



Not JUST a Budget

Today's successful non-profit agencies use every tool at their disposal to enhance their financial health.

By Angela Byrne, CMA

If you are like most nonprofit agencies today, you are finding it more difficult to make ends meet. In this environment of scarce resources, one of the most important tools at your disposal is the budget.

In the publication *Cost Accounting*, the authors Shane Moriarity and Carl Allen define a budget as "a formal plan of the objectives, costs, and revenues that an organization expects to achieve in a subsequent period." An organization benefits from the development and implementation of a budget in several ways. The authors state the "most important reasons for budgeting is that it forces managers to think about the future, project trends and develop appropriate strategies."

Therefore, preparing a budget forces an agency to plan and allocate its resources. It identifies any shortfall in revenue and provides some lead time to develop strategies and solve problems before they evolve into a financial crisis. Budgets also prove to be excellent communication devices as they incorporate financial and operating goals, thereby communicating expectations and priorities to the organization.

The budget is a realistic plan of expected financial activity for an agency and a tangible plan for operations. However, developing the budget only provides half the value; regular monitoring is paramount. Early detection means early correction. The budgeting cycle can be broken down into two steps: preparation and implementation.

Prepare the Budget

Preparation involves information gathering on previous and expected financial activity of the organization and then developing a plan for the next period. Budgets are normally developed for one year of operation, broken down into the 12 months. An organization is more than just the sum of its available funding. This is particularly important in the current environment where government funding continues to shrink and organizations must look to other sources of revenue to offset their expenses. Therefore, it is important that one budget document be prepared that reflects the entire financial activity of the organization.

An organization needs to start with figures based on the true needs of the agency and realistic expectations. As organizations rarely have complete information, estimates need to be based on the best information at hand and consider trends and changes in the external environment. For example, many organizations have recently seen increases to their insurance premiums. There are indications that premiums will continue to rise and prudent organizations will budget accordingly.

Budgets involve the entire organization. Therefore, the process of preparing the budget should entail a 'bottom-up' collaborative approach. A budget prepared by senior management and subsequently handed over to staff to manage, is less effective than one developed in collaboration. The process needs to engage staff in a meaningful way by developing budgets that reflect their needs and hold them accountable.

When tied to the objectives of the organization the budget will reinforce and communicate the vision and goals of the organization.

Implement the Budget

Implementation requires monitoring actual performance to planned performance.

The process of reviewing the budget involves a monthly review of actual activity to planned activity. Variances between year to date performance and the plan should be identified. Strong financial management requires an organization to assess not only where they have been but also where they expect to end up. Therefore, based on the year to date variances, any deviation from the plan for the remainder of the year should be identified and any necessary action should be implemented. In other words, it is important to know if variances will increase or decrease by year-end.

In managing the budget, the position with the authority to influence the budget should be involved in its preparation and implementation. Expecting staff to manage a budget when they have no authority or control over the expenses can be disastrous. In one organization where managers were given a budget they did not understand, they collectively decided to ignore it.

The budget and its process are of enormous value. Not only does the process monitor performance, it communicates expectations and priorities and provides a tangible parameter from which to base financial decisions.

Angela Byrne, CMA & Associates, has a proven track record of helping organizations by providing expertise in the areas of internal audit, risk management, business transformations, project management, and operational reviews. To learn more about how Angela and her team can help your organization succeed, visit our website at Angela Byrne, [CMA & Associates](http://CMA&Associates.com). You can also reach Angela at (519) 284-0321 or by e-mail at info@angelabymecma.com