



Making Your Budget a Complete and Useful Management Tool

For many organizations, the annual budget is a time-consuming process that satisfies business requirements. However, it may not provide management with sufficient guidance or comparative analytics. Individual detailed program, product, or service budgets are not created to support the overall budget, nor are schedules, such as, employee related expenses, overheads, marketing, etc. Your annual budget should be a useful tool and a road map that assists you throughout the year in your decision-making process. It should allow you to measure the many successes or failures of your organization.

What are budgets used for?

Budgets should be viewed as a financial roadmap for an association. While budgets are required by the Board of Directors and requested by your audit firm, your budget should be used as an internal planning and management tool, as well as a financial projection. The budget for any association should be used throughout its duration, as a measurement of success and to identify areas that need improvement.

Your budget is also a decision-making tool, when looking at available resources and selecting how to allocate those resources, including cash, personnel, and equipment. Comparing your actual results to your budgeted results, should be a monthly routine and part of your closing process and financial statement compilation. Material variances should then be acted upon, as soon as they are identified.

What should be the time frame for completing a budget?

Your budget should be completed prior to the start of the proposed budgeted year. For many organizations, the process starts in the months prior to the organization's year-end. At many associations, it is useful to have the budget completed as early as a month or more before the year-end. This allows the budget to be presented to the Board of Directors, Executive Committee or Finance Committee for their approval and/or suggestions and adjustments. You should factor in potential adjustments that your board may have, so that a completed and approved budget is finalized before the start of the year it covers.

What employees should be involved in the budget process?

Two main approaches have been utilized by organizations to compile their budget. In the first approach, senior management completes the budget and then disseminates the financial goals to the responsible employees, which is a mandate type of approach. The second approach is to have employees, who hold responsibilities directly impacting the financial successes or failures of the association, actively participate in the budget process.

Employee involvement in the development of the budget, is the most effective method. This is because the employees have the most direct involvement and impact on the financial goals of the organization. These employees also are aware of the potential future needs of the organization, including event related income, personnel requirements, needed capital expenditures, etc. The individual employee and overall organizational goals for the next year, should also be set in conjunction with the financial budget. The budget should help guide the operational goals of the organization, and "connect-the-dots" between the two.

What is included in a complete budget?

A complete budget should include an income/expense budget (aka income statement or P&L), a capital expenditure budget and a cash flow budget. Many organizations focus only on their income/expense budget. However, each of these is a critical and necessary component when projecting and measuring the needs and goals of your organization.

- **Income/Expense Budget** – The income/expense budget includes all projected revenues or income, the direct costs (often referred to as cost of goods sold or cost of services) associated with those revenues or income, and overhead expenses. While these results are compiled on a consolidated basis, each segment should also have its own individual budget. This would include separate budgets for income generating items, such as dues and events, as well as overhead expenses, such as personnel, insurance and office supplies.
- **Capital Expenditure Budget** – The capital expenditure budget should cover all capital expenses for the upcoming year. For most associations, this would include computers, software, member database, etc. It is designed to ensure that the infrastructure of the organization is captured in its needs and properly budgeted for.
- **Cash Flow Budget** – The cash flow budget combines the anticipated cash inflows from income generating segments, along with cash outflows from expenses and anticipated capital expenditures. The cash flow budget is a plan to ensure that the organization is operating with a positive cash flow and will have the ability to meet the demands of the organization's current and future operational needs.

How should a budget be supported?

A complete budget should be properly supported with the income and expenses totals from supporting individual budgets or worksheets, that are based on historical results or anticipated needs. Each income generating segment or expense incurring item for the organization should be separately budgeted for, in support of the consolidated budget. At a minimum, items would include:

- **Dues Budget** – including anticipated additions for new members and reductions from lost members.
- **Conference and Event Budgets** – this would include the revenue and expenses from events and conferences and also items, such as rates, attendance, etc.
- **Employee Expenses** – Employee related expenses include raises, bonuses, employer tax, etc.
- **Overhead Expenses** – This would include line item detail taken from the chart of accounts.

How should your budget be formatted?

A proper budget must be formatted, so that actual results can be compared against the budget on a monthly basis. It is important to remember that your budget is a financial roadmap against which the financial successes and failures of your organization are measured and from which decisions will be made. Make sure that you format your budget so that it facilitates this process being completed monthly.