

# FINANCIAL PLANNING aka BUDGETING

Financial planning, aka budgeting, assesses the financial feasibility of the programs and services provided, or to be provided, by the non-profit organization. Most often, your annual planning should come before budgeting, but dollars available do make a difference. An organization's financial plan/budget identifies the resources that are needed to implement its plan. It projects revenues or profits that may be redirected to the implementation of the strategic objectives. It also identifies financial shortfalls and any seasonal or cyclical cash flows that may affect implementation of the strategic objectives.

Successful budgeting requires an accounting system that is capable of showcasing estimated and actual revenues and expenditures, as well as recording costs, and various analytical data for organizational units or program areas.

## TYPES OF BUDGETS

A budget is usually prepared for a specific period of time. Many non-profits may have a main operational budget, which features top-level revenue and costs, but may have some different types and styles.

### **Operational Budget**

Reflects projections of revenue and expenses over a specific time period, usually a one-year period. It will include revenues such as grants and fees for services and operating expenses such as salaries and program expenses. It is sometimes referred to as the annual budget.

### **Capital Budget**

This budget usually relates to the acquisition of buildings or equipment and includes major purchases or acquisitions. It shows the costs of the purchase and the source of funding to cover the costs.

### **Program Budget**

A budget is prepared for each program or service that you provide to your stakeholders.

### **Line-Item Budgeting**

Uses the previous year's budget category's actual amounts as a starting point and then reviews each category.

### **Zero-Based Budgeting**

This type of budgeting is often referred to as budgeting from the bottom up. You start at zero and complete a budget from scratch with input from many people within an organization. Revenue and expenses are based solely on future events that you expect to occur and not on what was budgeted in prior periods.

### **Cash Budget or Projection**

Based on cash coming in and cash going out for a specific period of time.

## **BUDGET CONSIDERATIONS**

Budgeting is a process. Organizations often begin by making reasonable assumptions about the future, projecting revenues (dollars received by the organization) and expenses (dollars spent by the organization). However, organizations are often faced with unforeseen opportunities and issues. The budget provides a base to make sound decisions on resources available, and the ability to adjust to change.

It is also recommended that non-profit organizations consider return-on-investment when preparing and analyzing their budgets. This includes measuring the cost of the program against the community interest and need. Evaluation of programs and services is important for future budget planning.

## **APPROVING THE BUDGET**

Many non-profit boards approve the organization's annual budget. These budgets provide a road map for directing the non-profit organization's efforts toward achieving its goals. Reviewing the budget is essential to helping the board's discharge its fiduciary responsibility.

## **ACCOUNTING FOR VARIANCES**

Budgets are unlikely to be precisely achieved and often result in variances. Variances are the difference between the estimated and actuals for each budget line item. Staff may prepare a variance report for the board on a quarterly basis. It provides input on the work of the organization, and accountability on financial position throughout the year.

At times, boards may need to consider changes to the Strategic Plan in order to respond to variances in financial position.

## **FINANCIAL STATEMENTS AND REPORTING**

Financial planning also includes the preparation and analysis of the non-profit organization's financial statements and fiscal reports. Besides identifying successes and performance measurements, the financial statements will identify changes that are needed to improve future performance.

Sound financial planning and/or budgeting is important for any organization applying for additional funding. While a plan will demonstrate how key goals and objectives are aligned with potential funding programs, an organization's budget and financial planning reports can help make a solid case for added financial support from a funding program. It will also assist in identifying the needs early on, in order to build strong grant proposals that are developed well before grant deadlines.

### **Other Topics to Explore:**

[Financial Audit](#)

[Audit Committees](#)

[Financial Policies](#)

[How to Read Financial Reports](#)

**On-Site Materials:**

[Budget Template](#)

**Other links:**

[\*A Guide to Financial Statements for Non-profit Boards.\*](#)

[\*Keeping the Record Straight: Introductory Accounting for Non-Profit Organizations.\*](#)  
Certified General Accountants of Ontario, 2012.

[\*New Accounting Standards for Charities and Non-Profits.\*](#) WEBINAR. Imagine Canada, 2012.

[\*New Accounting Standards for Charities and Non-profits. Questions for Directors to Ask.\*](#)  
Chartered Accountants.