



**Make Dollars Make Sense**  
Funding & Financial Management 101

# Budgeting Part 1: Budget Literacy

With Andy Palak, CA

# Questions

- *Who has prepared Budgets, either for Not for Profit organizations, or for Corporations?*
- *What is your experience level ?*
- *What are your expectations for the session?*

# Before we start...

The need for Strategic Planning and Budgeting is becoming more prevalent:

- Social issues are getting more difficult, more interrelated and more difficult to solve
- E.D's are required to be more accountable for the performance of the organization
- Need to be effective with the organizations resources

# The Nature of Not for Profit

Not for Profits are Mission driven ( ie community service ), not Profit driven .....

But yet...

They need money to keep operations going.

Funders need to be satisfied that the organization delivers superior performance relative to its mission

# Budgeting – what is a Budget ?

It is the numerical quantification of the activity of the organization for a specific period of time (usually in line with the financial reporting period of the organization)

# Why prepare a Budget?

## Benefits :

- A Budget is a financial road map for the next year to assist in the monitoring of the timing of funding and planned expenditures

## Mandatory :

- Board of Directors requires one as part of the overall planning process for the organization
- Funder requirements

# Question

What do you need to know or think about before you prepare a Budget ?

Budgets usually have three components :

- Operating
- Capital
- Cash Flow

Budgets can be prepared using :

- Cash basis
- Accrual basis



# Major Financial components of a Budget

- Income and expense statement ( for the year ended )
- Balance – Sheet ( as at the end of the year )
- Cash Flow statement

# Budget Process – Key initial step

Prepare a Budget activity checklist assigning responsibility for each major component with associated completion timelines to ensure preparation and distribution to the Board of Directors in advance of the Board meeting.

# Major steps involved in Budgeting

1. Understand and incorporate organizational goals and priorities as outlined in the Strategic Plan and in line with policies and bylaws
2. Document the assumptions to be used in the preparation of the Budget including sources of Revenues
3. Identify fixed and variable expenses
4. Gather actual financial information from the prior period or periods and use such information as a guide for preparation of the Budget
5. Prepare Budget package for review and approval by the Board of Directors

# Who should be involved in the Budget Process?

- Budget Co-ordinator
- Program Co-ordinators
- Executive Director
- Finance Committee members
- Treasurer

# Points to consider when finalizing Budget assumptions :

- Restricted / non restricted funds
- Cost recovery options eg user fees
- Funder requirements and restrictions
- Pros and cons of diversification
- One time grants
- Accounting policies (including GAAP )

# The Budget Package submitted to the Board of Directors normally includes :

- Overview narrative of the major points supporting the Budget numbers including risks and opportunities for sustainability and growth
- Assumptions on major programs, grants, other funding
- Services / benefits that will be provided and why there is a need
- Financial information ( Operating / Capital / Balance – sheet / Cash Flow )
- Pie – charts, graphs, etc of pertinent data
- Ratio analysis
- Materiality

# Monitoring of Budget

- Prepare report comparing Actual revenues and expenditures to Budget and previous year (Variance analysis ) and included narrative to explain the significant variance on a monthly basis for internal management
- Finance Committee recommends frequency for a higher level report for distribution to the Board

# TIPS for Budgeting :

- Consider doing a Strategic Plan
  - Results in being intentional about the path your organization follows
- Do adequate pre-planning
  - Activities, Timelines, Responsibilities
  - Determine who's involved and when
- Assign a Budget administrator to co-ordinate the Budget process
- Call in help if needed including a Facilitator
- Understand the culture
  - Does the leader of the organization fully buy-in to the benefits of having a Budget ?



# Tips (continued)

- Review what happened last year as the basis for the preparation of the current Budget
- Network with other Budget administrators and get guidance from your Treasurer / Finance Committee
- Understand your accounting policies and generally accepted accounting principles
- Confidentiality with respect to certain information
- Review the expectations for the Finance Committee and Board of Directors (knowing your major Audience)

# Tips (continued)

- Good communication with and encourage all participants in the process
- Use of Budget templates and adequate software

# Question

What are some problems you have experienced in the Budgeting Process?

# TRAPS in the Budgeting Process

- A meaningless Budget
  - Does not incorporate the vision, mission and values statements of the organization
- Budget assumptions not well thought out prior to involving staff and others in the preparation of the Budget
- Making the process too lengthy, over complicated and costly
- Lack of empowerment
  - Employees must have the authority to impact their sphere of activity
- Lack of ownership and accountability
  - Employees must be made responsible to prepare their portion of the Budget

# TRAPS in the Budgeting Process (cont'd)

- Too much stretch
  - Budget is too ambitious as does not reflect the critical actions and resources needed to achieve the results
- Budget presentation package to the Board is overly detailed and does not succinctly articulate the Risks and Opportunities for the organization
- Getting too mired down in the details

Questions?