The Budget Primer
Building and Using Budgets Better

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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

- **Annual**
  - Most common
  - Fiscal year or grant year

- **Monthly**
  - 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 - EXPENSES

- 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
ZERO BASED PROCESS - 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

Managers
Justify draft budgets

Finance
Check and compile draft budgets

Senior Management
Set priorities for aligning revenue and expense
TIMELINE AND RESPONSIBILITY continued

1. CEO 2. Finance Committee 3. Board

Finance

Finalize budget

Approve budget

Finance and Department/Program Managers

Disseminate and monitor budget
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
- Staff turnover
- Price increases
### BUDGET REPORT

<table>
<thead>
<tr>
<th>BUDGET</th>
<th>ACTUAL</th>
<th>VARIANCE</th>
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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 US

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