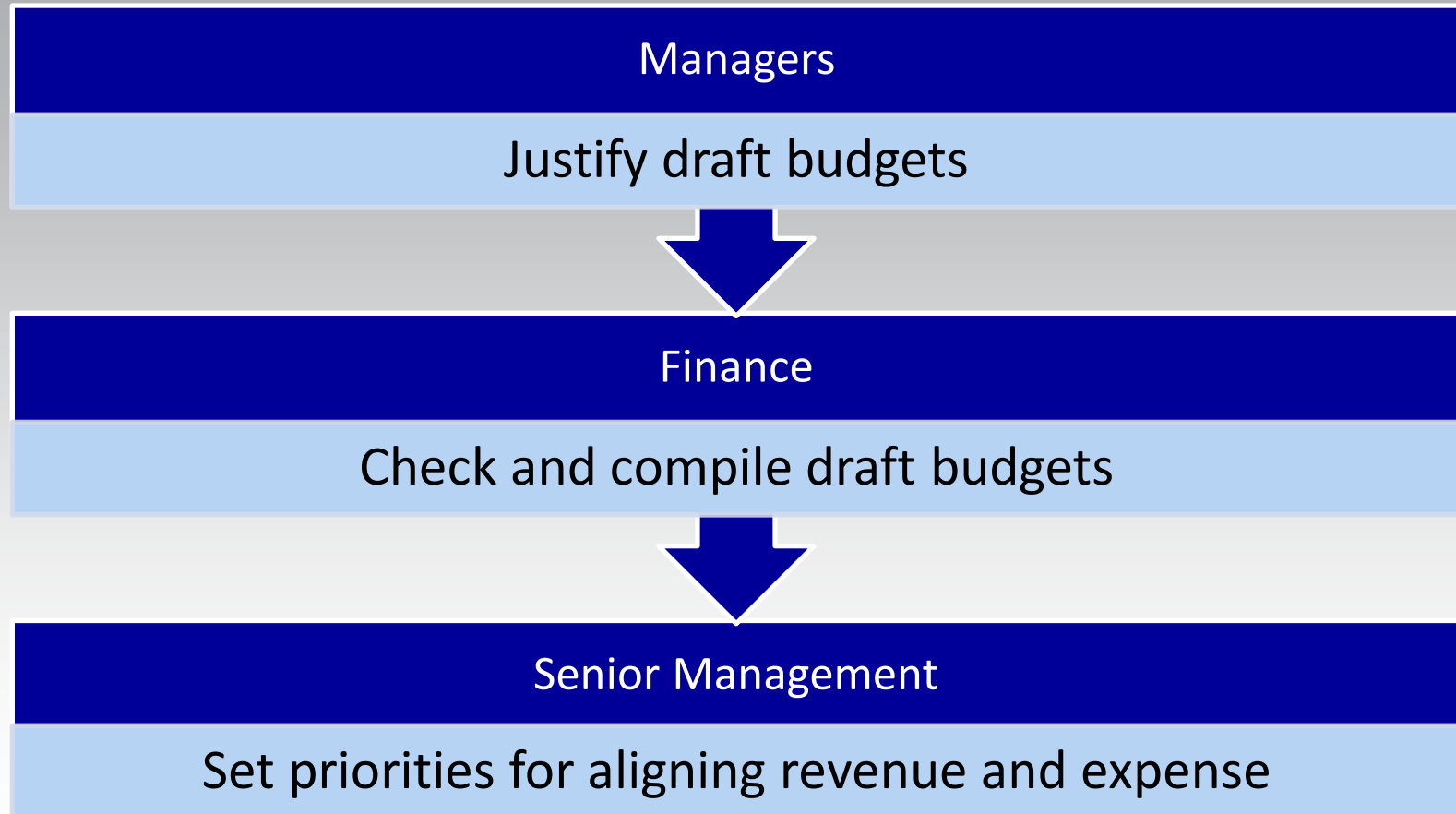
Estimate revenue and provide background materials



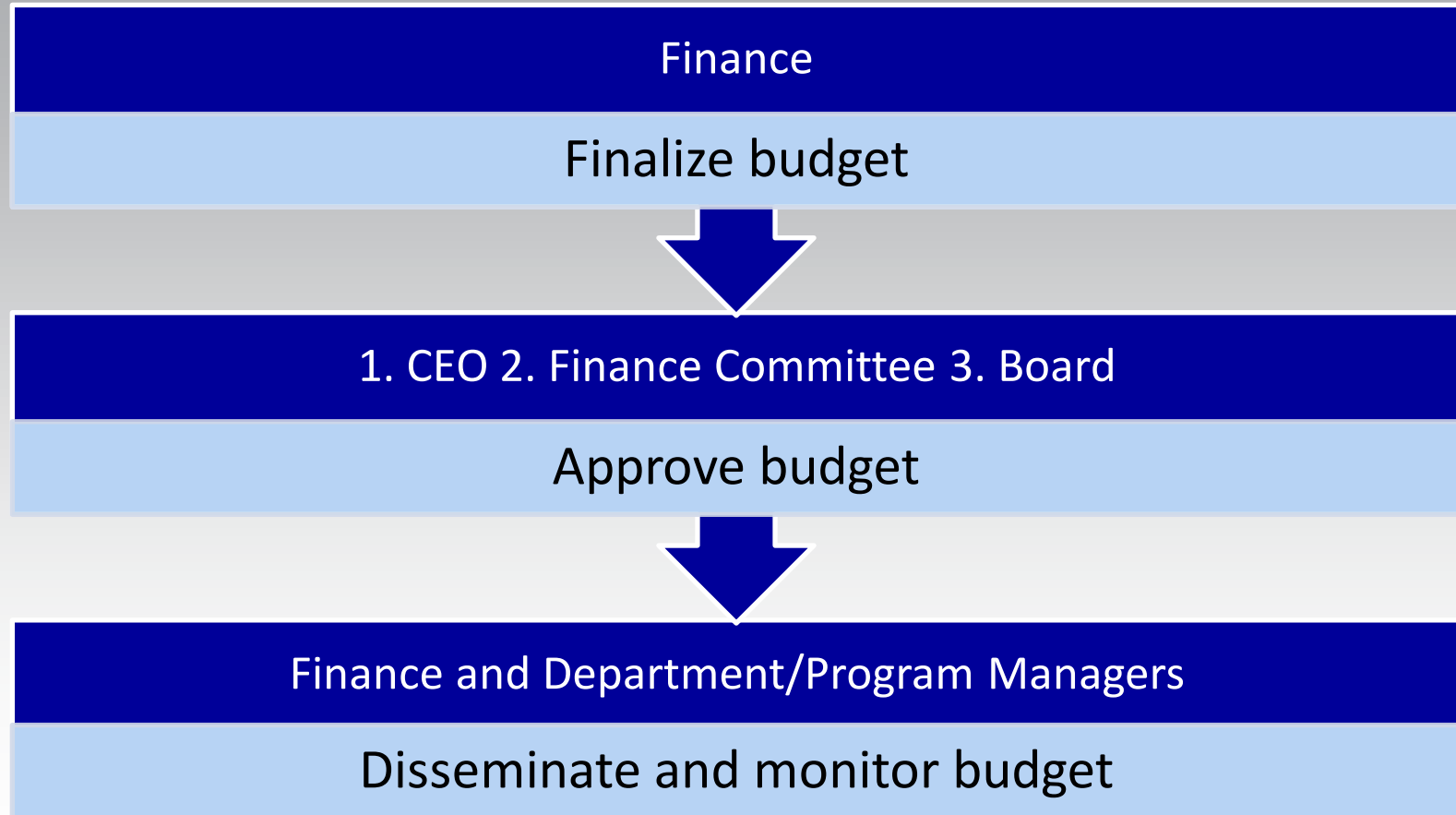
Department/Program Managers

Draft budgets for their areas

TIMELINE AND RESPONSIBILITY continued



TIMELINE AND RESPONSIBILITY continued



*AFTER THE BUDGET
IS FINISHED*

FINANCIAL CONTROL BENEFITS

- Transparency
- Accountability
- Expectations

FINANCIAL CONTROL PROCESS

- Management team regularly reviews budget variances
- The team must understand the reason for the variance
- A variance which cannot be explained is investigated thoroughly
- Determine whether corrective action is needed
- Determine the action to be taken
- Follow up on corrective action

COMMON REASONS FOR BUDGET VARIANCES

- Change in program plans
- Environment factors affect speed of program delivery
- Miscalculation in the budget

MONTHLY REPORTING

BUDGET REPORT**BUDGET****ACTUAL****VARIANCE**

CASE STUDIES

FEED THE THIRD WORLD CHILDREN

- Difficult to predict famine
- Collaborates with many other charities
- Was 10% over budget last year

- MUSEUM OF ACCOUNTING
- History of employee theft
- Budget is due in one month
- Many managers pad budgets

CONTACT INFORMATION

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