

NAF Financial Foundations

Practical financial information for nonprofit managers and boards from Nonprofits Assistance Fund

The Nonprofit Budgeting Process

A budget is a plan that identifies the financial resources required to achieve programmatic objectives. Once constructed, this plan assists staff and board in managing the organization both programmatically and financially throughout the year.

Establishing a schedule of key action and decision points in the process allows adequate time for information gathering and decision making. How long the process should take and who should be involved varies depending on the management style and complexity of the organization. Typically the budgeting process should begin at least four months before the end of the fiscal year to ensure the budget is approved by the Board before the start of the new year.

THE BUDGETING PROCESS

Step 1: Planning the Process

- Identify who will coordinate the budgeting process and which staff, board members and committees need to be involved;
- Agree upon key definitions, assumptions and document formats;
- Set timelines and key deadlines;
- Determine and schedule any training or key meetings.

Step 2: Communicating about the Process

- Clearly communicate responsibilities, expectations and deadlines to everyone involved;
- Explain and distribute forms and assumptions.

Step 3: Programmatic Goal Setting

- Determine program goals and objectives;
- Project staffing requirements and salary and benefit assumptions based on program goals;
- Get board agreement on goals and assumptions.

Step 4: Information Gathering

- Research and gather information about income and expenses based on program goals and assumptions;
- Construct budget details by program;
- Communicate regularly to avoid duplication of effort and to share information and assumptions.

KEYS TO A SUCCESSFUL BUDGETING PROCESS

1. Clearly identify programmatic objectives that are aligned with the mission and strategic plan.
2. Determine the financial resources needed and available to achieve program goals.
3. Involve staff and board members in the process to improve accuracy of information and commitment to the plan.
4. Document! Don't rely on memory. Write down assumptions and formulas. This will be very important in managing the budget throughout the year.
5. Customize your process. The steps each organization takes will be somewhat different.

Step 5: Compilation and Revision

- Have one person compile all information, review it for consistency and redistribute to everyone involved;
- Leave plenty of time for review and revisions.

Step 6: Committee Review

- Have the finance committee and other appropriate staff and board committees review a budget draft and key assumptions;

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Example

BUDGET PREPARATION SCHEDULE

July/August

Step 1: Planning the Process

Executive Director meets with financial staff and finance committee to plan budgeting process and set timelines. Budget worksheet and template formats updated.

September

Step 2: Communicating about the Process

Staff meeting held to communicate process, responsibilities and deadlines to all participants.

Report made to board about process, timelines and assumptions.

Step 3: Programmatic Goal Setting

Board and committees review strategic goals and identify priorities;

Staff meet within programs/departments to brainstorm and plan for programmatic goals for next year.

September/October

Step 4: Information Gathering

Managers draft program or department budgets based on plans and assumptions.

November

Step 5: Compilation and Revision

Designated coordinator compiles information to prepare an initial organizational budget draft.

Managers review and revise initial draft.

Step 6: Committee Review

Finance committee meets to review budget draft and assumptions and make recommendations.

December

Step 7: Final Approval

Board meeting held and budget proposal and programmatic and fundraising assumptions are presented for approval.

December/January

Step 8: Implementation and Management

Staff meeting held to discuss budget, program goals and timelines for new year.

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- Be sure to allow enough time between committee meetings and the final approval deadline to address questions and recommendations and make revisions.

Step 7: Final Approval

- Distribute information to the board prior to the board meeting, including budget draft, program goals and other supporting information;
- Have program and development committees play a role in making an informative presentation to the board based on the opportunities, challenges and resources behind the budget numbers;
- Have the finance committee or treasurer present the budget proposal to the board.

Step 8: Implementation and Management

The real work begins once the budget is approved:

- Communicate budget, program goals and timelines for the next year to staff;
- Review actual income and expense compared to the budget on a monthly basis;
- Update and revise the budget as there are changes during the year. Depending on the significance of changes, the board may need to approve revisions.

NAF Financial Foundations provides a brief overview of complex financial management issues. For assistance assessing your organization's specific situation and determining appropriate strategies, contact NAF about our customized financial assistance.

NAF offers:

- ⇒ Practical financial advice and assistance
- ⇒ Financial management workshops
- ⇒ Loans for working capital, equipment and facilities, program expansion and other uses



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