Budgeting for Any Organization

Turn your budget from enemy to friend with this useful guidebook.

BY TERRENCE FERNSLER

The Budget-Building Book for Nonprofits: A Step-By-Step Guide for Managers and Boards


What are our fears about budgeting? If we’re honest, most of us have many, from our fear of not knowing how to create or follow a budget to our worry that the whole process will take too much time.

A good book about budgeting will help us through these fears. This one does.

Budgets are tools for planning, and they are plans in themselves, the authors explain. A budget outlines an organization’s goals. Rather than something to dread, your budget is a concrete way to make your mission and vision come true.

If you want your organization to be as effective as possible, you must have sound budgeting practices, and those practices must be in writing. Good budgeting means spelling out who is responsible for:

- approving changes in income
- setting percentage changes in the budget
- determining methods for calculating changes
- identifying new expenses
- projecting cash flow
- recommending corrective actions.

The CEO and board must do their part, with the CEO implementing the budget and making sure deadlines are met and the board providing oversight.

The authors of this helpful guide look at the big picture: The budget is not an end; it is a tool. They suggest four strategies to increase the accuracy and efficiency of budget development:

1. **Set annual organizational outcome goals from the top down.** This strategy calls for top management to consult with program managers before developing a draft budget. Drafts should support outcome goals, and everyone should have a clear understanding of what is involved. Outcome goals should be specific and measurable. Top management must know what resources are available.

2. **Set annual income and expense targets from the top down.** This approach works best with a work group. Before using it, be sure to get the board’s approval so as to avoid conflict between managers.

3. **Ask all program heads to prepare draft budgets showing priorities for increased, decreased, or unchanged budget amounts.** This technique requires three drafts from managers: an unchanged budget, a budget with a certain percentage increase, and one with a certain percentage decrease. Each draft should include a brief narrative on the likely impact on operations. Top management can then adjust up or down, depending on each unit’s perspective on change.
4. Use zero-based budgeting. This strategy focuses on a complete re-evaluation of each program to determine if it should be continued and, if so, how. It can help organizations, particularly well-run ones, improve their efficiency. However, the organization must have dependable, detailed cost information available from the accounting system. An organization should experiment with this approach before applying it in a full budgeting process.

Replete with worksheets, examples, and checklists, the book offers 10 steps to creating, implementing, and managing an annual operating budget:

1. Select a strategy.
2. Develop goals and guidelines.
3. Create the calendar.
4. Create forms, materials, and instructions.
5. Orient program managers to goal and process.
6. Prepare draft program budgets.
7. Review and revise draft program budgets.
8. Prepare and submit a proposed budget.
9. Review, revise, and get the board’s approval.
10. Implement, monitor, and modify the budget.

The budget is not an end; it is a tool.

Gearing their subject to the layperson, not CPAs, the authors provide a narrative and visuals to help a wide range of learners. They give excellent tips on how to trim expenses, what to do when deep cuts are needed, and how to modify a budget because of new information. Methodical and attuned to detail, they constantly stress policies and guidelines—an important point, as nonprofits are prone to fly by the seat of their pants. Following the step-by-step processes described here makes much more sense.

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