

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

#### **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.

#### 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

### **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.

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