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Organizational Development

Turning Your Nonprofit Into A Powerhouse!

Bonus Edition

The Budget

**Introduction | Budgeting Basics
Stewardship & Accountability | Annual Budget Assessment**

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Luke 14: 28-30 (AMP)

²⁸For which of you, wishing to build a farm building, does not first sit down and calculate the cost [to see] whether he has sufficient means to finish it? ²⁹Otherwise, when he has laid the foundation and is unable to complete [the building], all who see it will begin to mock *and* jeer at him, ³⁰Saying, This man began to build and was not able (worth enough) to finish.

Introduction

The budget process is the way an organization goes about building its budget. A good budgeting process engages those who are responsible for adhering to the budget and implementing the organization's objectives in creating the budget. Both finance committee and senior staff participation is built into the process and a timeline is established leaving adequate time for research, review, feedback, revisions, etc. before the budget is ready for presentation to the full board. The annual budgeting process should be documented, with tasks, responsibility assignments and deadlines clearly stated. A good budgeting process also incorporates strategic planning initiatives and stipulates that income is budgeted before expenses. Fixed costs are identified and related to reliable revenue. Budgeting decisions are driven both by mission priorities and fiscal accountability.

An organizational budget should take into account the organization's annual operating income and expenses, as well as ensuring resources for long-lived and/or non-operating needs - this is the capital budget. An organizational capital budget might cover several years and it should include target amounts and fundraising strategies to achieve strategic and financial sustainability goals.

These could include:

- creating or increasing an operating reserve;
- deficit reduction;
- furniture, equipment, or software purchases;
- leasehold improvements;
- a building & equipment maintenance and replacement fund;
- a fund to support new initiatives, pilot programs, etc;
- a human resource capacity building fund.

Budgeting Basics

Accrual accounting - and budgeting - matches income and related expenses in the same fiscal period, regardless of the timing of the receipt or disbursement of actual cash.

Many small and midsize nonprofit organizations operate on a modified accrual basis - that is, mostly on a cash basis except for year-end adjustments for accrual.

There are six Basic Accrual Concepts:

Prepaid Expenses [Asset]; Receivables [Asset]; Fixed Assets / Depreciation [Asset / Expense]; Payables [Liability]; Deferred Revenue [Liability]; Multi-year, Time or Purpose Restricted Contributions [Equity / Net assets].

Stewardship & Accountability

This requires the organization to set up a well integrated financial management cycle featuring: Accurate and dependable accounting; Effective internal controls procedures; Transparent reporting; Informed analysis; Responsible planning; and Appropriate responses to its financial data.

Those responsible for the organization must adopt and follow good financial and risk management policies and engage staff or volunteer board members who have appropriate accounting and analytical skills. They must have access to timely, accurate, and readable financial reports.

The presence of a fully engaged and effective finance committee is a sure indication that an organization is committed to good stewardship.

Annual Budget Assessment

Stepping back once a year to take a high-level assessment of your budget system is a healthy exercise. There are four important questions to keep in mind as you work through the assessment process:

Are critical users getting the budget-based financial tools they need to be successful; Is budget "ownership" core to your organizational culture; Is budget awareness driving planning and enhancing results; Are budget-based reports telling the "Good Story," effectively benchmarking results, and forcing forward-thinking.

[see The Advocate Magazine for References](#)
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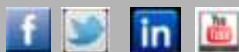
Always feel welcome to contact us directly with any questions, comments, or great ideas!

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ADVOCACY



*Helping Individuals, Organizations & Communities
Achieve Their Full Potential*

Our Mission

The Mission of The Advocacy Foundation
is Threefold:

To Rescue

Young persons from the prison pipeline
and help redirect and restore their lives;

To Teach

New and fledgling nonprofit organizations to become
fundable, to thrive, and to maintain compliance;

To Train

Qualified Juvenile Justice Professionals with a passion
for effective careers in the Juvenile Justice system.

PREPARING INDIVIDUALS, ORGANIZATIONS
& COMMUNITIES TO ACHIEVE THEIR FULL POTENTIAL