



# Building Budgets

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# SEMINAR LEADER

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## **Experience**

Amanda has over 7 years of auditing and accounting experience working in a wide variety of industries, including audits of privately held companies, publicly traded companies and nonprofit organizations (foundations, educational institutions and service-based organizations). Amanda's area of expertise includes audits in accordance with the requirements with OMB Circular A-133.

## **Industries & Focus**

Nonprofit, Technology, Manufacturing & Distribution

## **Education & Affiliations**

Amanda graduated from California State University, Northridge, earning a Bachelor of Science in Accounting with a minor in economics. She is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

# FIRM OVERVIEW

- ❑ **Established in 1959, SingerLewak has been serving the financial needs of our clients for over 50 years**
- ❑ **We have 6 offices throughout California**
- ❑ **We currently have 29 partners with an average of more than 20 years of industry experience**
- ❑ **We have 225 team members providing a full range of services comparable to a National Firm**
- ❑ **Our Audit Practice Group is ranked among the largest in the Country (Ranked by the number of audit clients)**
- ❑ **We are named among the top 100 largest accounting firms in the Nation in *Public Accounting Report* and *Accounting Today* for the last 12 years**

# FIRM OVERVIEW (Continued)

## 5 PRACTICES

- ASSURANCE & ADVISORY
- TAX
- BRaTS  
BUSINESS RISK AND TECHNOLOGY SERVICES
- LITIGATION & VALUATION SERVICES
- BUSINESS MANAGEMENT

## 5 BUSINESS SECTORS

- PUBLIC COMPANIES
- ENTREPRENEUR & FAMILY-OWNED BUSINESSES
- INVESTOR-BACKED PRIVATE COMPANIES
- NONPROFIT ORGANIZATIONS
- HIGH NET WORTH INDIVIDUALS

## 8 INDUSTRIES

- TECHNOLOGY
- MEDIA & ENTERTAINMENT
- CONSTRUCTION
- LIFE SCIENCES
- RETAIL & FRANCHISE
- MANUFACTURING & DISTRIBUTION
- PROFESSIONAL SERVICES
- REAL ESTATE

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# SECTION 1: GOALS FOR THIS COURSE

## **To Understand:**

- The Importance of Budgets
- Types of Budgets
- Budgeting Methods and How to Prepare a Meaningful Budget
- The Budget Process and How to Use a Budget

# SECTION 1: RULES FOR THIS COURSE

- Ask as many questions as you can today. I won't be here tomorrow.**
- Ask the question when it enters your mind. That's when it's the most relevant.**
- There is no such thing as a stupid question, especially when it comes to budgets! The very essence of budgeting is thinking and questioning.**

# SECTION 1: QUESTIONS TO PONDER

***Who are you? What is your organization?  
What does your organization do? What do  
you do within it?***

***Why are you here? What do you want to  
get out of this course?***



## SECTION 2: DEFINITION OF A BUDGET

### **Choose Your Favorite From the Following Definitions:**

1. A budget is an orderly system of living beyond your means.
2. A budget is a schedule of systematically going into debt.
3. A budget is an attempt to live below your earnings.
4. A budget is a method of worrying about what you spend before as well as afterwards.
5. A budget is a method of saying, “No!” to somebody’s request to spend money before they’ve even asked for it.
6. A budget is a quantitative expression of a plan of action and an aid to the authorization and control of transactions.

## SECTION 2: DEFINITION OF A BUDGET cont.

### **Why do most people hate budgets and budgeting?**

1. *“Budgets are boring. Preparing a budget is boring.”*
2. *“Budgets keep us from doing what we really want to do.”*
3. *“Budgets take too long to prepare.”*
4. *“Budgets drown you in meaningless details.”*
5. *“Budgets are simply crystal-ball-gazing. Actual results are always different.”*

## **SECTION 3: BENEFITS OF BUDGETING**

### **Benefits of Budgeting:**

- 1. Budgeting forces goal-setting and planning.**
- 2. Budgets force a proactive, not reactive, mindset.**
- 3. Budgets authorize the program.**

## **SECTION 3: BENEFITS OF BUDGETING cont.**

### **Benefits of Budgeting cont.:**

- 4. A budget controls actual expenditures and permits evaluation.**
- 5. Budgeting forces the budget to be balanced.**
- 6. Budgeting forces you to be realistic about what you can do if planned expenses exceed realistic revenue expectations.**

## **SECTION 3: BENEFITS OF BUDGETING cont.**

**What happens when you compare your plan versus your actual:**

- It tells you what went wrong versus what went right.**
  
- It even tells you how far you may be from where you want to be.**
  
- It gives you an opportunity to find out:**
  - Why are we off the mark?**
  - Where are we going?**
  - What action must be taken to meet financial goals?**

# SECTION 4: TYPES OF BUDGETS

## 1. Nonprofit v. Profit Budgeting

There are some differences between for profit and nonprofit budgeting:

<u>Profit</u>	<u>Nonprofit</u>
Try to maximize profit	Try to be balanced and maximize expenses
Often start with sales	Often start with expenses
Often optimistic	More like to be realistic

# SECTION 4: TYPES OF BUDGETS cont.

- 2. Long-range and Short-range Budgets**
- 3. Operating Budgets**
- 4. Cash Flow Budgets**
- 5. Capital Improvements**
- 6. Flexible (Variable) Budgets**
- 7. Departmental Budgets**

# SECTION 5: BUDGETING METHODS

**There are two fundamentally diverse methods to arrive at a budget. There is also a method that is a compromise of the two, and it is almost always the method used.**

## 1. Use Prior Activity

### **Pros:**

- Simple!
- A good approximation of the future, as it is rooted in historic facts.
- Met with little resistance from individuals reviewing it.

### **Cons:**

- Encourages departments to spend to their limit to ensure allocation of the same or greater budget next year.
- No evaluation of the usefulness or effectiveness of expenditures.
- Lack of planning, as the future is not considered.



# SECTION 5: BUDGETING METHODS cont.

## 2. Zero-Based Budgeting

### **Pros:**

- All revenues and expenditures are reviewed and justified.
- Validity, appropriateness, and effectiveness of each item are questioned.

### **Cons:**

- Time consuming and cumbersome.
- Stressful for individuals involved in the questioning.

# SECTION 5: BUDGETING METHODS cont.

## 3. Modified Zero-Based Budgeting

- Combines the prior-activity method with the zero-based method.
- The validity of certain essential expenses such as utilities and rent are not questioned, however other major expenditures and programs are.
- Every nonprofit organization should do modified zero-based budgeting.

# SECTION 6: THE BUDGET PROCESS – HOW TO PREPARE A BUDGET

**1. Revisit your mission statement.**

**2. Think of what could happen this year that has not happened in the past.**

**3. Determine how you are going to break up the budget.**

- Small nonprofits should do one budget covering the entire organization.
- Larger nonprofits should split the budget into three parts and then consolidate into one organization wide budget.
  - Those three parts are:
    - Program budgets,
    - Fundraising budget, and
    - General and administrative budget.

## **SECTION 6: THE BUDGET PROCESS – HOW TO PREPARE A BUDGET cont.**

- 4. Get individuals who are responsible for living with the budget involved at the earliest possible stage.**
- 5. Cost out the income and expenditures for the year for the entire organization, or for the departments, if a departmental budget is being prepared.**
- 6. For departmental budgets consider the allocation of overhead.**

## **SECTION 6: THE BUDGET PROCESS – HOW TO PREPARE A BUDGET cont.**

- 7. Look at the “bottom line” and balance the budget.**
- 8. Allocate the balanced budget over 12 months.**
- 9. “Cash flow” the budget over 12 months.**
- 10. Prepare a contingency plan.**

## **SECTION 6: THE BUDGET PROCESS – HOW TO PREPARE A BUDGET cont.**

- 11. Obtain the approval of the board of directors.**
- 12. Compare the actual results with the budget on a monthly basis**
- 13. Amend the budget.**
- 14. Label workpapers and create a file that can be followed by someone else later on.**

# SECTION 7: EXERCISES

## **Exercise 1:**

Prepare the detail budget for 2013 based on last year's numbers. Take into account the following information we (think we) know about next year.

- Contributions are expected to increase by 15% over last year.
- Grant income has been pre-approved at \$400,000.
- Fundraising expenditures will be 10% of contribution and grant income.
- The five person staff will get a 4% raise on January 1 and the only new expected hire will be a junior budget analyst in July at \$30,000 per annum.
- The lease calls for an annual cost of living adjustment.
- Health insurance is going up by \$205 per person per annum.
- Insurance has tripled.

Balance the budget by spending as much as possible on program expenses.

# SECTION 7: EXERCISES

## Exercise 1 Budget Worksheet:

January 1, 2013 to December 31, 2013

	LAST YEAR BUDGET	LAST YEAR ACTUAL	PRELIM CURRENT BUDGET	FINAL CURRENT BUDGET
<b>Income</b>				
Contributions	\$ 120,000	\$ 155,250		
Grants	320,000	387,500		
Interest & Other Income	<u>14,000</u>	<u>22,373</u>		
<b>Total Income</b>	<u>454,000</u>	<u>565,123</u>		
<b>Expenses</b>				
Program Costs	205,000	308,451		
Fundraising	55,000	72,323		
<b>General &amp; Administrative Costs</b>				
Salaries	138,000	142,327		
Payroll Taxes	9,700	9,963		
Health Insurance	6,000	6,250		
Rent	12,500	12,500		
Printing	2,000	5,760		
Postage	1,000	1,233		
Telephone	3,000	4,732		
Office Supplies	5,000	7,450		
Training	500	1,148		
Dues & Subscriptions	500	785		
Insurance	4,200	4,800		
Audit	8,000	8,500		
Contingency	<u>3,600</u>			
<b>Total Expenses</b>	<u>454,000</u>	<u>586,222</u>		
<b>Excess (Deficiency) of Income Over Expenses</b>	<u>\$ 0</u>	<u>\$ (21,099)</u>	<u>\$</u>	<u>\$</u>



# SECTION 7: EXERCISES

## Exercise 1 Budget Worksheet Solution:

January 1, 2013 to December 31, 2013

	LAST YEAR BUDGET	LAST YEAR ACTUAL	PRELIM CURRENT BUDGET	FINAL CURRENT BUDGET
<b>Income</b>				
Contributions	\$ 120,000	\$ 155,250	\$ 178,538	
Grants	320,000	387,500	400,000	
Interest & Other Income	14,000	22,373	25,000	
<b>Total Income</b>	<u>454,000</u>	<u>565,123</u>	<u>603,538</u>	
<b>Expenses</b>				
Program Costs	205,000	308,451	300,137	
Fundraising	55,000	72,323	57,854	
General & Administrative Costs				
Salaries	138,000	142,327	163,020	
Payroll Taxes	9,700	9,963	16,302	
Health Insurance	6,000	6,250	8,000	
Rent	12,500	12,500	13,125	
Printing	2,000	5,760	3,000	
Postage	1,000	1,233	1,250	
Telephone	3,000	4,732	5,000	
Office Supplies	5,000	7,450	7,500	
Training	500	1,148	1,200	
Dues & Subscriptions	500	785	750	
Insurance	4,200	4,800	14,400	
Audit	8,000	8,500	9,500	
Contingency	3,600		2,500	
<b>Total Expenses</b>	<u>454,000</u>	<u>586,222</u>	<u>603,538</u>	
Excess (Deficiency) of Income Over Expenses	<u>\$ 0</u>	<u>\$ (21,099)</u>	<u>\$</u>	<u>\$</u>

# SECTION 7: EXERCISES

## Exercise 2:

With the below additional facts about the nonprofit organization in Exercise 1, complete a final current budget:

Last year's salaries were as follows:

Executive Director	46,000
Senior Budget Analyst	30,000
Personnel Director	30,000
Bookkeeper / Administrative Assistant	20,000
Receptionist / Secretary	<u>15,000</u>
	141,000
Temporary Help	<u>1,327</u>
	<u>142,327</u>

- The organization has one phone line.
- The insurance deductible is \$50.
- The dues and subscriptions are for periodicals for the Executive Director.
- Ask some "zero-based" questions.

# SECTION 7: EXERCISES

## Exercise 3:

Allocate the following expenses among the three departments by: Program, General & Administrative, and Fundraising.

<u>EXPENSE</u>	<u>AMOUNT</u>	<u>PROGRAM</u>	<u>ADMIN</u>	<u>FUNDRAISING</u>
Salaries	400,000			
Benefits	50,000			
Rent	30,000			
Printing	20,000			
Postage	9,000			
Telephone	12,000			
Liability Insurance	30,000			
Fire Insurance	1,000			
Audit	10,000			
Travel	95,000			

Other Information:

Employee Distribution Is:	Program	9
	Admin	5
	Fundraising	1
Rented Space Is Used:	Program	5%
	Admin	90%
	Fundraising	5%

## **SECTION 8: INTERNAL CONTROL RECOMMENDATIONS – WHAT’S WRONG WITH THESE SITUATIONS?**

1. The bookkeeper prepares the checks and gives them to the Executive Director with the invoices for signing. The Executive Director signs the checks and gives the checks with the invoices to a Board member for a second signature. The Board member signs the checks and gives the whole package back to the bookkeeper. The bookkeeper mails the checks.
2. The receptionist opens the mail and distributes it to wherever it is due. She gives any checks or cash received in the mail to the accounting department for banking.
3. Mae has been doing the payroll for years. She does an excellent job; no one can do the payroll like Mae. The organization doesn’t even let her take a week off for vacation unless it is a week when she does not need to do the payroll.

## SECTION 8: INTERNAL CONTROL RECOMMENDATIONS – WHAT'S WRONG WITH THESE SITUATIONS?

4. There is \$543,210 in the checking account.
5. The organization has a cash collection box. Each week, Dolly goes to the box, collects the cash, counts it, and banks it. There is normally about \$1,000 per week in the box, and Dolly has done this alone for 10 years. She was originally selected to do this job because she was considered to be the most trustworthy person imaginable. She has done nothing since that day to have anyone question her honesty and integrity. Although it has been considered that two people should be present to open this box, the organization does not want to insult Dolly by implementing this procedure at this time.

# SECTION 9: CONCLUSIONS, SUMMARIES AND ANY OTHER QUESTIONS

- ❑ **Balance the Budget, or budget for a surplus. Every nonprofit organization needs to be in the black in the long run.**
  
- ❑ **Use the budgeting time to think about the meaning of life, what you are trying to achieve, and whether you are going about it in the best way.**
  
- ❑ **Be realistic. Good budgets never hurt a nonprofit organization, and bad budgets certainly do.**
  
- ❑ **Monitor actual results against budget on a monthly basis. Take corrective actions as appropriate.**