



EFFECTIVE BUDGETING - NOT FOR PROFIT ORGANIZATIONS

IntegralOrg

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AGENDA

- ❖ Introduction
- ❖ Planning before creating a budget
- ❖ Setting the stage – basic terminology
- ❖ Different budget categories
- ❖ Monitoring the budget and taking action
- ❖ Identify good budgeting practices and budgeting pitfalls
- ❖ Available resources to assist organizations in the budgeting processes

INTRODUCTION

- ❖ Purpose of budgets
- ❖ Creating the success environment

3

FINANCIAL STEWARDSHIP

- ❖ Assuring sustainability
 - That current spending programs are affordable and sustainable over time
- ❖ Responsible planning and management of resources to meet the goals of the organization
 - Board responsible for planning and monitoring and management of resources
 - Management's responsibility is to properly utilize and develop its resources, including its people, its property and its financial assets.

4

EXPECTATIONS OF USERS OF FINANCIAL INFORMATION

- ❖ Require financial information concerning
 - Stewardship of funds
 - Achievement of goals and objectives
 - Financial stability
 - Future plans and projections

WHAT IS A BUDGET?

- ❖ The budget is the financial plan of action based on the board's decisions for the future of the organization *(Board Development 2009)*

- ❖ Tool to monitor "how are we doing?" in relation to above

WHY USE BUDGETS?

- ❖ Ensure spending priorities linked to goals
- ❖ Allows for planning ahead
- ❖ Ensures planning for programs and revenues are realistic
- ❖ Vehicle of communication
- ❖ Ability to do financial evaluations
- ❖ Provides data for funding requests

BENEFITS OF BUDGETING

- ❖ Can force organization to set priorities and goals
- ❖ Assists in controlling expenses and timing of revenues
- ❖ Budget process forces a deadline for planning
- ❖ Helps with not being constantly reactive as budgets are proactive
- ❖ Defines roles and responsibilities in policy
- ❖ Monitoring helps insure funds available for all planned expenditures
- ❖ Lets you know current state of finances and helps to control spending
- ❖ Facilitates monitoring, evaluation and performance measurement
- ❖ Budget can be used as a communication tool
- ❖ Assigned responsibility of following budget

PLANNING BEFORE CREATING A BUDGET

- ❖ Link budget to organizational goals, plans, and activities
- ❖ Articulate underlying assumptions of budget numbers
- ❖ Use past history as a reference (actuals)
- ❖ Consider funders and programs from a budget perspective
- ❖ People involved and project management of the budget process

9

PLANNING STEPS

- ❖ Gather budget information:
 - Ask for information and direction
 - Obtain input from key stakeholders
 - Link the budget to the organization's goals and priorities
 - Be aware of budgeting policies and other financial policies
 - Gather information from the prior period or periods

(Board Development 2009)

10

ELEMENTS OF A USEFUL BUDGET

- ❖ Thoughtfully prepared
- ❖ Easily understood
- ❖ Prepared in timely organized fashion
- ❖ Prepared with input from committees & others
- ❖ Can be broken down into same periods as financial statements
- ❖ Compared to actual financial information prepared on a timely basis throughout year
- ❖ Leads to discussion and action by management, board or committees if significant differences identified between budget and actual

Budget Calendar 2018

Timeline	Action	Person/Group Responsible
January	Review strategic plan/business plan Set goals and objectives for next year	
February	Re-evaluate previous programs and activities Set budget guidelines Ask for input from committees	
March	Input received from committees Collect necessary information	
April	Determine costs of goals and objectives Prepare revenues and expenses budget Adjust to produce balanced budget	
May	Board approves budget	Board

12

SETTING THE STAGE — BASIC TERMINOLOGY

- ❖ Different types of budgets
 - Operating
 - Overall operational
 - Capital
 - Purchase of capital items
 - Land & buildings
 - Office furniture & equipment
 - Program furniture & equipment
 - Program
 - Funder based

13

SETTING THE STAGE — BASIC TERMINOLOGY

- Other considerations
 - Cash flow – historical (past) and projections (future)
- Where does the cash come from?
- Where does it go?

14

Example - Cash Flow Projection
September 1, 20x7 - August 31, 20x8

	Sept 20x7	Oct 20x7	Nov 20x7	Dec 20x7	Jan 20x8	Feb 20x8	Mar 30x8	Apr 20x8	May 20x8	Jun 20x8	Jul 20x8	Aug 20x8	Total
Beginning Cash	30,000	24,400	6,200	7,100	4,500	17,300	14,200	11,100	34,400	58,800	43,700	56,500	30,000
Estimated cash inflows	60,000	40,000	45,000	60,000	70,000	70,000	70,000	80,000	80,000	55,000	65,000	55,000	750,000
Total Available	90,000	64,400	51,200	67,100	74,500	87,300	84,200	91,100	114,400	113,800	108,700	111,500	780,000
Budgeted Expenses	53,000	52,000	54,000	55,000	58,000	54,000	56,000	54,000	56,000	53,000	53,000	62,000	660,000
Less:													
Noncash expenses	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Accrued expenses	7,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	40,000
	44,000	47,000	49,000	50,000	53,000	49,000	51,000	49,000	51,000	48,000	48,000	57,000	596,000
Current cash requirements													
Short term loans paid						20,000							20,000
Loan instalment payments	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Staff bonuses paid								2,000					2,000
Unbudgeted expenses	600	700	600	600	700	600	600	700	600	600	700	600	7,600
Accounts payable-paid	2,000	7,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	39,000
Capital assets purchased	500	3,000	1,000	500				1,500	500				7,000
Payments to related party	18,000			18,000			18,000			18,000			72,000
Total disbursements	65,600	58,200	54,100	72,600	57,200	73,100	73,100	56,700	55,600	70,100	52,200	61,100	749,600
Over (short)	24,400	6,200	(2,900)	(5,500)	17,300	14,200	11,100	34,400	58,800	43,700	56,500	50,400	30,400
Line of credit drawn			10,000	10,000									20,000
Ending cash	24,400	6,200	7,100	4,500	17,300	14,200	11,100	34,400	58,800	43,700	56,500	50,400	50,400

SETTING THE STAGE — BASIC TERMINOLOGY

- ❖ **Cash basis of accounting for transactions:**
 - Recorded as income when received and recorded as expense when spent
- ❖ **Accrual basis:**
 - Revenue recorded when earned or when used for pre-set purposes
 - Expenses recorded when transaction occurred/invoiced

SETTING THE STAGE — BASIC TERMINOLOGY

❖ Balance sheet:

- Assets:
 - to be used in current or future operations
 - property to be exchanged for goods and services
- Liabilities
 - amount of assets that others own
- Net assets/fund balances
 - what's left over once the liabilities are paid
 - available for future use

❖ Important budgeting considerations related to these statements

17

Statement of Financial Position	
As At March 31, 2017	
ASSETS	
Current	
Cash and cash equivalents	
Temporary Investments	
Accounts Receivable	
Prepaid Expenses	
Total Current Assets	
Capital Assets (Net)	
TOTAL ASSETS	
LIABILITIES AND NET ASSETS/FUND BALANCES	
Current Liabilities	
Accounts Payable and accrued liabilities	
GST Payable	
Total Current Liabilities	
Deferred contributions related to operations	
Deferred contributions related to property and equipment	
TOTAL LIABILITIES	
NET ASSETS/FUND BALANCES	
Invested in capital assets	
Internally restricted	
Unrestricted	
TOTAL NET ASSETS/FUND BALANCES	
TOTAL LIABILITIES & NET ASSETS/FUND BALANCES	

18

SETTING THE STAGE — BASIC TERMINOLOGY

❖ Cash flow statement

- Where did the cash come from and where did it go
- May or may not match income statement

❖ Income statement

- Revenue and expenses leading to net income that adds to net assets/fund balances

❖ Important budgeting considerations related to these statements

19

SETTING THE STAGE — BASIC TERMINOLOGY

❖ Deferred contributions:

- Funds received that are externally restricted for specific purpose or timeline
- Contributor does not benefit, community does
- Examples - grants, government funding, donors
- Transfer of resources or assets to an NFP with nothing given in return

❖ Deferred revenue:

- Related to a future period
- Examples – membership fees paid in advance, theatre subscriptions

20

SETTING THE STAGE — BASIC TERMINOLOGY

- ❖ Budgeting restricted/unrestricted funds (balance sheet) and adhering to funder restrictions:
 - Deferred items appear on the balance sheet and flow into revenue as expenses are incurred related to the restrictions (moves to revenue on income statement)
 - Amounts that apply to budget year should be part of the budget although related cash is already in assets
 - Unrestricted funds are recorded in the year received

21

DIFFERENT BUDGET CATEGORIES

- ❖ Revenue types:
 - Contributions
 - Grants, donations, government funding
 - Earned revenue
 - Fees for service, social enterprises, ticket sales (not fundraising)
 - Fundraising
 - Other
 - Memberships
 - Investments

22

DIFFERENT BUDGET CATEGORIES

❖ Possible expense categories:

- Wages & benefits
- Program costs
 - Supplies
 - Transportation
- Rent
- Utilities
- Repairs & maintenance
- Insurance
- Professional fees
- IT costs
- Office costs

❖ Fixed versus variable expenses

❖ CRA reporting – registered charity versus non-registered

23

PREPARE THE BUDGET

❖ Prepare the budget

- Use facts and document your assumptions
- Facts plus assumptions equals projections
- Allow yourself plenty of time to think things through
- Forecast the revenues and compare to your estimated expenses
- Follow the financial policies and budget guidelines of the organization
- Identify fixed and variable costs
- Be realistic

24

RECEIVE APPROVAL

❖ Receive approval

- Finalize the budget and present to the board for approval
- Be organized when presenting the budget and be prepared to answer questions
- Make adjustments if new information comes to light during the presentation
- Communicate the approved budget within the organization

25

BUDGET MONITORING

❖ Monitor and evaluate the approved budget

- Identify and review variances
- Determine reasons for significant variances
- Determine whether the organization is on track
- Review information monthly and be accountable
- Manage the budget and take corrective action if needed
- Begin preparing information for the next budget cycle

26

BUDGET MONITORING

- ❖ Monthly or quarterly basis
- ❖ Report budget versus actual
- ❖ Match revenue and expenses
- ❖ Report effects of new programs not in budget
- ❖ Significant changes in the year
- ❖ Dealing with variances
 - Analyzing budget variances, and options for action

THOMPSON CENTRE PLAYERS						
STATEMENT OF REVENUES AND EXPENSES WITH COMPARISON TO BUDGET						
FOR THE MONTH OF AUGUST AND THE EIGHT MONTH PERIOD ENDING AUGUST 31, 2017						
	Actual	Budget	Variance	Actual	Budget	Variance
	Mo. to Date	Mo. to Date		Yr. to Date	Yr. to Date	
RECEIPTS						
Ticket Sales	-	-	-	1,590	1,540	50
Sponsorships	5,000	4,500	500	12,400	11,500	900
Casino	500	417	83	3,500	3,336	164
Grants	<u>10,000</u>	<u>10,000</u>	-	<u>25,000</u>	<u>15,000</u>	<u>10,000</u>
TOTAL RECEIPTS	15,500	14,917	583	42,490	31,376	11,114
EXPENSES						
Administration	245	250	5	1,830	2,000	170
Office Supplies	150	125	-25	963	1,000	37
Performance Equipment	10,000	10,000	-	10,000	10,000	-
Theatre Rent	-	-	-	15,000	5,000	-10,000
Meetings	200	300	100	1,375	2,400	1,025
Promotion	3,000	2,700	-300	7,440	6,900	-540
TOTAL EXPENSES	13,595	13,375	-220	36,608	27,300	-9,308
EXCESS(DEFICIT)	1,905	1,542	803	5,882	4,076	1,806

IDENTIFY GOOD BUDGETING PRACTICES

❖ Bookkeeping approaches:

- Keep chart of accounts reasonable
- Record transactions according to what is required for reporting financial statements
 - Use the capabilities of your software
- Record in a timely fashion to provide timely reports
- Ensure budgets are entered into accounting system so that meaningful reports can be generated on a regular basis

❖ Program reporting:

- ❖ Understand what information is important to properly manage the program
- ❖ Be clear about what funders want to see in reports
- ❖ Use accounting system to make allocations if necessary

❖ Funder reporting

- ❖ As above

29

IDENTIFY GOOD BUDGETING PRACTICES

- ❖ Understand who is doing what
- ❖ Be timely
- ❖ Be thorough
- ❖ Be honest

30

POLICY ON BUDGETING

- ❖ Who is responsible for what?
- ❖ How are assumptions to be used determined?
- ❖ What are timelines?
- ❖ What is approval process?
- ❖ How is budget monitored?

BUDGETING PITFALLS

- ❖ Non-profit CRA compliance:
 - Registered charities
 - Registered Charity Information Return (T3010) (follow the CRA guidance on completing)
 - GST/HST – budget for portion not rebated, becomes an expense
 - Non-registered not for profits
 - Corporate Tax Return (T2)
 - Not for Profit Information Return (T1044)
 - GST/HST – budget for portion not rebated, becomes an expense
- ❖ Accounting standards:
 - Need to be followed if you need and audit or review engagement
 - Deferred contributions
 - capitalization
- ❖ Depending on fundraising:
 - Never use to balance out to zero unless it is evident the plan is sound

RESOURCES TO ASSIST ORGANIZATIONS IN THE BUDGETING PROCESS

❖ Websites:

- www.culturetourism.alberta.ca/community/programs-and-services/board-development/resources/info-bulletins-english/
- Charityvillage.com
- www.councilofnonprofits.org/tools-resources/budgeting-nonprofits

❖ Books available from Indigo:

- *The Budget Building Book for Non-Profits*: Murray Dropkin, Jim Halpin, Bill La Touche
- *The Cash Flow Management Book for Non-Profits*: Murray Dropkin, Allyson Hayden