

Ten Steps to Finalizing Your Annual Budget

By Rob Faulk, Partner

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No organization has an infinite supply of resources. An effective budget will assist your organization in using the resources you do have in a way that accomplishes your goals and furthers your mission.

The following steps will help you create a realistic and effective budget for the coming year.

- 1. Know what you want to accomplish before you even think about a budget.** Ideally, you will have adopted a well-considered strategic plan, and you will have a clearly defined annual operating plan that advances the strategic goals. Even if you don't have a long-term strategic plan, you should be clear about what you want to accomplish in the coming year.

Be certain your budget allocates resources for your top priorities. Ask:

- What is the overreaching, driving goal for the organization?
- What are the five main objectives for the organization, in order of priority?
- What are the short-term and long-term goals for the individual ministries?
- How will these goals be accomplished? How will progress be monitored?

- 2. Invite participation to promote ownership.** While it is faster and easier to simply have the senior leaders determine a budget and inform the rest of the organization, that approach doesn't lead to ownership

of the budget. Take the time and effort to involve the ministry leaders and get them to prepare the "first cut" of the budget, carefully linking objectives with the resources necessary to achieve the objectives. Invest in their training and understanding. It will pay huge dividends in return.

- 3. Ensure you understand your organization's financial strengths and weaknesses.** Consider financial indicators, such as cash reserves, previous financial performance, liquidity ratios, and how much cash needs to be set aside for restricted purposes. How have these measures changed over the past few years?
- 4. Think long-term.** What factors might affect your organization over the next five years, such as changing demographics or economic trends? What goals and programs might be needed? What income sources do you anticipate meeting these needs?
- 5. Combine the preliminary budgets into the overall budget and identify possible cuts.** Are there items that fulfill the same purpose? How do the proposed ministry budgets fit with the overall objectives identified in Step 1? It's important to consider activities and their results, rather than just focusing on costs. This will help you prioritize what is spent compared to the outcomes (and overall value) the activity or item brings. It also might help you identify excessive costs that can be mitigated through alternatives such as outsourcing, partnering with another organization, or having different ministries within your organization work together.
- 6. Consider preparing contingency budgets.** Funding changes can occur. If you prepare a contingency budget that is a certain percentage higher than the primary budget and one that is a certain percentage lower, you'll be prepared to make rational, carefully considered decisions when faced with a shortfall or surplus.

7. **Present a draft of the primary and contingency budgets to the finance committee for review and approval.**
8. **Present an updated draft to the full governing board for approval.**
9. **Communicate the final budget to all stakeholders.**
10. **Monitor the budget quarterly to identify and respond to potential shortages.** The budget may be finalized, but it's important for leadership and the board to monitor it continually and address any issues. Even though something is in the budget, the cash may not be in the bank at the time the expenditure is planned.

Creating the annual budget doesn't have to be a painful process. With careful consideration and planning, you can develop a budget that truly supports your organization's mission and objectives.

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About the Author

Rob Faulk, Partner

Church and Denomination Services Director
rfaulk@capincrouse.com
o 505.50.CAPIN ext. 1652
c 818.813.1913

Rob has more than 35 years of financial leadership experience in serving both for-profit and nonprofit entities, as well as more than eight years of direct ministry experience as Executive Pastor and CFO of large churches. He previously served with a Big Six accounting firm, where he was the lead manager on the project that developed the COSO Internal Control framework. Rob holds an MA in Ministry Management from Azusa Pacific University Graduate School of Theology.

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