

# **A Non-Profit and a Rabbit Hole Walked into a Budget...**

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## **Best Practices and a Few Distractions on Budgeting for Non-Profits**

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**Presentation Notes.** *Where you see this, comments and learnings from the November 18, 2020 CPA Ambassador presentation.*

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## Do You Thinking Budgeting Is a Joke?

Budgeting is no joke, but it can be very funny. Unfortunately, not funny-ha-ha but funny weird. This book is your non-joke – not-always-serious guide to budgeting in a non-profit.

**Wind, Holes and Rabbits.** This book has two parts. The ‘book’ part is meant to be read in about 60 minutes<sup>1</sup>. It is a whirlwind tour of all things budgeting. So why so thick? Because of the rabbit holes. There are lots of annexes that explore various topics in greater (sometime excruciating) detail. They are not in the main body because, quite frankly, most people don’t care.

**Frankly My Dear, I Don’t Give a Budget...** Speaking of frankly, who is this Frank guy? I am a professional accountant (CMA/CPA, Canada) who has spent most of his career avoiding accounting – which is why I love budgeting. Besides, who wants to spend their career looking back when you can look forward. Beyond this, I have a passion for how organizations work. This passion led me to create a website called [Organizational Biology – How Organizations Really Work](#)<sup>2</sup>.

Part of this passion is understanding how organizations control themselves to avoid risk and enable themselves to take advantage of opportunities. A budget is a control device (“it’s not in the budget”) and an enabler (“I used part of my budget to”). This book tries to balance budgeting as a control and as a tool to enable your organization.

**Why Non-Profits? Can For-Profits Still Hang Out?** This book is written as a companion to an Alberta CPA Ambassadors<sup>3</sup> presentation on budgeting. Non-profits are conservative and restricted in what they can do as compared to for-profits. Legislation, social norms and donors make them this way. For-profits are welcome to hang out but please sit quietly in the back.



**Presentation-Notes - Who loves their budget process? 10 responses. 8 were negative (It’s kind of a chore, not particularly). 1 positive (I like it. It is good for the future) and 1 neutral (Kind of love it — there’s the numbers and then the story that the numbers tell; I like that part a lot.)**

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<sup>1</sup> Welcome to your first rabbit hole... although a footnote it is more of a rabbit-divot. A college graduate can read up to 300 words/minute which means I have a 27,000-word limit. Counting them is optional.

<sup>2</sup> This is an example of a shameless plug for my website. Because it is where I store thoughts and half-baked models, it has an audience of one, me. Nevertheless, feel free to poke around and grab anything of use to you. All that I ask for in return is attribution.

<sup>3</sup> The Alberta Community Ambassadors were founded in 2011 when a group of Calgary Chartered Accountants, with a passion for community involvement, wanted to find a way to help other CA’s share their passion and find meaningful and productive volunteer opportunities. In 2014, we welcome CGA’s and CMA’s to our group as we celebrate the merger of three different entities into the singular CPA designation. The Community Ambassador Committee’s mission is to connect Alberta Designated Accountants with not-for-profit organizations to offer financial expertise, leadership and guidance using their unique skill set. <https://communityambassadors.ca>.

## Budgeting, Fun for the Whole Family (of Organizations)

Budgeting is an activity that most organizations (government, for-profit, non-profit, etc.) undertake. The focus of this document is on non-profits. By the way, I am using this term in a very generic way. When I say “non-profit” I mean anyone of the following<sup>4 5</sup>:

- **Registered Charity:** an organization approved and registered by the Canada Revenue Agency. It may be a society, corporation, trust or other entity. It can also engage in some limited for-profit activities (e.g. a candy shop in a hospital).
- **Non-Profit:** an organization registered as a corporation or a society here in Alberta, focused on its member or the public good but which can NOT issue a tax receipt.

**Non-Profit Know Thy Self.** I am assuming you understand your legal and tax standing (e.g. can you issue tax receipts for donations). As well, if you are reading this book, you are a highly capable and experienced individual who has spent considerable time in the trenches. Much of what you will read in this book will be old news. For some, it might be 80% and for others 90%. There are three+one points here.

1. Just because you have heard a concept before does not mean you are actually doing it or doing it well. Think about how COVID re-taught us how to wash our hands.
2. 10-20% of the material will be new to you.
3. There is the collective experience out there. By sharing your perspectives and experiences you have a chance to both learn new stuff and reinforce your experience.
4. If you are attending the CPA Ambassador session, please take part in the discussions. They will tell CPA Ambassadors topics to return to in future sessions. If your organization is having particular challenges with budgeting, or pretty much anything else, CPA Ambassadors can help you find a volunteer who can assist.

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<sup>4</sup> Adapted from Aptowitzer, pp. 15-19 and 49-52. This and the website, [www.runningacharity.ca](http://www.runningacharity.ca) are both excellent resources. Non-profits should give new board members a copy of Aptowitzer's book.

<sup>5</sup> The above is far from a complete set of definitions for the term “non-profit”. (Un)Fortunately for you I have gone down many wonderful rabbit holes to give you a more accurate definition. If you are inclined, visit this and other links in this presentation: <http://myorgbio.org/volunteering-definitions>.

## What is this Budget Thing You Speak Of?

Planning in general and budgeting in particular is expensive. At the start of the century, the Hackett group benchmarking studies showed an average elapsed time of 4.5 months to develop a financial plan<sup>6</sup> or about 135 days. Fast forward a decade or two and top performers are budgeting in 56 to about 120 days<sup>7</sup>. Even at the low end, two months spent budgeting sounds more like punishment than something fun.

## A Tale of Two Budgets

Benchmark studies are based on real organizations. Organizations that like to live in the first quartile operate something like this:

- The budget and strategy move in lock step through the planning process.
- The annual budget process is done and dusted in a couple of weeks to a month.
- Managers and decision makers get either real-time financial information or monthly financials a few days after the close.
- Programs are supported and clients served to the best of resource-ability of the organization.

Then there are the not so perfect organizations.

- Budgeting and strategy lack any tie in to each other. It is as if the two are done by separate parts of the organization (which quite often they are!).
- Operations trudges along through heroic efforts.
- On the finance front, it takes nearly the full month to close the past month. Reports need to be completed, generated, filed and not read before the next month-end.
- Programming is trying its best to serve the organization's clients.
- Many tactical and strategic decisions are made on the fly with the best intentions which elongate the planning and budget processes.

If your organization most closely resembles the first scenario, then hopefully you are willing to share your secrets and methods within the non-profit community. If your organization is closer to the second scenario, do not despair. This book will help you become more "first-quartile'esque"<sup>8</sup>.

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<sup>6</sup> Via time machine hot tub:

<https://web.archive.org/web/20000301234202/http://www.thgi.com/pprfax.htm>.

<sup>7</sup> The 56 day reference is from here: <https://www.cfo.com/budgeting/2017/11/metric-month-annual-budget-cycle-times/>. It is more relevant to this book as it pertains to non-profit budgets. The Hackett Group is another source for benchmarking information with typical mean/average cycle time for the budget process coming in the 120-elapse time mark. Noting that this information is proprietary, it is difficult to inter-compare these numbers.

<sup>8</sup> I know those who have even the smallest modicum of statistical knowledge are cringing at converting highly respectable statistical nouns into questionable verbs. My apologies, I don't 'MEAN' to upset you.

**Why is budgeting and planning so hard.** Budgeting is specific to each organization. While you can outsource your payroll, it is difficult to do the same with planning functions. There are fewer best practices that transfer organization to organization. Planning pervades every corner of the organization and generates more passion than other administrative activities. It is also steeped in the tradition of negotiations – and thus human engagement. For those who have been successful understanding the ‘game’, there is little motivation to change. For those new-to or sub-successful, they may want their period of time to win in the game.

**Budgeting on a Continuum**<sup>9</sup> Part of what makes budgeting ‘hard’ are the expectations of the process by different individuals and their past-experiences-contexts. Someone from the public sector may see a budget as an authority to expend based on a legislative framework. An entrepreneur sees a budget as a transient document useful to solicit funding but to be replaced when better information is available. The entrepreneur may make the pro forma estimates widely available where as a cost-accountant for a manufacturing firm sees production budgets as highly proprietary given the importance they have to the organization’s pricing strategy.

If your board, volunteer cadre or management comes from a diverse background, these pre-existing-perceptions may create conflict. An organization needs to understand what it wants its budget to do before it starts budgeting. To assist in this, think of the process as a continuum along two axes: **Openness and Authority**.

These concepts can be mapped to a 2x2 matrix and shown in the following graphic. The matrix is instructive for two reasons. Firstly, what standards or methods should a non-profit use in preparing its budget. More standardization makes it easier to automate the process and improves the credibility when shown to potential donors or granting organizations. However, standardization reduces organizational innovation.

A non-profit may also be open about its budget, sharing it with the public or major funders. Details of its fundraising plan may be held in confidence. There is a competitive element to this plan relative to other non-profits and a limited number of donors.

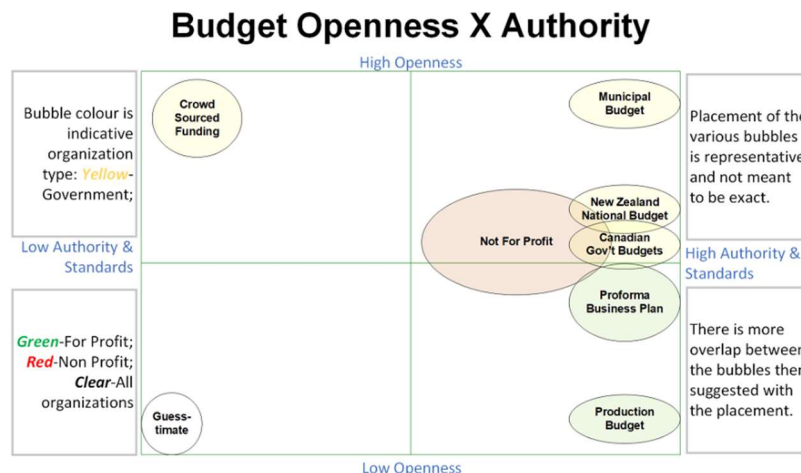


Figure 1: Budget Openness X Authority Matrix - Where Does Your Non-Profit Fall?

<sup>9</sup> Based on an original blog: <http://myorgbio.org/budget-thing>.

## Budgeting & Other Control Phases

There are ten zillion definitions of budgets but they are all similar<sup>10</sup>: “A plan for a defined future timeframe by which actual activity can be measured within that timeframe”. Or, to paraphrase John Lennon, “*Life is what happens when you are busy developing budgets*”.

A budget does not exist in isolation. It is an integral part to the strategic, tactical and operational planning<sup>11</sup>. There are lots of good diagrams that show different planning models but the one below was inspired by one of my textbooks from the late 1980’s<sup>12</sup>.

This model shows the planning/budgeting process as being continuous and integrated into operations and reporting. Budgeting is a continuous activity that may occur once a year, once a quarter or every month. In the center is the sweet spot of organization Resiliency, Adaptability and Innovation. Control and Accountability both restrict and support the organization. All elements will be considered in turn through our whirlwind tour budgeting.

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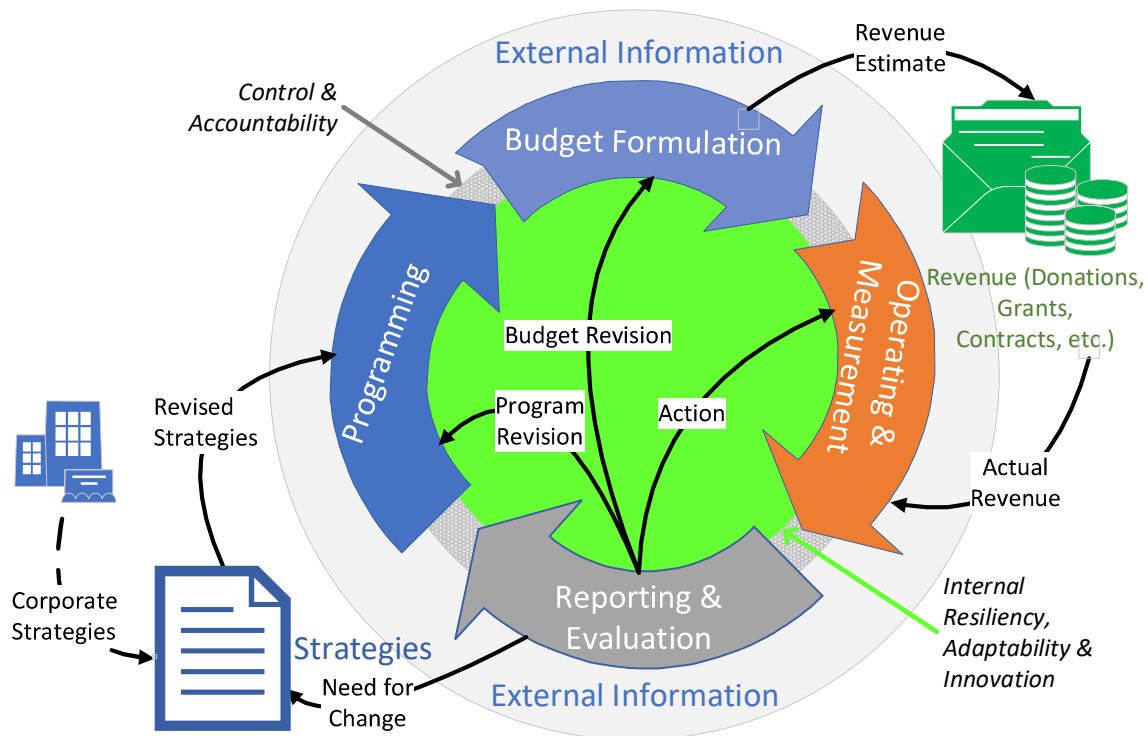


Figure 2: Management Control Phases - Non-Profit Focus

<sup>10</sup> See the Glossary for many of the terms used in this document.

<sup>11</sup> Am I the only one who gets confused between strategy, tactics, operations or tasks? If you are confused as well, I wrote down the definitions that made the most sense to me, see Annex 6.

<sup>12</sup> Adapted from Anthony, p. 18.

<sup>13</sup> Non-profits interested in a more comprehensive view of financial management are encouraged to download a copy of Financial Responsibilities of Not-for-Profit Boards: A Self-Guided Workbook.

### What a Budget is 'Supposed' to Do

The budget is part of the planning and performance measurement efforts of the organization. A good budget process has the following features (mapped to the corresponding elements of the above graphic)<sup>14</sup>:

- **Operationalizing the Vision (budget formulation).** Strategy is converted to tactics and operations through the budget. Nothing focuses the organizational mind like allocating resources!
- **Advanced warning or problems (operating & measurement).** Practical operational considerations are identified and managed. For example, a drop in donations may require a corresponding drop in programming. A lag in grant payments may require borrowing or dipping into reserves.
- **Coordination of Activities (corporate priorities, strategies & programming).** A budget supports the coordination between program and support areas. For example, an expansion of a program by hiring summer students gives the Human Resource function time to prepare for the recruitment.
- **Performance evaluation (reporting & evaluation).** Variance analysis between plan and actuals are critical internal and management controls. However, such an analysis is predicated on the budget being realistic and the person responsible being able to exercise control.

Budgeting in non-profits can be more challenging than in the for-profit world for the following reasons<sup>15</sup>:

- Organizational goals are often multiple, necessitating trade-offs.
- Professionals (such as physicians, lawyers, and teachers) typically dominate non-profit organizations and are less receptive to control systems and measures.
- Measurement is more difficult because there is no profit to determine.
- There are many discretionary fixed costs, and the relationship between inputs and outputs is difficult to specify.
- Budgeting becomes more relationship focused with bargaining from large donors, governments and the like for the quantity and quality of services provided.

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<sup>14</sup> Adapted from National Advisory Council on State and Local Budgeting.

<sup>15</sup> Adapted from multiple sources including Shim, Chapter 25.



## Common Types and Ways of Budgets

'Budget' is both a collective and a common noun. It is a handy catch all term for a number of inter-related plans. It can also be used as a verb to describe different ways to accomplish the planning functions described above. The following are some of the ways this useful word is applied in organizations.

**Budget as a Noun.** Some of the budgets your organization may develop include<sup>16</sup>:

- **Master budget:** overall financial and operating plan.
- **Operating budget:** planned operations typically presented in a line-item format.
- **Sales/Revenue budget:** Expected inflows to the organization.
- **Production/Program budget:** production of products, programs or their elements.
- **Cash budget:** Receipts and disbursements.
- **Project/Capital budget:** Other budgets are fiscal year focused; a capital budget is project focused.
- **Fund:** Separation of monies that are designated for a specific purpose.

**Budget as a Verb.** If the above list cast 'budget' as a noun, the following uses it as a verb:

- **Incremental budget:** The most typical method in which the prior year values are 'rolled-forward'.
- **Zero-based budgeting:** starts with zero justifying all expenditures not essential.
- **Results/Performance based budget:** Budgets based on desired results.<sup>17</sup>
- **Activity based budget:** activities incurring costs are budgeted for.
- **Budget periods:** the period of time the budget represents.
- **Rolling Budgets:** Adds a new budget period (month or quarter) after the most recent period has been completed. The budget always extends a uniform distance into the future.

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<sup>16</sup> This of course is not an exhaustive list. Because as a noun, 'budget' is not too fussy who it hangs out with, a 'production-budget' and 'golf-budget' have equal validity. There is organization-specificity as to what types of budget it requires. A golf manufacturer could easily have both of these! See the glossary of terms.

<sup>17</sup> The UN has done extensive work in the definition of results-based management including budgeting.

**Presentation Notes - Budget Math.** The following graphic was used in the presentation. At the end of the process there is an operating and/or a master budget. For smaller organizations this may be all that is necessary, for larger organizations some of the budget types presented above will be required.

The degree of complexity and the scaling an organization needs to do to get to 'Just Enough Budget' can be thought of as the following formula.

Operating/Master Budget

X [Revenue Complexity] X [Government Funding]

X [Staffing + Volunteers + Members]

X [Diversity of Businesses]

X [Number of Programs]

X [Geographic Distribution]

X [External involvement in planning, e.g. government, donor]

X [Capital Planning]

X [Fund Management + Diversity of Reporting]

X [Speciality Activities e.g. manufacturing, retail stores, healthcare]

= Complexity of Templates, Methods, Timing & Guidance

As factors are added, the more time, effort, expertise, technology and subordinate budgets needed. If you have a number of staff, then you likely will have a staffing budget. If you are an animal shelter in a building, you may have separate budgets for maintenance, capital projects to improve the space and of course a kibbles and bits estimate. These individual 'buckets' are rolled up into the master budget.

## It's Budget Time (Groan)

All of the above has been a bit abstract and theoretical, how about a bit of practicality – how do you run an annual budget setting process<sup>18</sup>. The following table is for an organization with 50-100 staff and \$1-3 million in revenue. For your own organization, scale the activities up or down.

Budget Formulation

Ideally the budget is one of a number of planned administrative activities. The dates and timelines for the budget are part of a comprehensive planning calendar. There may also be a subordinate budget calendar.

**Presentation Notes – Who Runs the Budget?** Executive Director, Chief Executive Officer, President, Treasurer (presumably the board Treasurer), Board Finance Committee, Accountant, and the Administrator.

<sup>18</sup> Before we leave the abstract, see Annex 2 for a very good list of principles and elements in a budget setting process. It is largely a duplicate to the prior discussion so it is not in the main body.

<b>Activity</b>	<b>What</b>	<b>Who</b>	<b>Time</b>
<i>Short name</i>	The activity to be in order of completion. Some activities must be completed sequentially whereas others can occur concurrently.	Primary accountability	Time +/- to approval
<i>Initiation</i>	Approval to start the budget process. Based on existing budget policies, procedures and traditions.	Board & CFO	+3months
<i>Assumptions</i>	Budget assumptions e.g.: salaries, program-priorities, funding, expansion/contraction of the organization, macro economic/social changes, budget priorities (e.g. financial stability, quality of programs, target clients, etc.), support and corporate 'burden-rates'.	Board Chair, CEO and/or CFO	+3months
<i>Guidance &amp; Calendar</i>	Issuance of a guidance document (ideally an online resource, wiki, etc.) that contains a budget/fiscal calendar, the above assumptions, how to complete the budget (e.g. instructions using the tools), who to contact, how to request new programs/funds, challenge process and examples of completed forms.	CFO	+3months
<i>Communications</i>	Part of the guidance, internal and external communications about the process. Good communications are the difference between budget process by 'death-march' and budget process by 'engagement'. Communication touch points may: kick off meetings, periodic touch point calls, ad hoc webinars on specific tools or activities and of course 'walking the halls' <sup>19</sup> .	Program managers, COO	+2months
<i>Revenue</i>	Calculation of anticipated revenue from all sources.	Varies	
<i>Program Planning</i>	Identify which programs are priorities for the organization and/or existing/potential funders. Develop individual program budgets, apply support/corporate burden rates if used.	Program managers, COO	+2months
<i>Capital/ Projects</i>	Collection of proposals (e.g. an IT system, purchase of a vehicle) that are beyond the resources of program or operations. Request for funds that are one-time in nature and which may span multiple fiscal years. This process is parallel to the operating budget process with key linkages. For example, the operating cost/benefits of ownership must be included in a project/capital initiative. See Annex 5 for a ranking methodology.	Program & other managers; executives	+2months

<sup>19</sup> In my role to coordinate hundreds of budget prepares/managers, I used kick-off meetings. They came complete with donuts, presentations, anonymous questions/answers and of course a keynote from the most senior manager I could wrestle up. I have been using teleconferences for more than two decades and technology has become cheap and pervasive. This included running a Game-Show themed "Ask Frank" conference call.

<b>Activity</b>	<b>What</b>	<b>Who</b>	<b>Time</b>
<i>Program/ Project Challenge</i>	Review of some or all programs, operations or projects. This may be done via a consensus process. The various proposals are ranked according to a system (see Annex 5 for example) and agreed upon ideally through consensus. The board has final say.	Program and corporate senior leaders Senior executives Board	+1months
<i>Amalgamate &amp; Validate</i>	The various components of the budget are brought together. Finance or planning staff conduct quality assurance for both the content and compliance to guidelines. Pre-board approval occurs.	CFO & executives	+1-2 weeks
<i>Approval &amp; Load</i>	The board and potentially external parties review and approve the budget. Some approvals may be conditional on funding & external factors. The budget is loaded into the organization's financial system for use.	Board & CEO	0 - Approval

***Pause Before the Accountants.*** In this and the preceding Chapter, we explored:

- What is a non-profit and some budgeting considerations?
- What is a budget, what is it supposed to do and what are some of the costs and challenges of the classic 'annual-budget' process?
- What are the different types of budgets an organization might create to support the planning process and what steps are involved in budgeting?

To stay within the intended brevity for the book, a LOT of material has been excluded. For those whose job it is to 'love' the budget, I have listed some preferred material in the bibliography and in the annexes (aka Rabbit Holes).

The next chapters are broken into four parts: Revenue, Expenses, the Bottom Line and other Budget-Ponderings from the perspective of a non-profit.

### For the Accountants in the Room ...

The following is a nice-cozy hole for the accountants and/or those responsible for the budget. It is kept separate to not bog down the main body of the book. Get a cup of coffee, and pull up a double-entry ledger and let's head down.

**Budget and internal control.** The budget is an internal control for the organization in addition to being a planning tool. Variances from the budget can provide early warning of a trend. More practical, an expenditure for which there is no a budget is a flag. It may be legitimate, an error or something more untoward. If you want to read more about internal control, see the following links:

- [An Objective Field Guide](#): A tongue in cheek classification of organizational objectives. These range from the garden variety 'Normal-Objective', the often-benign Air-Head through to the deadly Zombie or Voldemort objectives.
- [A Brief History of RBM](#): A brief overview of results-based management. Part of a series, useful for accountants who want to know more backstory on this methodology.
- [Internal Control and COSO](#): An overview of internal-control and the COSO framework.
- [Defining Risk Categories](#) and [The Categorically Complete \(ish\) List of Risk Categories](#): A survey of definitions for 'risk category' results in one that is organization focused: A risk category allows for the grouping of one or more risks in a manner that is meaningful to the organization. A list of categories is provided.

**Update Other Control Documents.** Use the budgeting process to update other control documents such as the risk register or the internal control plan<sup>20</sup>.

**Budgeting for Non-cash In and Outflows.** A common theme in this document is that the budget is more than cash. In fact, non-cash activities likely make up the lion share of the value your organization provides to its clients. An example from a food bank is instructive:

**Calgary Food Bank Case Study.** *A foodbank relies on the receipt of donated food. The Calgary Food Bank, for instance, estimated that it received and distributed 13.5 million pounds of food with a value of \$2.60/pound. Setting aside the unique Canadianism of using an imperial measure, this non-cash donation represented more than 77% of its total revenue for the 2018-19 fiscal year. The food bank does not record the value of its volunteer hours contributed. While not part of the financial statements, perhaps the economic value of the volunteers should be at least estimated in the budget process<sup>21</sup>.*

**Presentation Notes – Do You Send Instructions?** *To the question, do you send out instructions, there were 20 responses. 18 Yes and 2 No.*

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<sup>20</sup> For more on risk management and non-profit, download this free resource:

<https://www.cpacanada.ca/en/business-and-accounting-resources/strategy-risk-and-governance/not-for-profit-governance/publications/20-questions-for-nfp-directors-on-risk-management>.

<sup>21</sup> See Calgary, Notes 2. Significant Accounting Policies and 9. Food Donations-in-kind.

## Show Me the Money...<sup>22</sup>

A for-profit first estimates the market and then plans to develop a good or service that can profitably service that market. Sales first, costs seconds. How a non-profit earns revenue may have direct, indirect or no-relationship with its costs.

This disconnect is both a challenge and opportunity for non-profits. The challenge is obvious, the best program ever conceived will never be run without funding. The opportunity is that a non-profit is not tied to a market or sales-cycle. With support of funders, they can quickly wind down program X and start an entirely new program Y.

But before getting to X or Y, someone has to 'Show Me the Money...'.



Revenue (Donations,  
Grants,  
Contracts, etc.)

## Where Do Non-Profits Get Their Money?

**Non-Profit Revenue Sources.** For profit organizations get the lion share of their income from an economic exchange. They sell a service or good for more than what it cost them to create. Inflows for non-profits fall into one of the following categories<sup>23</sup>:

1. **Buying:** similar to the for-profit, an economic exchange occurs. Often the price paid is either higher than the market price (Girl Guide cookies) or subsidized by donations (a charity golf tournament).
2. **Tipping:** small or insignificant amounts of money (Salvation Army kettle at Christmas or a 'round up your bill' campaign at McDonalds).
3. **Donating:** someone who supports the mission and program of the non-profit with no-expectation of tangible reciprocity (we'll ignore the tax receipt).
4. **Investing:** are uber-donors who make a sacrificial donation, for example, leaving a portion of their estate to a charity. As motivation, they want to be more than a stakeholder, they want to be partners. This includes small value investments such as GoFundMe.com and other Crowd Funding tools.
5. **Granting or Contracting:** A non-profit contracts to deliver a set of defined services. They may have set deliverables attached to it (e.g. build a club house) or for operations. Sources include a government or from re-distributor of philanthropy such as a foundation. A burden rate may be allowed or not.

As the inflows moves from #1 to #5, there is an increased relationship between the giver and receiver. Donors, Investors and Granters want to have a relationship with the non-profit. Buyers and Tippers generally do not. Ideally a non-profit is managing a portfolio of inflows across all of the above types and across numerous individuals and entities. Today's Tipper could be tomorrow's Investor.

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<sup>22</sup> With apologies to Tom Cruise.

<sup>23</sup> Adapted from Iceberg Philanthropy.

**What are Non-Profits Revenue Channels?** The above described the sources of revenue, the following are the methods by which a non-profit can ASK for funds:

1. **Selling:** the other side of buying, providing a good or service as part of an economic exchange.
2. **Marketing:** the management process to communicate to a donor/buyers/granter/etc. the benefits of your organization and the alignment of values and priorities.
3. **Relating:** developing a personal connection with high-value individuals and organizations. This is more than marketing which is targeted to a group; this is targeting a single individual.
4. **Qualifying:** identifying potential Donors, Investors or Granters. This may be a formal process such as meeting requirements for a government grant or it may be informal such as a potential donor 'Googling' your rating as a charity.

**Giving and Asking for Funding Table** The various forms of giving and asking can be grouped into the following table with intersection notes in each cell.

	<i>Selling</i>	<i>Marketing</i>	<i>Relating</i>	<i>Qualifying</i>
<i>Buying</i>	Economic Exchange	Promotion of a sales campaign	Creating stories behind the sale	Licenses, permits, permissions
<i>Tipping</i>	Round up bill, donation box	Promotion of a campaign	Creating stories behind the event	Licenses, permits, permissions
<i>Donating</i>	Providing special privileges, recognition	Promotion of the benefits of being a donor including bequests.	Thank you-cards, follow ups with donors	CRA registration for tax receipts
<i>Investing</i>	Limited	Prospect generation	Understanding the donor-prospect and aligning priorities and values particularly for high value donations such as bequests	Due diligence on the part of the donor, permissibility of the gift
<i>Granting or Contracting</i>	Not Applicable	Name or brand recognition	Telling the 'story' in the application and decision makers	Minimum criteria to participate, compliance with conditions.

**Salvation Army Case Study.** For the 2017-18 fiscal year, the Salvation Army had revenues of nearly \$700M. Charitable donations and sale of goods (\$272M) almost equaled the funding received from governments (\$235M). They are an example of a non-profit fund raising in each of the cells<sup>24</sup>.

<sup>24</sup> All amounts are from their Audited Financial Statements 2017-2018: <https://salvationarmy.ca/audited-financial-statements>, the most recent year available.

## Pause Before the Fund-Raising Professionals

In this we explored:

- The similarities and differences between a non-profit and a for-profit entity.
- The five non-profit revenue sources: Buying, Tipping, Donating, Investing, Contract/Grants.
- Four ways a non-profit ask for revenue: Selling, Marketing, Relating and Qualifying.

Fund raising is an art and a science that is joined at the hip with the budget process. There are many excellent resources available<sup>25</sup>. One simple exercise is to map your organization's past revenue activities to each of the cells. Is there a row, column or cell under represented? If so, this maybe a revenue opportunity.

Let's not forget about the Goods and Service Tax (GST). Under certain circumstances registered charities are eligible for a rebate. Conversely, non-profits may be required to charge and remit the GST. This is a technical area beyond the scope of this document. However, your board should be asking: "are we receiving the maximum advantage from a GST rebate?" and "are we compliant with GST legislation in conducting our affairs?"

## Revenue for Fund Raising Professional

This is for the professional who thinks about fund raising full time. There is an exhaustive body of knowledge on fund raising and this document's focus is on the budget, planning and control. Using that lens, some thought on raising money:

- **Engage Members & Volunteers:** Sometimes fundraising becomes a silo in an organization. Volunteers or members (current and past) are a great source for donations and to help with fundraising. A coffee with a group of alumni-volunteers improves your organization's brand and may lead to donations and re-enlistment.
- **Ease of Giving:** How easy is it for your organization to receive money? If your organization does not accept alternative payment formats (electronic funds transfers, automated periodic withdrawals, Apple Pay, etc.) then you may be missing out – particularly amongst younger and newer donors.
- **Planning:** When it comes to marque events, over-plan. If the execution is not a bit dull and anti-climactic, your probably have not planned enough. Worse still, you may have left money on the table. During the event, everyone should be schmoozing donors – not panicking because the caterer went to the wrong hotel.

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<sup>25</sup> Google results are in the millions, 5,000+ results from the American Library of Congress and Amazon has 4,000+ books available for sale on the topic. This is in addition to certification in fundraising, who knew!



- **Non-Cash Donations:** Receiving property, artistic works for re-sale or financial instruments is potentially very valuable (ask the Hershey trust). However, the tax implications for receipted donation can be complex and risky. In looking at your revenue, you may want to consider these more esoteric sources but tread with caution if you and the donor are not familiar with the tax, accounting and legal implications<sup>26</sup>.
- **Windfall Revenue:** Wind fall donations or one-time grants need to be managed in a prudent manner. Your accountant can help with both the reporting and planning for managing these revenues. Government Finance Officers Association (GFOA) has prepared some excellent material on this subject<sup>27</sup>
- **Grant Preparation:** If you apply for grants, do you have a grant response process? This can be as simple as a list of best practices or dedicated software. Ideally you have a generic grant response already prepared. From this template you spend most of your time REMOVING content rather than searching for it. If you do create new content, be sure to update the template before the next grant panic occurs.
- **Grant Response:** A grant response team has been pre-trained in how to read a request for proposal, generate a BID/No-BID response, craft a response and, most importantly, DEBRIEF the grant process.
- **Grant BID/NO-BID Response:** A for-profit organizations can spend an inordinate amount of time, talent and treasure responding to a request for proposal – and will probably not win. As a result, every bid is scrutinized to determine the likelihood of winning, the cost of bidding and creating an assessment of the cost of winning. If you lack the capacity (space, volunteers, staff, overhead capacity, etc.), winning may be worse-case scenario. Ensure the person making the determination of BID/NO-BID is sufficiently impartial to ask probing questions.
- **COVID's Lengthy Shadow:** At the time of writing, COVID-19 continues to impact society and the ability to gather in groups. These official restrictions and unofficial changes in behaviour will profoundly affect fund raising for the decade (or more). Add in reduced disposable income from your potential donors, members and customers and it is time to plan for a long COVID-Winter.

Now that we have gotten all the blood we can from the donor-stone, off to the expense portion of the budget...

***Presentation Notes – Revenue Planning.** Consistently, the organizations struggle with having strategic discussions on revenue. Many receive funding for projects but not the administrative costs to manage the projects.*

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<sup>26</sup> Aptowitz provides an overview of some of these instruments, but it is just that, an overview.

<sup>27</sup> See National Advisory Council on State and Local Budgeting. Although targeted at the state and local government level, the material can be adapted to non-profits. Included in the material are policies which can be downloaded and adapted as a starting point.

## Expense Portion of the Budget - Programing

In the for-profit world, the budget starts with the sales estimate; all other budgets are based on what the organization can sell<sup>28</sup>. Sometimes a non-profit has to use this method. They have a grant to do ABC, therefore program XYZ needs to be created-maintained-reduced-eliminated. More often, a non-profit defines its programs and then finds funding.



**Program, Project and/or an Operating Focus.** A program and an operating budget are two-different ways to look at the same activity. Corporate functions such as finance, human resources or administration can be programs in their own right servicing an internal clientele. Whether a direct-service or support program, the definition is the same: “A program is a planned course of action that is intended to help the organization achieve its goals.”<sup>29</sup> Some other differences between programs and operations include:

- Programing is doing the right things.
- Operating is doing the right things the right way.

A more cynical view might be stated: Programing gets someone to donate to your organization; Operations causes them to stop donating.

## Elements of a Program Charter

Programing is unique to each organization but certain standard elements can be identified. For smaller organizations, this information may be implicit and carried around in the head of the executive director. While highly efficient, this is not an effective strategy. Amazing things happens when you write things down. Assumptions are confirmed (or not) and a point in time description helps the organization deal with program ‘drift’ or scope-creep.

1. **WHAT:** Program Name and Description.
2. **WHY:** Program Objectives, Purpose and Alignment to Organizational Strategies.
3. **WHO BENEFITS:** Either separate or as part of #2 above, who is the target client?
4. **MEASUREMENT:** How will the outputs, outcomes and results of the program be measured in a non-financial way. See the discussion below.
5. **ARCI**<sup>30</sup>: Which senior manager and department is accountable for the program. Who will be the manager, leader responsible for its execution? Which internal and external stakeholders need to be consulted or informed about the changes to the program.
6. **HOW MUCH:** Resources required to initiate and sustain the program assuming it is a going concern. These include staffing, contractors, supplies, project or capital requirements, etc.

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<sup>28</sup> Let’s ignore start ups and the like for the moment. They still have a sales focus albeit perhaps further in the future.

<sup>29</sup> Anthony, p. 365.

<sup>30</sup> Also known as a RACI chart. I prefer ARCI as it cascades from the largest role, Accountability, through Responsibility, Consulted and then the least involved role, Informed. Search: arci versus raci.

7. **WHO PAYS:** What are the existing or potential funding sources to cover the costs?
8. **WHAT RISKS:** Risks, uncertainties and assumptions for the program.
9. **WHEN:** when the program can start, how long it has been operating and is there a sunset clause?
10. **MARKETING:** How will the merits and benefits of the program be communicated to audiences including funders, governments, peer-organizations, and clients.
11. **SUPPORT:** Reviews by planning staff (e.g. finance) and peer reviews on the merits of the program and the recommendation(s) to move forward (or not).



## *We the Program...*

1. What is and Why the Program
2. Who the Program is For
3. Accountable, Responsible,  
Consulted & Informed
4. The Risks
5. How Much and Who Pays?

### **Program Budget Process**

The first step in a program budget is developing or re-affirming the above charter. As part of this review, match your newest board member with your oldest programs. Not only will this help to socialize the individual, the board member will contribute a fresh set of eyes.

The financial aspects of the program are the easiest to compile. How many staff, pencils, vans or space is required. Indirect program costs include administration and common costs such as building rent (more on this in a moment). Allocating indirect costs to a program gives you the 'Total Program Cost'.

Budgeting for the non-financial measures is the most challenging and the most important to understand 'why' the program exists and 'what' is its impact. These measures are discussed in a following next chapter.

## Expense Portion of the Budget – Operating & Everything Else

The program is why a non-profit exists. It is equivalent to the products a for-profit organization sells. But no program is an island<sup>31</sup>. Programs require support functions and support functions exist to serve programs<sup>32</sup>. Within a program or operation, a cost has attributes and one of the most important is whether it is fixed or variable.



### Variable, Fixed and We're Not Sure Expenses

A fixed cost you need to pay no matter what. A variable cost fluctuates with output volume. If your organization has a van serving the homeless, the insurance on the van is a fixed cost – you have to pay it whether the van is in the garage or serving cliental. The gas for the van is a variable cost.

All costs are variable in the long run and most are fixed in the short run. A fixed cost can result in a lower cost per output (e.g. buying or leasing a van rather than renting it) but a variable cost gives you flexibility (e.g. initially renting a van as a proof of concept). Thinking about whether to incur a larger, short-term variable cost or a smaller long-term fixed cost is part of organizational planning<sup>33</sup>.

The following sections provide ideas for managing individual expense items. Returning to the opening section of this book, your organization is probably doing 80-90% of the following. Hopefully there are one or two ideas that are new!

**Presentation Notes – Sharing.** A number of organizations are already sharing resources. The following are a few examples shared during the presentation:

- ✓ *Sharing Human Resource services with other organizations. This was initially a pilot project externally funded that then spun off to have each organization contract with the shared professional on the rate based on needs/hours.*
- ✓ *Joining organizations in our geographic region to save costs.*
- ✓ *We all work 1 day from home. No calls from landlines to mobile phones but use a mobile phone to do that and use WhatsApp.*
- ✓ *One strategy that I needed to really work at was actually asking for what we needed. So often members of the community want to help but they don't know how. If we can let people know specifically what we need, then gifts in kind can help us save money on those items (i.e. groceries for snacks and meals, diapers, cleaning supplies, even maintaining the building).*

<sup>31</sup> Apologies to John Donne: “No man is an island entire of itself, Every man is a piece of the continent, A part of the main.”

<sup>32</sup> Sometimes organizations get into an either/or mindset when it comes to operations. Porter’s Value chain model is a good way to visualize the inter-relationship between these two. Wikipedia to the rescue if you need a refresher: [https://en.wikipedia.org/wiki/Value\\_chain](https://en.wikipedia.org/wiki/Value_chain).

<sup>33</sup> Renting, leasing or buying a van is a good example of both tactical planning and risk management/mitigation. Who knew that you would get bonus risk management concepts in a budget book!

## Assumption & Uber Ideas

The ideas follow the cost categories found on most income statements (staff, supplies, cost of physical space, etc.). This first few are ‘uber-ideas’.

1. **Assumption Testing:** Familiarity breeds complacency<sup>34</sup>. If you and your organization have been living and breathing your budget for the past two months, it is doubtful you have a ‘balcony-view’ of what is important. To regain this, take your budget to colleague(s) in another non-profit or a different industry. Ask them to challenge you on each line item as to why it is needed, what happens if it disappears, can you do it differently and the silliest way to make do without. You may be surprised how that silly idea on the fourth glass of wine leads to a workable suggestion (a headache the next morning is optional).
2. **Bulk Buying:** Can you and peer non-profits form a bulk buying affiliation? Price often scales on volume and many for-profit organizations are interested in helping their communities but feel like they are being ‘asked-to-death’. There are down sides. If you have a sweet-heart deal with a company providing your coffee for free, respect that as a gift. Buying with others also reduces your flexibility and may cause you to over or under buy. This can be mitigated by having the provider offer services a la carte rather than buying a ‘one size fits all’ package.
3. **Hard, Soft and Squishy Numbers:** whether an expense or revenue, consider assigning a probability to each value. A hard number has a very high certainty of occurring (e.g. paying the rent). A soft number is an estimate (e.g. how many COVID-required face masks you will need in 2021)<sup>35</sup>. A squishy number is one that reliant on another number. If we get grant ABC, then we’ll need to spend more on XYZ. Soft and Squishy management is done via scenario planning, rolling or project budgeting<sup>36</sup>.

Your Non-Profit Organization of Alberta			
Budget for the Fiscal Year from Heck			
Revenue	Budget - This Year	12 Months - Actuals	Budget Last Year
Donations			
Government Grants & Contracts			
Events			
Membership Fees			
Net Sales			
Investment Revenue			
Other Revenue			
<b>Expenses</b>			
<b>Costs of Programs</b>			
Salaries & Staff			
Contractors			
Volunteer Management			
<b>Costs of Fund Raising</b>			
Cost of Events			
<b>Operational Costs</b>			
Salaries & Staff			
Professional Services			
Communications			
Facilities & Utilities			
Volunteer & Staff Training			
Information Technology			
Sundry and Supply Costs			

Bulk Buying

Don't over budget for small or stable staff costs

Use for uncertain funding

Take a lifecycle approach

Outsource when not a competency  
Share resources

<sup>34</sup> Apologies to Aesop and kudos to Noel Coward: “Familiarity breeds contempt, but without a little familiarity it's impossible to breed anything.”

<sup>35</sup> If you are reading this after 2021, this may seem like a no-brainer. Writing this in 2020, who knows!

<sup>36</sup> For-profit organizations manage this uncertainty through various tools including bracket budgeting. See the glossary of terms for more on this concept.

### Staffing Costs

Likely your staff are stalwarts and you are lucky to have them so be careful that your cost cutting idea does not leave you looking for a new employee.

4. **Select the Best Budgeting Method:** Some non-profits have numerous employees while others entirely run by volunteers. The number of employees, the complexity of compensation and things such as turn-over will determine how best to budget for this expense. Because of its complexity, for employee-focused organizations, investment in a good payroll system with a budget module is recommended. For more on managing this expense, a summary of the issues is available in this blog: [Human Resource Budgeting – A Range of Options](#)<sup>37</sup>.
5. **Exchange/Sale of Skills:** can your staff talents be exchanged for something else? For example, if you have deep training experience, can this be put to use in exchange for space with another organization? Through virtual technology, can your accountant also provide services to others. Be VERY careful with the temptation to 'dump and run' on your staff.
6. **Outsourcing:** this is the opposite of the above suggestion. Is accounting or building management really your central focus and can you outsource these functions.
7. **Interns and Cooperative Education Programs:** Can some staff functions be filled with students, individuals starting their career or new Canadians. Similar to outsourcing, this needs to be carefully managed but it can also create lifelong advocates for your organization<sup>38</sup>.

### Professional Costs (e.g. Legal, Audit)

8. **Audit Costs:** First check your legal, donor and other obligations for the audit function. For smaller organizations, a professional audit may not be required. If an audit is required or advisable, then negotiate with firms for pro bono or reduced fee work in exchange for advertising.
9. **Auditor Selection and Value Adds:** consider selecting an auditor with a consortium of like organizations. By pooling the volume of business, firms may be willing to provide value added services and adjust their fees accordingly. Add your own value adds, e.g. agree to take their articling students as interns for short periods.
10. **Don't Forget the Legal Beagles:** legal services are more difficult to negotiate because they tend to be ad hoc. Nevertheless, try negotiating with your law firm.
11. **Event Planning:** If a large portion of your revenue comes from event(s), how good are you at running them? A poorly executed event imperils your future revenues, costs more and places the organization at risk. Sending staff/volunteers to a project or event management course is money well invested. How about partnering with the education-program as a practicum. If events are not your core activity, then a professional event planner maybe worth the money to mitigate the risks.

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<sup>37</sup> Available: <http://myorgbio.org/hr-budgeting>.

<sup>38</sup> For a best practices guide, see: <http://myorgbio.org/articles-etc/articles-adeptness/2009-internships>.

### Volunteer Management

For many non-profits, volunteers do the lion share of the work. A budget should include considerations on their 'care and feeding'.

12. **Volunteer Lifecycle:** Like staff, volunteers come and go. This turnover is both costly to the organization and beneficial in a new blood sort of way. A non-profit must budget for the costs and benefits of volunteers. A lifecycle approach can help, see Annex 4.
13. **Being Good at Volunteering:** Volunteer Canada and other sources have developed excellent volunteer management evaluation tools. Include your volunteer 'score' in your budget and seek to improve it year over year.
14. **Paying Your Volunteers Well:** At a minimum, a non-profit must examine the volunteer-value proposition. Why does someone volunteer and what generally attracts volunteers to your organization? See Annex 4 for how to pay your volunteers.
15. **Volunteer Management and Manager:** One of the best practices is to have a volunteer coordinator/manager. This may be a paid or unpaid role. For a volunteer-intensive organization, it is also one of the most important roles to fill.

### Membership Costs (Maintenance of Records, Collection of Dues)

16. **Membership Relationship Management:** Second only to volunteers, members are an equally rare and prized resource. Be sure that information about members and their activities are well managed. Beyond, 'did they pay their dues', are they still involved and have an affiliation for the organization? Consider moving to an online tool to manage this information and make it a paid or key-volunteer position. Use this information for marketing and communications. See Annex 4 for the LAST-VEGA volunteer (and member!) lifecycle model.

### Communications, Marketing & Fund-Raising Costs (Mailings, Call Centers, IT)

17. **Invest in Your Story Telling:** Telling your story is key to creating a stable revenue pipeline. Pipelines cost money to build, maintain and protect. As a key volunteer or a paid staff/contract position, consider investing in a communications professional. They can help you review your strategy, methods, messages and delivery.
18. **Sharing (Carefully) the Communication Wealth:** While it is important to carefully guard donor lists and protect your campaigns, some of the marketing costs can be distributed across multiple organizations (such as the aforementioned communication manager). Team up with peer organizations to engage graphic artists, advertising firms, and communication channels.
19. **Guerillas in Your Midsts:** Not all marketing is costly. See Annex 3 for examples of what is known as Guerilla-Marketing – making an impact with a small investment. Remember to check your own home for Guerillas though. Are you communicating well to your own members, volunteers and stakeholders about your organization?



### Program Specific Costs

20. **One Time Use Assets – Ongoing Costs:** Be careful about buying or acquiring assets specific to a program that cannot be used elsewhere or which does not have a ready market value. In the same way, ensure that time-limited revenue is matched by variable rather than fixed costs. This may include engaging contractors rather than staff members, using an employment agency to manage a short-term team, leasing space monthly and renting rather than buying leasehold improvements.

### Facilities

21. **Lease/Rental Costs:** Many non-profits received subsidized or sweet-heart-deal facilities. Their landlord may be a government or sub-let from another non-profit for which they pay nominal amount (e.g. \$1 per year). In these cases, there are few savings to be had. On the other hand, if your organization is renting commercial property, time to look at this expense. If this is a major expense, engage an independent commercial real estate broker. Always consider the intangibles. Your current landlord may be more forgiving than a large mega-real-estate-corporation.

### Travel

22. **Virtual Tools:** In the age of COVID, travel has been scaled back to zero and your organization has embraced digital technologies. Before going back on the road, post COVID, ask what the benefits of in-person travel? There are numerous intangibles that are not conveyed through a Zoom meeting – but identify what these are even if quantification is challenging.

### Training

23. **Training You Take:** Training is essential to sustain an innovative culture for your staff and volunteers. Training you consume has also been democratized. YouTube, Lynda.com and the like offer virtual training for free or for a low cost. Bulk purchasing is a potential option here as well piggybacking on other non-profits or government rates. Avoid the temptation to pirate training. The hit to your reputation is never worth the few bucks saved.
24. **Training You Deliver:** How much of your training you deliver can be moved online? Virtual training can augment some programs by overlaying things such as sub-titles or deliver training built to be smartphone first in its delivery. Unfortunately, this also requires a disadvantaged person having a smart phone (and not losing/selling the one you gave them). It also removes the human element from the training experience that is likely part of your mandate. While trainers are an adaptable lot, technology makes training more rigid and costly.



### Information Technology (Desktops, Systems)

25. **Outsource or Cloud:** On the one hand, non-profits are information focused organizations. They maintain donor/membership lists, have detailed records on clients and must report their activities to donors, governments and the public. On the other hand, this is not a core competency. If this represents a significant expenditure, consider partnering with a service provider and with other organizations. Where possible, move your content to a cloud-based installation. Do so with caution to ensure you are compliant with privacy legislation and policies. Once again, this is a non-core competency for which a consortium approach may work.
26. **Alberta Non-Profit Zoom Purchase.** Another bulk buying point but with a large context: why is there not an Alberta Non-Profit Webinar strategy? I am surprised that Telus, Shaw or even Zoom has not come up with a program in which qualified non-profits can get free or heavily discounted web/phone services. This is possible a buying opportunity for a consortium to take on with an excellent value proposition to the provider. For example, a Telus commercial pops up every 15 minutes of a call-in exchange for a free web-service.
27. **Digital Tinkering:** A person retiring today likely spent most of their career immersed in the digital revolution. While not everyone is a propeller head, maintaining your computer systems may be an interesting volunteer position for an individual. Before putting your digital crown-jewels in the hands of just anyone, vet and support them. This is a role that could be shared amongst a number of non-profits.

### Sundry and Office Costs (Printing, Supplies, Insurance, Bank Fees)

28. **Counting Pencils:** For some boards, the prospect of developing a comprehensive revenue strategy is daunting but determining the office supply budget is manageable. As a result, there can be excessive focus on sundry costs. While it is important to negotiate your bank fees, shop around for insurance or lock the supply cabinet; this is a minor activity in your budget process – you have bigger fish and costs to worry about.

**Presentation Notes – Volunteers.** *Many organizations struggle managing volunteers. Some find it is easier to simply hire staff. Comments include:*

- ✓ *We struggle with volunteer management. Our work is much more effective with our paid employees.*
- ✓ *We love our volunteers but most are seniors so the pandemic has curtailed their involvement.*
- ✓ *How can CPAs get shared by NPO? I think sharing a CPA with like orgs for advice would be a great volunteer opportunity.*
- ✓ *I find that agencies that consistently demonstrate gratitude and include their volunteers in team activities like pot lucks and professional development session, are able to keep their volunteers. They need to feel a part of the team and organization's culture.*
- ✓ *Use volunteers based on their specific and best skills. do not overuse them.*

## Reporting, Non-Financial Measures & Budgets

### What We Really Do – Outputs, Outcomes & Results

The ultimate success of a for-profit organization is in the name, profit. Are they generating a sufficient return on investment for their owners while operating within the norms and standards of the community? Non-profits must operate within their financial means but lack the clear measure of profit – thus, the importance of non-financial measures.



Most people are familiar with the classic model of “input > process > output”. Budgeting is the planned allocation of inputs to support processes that generate desired outputs... or that is the theory. In the late 1960’s management by objectives and Results Based Management arose. Simply measuring outputs was no longer sufficient. Did the output achieve the desired outcome/objective and with the intended results?

Outputs, outcomes and results are almost always non-financial. They help guide the non-profit and tells its story in a more compelling language. However, RBM is not without its challenges; to start, is a result measurable?

### Measuring the Sometimes Unmeasurable

Non-financial measures can be difficult to measure, consider these scenarios:

- The Red Cross provides temporary housing for a family displaced by a house fire.
- The YMCA sports center creates special programs for local youth.
- The Sierra Club builds a trail.
- A citizen’s patrol deters crime.

The first two examples have a very clear provider (Red Cross and the sports facility) and a very clear consumer (the displaced family and youth in a geographic area). The Sierra Club is the provider in the third example but the consumer of the services is not specific (runners, hikers, cyclists, families, etc.). The fourth example is even less specific. Which citizen patrol person is deterring which criminal at which location and when? Everyone is a beneficiary of a low crime rate (except the criminals) and a citizen’s patrol maybe part of a larger set crime reduction activities.

Describing a result is a lot easier if you know how (in)direct a role the consumers and providers play in the activity. Mapping these concepts onto a 2x2 grid yields the Results-Role-Matrix. Activities in quadrant 1 are most receptive to non-financial measures (e.g. 300 families received temporary housing and were able to move into interim homes within 2-weeks). Quadrant 2 & 3 more difficult (e.g. 25% of eligible youths used the sports centre at least once per month; there were 400 trail users on average/day).

Quadrant 4 is most challenging (reported crime and perceptions of personal safety improved over the one-year period).

Public Sector (Provision)	Direct	1 Transportation, Parks, Defence (common good, non-excludable, non-rivalrous)	4 Direct social benefits & services (health, registration, education)
	Indirect	2 Costs and Benefits of Civil Society (e.g. low crime)	3 Use of Common Goods (fishing in a river, clean air or water)
		Indirect	Direct
		Citizen, Client, Stakeholder (Consumption)	

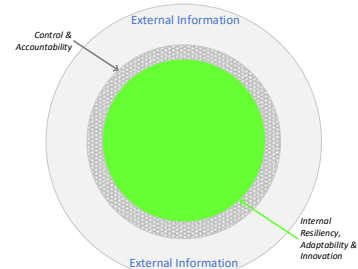
## Measuring the Limits of Measuring

Results-based management is about 50-years old. Unfortunately, this half-century has not uncovered any magic bullets. Non-financial measures are important to collect, analyze and report on but are also inherently fickle, fleeting and gamed.

They will never tell the non-profit's full story. Balanced-score cards or key-performance-indicators can help – to a point<sup>39</sup>. Still, a non-profit must collect and share these measures as guide posts and indicators. Non-financial measures will never be as precise or standardized as financial-measures; but perhaps, this is a good thing.

## Non-Profit, Control Thy Self (but also adapt & Innovate)

The last thing you want to hear from your auditor is that your organization is no longer a going concern. A sustainable enterprise adapts and innovates in the face internal and external change.



### RAISE<sup>40</sup>

CPA Canada has encapsulated these concepts with the concept of RAISE<sup>41</sup>.

- **Resilient:** "... the ability to manage risk and quickly recover from turmoil and disruption. Resilient organizations do this while maintaining continuous business operations and safeguarding people, assets and overall brand equity."<sup>42</sup>

**Resilient**  
+ **Adaptable**  
+ **Innovative**

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**Sustainable Enterprises**

- **Adaptable:** "...the process of adjusting to internal and/or external change by altering routines and practices in a timely way."

- **Innovative:** "...the ability to use revolutionary concepts to create sustained value. It includes taking risks and challenging the status quo by being disruptive and transformational."

<sup>39</sup> To read more about applying strategy maps and balanced score cards to non-profit, see: Scholey.

<sup>40</sup> The following has been adapted from CPA Canada.

<sup>41</sup> An equation, you would expect anything less from accountants?

<sup>42</sup> CPA Canada, p. 5.

## Measuring RAI

The budget process can set targets for an organization's resilience, adaptability and innovation (RAI):

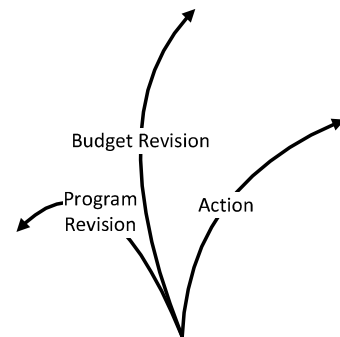
- **Resilient:** cash position, positive revenue, cash reserves; operational performance and risk measurement; vacancies; condition of physical space.
- **Adaptive:** resilient measures+ training status for staff and volunteers; condition of IT systems, physical space, licenses; morale & health of staff and volunteers.
- **Innovative:** adaptive measures+ flexibility in the budget for small proofs of concepts; predisposition of the organization to take managed risks; organizational trust levels.

As one moves from resilience to innovation you also move from hard and quantifiable values to those that are more soft or downright squishy. Which leads us nicely to the whole question of performance measurement as a function of organizational control.

## Deciding What to Do with the Information

Management or the board receives the following information:

- 1) the actual results (where we actually are).
- 2) the budget for the results (where we thought we would be).
- 3) past historical performance for the same time period (where we were last time).
- 4) a forecast for a future period (where we likely will be).



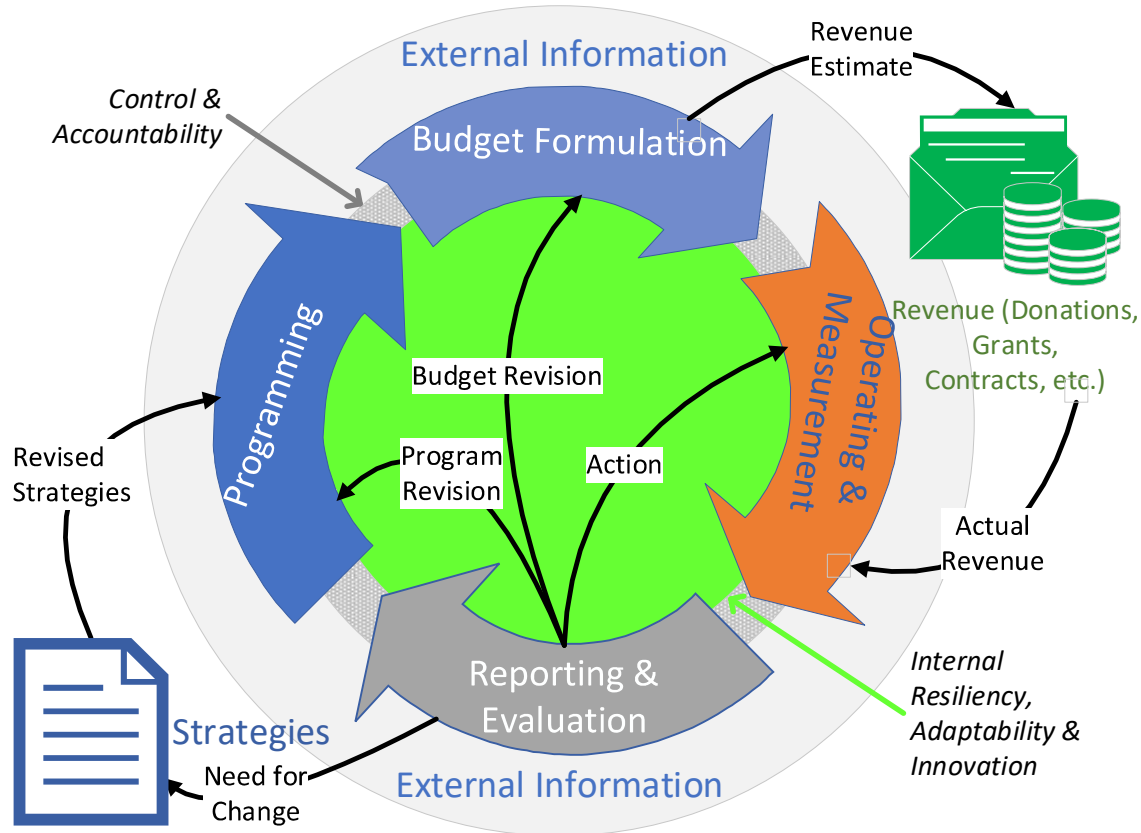
At this point, board members and executives will shout: 'but which number is right?' and the answer is all of them – in context.

- The budget was the best estimate of the future. It can/should be changed as new information becomes available (see the discussion on budget techniques to accommodate this such as a rolling budget).
- The actual results (financial or otherwise) may be an anomaly or the start of a new trend that could make prior information irrelevant to current circumstances. The organization can act or wait for more information.
- Historical information is relevant only if past circumstances are similar to the present. A forecast is accurate to a point assuming you can predict future circumstances.

As frustrating as the above seems to be it is actually indicative of a healthy and working reporting process for the organization. Management and leadership are not mechanistic activities. Leaders need to use their varied and diverse experience, education and aptitudes to internalize, analyze and act on the information provided to them<sup>43</sup>. This is the challenge, art and science of leadership – and what makes it fun, interesting and valuable.

## The Budget on the Bus Goes Round and Round

We have now travelled through all management control phases. Like any model, it is a representation. Reality is a whole lot messier and interesting than what was presented.



The time has come to get off the budget-bus and stand back and ask big pictures questions. This section is a catch all of various topics including the philosophical question: "If this organization falls in the forest, and we are not around, will anyone miss us?".

<sup>43</sup> We will assume for the moment that all information provided is accurate, complete, comprehensive and timely. Asking leaders to make decisions on inaccurate, incomplete, partial or out of date information is a different topic.

**MEC Case Study.** *In 2020, a Canadian institution – MEC, filed for bankruptcy and was sold to a US firm. While there are numerous aspects to this story, including the actions of the board of directors and their communications with members, the fact remains that a 50-year old cooperative became a private enterprise.*

*In the early 1970's, the then Mountain Equipment Cooperative was highly relevant. Good quality gear was expensive and impossible to get in Canada. Fast forward 50 years and quality camping and outdoor gear can be bought online and in dozens of stores in most Canadian cities. MEC needed to ask 'are we still needed?'.*

**Are We Relevant and/or Viable?** Although not technically a budget issue, non-profit organizations must ask themselves are we relevant, are we viable? Indirectly answering these questions through a budget process is disingenuous and distracts for a more pertinent discussion: 'How do we become relevant and viable?'. Of course, "Things were going great... until COVID/Oil Prices Crashed/2008 Financial Crash/etc."

**Reserves or "The trouble with normal is it always gets worse"**<sup>44</sup> Reserves are the historic accumulation of capacity that can be drawn down in the future. The problem with a reserve is that today is the worst it has ever been and therefore NOW is the time to break into the piggy bank or to accumulate debt.

Large operating surpluses are ill-advised as well as they may indicate that clients are being short changed on services or donors have over-contributed. A 'Goldilocks' surplus is one that covers asset depletion and is ideally less than 1-2% of total revenue<sup>45</sup>.

Nicholas Taleb, the Author of numerous books including the "The Black Swan" identified debt as a destroyer of 'optionality', the ability of people, organizations or governments to pivot and react during times of crisis. Conversely, reserves create optionality. While it is tempting to spend a potential surplus on today's priority, maintaining at least 3-6 months of operational-cash is a more prudent option.

**Budgeting Level of Detail, Control and Trust.** Some organizations budget at a summary level (e.g. staff; supply categories such as travel, office supplies, contracts; and, unique program costs). Other organizations budget 'at the line level'. This means developing a budget for virtually every cost category.

No matter what level the budget is set at, the level of scrutiny and what the budget holder can do with surpluses and deficits is more important. Some organizations disallow the movement of budget between the various lines. If you over budgeted for paper but under for printing supplies – you still can't print documents.

As a general principle, the greater the level of budget detail and control, the more perverse the incentives for the budget holder. A budget is an organizational control but it is also an enabler. Both of these concepts are predicated on trust.

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<sup>44</sup> See: <http://brucecockburn.com/discography/the-trouble-with-normal>.

<sup>45</sup> Adapted from Zietlow, Chapter 8.4.



## Scenario Planning

The best budget is based on assumptions that can turn upside down. Scenario Planning evaluates the budget against a set of changes:

- Our largest donor/funder withdraws support.
- The activity we are engaged in becomes illegal or no longer acceptable in society.
- A pandemic shuts down the office for 2 months or prevents our largest fund-raising event from occurring.

The point of Scenario Planning is to not guess the exact details of what will happen. Instead, it helps the organization improve its adaptability muscle. In addition, proposals for one Scenario might become the basis for a reaction to an actual set of events.

Before approving a budget, the board of a non-profit must understand its assumptions and what scenarios has management considered if these assumptions change? For these key assumptions, questions to ask (and get answers to) are<sup>46</sup>:

- 1. What could happen? Often organized into social, economic, political or technological. Methods: SWOT, PESTLE, five-forces, etc.
- 2. What would be the impact? Changes to our people, processes, products, donors, infrastructure, reputation, etc.
- 3. What are the implications for our organization? Increases or decreases, negative or positive to the #2 above.
- 4. How can the organization survive, adapt to or capitalize on this change?
- 5. What would our key funders want us to do and why don't we ask them?

**Science Fiction and Scenario Planning.** Scenario planning does not have to be all gloom and doom. ExO World is a global organization with a strong Edmonton presence. They have developed a Science Fiction themed method for organizations to imagine their future.

This is more than just a budget technique; it is used to by organizations (including non-profits) to improve their planning and develop a future vision of themselves. For more information, visit: <https://scifihive.com>. You can also watch this information video on the technique and how it applies to non-profits: <https://youtu.be/feCO0p6vKZc>.



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<sup>46</sup> Adapted from Axson. CPA Canada has provided guidelines to run scenario planning. The six-steps suggested a non-profit may wish to follow. The steps are: 1) Define Objective & Scope, 2) Define what can change, 3) Collect and analyze data/information on the change, 4) Develop Scenarios, 5) Use the scenarios, 6) Maintain and update the scenarios, 7) Evaluate the usefulness and value of scenario planning (added to the list).

**Inviting Key Funders to Review the Budget.** If your organization is dependent upon a few key donors for a lion share of your revenue, why not invite them to your budget review process? Please don't invite them to the meeting when you are discussing office supplies but do invite them to an executive/board level overview of the budget. Doing so can increase understanding. It is also a chance to demonstrate your fiscal prudence and to show exactly where the money goes.

**Budget-Buddies & Beyond Budgets?** In times of stress we develop tunnel vision. This is a risk for many non-profits entering another year in which money is tight and the organization is already stretched. Unfortunately, resources will become fewer and demands greater – so how about a yearly “Let's Stop and Think About This” conference. During this event, organizations contribute and learn about best and better practices in sister-non-profits. Assuming there are sponsors and perhaps pot-luck lunch, the costs would be low and the networking high.

Organizations such as CPA Ambassadors can help organize and facilitate the sharing of such information and discussions. For example, most of this document has been based on an assumption you want a budget. Budgeting is not without its problems<sup>47</sup>. Given these (and other challenges) can we run the budget process better and what would happen if we stopped budgeting altogether?

### Rolling Budgets & Forecasts

Traditionally budgeting is done to coincide with the fiscal year. This has been for convenience and the innate logic of starting the year afresh. Governments often have a legislative requirement for when they budget. Most non-profits do not have these constraints; so why not budget multiple times of the year albeit at a more summary and less comprehensive way. For example:

1. **Revenue Estimate:** Establish a 12-18-month inflow budget every quarter.
2. **Program Adjustment:** Modify program budgets to reflect the revised inflows budget.
3. **Operating Plan:** Prepare/generate the revised 12-18-month operating budget starting with the next quarter.
4. **Reality Check:** Confirm alignment with the strategic plan, vision and values.
5. **Approval:** The board approves the quarterly revision.
6. **Avoid Budget Death Marches:** Set maximum and aggressive timeframes to support the above, for example a planning week once a quarter. Because of increased frequency, reduce the level of detail of the budget.

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<sup>47</sup> See Annex 2 for a discussion of the challenges (and solutions) of budgeting.



**Do We Need a Budget?** If managing a rolling budget is not appealing, do you actually need a budget? If your expenses are stable or minimal (e.g. a few staff, utilities and some supplies), how much value is the budget adding? There are very good reasons to develop budgets including:

- Your organization is large, geographically disbursed, has many and varied programs.
- You have a distributed management model, for example program managers are encouraged to run their affairs as a 'mini-organization'
- A budget is required by funders (e.g. a pre-condition for a grant).

In these days of doing more with less, and less with less – the budget is no exception. The board should have a very clear and well considered answer to these questions:

- How was last year's budget used? Would better financial reporting have sufficed?
- What are the consequences of having no budget this year, who would notice?
- Assuming someone needs a budget, what is the minimum level of detail they require for their needs; what is the optimal level of budget detail to support its preparation and usage; how do these two levels of detail compare?

Before throwing out the budget with the bath water, remember it is more than just setting up the fiscal-guard rails for managers, it is about planning and coordination<sup>48</sup>.

**Presentation Notes – 4 Budget Guy Lessons.** *Over my career, I have been a 'budget-guy'. As an accountant, I enjoyed the forward-looking aspects of planning rather than the retrospective view provided by reporting or auditing.*

*There are four things I have learned from 30+ years as a budget guy:*

**1. CLIENTS Treat the budget holders as clients.** *This is the carrot versus stick question. The more carrot given to your clients; the less effort required.*

**2. VALUE-ADDED & FUN:** *Make the process value added and fun. For example, I ran many of my touch point calls with a soap opera theme. "Last time on As the Budget-Turned, Ralph discovered his long lost-brother is a Giraffe in disguise. Ralph also questions about filling in the staffing-template".*

**3. COMMUNICATE:** *Over communicate up-down-and across the organization.*

**4. SURPRISE!:** *Don't surprise anyone.*

*Discussion related to the above included the challenges of engaging the board in the process. Linkages to the planning and risk management were discussed.*

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<sup>48</sup> For those interested in reading more about life beyond the budget, the Beyond Budgeting group has suggestions: <https://bbbt.org>. Many of the suggestions have already been covered in this document, for example using a rolling budget instead of an annual plan. Some organizations use past history as their budget comparing current month's performance with the same month last year and a rolling 12-month average.

## Technology and the Budget

Ideally your budget and your finances are held in the same system facilitating budget setting, maintenance and variance analysis. More than likely your budget is managed in a spreadsheet and your organizational finances are exported and matched to the budget.

Irrespective of how your budget is established, maintained and used – technology is probably involved. That is the good news. The bad news is that technology can be distracting and daunting. Selecting a system must first and foremost be a ‘people’ and not a technology question. The sudden loss of a key-volunteer, finding qualified replacements and the total-cost of ownership of the system (implementation, licensing, training, migration off) are considerations for the board.

The good news is that non-profits can use cloud-based solutions meaning that system upkeep has been eliminated. Some considerations for selecting a system:

- Is the organization reputable and likely to be in business next month; can you get your financial data out if the firm exits the market unexpectedly?
- How well supported is it through training, augmented support levels, etc. to onboard new staff, handle complex or new transactions and assist when it stops working?
- What modules and integrations do the system support: general ledger, payments, payroll, budgeting, asset tracking, donation management, etc.?
- Is it Canadian based to handle provincial taxes, reporting requirements, GST/HST and a Canadian payroll?

## The Future of the Budget

The reports of the death of the budget are greatly exaggerated<sup>49</sup>. Over my 30+ year career the budget has been on the wane – yet here we are. The need for a budget, the conversion of strategy into tactics and operations will continue. The detail and mechanics of how and what is a budget will evolve with the sophistication of both organizations and technology. In other words, the budget is dead, long live the budget!<sup>50</sup>

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<sup>49</sup> With apologies to Mark Twain: <https://www.quora.com/Why-did-Mark-Twain-say-The-rumours-of-my-death-have-been-greatly-exaggerated>.

<sup>50</sup> With apologies to dead kings everywhere:  
[https://en.wikipedia.org/wiki/The\\_king\\_is\\_dead,\\_long\\_live\\_the\\_king!](https://en.wikipedia.org/wiki/The_king_is_dead,_long_live_the_king!).

## Notes and Further Reading

**Recommended Reading.** There is an impressive amount of material available to non-profits but its digestion is the challenge. I added to that indigestion by creating my own content. Bon appetite!

1. [Myorgbio – Volunteerism](#). A collection of blogs about volunteering, most of which made it into the above notes.
2. [Alberta Board Development Program](#): There is both material your organization can download (including a fact sheet on budgeting) and Alberta based non-profits can have a volunteer come in to improve board governance.
3. [Volunteer Canada](#). Excellent resources for managing volunteers including a self-evaluation resource. Some of the material is getting a bit dated but still worthwhile.
4. [Volunteer Alberta](#). Provides a number of Canadian and Alberta relevant resources.
5. [CPA Canada – Non-Profit Governance](#): A series on topics ranging from cyber security to resuming operations post-COVID.
6. [CPA Canada – Financial Literacy](#): Budgeting-knowledge is a form of financial literacy. This material can help non-profits understand business and finance concepts.
7. [Running a Charity in Canada](#). I read a LOT of material for this presentation. Out of the bunch, I recommend this one. Without earning commission, I would go so far as buying a copy to new board members as part of the welcome package... or borrow it from the library if you are cheap like me.

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***Presentation Notes - Comments about some of the above resources.***

*CPA resources are SUPER! I only learned of them in the last year.*

*The Board Development Program (Alberta Government) materials are excellent.*

*The current webinar series being offered with AUMA in partnership with AB Culture Board Development program is really well done and still in progress. Consider taking in the rest of them. (<https://auma.ca/news/announcing-not-profit-board-development-program>).*

## Annex 1: Glossary of Terms

Term	Definition	Source
<i>_Rabbit Hole</i>	My term for interesting diversions and tangential subjects. These are listed either in the body-notes or as an annex. Enjoy!	
<i>Accrual</i>	Revenues or expenditures that have been recognized in one fiscal period year but not received or disbursed until another period.	
<i>Accrual Basis of Accounting</i>	Accrual accounting depicts the effects in the periods in which the event occurs even if the cash receipts and payments occur in a different period.	Adapted Hughes
<i>Audit</i>	A review of financial reports or performance to determine conformity or compliance with applicable laws, regulations, and/or standards.	
<i>Budget</i>	A plan for a defined future timeframe by which actual activity can be measured within that timeframe.	Various sources
<i>Budget - Accrual</i>	Incorporates expenditure and revenue values in terms of accrual accounting measures. In particular, accrual concepts are included in budgetary control totals. Control totals are the quantitative spending limits imposed on a budget holder. Some of the elements, the budget holder will have no direct control over: depreciation expense on assets. In other cases, the accrual improves the accuracy of the budget: matching staff costs when a payroll period crosses a fiscal year	Adapted from Robinson
<i>Budget - Balanced</i>	One in which inflows (receipts) equal outflows (disbursements). There are degrees of balanced. An organization may have a balanced operating budget but choose to down reserves to fund capital expenditures.	
<i>Budget – Capital</i>	Acquisition of property, plant and equipment for which amortization is required on the financial statements. Identifies asset to be acquired and the source(s) of funding.	Adapted from Board Development Program
<i>Budget - Manpower/ Staffing</i>	Used in human resource intense organizations (e.g. a hospital), the number and type of staff/contractors will be a key-input to consider. This budget will result in an FTE or available hour output which can be used for operational planning.	
<i>Budget - Production</i>	Various types such as Production, Material, Inventory & Purchase Budgets: Used to support the production or sale of goods or services.	
<i>Budget – Master</i>	Overall financial and operating plan. Consolidates subordinate plans/ budgets based on the particulars of an organization.	
<i>Budget - Operating</i>	Planned operations typically presented in a line-item format, e.g. Revenue, Expenses with sub-categories such as salaries, supplies, revenues, etc. Established for specific time period, usually a year.	Adapted from Board Development Program
<i>Budget - Sales/ Revenue</i>	Expected inflows to the organization. There may be sub-budgets with product line or major customers/market segments. A non-profit may produce an equivalent budget but focusing on donors or fundraising activities.	
<i>Budget - Production/ Program</i>	Production of products/outputs and/or programs or their elements. The subordinate elements may be based on the operating budget (e.g. salaries, supplies, sundry expenses) or be specific to the program. Organizational capacity (e.g. number of beds, staff hours) may provide an upper limit to this budget. These constraints are addressed through the operating or capital budgets.	
<i>Budget - Cash</i>	Receipts and disbursements. This budget is of particular interest to the finance and senior management levels as they may need to know when to draw down reserves or borrow when disbursements exceed receipts (e.g. a grant is paid only on completion of a contract). Other budgets are fiscal year focused; a capital budget is project focused. For a small non-profit, this budget will be an exception (e.g. a one-time expansion). For larger organizations, there are likely a number of small to large capital projects occurring continuously (e.g. the maintenance and expansion efforts of a hospital). This type of budget interfaces with the above either during the project phase (e.g. the need for cash, staff on projects) or upon completion (e.g. changes to operating costs such as staff hired, increased utilities, etc.). The latter concept is known as budgeting for the "Total Cost of Ownership".	
<i>Budget - Project/ Capital</i>		

<i>Term</i>	<i>Definition</i>	<i>Source</i>
<i>Budget – Functional</i>	Show revenues and expenses for each separate functional area. In a business, the major functional areas are marketing, finance, and production. In a non-profit, these might be development, finance, and services.	
<i>Budget - Fund</i>	Separation of monies that are designated for a specific purpose. The basis of the segregation may be externally mandated (e.g. a condition of a donation, endowment, a grant) or internally segregated the board. As a result, the organization may prepare some or all of its budget based on these funds, for example: Operating, Capital, Restricted-Donation and Restricted-Grant funds. Transfers between funds requires appropriate authorization by the board, donor/granter, etc.	
<i>Budgeting – Incremental</i>	Last year's actual figures are adjusted to obtain the current year's budget. It is a common method because it is simple; it is useful if the cost drivers are not subject to change.	<a href="#">Adapted from Corporate Finance Institute</a>
<i>Budgeting – Results-based /Performance</i>	Formulation of budgets that are driven by a number of desired results that are articulated at the outset of the budgetary process and against which actual performances are measured at the end of the period of execution.	Prom p. 49
<i>Budgeting - Activity based</i>	Activities that incur costs are recorded, analyzed and researched. It is more rigorous than traditional (incremental) budgeting processes. It is also expensive and better suited to for-profit organizations who are more disciplined about product selection and cost-management	<a href="#">Investopedia: Daniel Liberto</a>
<i>Budgeting – Bracket</i>	A form of built-in contingency planning. Expenses are developed at higher and lower levels than the base budget, and sales that are likely to result are then forecast. The impact of these fluctuations is already understood the period of time the budget represents. Budgets may be created to match actual activities to reduce administrative costs. A theatre group may have a semi-annual budget (e.g. 2 per year) for each of their seasons. Many international organizations have a bi or tri-annual budget (e.g. 2- or 3-year budget) because of the cost to approve the budget and to provide funding-stability for the work of the organization.	Rachlin, chapter 13, p. 11 and chapter 28
<i>Budgeting – Budget periods</i>	Hyphenate a fiscal year if it crosses a calendar year, e.g. 2098-2099 for April 1, 2098 to March 31, 2099. Use consistent year descriptions when a budget contains multiple years. Prior-Year, Current-Year, Budget-Year and Out-Year(s) are often used to differentiate these respectively.	
<i>Budgeting – Time Frames</i>	Traditionally a budget is set for a defined period (e.g. a fiscal year) and then replaced each year. A rolling budget adds a new budget period (month or quarter) after the most recent period has been completed. The budget always extends a uniform distance into the future. This requires more work each accounting period to formulate the next incremental update but is beneficial where future costs and/or activities cannot be forecast accurately.	<a href="#">AccountingTools. "Types of Budgeting Models."</a>
<i>Budgeting – Rolling</i>	Application of a cost for overhead to a budget. This covers costs such as finance, IT, administration, human resources, etc. Used to determine the full cost of delivering a program.	
<i>Budgeting - Burden Rate</i>	The amounts within the budget scale according to an external measure.	
<i>Budgeting - Flexible</i>	An immunization program and their associated costs may increase or decreased based on funding received. Some costs are fixed, variable or mixed making this type of budget more challenging.	
<i>Budgeting - Responsibility</i>	The portion a budget a single person is responsible. Often there is also a delegation of authority for spending, signing contracts, etc. that goes with this budget.	
<i>Budgeting - System</i>	The method by which a budget is created, maintained and ultimately reported and analyzed against. This is an organization's finance system... or a spreadsheet!	
<i>Budgeting - Top/Bottom Up/Negotiated</i>	Top down is an imposed budget. Bottom up solicits input and is participative. A parallel budget is often the negotiated end result.	
<i>Budgeting – Zero Based</i>	Also bottom up budgeting. Start with an assumption of zero and compile a budget based on the needs of the program. Revenue and expenses are based entirely on future events rather than past performance.	Adapted from Board Development Program



<i>Term</i>	<i>Definition</i>	<i>Source</i>
<i>Cash Basis of Accounting</i>	The basis of accounting in which revenues and expenditures are recognized when cash is received or disbursed. Contrast with accrual basis of accounting.	
<i>Costs – (In) Direct</i>	(Not) Directly attributable to a cost object. Purchasing food for a Meals on Wheels program is a direct cost. The cost of gas for the volunteer's vehicle is an indirect cost. Both examples are variable costs.	<a href="#">Adapted from Corporate Finance Institute</a>
<i>Costs - Fixed</i>	Costs that do not change in relation to production volume. Gloves and masks. The utilities needed to run a homeless shelter no matter its capacity is a fixed cost.	<a href="#">Adapted from Corporate Finance Institute</a>
<i>Costs – Variable</i>	Costs that vary/change depending on the company's production volume. The number of meals consumed by a homeless shelter is a function of its occupancy; the more clients, the more meals needed.	<a href="#">Adapted from Corporate Finance Institute</a>
<i>Encumbrance</i>	Represent commitments related to unfilled contracts and purchase orders. The encumbrance prevents further expenditure of funds in light of commitments already made. At year-end, encumbrances that are still open are not accounted for as expenditures and liabilities but, rather, as reservations of fund balance.	Shim, chapter 25
<i>Expenses</i>	Decreases in economic well-being of the organization as the result of outflows or the incurrence of liabilities.	Adapted Hughes
<i>Fiscal Year</i>	A Fiscal Year is a period of time used by organizations for accounting purposes to formulate annual financial statements and reports. A fiscal year typically consists of 12-months and begin or end on any date selected by the organization. The period from January 1 to December 31 is called the calendar year.	<a href="#">Adapted from Corporate Finance Institute</a>
<i>Forecasting</i>	Forecasting is an attempt to estimate the future. It is based on available past data, the extrapolation of trends and the application of judgement.	Ross
<i>Fund</i>	A budgeting and accounting entity that provides for the segregation of moneys or other resources from the normal operations of the organization. The separation may be internally mandated (by the board) or externally required (by a donor or for legal reasons. A separate set of accounts is maintained for each fund to show its assets, liabilities, reserves, and balance, as well as its revenue and expenditures.	
<i>Grant</i>	A transfer, typically from a government, to a non-profit. In most cases, recipients have to apply or meet eligibility criteria with no guarantee of success. The granter has the discretion to decide to make the transfer and who to provide it to. There is usually a ceiling on the total amount that may be transferred under a particular transfer program and some transfer recipients are subject to performance or reporting requirements.	Adapted from Public Sector Accounting Standards PS3410: B18.
<i>Income</i>	Increases in economic well-being of the organization as the result of inflows, increase in assets or decreases of liabilities.	Adapted Hughes
<i>Internal control</i>	Processes run by those charged with governance and management that the entity's objectives will be achieved. The term "controls" refers to any aspects of one or more of the components of internal control.	Adapted from CPA Canada's Standards
<i>Member</i>	A registered adherent to the organization per the bylaws of the organization and the applicable jurisdictional statutes.	<a href="#">Various Sources</a>
<i>Non-Profit</i>	Self-governing organizations that exist to serve the public benefit and generate social capital but do not distribute private profit to members. The organization depends on volunteers and is independent or institutionally distinct from the formal structures of government and the profit sector. A non-profit organization can be a large structured organization or a small community or grassroots organization.	<a href="#">Volunteer Canada</a>
<i>Operations</i>	The principal revenue-producing activities of a for-profit entity or program activities of a not-for-profit organizations. Excludes investing or financing activities.	Adapted Hughes
<i>Overhead</i>	Cost elements necessary in the production of a good or service but which can not be directly attributed to the production or they do not become an integral part of the finished product, for example rent, heat, light, supplies.	

<i>Term</i>	<i>Definition</i>	<i>Source</i>
<i>Planning versus Budgeting</i>	Like planning, budgeting looks into the future beyond the immediate timeframe. Planning is an attempt to shape the organisation's future, while budgeting aims to predict what resources the organisation can use and might expend. Budgets are an essential, more detailed element of planning. They are not effective when divorced from the planning context.	CIMA
<i>Registered Charity</i>	An organization approved and registered by the Canada Revenue Agency. It may be a society, corporation, trust or other entity. It can also engage in some limited for-profit activities (e.g. a hospital gift shop).	<a href="#">Aptowitz</a>
<i>Revenue</i>	For-profit revenue is the income generated from business operations. It is the top line or gross income figure from which costs are subtracted to determine net income. Non-profit revenue include income generated, grants, contracts as well as donations.	
<i>Volunteer</i>	Any person who gives freely of their time, energy and skills for public benefit, without monetary compensation	<a href="#">Volunteer Canada</a>



## Annex 2 – Principles & Elements of a Budget Process

Every organization will have their own budget process tailored to the unique circumstances. A list of four principles and twelve-elements was created for municipalities but it is a good set of guides for most organizations<sup>51</sup>:

1. Establish Broad Goals to Guide Decision Making (Strategies & Programming)
  - 1. Assess needs, priorities, challenges and opportunities
  - 2. Identify opportunities & challenges for services, capital assets, and management
  - 3. Develop and disseminate broad goals
2. Develop Approaches to Achieve Goals (Strategies & Operations)
  - 4. Adopt financial policies
  - 5. Develop programmatic, operating, and capital policies and plans
  - 6. Develop programs and services that are consistent with policies and plans
  - 7. Develop management strategies
3. Develop a Budget Consistent with Approaches to Achieve Goals (Budget Formulation)
  - 8. Develop a process for preparing and adopting a budget
  - 9. Develop and evaluate financial options
  - 10. Make choices necessary to adopt a budget
4. Evaluate Performance and Make Adjustments (Measurement, Reporting & Evaluation)
  - 11. Monitor, measure, and evaluate performance
  - 12. Make adjustments as needed



<sup>51</sup> Adapted from National Advisory Council on State and Local Budgeting, pp. 4-6.

**The Problem with Budgeting.** It may seem strange to include a list of reasons NOT to budget in a book on budgeting. This is where the second column comes in. For every challenge budgeting presents on the left, there are process and leadership solutions on the right.

The Problem with Budgeting <sup>52</sup>	Better Budgeting
<ul style="list-style-type: none"> <li>• Inflexibility</li> <li>• Are developed and updated too infrequently, usually annually</li> </ul>	See the discussion on rolling budgets, more frequent updates, etc. However, it is important to know where your budget sits on the Budget Openness X Authority matrix. Inflexibility may be a desired attribute if you are a government looking to control spending.
<ul style="list-style-type: none"> <li>• Budgets are time-consuming and costly to put together.</li> <li>• Add little value, especially given the time required to prepare them</li> <li>• Encourage 'gaming' and perverse behaviours.</li> </ul>	Evaluate carefully the purpose of the budget. Decrease the detail of the budget, invest in technology to create efficiencies.
<ul style="list-style-type: none"> <li>• Budgets constrain responsiveness and flexibility and are often a barrier to change.</li> <li>• Concentrate on cost reduction and not on value creation.</li> <li>• Strengthen vertical command and control.</li> <li>• Are based on unsupported assumptions and guesswork</li> <li>• Make people feel undervalued</li> </ul>	Is this a budget problem or a more systematic organizational problem? If the budget is used primarily as a means of control, this may be indicative of an unhealthy corporate culture.
<ul style="list-style-type: none"> <li>• Budgets are rarely strategically focused and are often contradictory.</li> </ul>	Tie the budget first and foremost into the plans of the organization. As well, not everything can be strategic all of the time – sometimes you need to plan how to pay the bills.
<ul style="list-style-type: none"> <li>• Do not reflect the emerging network structures that organisations are adopting</li> <li>• Reinforce departmental barriers rather than encourage knowledge sharing</li> </ul>	Then why not budget for these networks. Identify incentives by which informal channels of communications can be created and appropriately nurtured.

<sup>52</sup> Ross; No. 27, p. 9.

### Annex 3 – Guerilla Marketing

You can't discuss Guerilla Marketing without starting with its namesake, the book that coined the term. The website offers some free resources (and of course will sell you the book): [www.gmarketing.com](http://www.gmarketing.com). The book lists 100 guerilla-weapons, here are 10 freebies from my copy of the book<sup>53</sup>:

- **30. Tie-ins with others.** Capitalize on opportunities to display the signs or circulars of other organizations if they'll do the same for you.
- **35. Testimonials.** These are free, easy to obtain. Used to attract new members, volunteers or donors.
- **52. Samples.** Organization specific but if you are a membership-based entity, a small glimpse of the benefits can help recruit more members.
- **55. Seminars and lectures & 57. Books and articles.** Creates organization credibility.
- **101. Social Media.** Establish active and relevant social media presences, assign a staff member or volunteer to help manage the content and to keep it fresh and relevant.
- **102. Bookmarks.** Ask your local library for permission to place 'Please Keep Me bookmarks' in books relevant to your organization; periodically replenish them.
- **103. Portfolio Marketing Investment.** Allocate your marketing investment as follows: 10% of your market time, talent and treasure in the universe – general awareness of your organization. 30% in your prospects – new members, donors, funders, etc. Invest the balance in your existing members, donors, funders, clients, etc.
- **104. Sell solutions not sizzle or the steak.** Most people want to build a legacy, offer them the chance to do so through the solutions your organization offers.
- **105. A marketing attack has three stages: Planning, Launching and Maintaining.** Of the 3, the last is the most important, costly and difficult. It requires 7 things. 1) Person with patience, aggressiveness, imagination, sensitivity and self-confidence. 2) Commitment, 3) Time, 4) Analysis to refine the attack, 5) part of a larger Strategy, 6) Donor/funder/member to engage with, and 7) DO IT NOW.
- **106. Customer Service:** Make each interaction with your organization based on the assumption that the phone call or visitor is your largest donor. Include checklists for and rotate the responsibility through staff and volunteers to avoid burn out<sup>54</sup>.
- **107. Don't Spare the Thank You's:** Ensure your staff and key volunteers have access to thank you notes. Send these out to volunteers, staff, donors, members and clients who deserve recognition. While store-bought are fine, considering printing up more unique cards: Picture a Thank You Card; [www.myorgbio.org/picture-thank-you-card](http://www.myorgbio.org/picture-thank-you-card).
- **108. Google This:** Sign up for a Google AdWords grant. Google will advertise qualified charities in searches. Visit [www.google.ca/grants](http://www.google.ca/grants) for current conditions.

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<sup>53</sup> Adapted from Levinson. My copy is VERY old, so it is probably worthwhile buying an updated one. While he only lists 100 tactics, I have adapted 8 other suggestions from the book & other sources.

<sup>54</sup> Acknowledgement to Hutton for these timely reminders, p. 210.

## Annex 4 –Volunteer Management Concepts

**LAST-VEGA - Features of a Volunteer/Member Life-Cycle Model.** Volunteers and Non-Profit organization members are a rare commodity. They are hard to find, difficult to screen, expensive to replace/retain and then vanish without warning. One way to manage these resources is to take a lifecycle approach – but which one should and organization choose?

When in doubt, why not select a mash up of the best: LAST-VEGA.

- **Learning:** does the potential volunteer know the organization exists and are the values aligned? Is the non-profit aware of potential volunteers with critical skills and aptitude?
- **Acquire:** Acquisition involves alignment of values, managing objections and establishing a value proposition for both parties. Activities in this stage includes recruitment, screening, interviews, due diligence and confirming a fit for both.
- **Socialization:** (aka the honeymoon period) how friendly an organization is will determine whether the individual will stay or exit early.
- **Tenure:** the volunteer settles down into the organization and the two are aligned. This is done through engagement, shared visions or 'Paying your Volunteers Well '.
- **Volunteer-Exit:** The volunteer has quit. Hopefully it is a planned-exit but sometimes things happen the departure is unplanned.
- **Governance:** Governance starts with a strong commitment to volunteers, policies, procedures, training, volunteer management and infrastructure such as IT systems.
- **Alumni:** an alumnus of former volunteers represent a pool of talent for the non-profit.

This is a summary of an original blog available: <http://myorgbio.org/lifecycle-volunteer>.



**Paying Your Volunteers.** Tenure is how long a volunteer will remain with an organization which is partially a function of the value of volunteering. The better the value proposition the longer the tenure and the better the volunteer – to a point. When the proposition begins to feel like compensation, the altruistic volunteer relationship breaks down.

The question is how to improve both the value proposition and relationship of the organization to the volunteer? The answer is two part: payment and reducing as much as possible the burden of volunteering. Payment has three currencies:

- **Purpose:** being part of something that is bigger than any one person.
- **Affiliation:** the feeling of community and the creation of social bonds.
- **Experience:** gaining experience or practicing skills from being a volunteer.

The burden of volunteering are all the things that make doing so more trouble than it is worth. This burden come throughout the volunteer lifecycle and some is externally imposed, for example, qualification activities.

Demands for minimum hours of effort, out of pocket expenses or a lack of appreciation all contribute to a 'negative-payment' involved in volunteering.

The above was based on a blog-series: <http://myorgbio.org/pay-volunteers>.

**Volunteer Boards – The Right People on the Bus.** A volunteer board is composed of people giving freely of their time. This gift should be managed no different than any other donation given to a non-profit. An effective board is one in which the members bring diverse and complementary skills. The following table are list the board members you want. No one person is one or another – only darker and lighter shades of grey.

Role	Description
<i>Knower</i>	Has specific knowledge about the organization's purpose, role or other matters critical to the board. For example, a lawyer or an accountant would play the respective knower roles of Legal and Finance issues.
<i>Doer</i>	These are the critical worker bees. These folks keep the lights on and the organization humming along. For many smaller volunteer organizations, the board member and the 'Joe-volunteer' is typically blurred.
<i>Funder</i>	These are the people who either have the money, know people who have money or know how to get the money (e.g. via grant applications, fund raising, etc.).
<i>Alumni</i>	The alumnus is the collection of board members (or volunteers, clients, funders, etc.) who have an interest in the organization – but not enough passion to be actively involved. Keep them in the organization's orbit through an alumni function.
<i>Farm Team</i>	This is where you get your next board member. Establish a mechanism to bring volunteers in, assign the meaningful work and then groom them for a governance role. In an ideal world, you should have a 2:1 ratio of farm team to board positions.

**Board Members You Don't Want or Need to Manage.** A person joins a board for a variety of reasons. Sometimes the relationship sticks and sometimes it sucks. A slightly tongue-in-cheek list of board members who your organization needs to re-engage with or perhaps gently nudge them toward the door in a gracious exist.

<b>Role</b>	<b>Description</b>
<i>Tourist</i>	These are board members who have joined to pad their resume. If they cannot be moved into one of the above roles, consider pruning them. But don't prune too soon – some people simply need to feel comfortable. Missed meetings, "smart-phone-crotch fixation" or silence are usually signs you have a tourist.
<i>Coasting Silverback</i>	These are board members have perhaps played one of the above roles but are now coasting. Like tourists, they should be pruned – but with a great deal more delicacy. While it is good to have wise counsel to balance the enthusiastic newbies, comments of 'We tried that, did not work' usually means you have a silverback. Consider moving them into an alumnus or the farm team.
<i>Antagonist</i>	Some people like a good fight, they enjoy conflict. In a board meeting they question every decision or direction. A degree of conflict is important in a board. It prevents group-think and complacency. This individual has not learned how to pick their battles. Managing such individuals involves personal coaching so be sure your organization wants to invest the time and effort.

## Annex 5: Project Ranking

Selecting one project those competing for the same resources can be difficult so a ranking methodology helps. The method must be fair, transparent and consistently applied. The following methodologies focus on three aspects: a rubric to score the proposals, a consensus process and technology to manage the results.

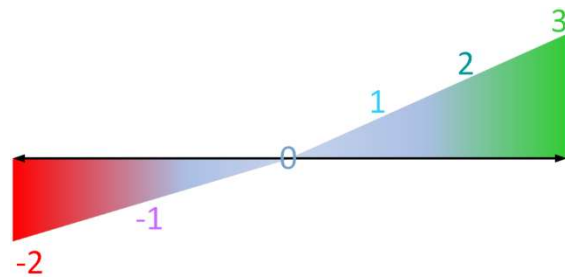
**Scoring Rubric – the Four R's.** It is easy to over-engineer scoring rubrics. Like a budget, the more complex and detailed the rubric is the less value it will provide. Ultimately the decision to select one project over another must be made by management or the board.

The Four 'Rs' provide a good structure to evaluate projects. Organizations must scale the rubric accordingly. Having the scoring described and detailed makes a transparent and open discussion (and reduces the potential for a 'gamed' decision).

Scoring Criteria	Value	Guidelines
<b>Relevance</b> The impact of the project on the organization's ability to achieve its objectives, based on: Business Objectives Core programs Reputation risk of not proceeding	5	Visible in the Strategic Plan of the organization AND strengths programs.
	4	Visible in the Strategic Plan of the organization AND strengths operations.
	3	An operational or tactical investment critical for operations and/or programs
	2	An operational or tactical investment important for operations and/or programs
	1	Has aspects that align with the core business.
<b>Readiness</b> The business' ability to execute the project and realize its outcomes, based on: Business capacity and success probability Dependency on external agencies/organizations Continuing project or contract	5	No dependency on external agencies/organizations
	4	Staff available to undertake business project responsibilities and probability of success is high.
	3	Operational budget available and probability for success is manageable.
	2	Some dependency on external agencies/organizations
	1	Probability of success is low due to lack of staff, budget, dependencies on external organizations.
<b>Return</b> The value generated from the project, based on: Business value Breadth of positive impact Direct and immediate impact to members/clients	5	Internal efficiency gain and positive monetary impacts AND Direct positive impact across the organization AND Mandated or legislative requirement AND Directly and immediately impacts clients
	4	Three those listed in 5
	3	Two of those listed in 5
	2	One of those listed in 5
	1	Portions of those listed in 5
<b>Right Thing to Do?</b>	1-5	The evaluator can assign a score of 1 to 5 but may be asked to justify this amount to peers.



**Six Degrees of Consideration**<sup>55</sup>. While the above table lists the 'classic' 1-5 score, this is only a suggestion. Most scoring schemes only return positive numbers. A negative IRR, might be given a 'zero' or low score when it really ought to detract from that specific-criteria. The +/- Metric recognizes that for specific criteria not every project can make a positive contribution.



There are six possible whole-number scores that a specific criterion can be awarded: two-negative, three-positive and a zero-score when a criterion is not applicable. The following table lists the generic rubric and the subsequent table provides an example of a scoring rubric.

#	Name	Description
3	Significant Benefit	Strongest possible score typically benefiting all considerations.
2	Strong Benefit	Strong score typically benefiting a majority of the considerations.
1	Some / Neutral	Typical or average criteria result.
0	Not Applicable	An attribute is not applicable or it would be nonsensical to attempt attribution.
NR	Not Received	Applicable but the submission is incomplete, not received or not usable.
-1	Detriment	Project will cause harm relative to this criterion offset other positive benefits.
-2	Strong Detriment	Harmful or negative consequences are extreme and the project can only be considered by having the highest political/organizational acceptance.

**Consensus Scoring.** Through weighting, an organization can make one of the R's more important. Once the scoring/weighting has been agreed upon, 2-3 review rounds occur:

- **Round 1 – Individual Scoring:** Decision makers review the projects and score according to their own interpretation of the rubric. They record assumptions made or questions they may have about the process or projects.
- **Round 2 – Consensus Scoring:** The decision makers meet and compare their scores. Each project is discussed and ideally a consensus is arrived at for a score. Individuals may be allowed to have a declared-differing opinion to a majority decision.
- **Round 3+ – Decision Scoring:** The results of the above are summarized and provided to senior levels of decision making. The results are accepted, modified or rejected. Changes to the decisions should be done with caution, however, as it will diminish the trust generated by the first two rounds of evaluation.

<sup>55</sup> For more on this, see: <http://myorgbio.org/positive-negative-score>.

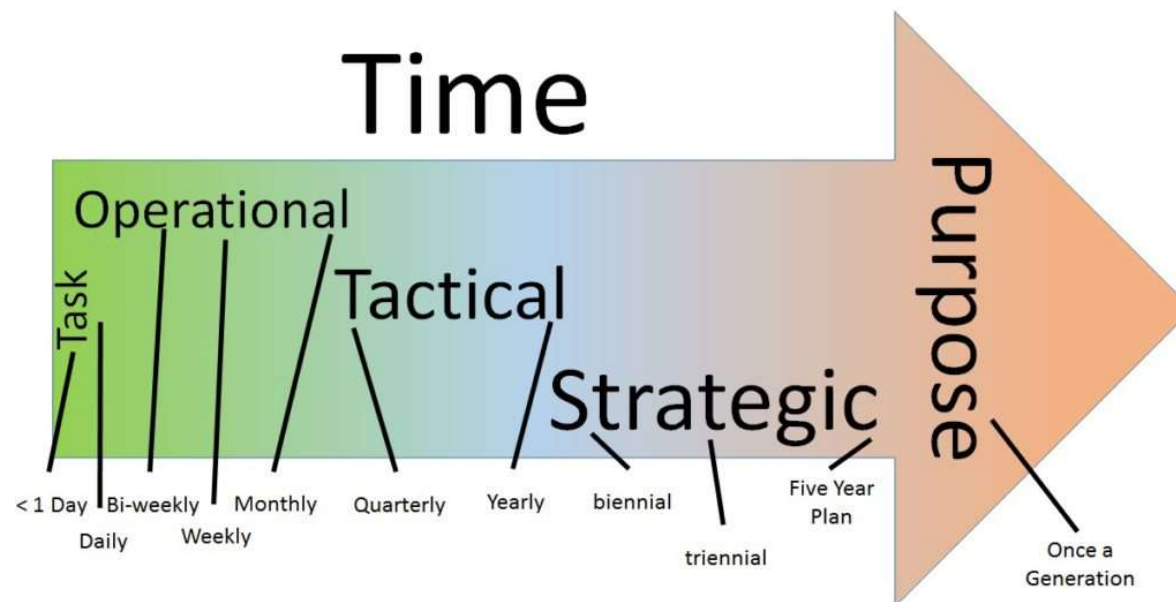
***Tracking the Results.*** Too often a slate of projects is approved and that is the last that is heard of them. Were they implemented; did they do what they promised? An organization needs to create the infrastructure to not only manage the approval process described above but finish the story. Doing so gives the evaluators a piece of information about the veracity of submissions. If department rates all of the projects a '5' and spins a good tale during the selection process, they will probably be approved. But, a year later, if none of them have started, they are over budget/time or crashing and burning – this is also important.

A project selection process is not unlike a budget, it shows where the organization should go. Measuring against that budget provides valuable performance information.

## Annex 6: Time to Define Planning Times

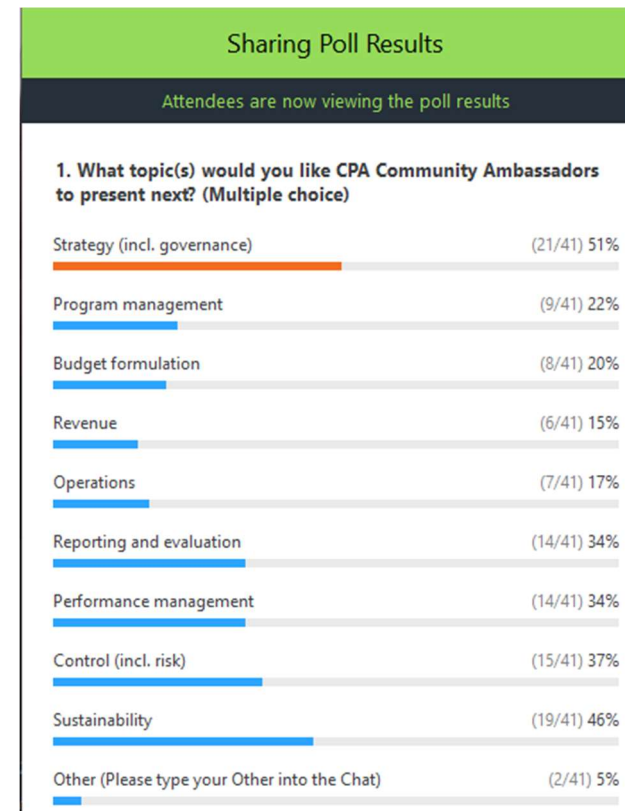
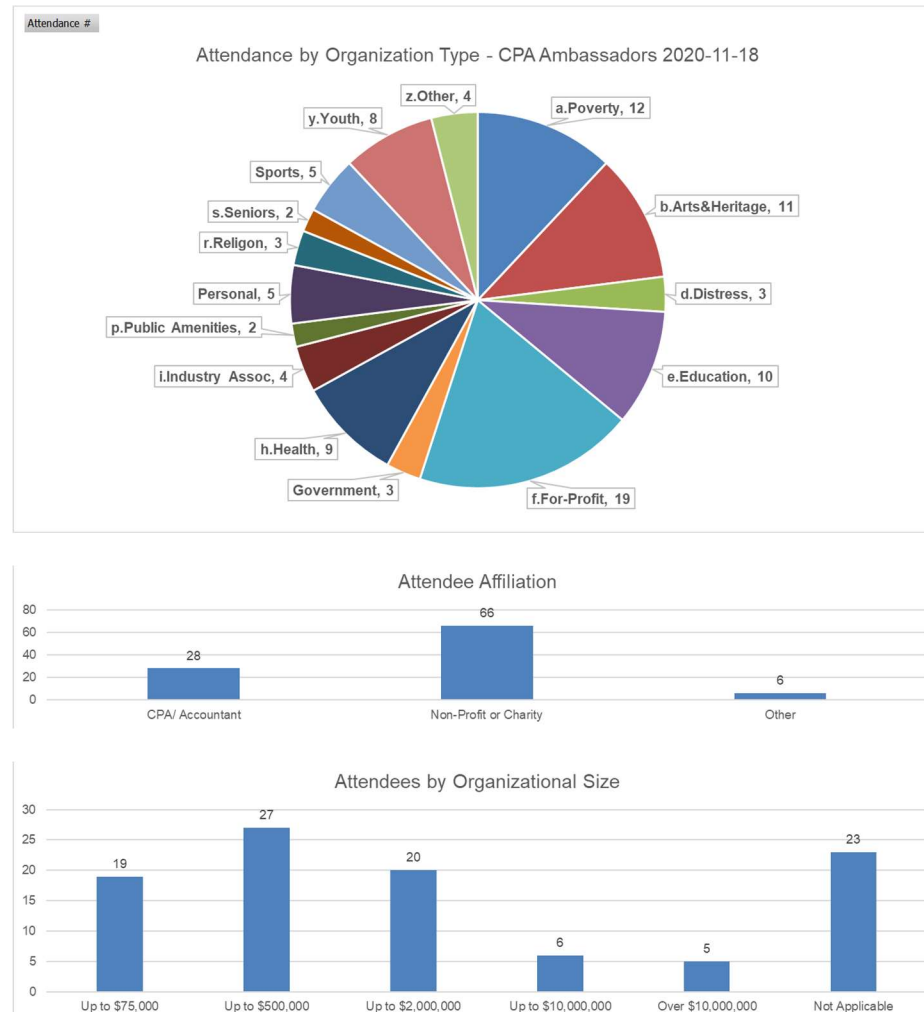
Different people use the terms Operational, Tactical and Strategic very differently. I think that part of the problem is that people don't like to use the word tactical. It has a military ring to it that puts people off. As a result, operational expands upwards in time to fill the void and everything becomes strategic. Of course, as long as everyone else knows what you are talking about, a rose will always smell as sweet. If you want a bit more certainty, use the following definitions adapted from ITIL.

- **Task:** takes less than a day or perhaps a few days to complete.
- **Operations:** live, ongoing or about a month's time horizon, a quarter maximum.
- **Tactical:** Medium term plans required to achieve specific objectives over a period of weeks to months but generally a year or less.
- **Strategic:** Strategic Activities include Objective setting and long-term Planning to achieve the overall Vision. At least a year in length and longer.
- **Vision/Purpose:** A description of what the Organization intends to become in the future.



## Annex 7 – Results & Fun Numbers - 2020-11-18 CPA Ambassador Presentation

Who Registered, Where Did They Come From and preferred next topic.



**Presentation Notes- Future Topic Suggestions.** Software and technology, Financial Key Performance Indicators, Capital Planning, Bid/No-Bid Determination