

Create a Budget THAT Works for You

Your budget is more than numbers. It's a tool you can use to motivate employees, control expenses, increase revenues, make effective plans, and fulfill your organization's goals.

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EBSTER DESCRIBES A budget as a "breakdown of a spending plan." This written spending plan and the control—or lack of control—of spending have a profound effect on a nonprofit organization. To have a positive impact, the budget must be realistic, accurate, and—most of all—controlled. It's of paramount importance that everyone in the organization understands the budget, because to understand the budget is to understand the nonprofit's goals.

The budget is first and foremost a planning tool. Without a budget, an organization may not be able to make the best decisions.

Example: A nonprofit makes up its initial budget. Everything balances on paper. It looks good; there may even be a surplus at the end of the year. It's even finalized by the board. However, the budget isn't reviewed again until two months before year's end. During the year, no one enforces any controls. When the budget is finally reviewed, several expenses in more than one department are over budget and revenue is under budget. The organization now has the almost impossible task of bringing an unbalanced budget into balance two months before the close of the year. If it ends up with a

deficit, the organization will have a hard time getting funding sources and lenders to donate or loan it money.

told if they are within budget. If a line item is over budget, the department does not feel responsible because of the lack of input it had in its initial preparation.

The chance of a controlled balanced budget is much greater in Organization A than in Organization B, because people throughout the organization share responsibility. But shared responsibility isn't always enough. The budget also has to be realistic and accurate.

To understand the budget is to understand the nonprofit's goals.

How to Share Responsibility for the Budget

If a department is to have responsibility for its budget, it must own that budget. Too often the budget is prepared by the accounting division with little or no input from the department itself. Remember, no one knows the department better than the people who work in it. Involve the department from the beginning stages.

For purposes of illustration, examine the process for developing the budget for Organizations A & B:

Organization A: Before the initial budget meeting, staff from a variety of departments are chosen as budget coordinators. The budget coordinators review the revenue, asking themselves the following questions:

- Will there be an increase or decrease in revenue? If so, how much? How will these changes affect the department's operation?
- Do we expect any unusual expenditures for the year? Example: Are there any unusual repairs on equipment or vehicles that will be needed? If so, to what extent will these repairs affect the budget? (If they expect any such expenditures or repairs, the coordinators contact an array of vendors to obtain the best prices.)
- Do we expect any changes in personnel due to such factors as retirement or maternity leave? If so, how will these changes affect the personnel portion of the budget?
- Will there be any changes in tax rates, fringe benefits, allocations of rents, auditing fees, and so on? (The coordinators ask the accounting department staff for their input on answering this question.)

After answering these questions, the coordinators prepare the initial budget and ask the accounting department to approve it.

Organization B: The accounting department prepares the budgets for all the departments. Once the budgets are prepared, they are given to the department heads with little or no input from the department managers. The departments are periodically

How to Create an Accurate, Realistic Budget

There are several steps to preparing a budget that is realistic and accurate:

1. Prepare a Revenue Budget.

The revenue budget is the first budget to prepare. Be realistic when estimating revenue.

Set up two revenue budgets in the initial stage of planning the budget. Revenue Budget A is the known budget. It includes all revenue that each department

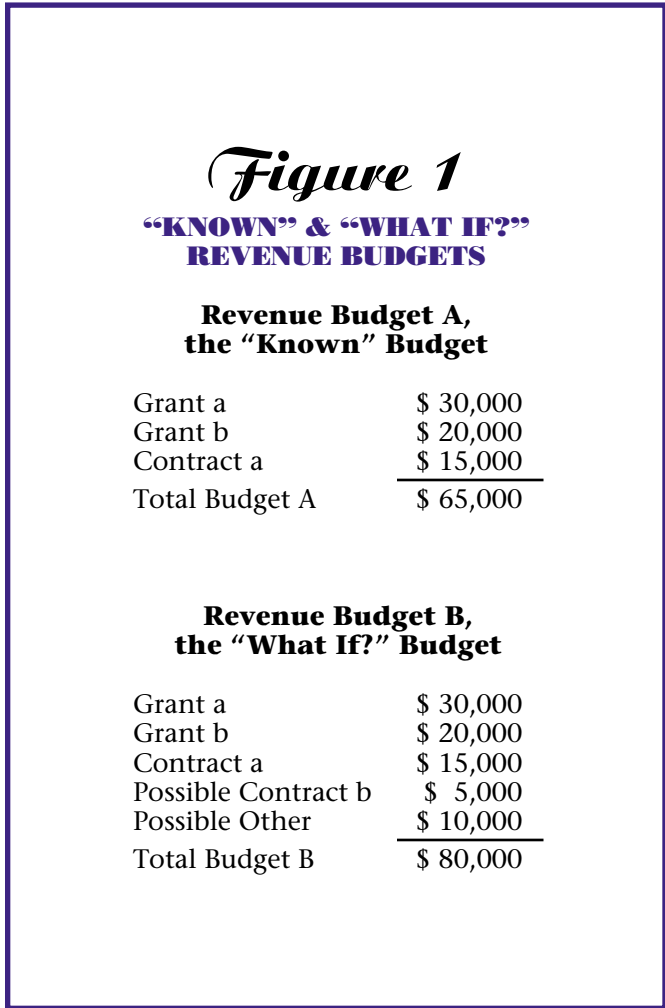


Figure 2

ABC AGENCY SAMPLE BUDGET YEAR 12/31/96

	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL
REVENUE					
GRANTS	245,000	205,000	233,000	225,000	908,000
CONTRACTS	159,000	180,000	165,000	175,000	679,000
OTHER	74,000	69,000	80,000	77,000	300,000
TOTAL REVENUE	478,000	454,000	478,000	477,000	1887,000
EXPENDITURES					
PAYROLL					
WAGES	283,050	282,825	283,025	283,300	1132,200
PR TAXES	35,192	16,217	35,217	34,142	120,768
FRINGE	64,158	64,158	64,158	64,158	256,632
TOTAL PAYROLL	382,400	363,200	382,400	381,600	1509,600
CONSULTANT & CONTRACT					
AUDIT	7,875	7,875	7,875	7,875	31,500
ATTY FEES	2,397	2,397	2,397	2,397	9,588
OTHER	1,050	1,050	1,050	1,050	4,200
TOTAL C & C	11,322	11,322	11,322	11,322	45,288
TRAVEL					
LOCAL	2,256	2,256	2,256	2,256	9,024
OUT-OF-TOWN	2,372	2,373	2,372	2,372	9,489
TOTAL TRAVEL	4,628	4,629	4,628	4,628	18,513
SPACE					
RENT	22,500	22,500	22,500	22,500	90,000
HEAT	8,719	2,718	2,719	8,719	22,875
UTILITIES	4,781	4,783	4,782	4,779	19,125
TOTAL SPACE	36,000	30,001	30,001	35,998	132,000
EQUIPMENT					
COPY RENTAL	3,503	3,503	3,503	3,503	14,012
POSTAGE	3,497	3,497	3,497	3,497	13,988
REPAIR & REPLACE	2,436	2,437	2,435	2,432	9,741
TOTAL EQUIPMENT	9,436	9,437	9,435	9,432	37,740
CONSUMABLES					
OFFICE SUPPLIES	2,307	2,020	2,711	2,307	9,345
EDUCATIONAL SUPPLIES	2,411	2,700	2,016	2,408	9,535
TOTAL CONSUMABLES	4,718	4,720	4,717	4,715	18,870
OTHER					
POSTAGE	2,340	2,239	2,301	2,366	9,246
TELEPHONE	3,205	3,107	3,072	3,125	12,509
INSURANCE	8,047	8,102	8,275	8,101	32,525
DUES & SUB	2,102	2,307	2,237	2,115	8,761
STAFF DEVELOPMENT	1,985	1,573	1,705	1,640	6,903
SECURITY	2,300	2,304	2,301	2,303	9,208
MISCELLANEOUS	1,871	2,148	2,059	2,019	8,097
TOTAL OTHER	21,850	21,780	21,950	21,669	87,249
UNAPPLIED					
CONTINGENCY	9,435	9,435	9,435	9,435	37,740
TOTAL UNAPPLIED	9,435	9,435	9,435	9,435	37,740
TOTAL	479,789	454,524	473,888	478,799	1887,000
SURPLUS(DEFICIT)	(1,789)	(524)	4,112	(1,799)	-0-

knows will exist. Budget B can be called a "what if?" budget. "What if we were to receive additional revenue?" "What if. . . ?" The calculation of an alternate budget will narrow the range of uncertainty. Figure 1 shows how you might prepare these two types of budgets.

2. Prepare an Expenditure Budget.

After calculating the revenue budget, prepare an expenditure budget. In your expenditure budget, always include a "contingency" line item for emergency or unexpected expenses. Also, as you did for the revenue budget, prepare both a "known" budget and a "what if?" expenditure budget. The "what if?" expenditure budget asks, "What if we were to incur additional expenses?" "What if an emergency occurs?" "What if. . . ?"

In addition, break down the expenditures into fixed and variable expenditures. A fixed expenditure is an expenditure that remains constant (for example, rent). A variable expenditure is one that can vary (for example, program supplies).

*Always set up two budgets—
the "known" budget and
the "what if?" budget.*

3. Prepare an Overall Budget.

Be sure all departments have a chance to review your initial budget. Once they have all approved the initial budget, you can prepare your overall budget.

The overall budget consists of all your department budgets. The overall budget is important because it states that although there are many programs within your organization, all the departments are striving together to achieve the same mission. See Figure 2 for a sample budget.

4. Prepare a Budget Report.

A budget report compares actual to budgeted amounts. You should prepare and analyze your budget report every month in order to control your budget effectively. See Figure 3 for a sample budget report.

When preparing the budget report, be sure all information is posted to the correct period

Tips on Controlling the Budget

- 1. Centralize purchasing** when possible. Centralization can result in savings when quantities are purchased. It also avoids excess purchases. Example: Have one person responsible for office supplies. If a person is designated to purchase office supplies, this person should also have the authorization to say "no" to unreasonable or unbudgeted purchases.
- 2. Don't spend now** and hope the funds will follow. Don't depend on funds you don't have. Example: Don't depend on a future fundraiser to pay for present expenditures. What if the fundraiser is not successful?
- 3. Don't pad** line items. It is far better to have an accurate line item amount than a distorted amount. If there is a surplus in a budget, record it as a surplus and use it appropriately.
- 4. Avoid vague**, all-encompassing categories. Example: One nonprofit had a category titled "space" which included everything from rent and utilities to repairs for the building. Instead of having one broad category, create separate accounts for rent, utilities, heat, and so on, in order to control the individual expenses.
- 5. Revise the budget** as many times as necessary to adjust for unavoidable changes throughout the year.
- 6. Avoid the "catch-all"** miscellaneous account as much as possible. If you must have a miscellaneous account, limit amounts charged to it to under \$100.
- 7. Don't procrastinate** in making an unpopular decision. Example: A program is constantly over budget and is draining the organization. It's very difficult to discontinue a program, but there comes a time when hard decisions must be made for the good of the organization.
- 8. Be sure every department shares** in controlling the budget. Give staff both responsibility for developing the budget and authority to manage and implement the budget.
- 9. Celebrate successes.** Demonstrating the importance of staying within budget is vital. Have small celebrations quarterly. Example: Provide a free pizza or breakfast for those departments that stay within budget. Have the board provide plaques or T-shirts to recognize the departments which made the greatest contributions. Too many times the board hears only of the "problem" departments. Recognize all the good that is happening within the organization.

Figure 3

ABC AGENCY SAMPLE BUDGET REPORT QUARTER ENDING 03/31/96

	BUDGET	ACTUAL	VARIANCE
REVENUE			
GRANTS	245,000	243,000	(2,000)
CONTRACTS	159,000	161,000	1,000
OTHER	74,000	73,000	(1,000)
TOTAL REVENUE	478,000	477,000	(1,000)
EXPENDITURES			
PAYROLL	283,050	284,725	(1,675)
PR TAXES	35,192	36,633	(1,441)
FRINGE	64,158	63,051	1,107
TOTAL PAYROLL	382,400	384,409	(2,009)
CONSULTANT & CONTRACT			
AUDIT	7,875	7,875	-0-
ATTY FEES	2,397	2,397	-0-
OTHER	1,050	1,075	(25)
TOTAL C & C	11,322	11,347	(25)
TRAVEL			
LOCAL	2,256	1,974	282
OUT-OF-TOWN	2,372	1,841	531
TOTAL TRAVEL	4,628	3,815	813
SPACE			
RENT	22,500	22,500	-0-
HEAT	8,719	8,821	(102)
UTILITIES	4,781	4,870	(89)
TOTAL SPACE	36,000	36,191	(191)
EQUIPMENT			
COPY RENTAL	3,503	3,521	(18)
POSTAGE	3,497	3,394	103
REPAIRS & MAINT	2,436	2,064	372
TOTAL EQUIPMENT	9,436	8,979	457
CONSUMABLES			
OFFICE SUPPLIES	2,307	2,170	137
EDUCATIONAL SUP	2,411	2,314	97
TOTAL CONSUMABLES	4,718	4,484	234
OTHER			
POSTAGE	2,340	2,299	41
TELEPHONE	3,205	3,303	(98)
INSURANCE	8,047	7,798	249
DUES & SUB	2,102	2,012	90
STAFF DEVELOPMENT	1,985	1,500	485
SECURITY	2,300	2,270	30
MISCELLANEOUS	1,871	1,953	(82)
TOTAL OTHER	21,850	21,135	715
UNAPPLIED			
CONTINGENCY	9,435	8,527	908
TOTAL UNAPPLIED	9,435	8,527	908
TOTAL EXPENDITURES	479,789	478,887	902
SURPLUS (DEFICIT)	(1,789)	(1,887)	(98)

NOTE: Quarterly budgets and reports are more easily controllable than yearly projections.

*Don't settle for "it's unaudited—
it's close enough."*

and to the correct account. Incorrect period postings will caused a distorted picture.

Example: December expenditures should be recorded in December, not January. If a phone bill or rental invoice is not received in the period that it is incurred, estimate the amount and include it in the period it should be expended.

Don't settle for "it's unaudited—it's close enough." Be as accurate as possible. Inaccurate information can be a disaster.

Once the budget report is prepared, the next step is to determine the reason for any unusual variances. The "why" is just as important as the bottom line, because only if you know the "why" can you take appropriate action.

Remember, the budget is the planning tool, and the budget report is the controlling tool.

Don't Ignore the Human Factor.

No control system is perfect. Inadequate software or a non-integrated accounting system can have a negative effect on the process. So can untrained or unmotivated employees. The human factor in any budget is as important as any quantitative statement the budget makes. ■

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These publications are available through the Society for Nonprofit Organizations' Resource Center. See the *Resource Center Catalog*, included in

this issue, or contact the Society at 6314 Odana Road, Suite 1, Madison, Wisconsin 53719 (800-424-7367).

Financial & Accounting Software Resources

Blackbaud Fund Accounting software, Blackbaud, Inc., 4401 Belle Oaks Drive, Charleston, South Carolina, 29405 (phone 800-443-9441; fax 803-740-5410).

DOS-NETWORKS-UNIX fund accounting software, Cougar Mountain Software, 2609 Kootenai, Box 6886, Boise, Idaho 83707 (phone 800-388-3038; fax 208-375-4460).

Echo Management fund accounting system, Echo Management Group, 1620 Main Street, Center Conway, New Hampshire 03813 (phone 800-635-8209; fax 603-447-2037).

Executive Data Fund Accounting, Executive Data Systems, Inc., 1640 Powers Ferry Road, Building 27, Marietta, Georgia 30067 (phone 800-272-3374; fax 770-955-3374).

FUND E-Z software, FUND E-Z Development Corporation, 106 Corporate Park Drive, White Plains, New York 10604 (phone: 914-696-0900; fax 914-696-0948).

Fundware Accounting software, American Fundware Inc., 1385 S. Colorado Blvd., Suite 400, Denver, Colorado 80222 (800-551-4458).

MIP Fund Accounting software, Micro Information Products, 505 East Huntland Drive, Suite 340, Austin, Texas 78752-3772 (phone 800-647-3863 or 512-454-5004; fax 512-454-1246).

Not-for-Profit Accounting software, Micro Information Products, 505 East Huntland Drive, Suite 340, Austin, Texas 78752-3772 (phone 800-647-3863; fax 512-454-1246).

USL Financial Fund SQL, USL Systems, 8227 Old Courthouse Road, Vienna, Virginia 22182 (phone 800-800-0768 or 703-790-2754; fax 703-790-3396).

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