

4 Steps to Better Budgeting

Hilda H. Polanco, CPA, CCSA®

Because budgeting involves making projections about the future, it can never be done with complete precision. Yet, it's a vital task for not-for-profits. It helps organizations set priorities, translate them into operational terms, and allocate resources to support them.

Budget process fine-tuned

If your budgeting process seems more like an exercise in futility than in discipline, however, you may want to take note of these pointers to fine tune this sometimes dreaded annual event:

1. Let goals drive your budget. Don't make the mistake of simply basing the new budget on last year's results. Also, don't assume a certain level of income and divide the pie based on past percentages. Although you need to review the previous budget to get a sense of income and expenses, approach the process with a fresh mindset each year.

Start by reviewing your strategic goals for the new fiscal year. Then, have your department heads develop a budget that supports those goals. This approach incorporates both a top-down and bottom-up perspective. Even if your goals haven't changed significantly, there are probably some slight shifts in priorities that need to be factored into the new plan.

2. Give department managers budget responsibility. Because managers are responsible for helping their organizations meet strategic goals, they also should be accountable

for the budgeting process that supports those goals. A budget, after all, is a reflection of how an organization or department is managed. And by having managers propose budgets, you gain their automatic buy-in. Moreover, their involvement in the process helps them understand how their department's daily operations further organizational goals.

Not-for-profits will ideally have both an operating budget and a capital budget.

Department heads should remain accountable for their budgets throughout the year. Ask for monthly status reports on expenditures and explanations for significant variances. Also, have managers report on their department's success in meeting goals.

3. Include a capital budget. Not-for-profits will ideally have both an operating budget and a capital budget. The latter has a long-term horizon, usually three to five years. Capital budgeting encourages fiscal discipline by forcing organizations to allocate funds for planned or unplanned major expenditures, such as new equipment and building maintenance costs.

Capital budgets often are neglected because organizations need excess net income to provide for capital expenditures and to build reserves, which is another budgeting imperative. Funds are sometimes directed from reserves to the capital budget.

Other sources of capital funding include: allocations from the operating budget, donations, state or federal funds, and debt financing. Even cash-strapped organizations should try to build a capital fund, regardless of how modest. Long-term budgeting ultimately helps your organization secure its future by ensuring it has the resources to sustain its mission over time.

4. Make adjustments when conditions change.

Through monthly budget reviews, organizations can stay abreast of internal or external circumstances that may affect their ability to adhere to the original budget. Depending on the size and structure of your organization, the controller, executive committee or finance committee—or some combination of these parties—may be responsible for presenting a contingency budget in response to unexpected developments, such as a drop in membership renewals or contributions.

An organization that sees a shortfall developing should be able to take action to improve its position, such as postponing or reducing payments to certain vendors or renegotiating a lease to receive more favorable terms.

Order amid unpredictability

Creating a financial roadmap in the form of a budget is never easy, and the process can pose special challenges for nonprofits because of their varied and often unpredictable funding sources. These factors make it all the more necessary for your organization to go the extra mile to make the process as meaningful and effective as possible. ●

Hilda Polanco, Managing Director of Fiscal Management Associates, LLC, has conducted financial and technical assistance workshops for hundreds of organizations in the independent sector, and heads a specialized consulting practice focused on helping clients develop and maintain their fiscal, technology, and human resource infrastructure.