



Realistic Budgeting

The reality for most non-profit agencies today is an increasing demand for services as funding shrinks and costs escalate.

By Angela Byrne, CMA

In this environment of constant change, organizations need a plan to help them manage. In most cases, this plan takes the form of a budget.

The budget document is key to the success of the organization. It forces a plan and allocation of 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.

Organizations often use an historical approach, a method known as "zero-based budgeting", or some combination of the two. Just as the name implies, the historical approach forecasts revenue and expenses based on previous experience. This approach works well in a stable environment. Conversely, zero-based budgeting forecasts revenue and expenses solely on future events and expectations. This approach is particularly appropriate during times of rapid change or volatility. Given the current environment, the most appropriate approach is a combination of the two.

There are two broad steps to preparing the budget: gathering the information and preparing the budget document.

Gathering the Information

The first step is to gather information on the expected revenues and expenses for the next 12 months. As organizations rarely have complete information, estimates need to be based on the best information at hand and must consider trends and changes in the external environment. Keep in mind that the more accurate a budget, the less actual activity will deviate.

The most successful budgets involve the entire organization. Ideally, a 'bottom-up' collaborative approach is used. To encourage active participation by staff, provide sufficient information on the process and its outcomes. Generally, one individual in the agency will assume the lead for the budget preparation. Their role is to divide the organization's budget into manageable chunks, assign the chunks to the appropriate teams, provide the necessary information, and coordinate the flow of information into one budget document.

By including information from all areas of the organization, financial estimates are more accurate. Communication involves all areas of the organization and builds a sense of ownership and responsibility throughout as the budget is implemented.

Preparing the Budget

Once the information is collected, the person assuming the lead for budget preparation will begin to coordinate the pieces into one budget package. Generally, this will take the form of a consolidated budget, highlighting expected revenues and expenses for the entire organization. Supporting the

consolidated budget will be individual budget schedules. The format of the budget schedules will reflect the needs of the organization. For example, schedules may reflect funding sources, key service activities, or departments. In order to support the estimates, major assumptions along with key trends and expectations in service activity will be noted. It is important to note that some nonprofit agencies get lost in completing budgets for their funder and forget that the organization is more than just the sum of its available funding. Therefore, it is important that one budget document reflects the entire financial activity of the organization. Once completed, the organization can translate its requirements into the appropriate documents for its funders.

As a realistic picture develops, then a comparison to available funding and strategies for managing the financial resources can be developed. The Board of Directors is often consulted during this phase to ensure the plan reflects the strategic direction and vision of the organization. The Board of Directors then approves the budget package.

It is important that staff are able to relate their participation to the final budget document. Therefore, the budget package should be presented to staff and copies made available. It is important that staff understand not only the financial activities of their part of the organization but be able to see the link between their activities and the overall organization. When tied to the objectives of the organization, the budget will reinforce and communicate the vision and goals of that organization.

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://AngelaByrne.com). You can also reach Angela at (519) 284-0321 or by e-mail at info@angelabymecma.com