



The Leadership Letter November 2016

Organizations in Transition: Strengthening the Budget Process

With this *Leadership Letter*, we're launching a series of newsletters devoted to supporting organizational transition, something that is becoming a reality for SECA and our state affiliates. (For a broader explanation of the changing landscape, see the [March 2016](#) and [September 2016](#) issues of *The Leadership Letter*.)

In the September issue of *The Leadership Letter*, we posed these questions:

- ◆ Can we develop a financial plan that begins to diversify our revenue sources beyond membership dues and conference revenue?
- ◆ Do our governing boards have knowledge of their responsibilities in ensuring the financial stability of the organization?
- ◆ Have we developed fundraising plans based upon a strategic plan that clearly identifies goals and objectives?
- ◆ What sources and types of revenue/funding might be available to assist the association in meeting its mission?
- ◆ Do the traditional sources of fundraising/revenue still apply or are there new avenues to be explored?

Those questions will form the basis of the continuing series and we'll explore topics that focus on organizational change and strategies to address those changes. We began

the series in September with a focus on fundraising and the role of the board of directors in that process.

In this issue, we'll talk about strengthening the budget process, a process that is often last minute and not based upon operational realities. We'll share:

- ⇒ **Budgeting basics**—what you need to know
- ⇒ The **role of the board of directors and staff** in developing a budget
- ⇒ **Projecting cash flow** and how it impacts the operation of your association
- ⇒ Calculating the **true cost of programs**
- ⇒ **Utilizing a budget** to guide the activities of the association throughout the fiscal year

The series will continue with:

January 2017—*Planning for and addressing financial uncertainty, including a discussion of operational reserves*

March 2017—*Proactive planning for organizational change, (growth, downsizing, developing business plans, etc.)*

May 2017—*Putting it into practice and planning for the summer retreat....getting it right*

Remember, SECA is dedicated to helping you navigate the organizational changes that are coming. *Just Ask Us! if you need assistance.*

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Managing the Budget Process

"A budget is a planning tool that reflects an organization's programs, mission and strategic plan." Nonprofits Assistance Fund, www.nonprofitsassistancefund.org

There are **five basic steps** to developing an organizational budget and the process should begin much earlier than you might anticipate. At a minimum, the process should begin early enough to allow thoughtful preparation and review and approval by the board of directors of the organization before the beginning of the new fiscal year. **Effective budget development and monitoring is an on-going process, one which should occur throughout the year.**

A Budget Is

- ◆ A guide to assist in decision-making within the organization
- ◆ A reflection of the financial and personnel resources available to the organization
- ◆ A tool to assist the organization in meeting goals and objectives
- ◆ A document that reflects the current priorities of the organization

Step 1: Develop a Timeline

The process begins with the development of a timeline for presenting a budget to the board of directors for review and adoption. This timeline should reflect sufficient time between initial discussions and final approval to ensure that any proposed budget will stand up to the test of time during the next fiscal year.

The first step in the timeline should be the appointment of a budget committee if a standing financial committee is not in place. If the organization has a standing

financial committee, then this group may serve as the budget preparation committee.

Step 2: Prepare for the Budget Process

If your organization has staff, the preliminary preparation usually takes place between staff and the fiscal officer/treasurer of the organization. If your organization does not have staff, these preparations occur between the fiscal officer, bookkeeper and budget committee.

Preparation includes development of the following information.

- 1) Anticipated final revenue figures for the current fiscal year and projected revenue figures for the next fiscal year
- 2) Anticipated personnel and administrative costs for the next fiscal year, including staff salaries and benefits, overhead costs (office, equipment, phone, Internet, web hosting, etc.), board costs, program costs based upon organizational priorities, meetings/ conference
- 3) A review of current fiscal year profit and loss statements on which to base projections

Step 3: Develop a Draft Budget

Since non-profit organizations are required to submit returns to the IRS (the 990 form), aligning your budget with the items reported on the tax form is an easy way to make the end of the year process much simpler for everyone. It also provides a tracking system from year to year that compares categories of revenue and expenses to make the budgeting process easi-

er.

SECA revised its budget format to conform with a unified financial reporting system for not-for-profit organizations. This meant creating a [chart of accounts](#) that corresponded to the general categories on the Form 990 reporting form.

The draft budget should be based on facts and figures with an alignment of current revenue and expenses and organizational goals and objectives. Realistically some of the proposed budget will be a "best guess" but developing a conservative budget is always preferable to one that is "pie in the sky."

Step 4: Review and Adopt the Budget

Once the budget committee has agreed upon a proposed budget, it's time to present it to the full board of directors. It should be provided to the board at least two weeks in advance of the meeting so that members have time to review, prepare questions and concerns. During the formal budget presentation, the floor is opened for questions, and the budget committee should be prepared to explain the rationale for projections included in the budget. If the budget is very complicated, it's helpful to prepare a **budget summary** that explains how figures were developed.

Step 5: Monitoring the Budget

The budget is only a tool and one that can be modified as circumstances dictate. Board members should receive monthly financial reports and keep apprised of the financial health of the organization. A mid-year review of the budget should be conducted each budget cycle.

Transparency in the Budget Process

Nonprofit organizations are required to exhibit transparency in their financial dealings. These requirements are a component of meeting their obligations as a 501-(c)3 organization.

Transparency in the budget and financial reporting process means that leaders within the organization ensure that financial information, the annual budget and an audit/financial review are available both to board members and members of the organization.

Some things to remember as you initiate the budget process:

- ⇒ **Any meeting** of a non-profit organization (other than a personnel meeting) **is open to**

the public. Anyone who asks to sit in on the budget preparation meeting must be invited to do so.

- ⇒ As budget preparation begins, **the board should be fully informed about the process and how it will unfold**, including the timeline under which the work will occur and who will be involved.
- ⇒ It is appropriate for the Executive/Financial Committee to be the first group to initiate the process; however, **once a draft is completed, the budget must be presented to the full board for consideration and adoption.**

- ⇒ **Any potential conflicts of interest in the budget** (payments that may go to someone or a business that is connected to a member, board member, or staff) **should be disclosed** as the draft is presented. The board should be fully aware of those connections prior to adopting a budget and authorizing any projected payments.

- ⇒ Budgets may be modified during the fiscal year; however, **any modification to an adopted budget must be made through a vote of the board of directors.**

Transparency promotes accountability.

Projecting Cash Flow

One of the challenging aspects of budgeting for a non-profit organization is determining how revenue and expenses will be managed throughout the year. The timeframe under which money is received should determine how expenditures are budgeted, so that adequate funds are available to support organizational operations.

"Cash flow management refers to the need to have cash come in—flow in—at the right times, so that it is available to flow out as needed. Everyone knows that if an organization has more expenses than income, sooner or later it will find itself in trouble. However, even if income matches or exceeds expenses in a given year, the cash from the income may not arrive in time to pay the bills as they come due. A cash shortage can be very disruptive to your ability to carry out your missions. To avoid disruptions of business or to take advantage of temporary cash surpluses, cash flow can

and should be projected, monitored and controlled." Source: [What is Cash Flow and How Should We Manage It?](#), Head Start, Early Childhood Learning & Knowledge Center, 6/25/2008

Most accounting systems include a budgeting system against which revenue and expenses are coded; however, software such as QuickBooks will allocate budgeted figures across 12 months... 1/12 of the budgeted amount each month. (SECA utilizes QuickBooks software for non-profits.) This does not provide a true look at how revenue is received and when expenses are incurred.

With most of our state affiliates, there are two major sources of revenue: membership and conference. These two revenue sources are often received simultaneously as professionals renew or join the association in order to access the lower conference registration rates for members. This

means that the bulk of your revenue is received around conference and conference expenses are probably your major expenditure. It also means that you must spread that revenue across the other months of the fiscal year to maintain operations.

In small associations, developing a cash flow budget may be fairly simple and certainly provides a clear picture of what type of resources you will have to fund such things as conference and major projects. (*If you're working with grants, it's imperative to know when grant payments will occur, so that budgeting for that grant project will meet financial obligations incurred in implementing the grant objectives.*)

If you're interested in trying this approach, the article, [What is Cash Flow and How Should We Manage It?](#), provides a simple explanation of the concept and a sample of how a cash flow budget would be developed.



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**Promoting Quality Care and Education for
Young Children and Their Families**

SECA is a "Voice for Southern Children"

*This newsletter was written and
produced by Glenda Bean, SECA
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The Southern Early Childhood Association (SECA) is a regional organization committed to promoting quality care and education for young children and their families. SECA is committed to providing leadership and support to individuals and groups by:

- ◆ *Enhancing the quality of young children's lives through early childhood care and education.*
- ◆ *Supporting families in their roles of caring for their children.*
- ◆ *Fostering the professional growth and status of individuals working with young children and their families.*

SECA is a "Voice for Southern Children"

Other Resources from SECA:

[The Leadership Letter, March 2016:](#) *Change is in the Air!*

[The Leadership Letter, March 2015:](#) *The Legal Side of Board Service*

[The Leadership Letter, January 2015:](#) *Grants*

[The Leadership Letter, January 2016:](#) *Strategic Planning*

[www.southernearlychildhood.org **]**

Making It Work for You

As you enter the process of budgeting and determining what will happen within your organization in the next fiscal year, it's important to remember these facts.

- ◆ Budgets are simply a tool and, hopefully, are based on realistic projections of revenue and expenditures.
- ◆ Budgets should be developed in conjunction with the organization's goals and objectives...put your money where your priorities are.
- ◆ Budgets are only as good as the data utilized to develop them. Is that data based on true cost projections or "hopes and wishes?"
- ◆ Budget preparation (timeline, who does what, etc.) should be included in your policies and procedures, so that the process is maintained in the future as leadership changes.

We know that this financial

process is not something that you do routinely, but it can be developed in a way that provides a future pathway that becomes a routine part of your board responsibilities.

As a board member, you have a responsibility to ensure the financial stability of the organization as well as an effective and efficient use of the organization's resources to meet goals and objectives.

There are some tools available online that you may find helpful. For this newsletter, we'll direct you to the tools that will assist in developing the budget process. In future newsletters in the series, we'll identify those tools that assist in that specific area of the financial management of your association.

The [Wallace Foundation](#) has developed a set of resources and "tool kits" that are open source and available to assist you in ensuring the financial management of your association.

" Organizations with strong financial management are better able to fulfill their missions and deliver high-quality services. With [Fiscal Management Associates](#), a leading financial management consultant for nonprofits, we've created this library of resources to help your organization become "fiscally fit." These resources are available in the [Knowledge Center](#) on the Wallace Foundation website to assist you in the budgeting process.

[A Five Step Guide to Budgeting for Non-Profits](#)

[Cash Flow Projections Template for Nonprofit Managers](#)

[Nonprofit Cost Analysis Toolkit: Six Steps to Finding the True Costs of Programs](#)

[Program-Based Budget Builder](#)

[Nonprofit Accounting Basics: Internal Reporting for Good Management - Budgeting](#)