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Introduction

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Hi my name is Kristine Alvarez and in this video I'll provide a brief overview about the basics of budgeting. This video is intended to provide a starting point for those who are new to budgeting or starting a budget from scratch, for the first time, or just in the early stages of their own financial management journey. This segment is the first part of a three-part series.

[0:23](#) The 5 W's of the budgeting process

A lot of times, we as leaders of programs, or as leaders in our community, we get asked to provide our budget, either by funders or as part of a grant application or other stakeholder, you know, who wants to learn more about our programs and services. And for some of us, we've just not really had formerly learned how to create a budget or we're new to the process, and are unsure about what questions to even ask, or where to start, or where to go for additional resources and guidance. That's one of the reasons we created the series and one of the reasons that we begin this first segment by focusing first on the basics of the 5 W's for starting the budgeting process.

In this segment will briefly cover the core questions of what is the budget really in practical terms, why is it valuable to create a budget, and how can I begin the process of creating a budget from scratch? We'll end the segment by teeing up the how, the beginning steps for creating a budget from scratch. And in our next segment we'll move to creating your budget and the budget template.

What is a budget? (1:29)

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At the most fundamental level, “What is a budget,” we're cutting through a lot of the jargon that's out there on this subject. We view the budget at its most fundamental level, as a roadmap and a guide. It's a financial plan for a future time period. And here, the key word is plan. The budget is a forward-looking document about what you expect and plan for the future. And so, when funders and other stakeholders ask you for a budget, they're really asking for you to share your plan in dollars, for how you're going to carry out your mission.

The budget is an expression in dollars that shows how much money you plan to come in as revenue and what money you expect to use up to pay for costs. And it gives you a gauge of whether you can expect to finish the year with a surplus or some leftover savings or whether you will run a deficit; meaning that you'll have more costs, than have money coming in.

The budget is about what you plan and what you expect, and so it contains projections or projected numbers only; how much money you think you'll receive and spend. And that's different from showing how did you actually perform financially. So, when funders asked how did you actually perform, or do last year, or in the last quarter of the year, you would provide them a report that shows actuals to date, which is a very different statement from your budget.

And lastly, I find that the budget is also a kind of helpful repository, that holds in one place, all of the great thinking and thought process behind the numbers; especially if you designate space in your budget document to hold notes. No one's ever really expected to walk around with all of those assumptions in their heads, about how they arrived to the numbers and the budget can actually allow physical space to capture assumptions; which may sound like a small thing, but really is valuable because you have a place to come back to over and over again, either to refine, iterate, and improve. They're a number of types of budgets, for example, each program may have its budget, departments may have their own departmental budget, and then the organization as a whole has an organization level budget. For our purposes, we focus on the organization level budget, that you create on an annual basis for your upcoming fiscal year.

3:53 Why create a budget?

And so, in terms of the why; Why create a budget anyway? People get surprised when I compare the budgeting process to reflection and journaling, but it is similar in a few important ways.

The budget process involves writing down all of the things that make up your organization and then putting a number and dollar value to those things. This process gives you an unusual and a rare opportunity to really look at all the aspects of your operations, your programs, your organization as a whole, to process and reflect holistically on how you carry out your mission.

So, this is a unique moment to take stock of the impact both financial and non-financial on everything you do; of who you employ, of everything you have in terms of resources. In addition to providing space to process and reflect on how you do your mission work, the



budget also creates a vehicle for goal setting to become more concrete and more manageable.

The very act of creating a budget not only prompts you to think about the future goals you want to reach for, but it prompts you to begin working out how to make those financial goals possible and manageable. The budget provides a state of being conscious and a certain awareness, or I like to think of as a state of mindfulness; the act of creating the budget and writing down all of the things, what money you think will flow in and flow out. It just puts you in a very different state of awareness about what could be possible, what could be in store for the future, and what are some ways to prepare or adapt in order to navigate through the year. Such as in the case of financial changes or funding shortfalls. Creating a budget provides a learning opportunity. As you move through the year you can actually look back at your budget and study the variances and measure progress towards goal, both of which gives you better information for planning when you're creating budgets for the future. And it helps you make course corrections or adjustments during the year if needed.

The budget can be a powerful tool for communicating to others what your resource needs and your goals are. It can just help build confidence and agency in communicating your organization's goals and financial needs with both clarity and without apology. Lastly, having something as wonky sounding as a budget, actually paves the way towards equity. Too often the fullness of what our programs deliver can be undervalued by outsiders, because we don't have a way of showing the complete picture of what our programs need and what are the full costs of our work in serving our communities, By not having a budget, we run the risk of absolving others, especially funders, of responsibility to give you what you fully need to carry out your mission.

6:42 Client example: ownership and understanding

And in addition to the technical aspects of the budget, some of the greatest value of the budget is, as a tool for clarifying and telling the story of an organization. I'll share just one reflection from Charles Rice-Gonzalez, who is the Co-founder of the Bronx Academy of Arts and Dance, who we've had the opportunity to work with. Charles says, "Our budget gave us a greater sense of ownership and understanding of our organization. We learned to see our budget as something that tells our story."

7:09 When should I create my budget?

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Now, in terms of when, when to start the budgeting process and for how long to plan to complete it. It's helpful to begin the process of planning your next budget at least three months before the end of your fiscal year. Why start the process so early? It's helpful because you want your budget to be ready to go, finalized and approved by your board by the end of your current fiscal year. That's the period that you're in right now. That way you're able to begin carrying it out in the next fiscal year instead of playing catch up when you get there. Being ready to go means that you finished thinking about and identified your specific goals for the next fiscal year, that you've put numbers to your goals and created



projections in the budget template; that you've had time to review and make revisions, and that you've obtained board approval, before the next fiscal year begins.

The key is that having a finalized budget means more than the budget template completed with numbers. More importantly, it's the thinking, and the planning, and the discussion, that all of those things have been done.

So, it is valuable to leave yourself lots of time to create the budget, in order to create the fullest financial road map for your organization.

If you have a fiscal year that ends on December 31, for example, you'll want to start the budgeting process ideally in October, so that it is finalized by the end of December. Many ask the question, "Why does the process takes so long and needs so much time in advance?" One primary reason is that you may need to do some research and groundwork brainstorming with your staff, some iteration, and revisions. I also acknowledge that the reality for many leaders is that there's often not enough time and space in the day to carry out the ideal budgeting preparation time. And that's real. Could you take a shorter process and not take as much time to get the budget done? Absolutely you could. But the less inclusive your processes, and the less research you do, the smaller your lens becomes in creating a thoughtful and complete plan. You may miss something key or important, especially if you're not as directly connected to how services are provided in community, or the operational or fundraising aspects. At minimum having more than your set of eyes and perspectives on the plan is valuable and gets you a better process and a better roadmap.

So yes, the ideal start time for preparing the budget is three months and that's not always possible. But the overarching message is that having enough time to do the work, and thinking, puts you in a better position to start the next fiscal year. And also as a quick note three months, is a minimum ideal, but the larger your organization is, the longer your process will likely take if you have more moving parts and complexity. And so, in that case you may want to start even earlier.

10:02 Who should be involved?

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Now, in terms of who to involve in the budgeting process, I'll start by saying that the budgeting process, it is a team effort. The board is responsible for approving the final budget and may often chime in as a thought partner at the beginning of the process, to identify goals or to provide strategic program and financial input.

But in terms of who actually builds the budget, it's valuable to include the perspective of those close to the work programmatically, as well as those who hold perspective, about the operations and the fundraising. Some organizations choose to put together an advisory team that generally includes the executive leadership, such as the Executive Director, a Finance Director or CFO, or department heads for larger organizations. It's important to include program and development staff, as well as finance committee members.



In our work with smaller organizations, the Executive Director tends to hold the budgeting process, primarily, which can create some capacity issues, but can really be effective when good information is collected from team members.

For larger organizations, the department heads will typically create the budget for their own department or business unit and then the finance team will put it all together to roll up to an organization level budget.

Regardless of your organization size or lifecycle stage, or whether you are a multi-person entity or single-person program, it is valuable to include different people and perspectives in the process, so that you have many experiences representative of staff at various levels; not only to build buy in and encourage dialogue, but so that you get better information and a fuller roadmap.

Moving from the who, to where and how; once you've identified who will be involved in the budget process, it's helpful to set up a system of accountability for budgeting goals. Some organizations give everyone involved in the process, a copy of the master budget template and assign them something to work on or fill out in the template.

12:10 Where should my budget live?

Which leads to the question of where. Where should my budget live? Starting the budget process, actually doesn't begin with numbers at all, which we'll talk a little bit more deeply in a moment. But it is helpful to begin thinking about where will my budget information actually sit and live.

While there are budgeting software options that exist out there, you want to think about finding a tool that will work for you and your team, in a way that will not overcomplicate how you and your teamwork, and how you exchange information and feedback on the financial information. And this is true, whether you're a one-person organization or a larger multi- departmental organization.

Some examples of tools that are out there, at either low cost or free, include things as simple yet robust as Excel or even Google spreadsheets, that actually has some pretty cool features for manipulating. Other options include any kind of document that allows you to write in and edit. And certainly, there is budgeting software that is out there, but at this earliest stage of your budgeting process, the important thing is not about the software, but the thinking, planning, and the dialogue among you and your team, about what goals you want to achieve in the next year.

13:35 How should I get started?

And having the ability to list and capture all the things that you're going to need to achieve those goals, which leads us to the how; how to get started. When you're creating a budget from scratch don't start with the numbers, but rather do the thinking and planning about what do you want to achieve next year, programmatically, financially, operationally. Plan out your programs and your projects first, before you even start to think about the money.



If you already have an existing planning document such as a strategic plan or a business plan, then you have some of this groundwork ready. If not, not to worry, we'll just need to do some of that groundwork before we start thinking about numbers, the revenue and expense line items of the budget.

If you find yourself in a position where you don't already have a formal plan, you want to have some dedicated space for starting this thinking. Capture, write down your concrete goals for your organization. They could be programmatic goals or internals about your organization's capacity, for example. Either way, you want to think with the end in mind. For example, you may want to ask how many children will I serve in after school programming? Or how many parts of the earth will I realistically touch and impact in the first year of operating or in any given year? You can have as many goals as you want, but just recommend, starting with a single concrete goal that you can add to as you go.

In the next segment, we will pick up and go into greater detail about this second bullet. After you've set concrete goals for the for next year, you can work backwards and start making a list. Make a broad list of everything that will go on in your organization. What will you need to do your very best work and what will it cost fully?

In the next segment we'll dig deeper into the details of gathering expense and revenue data and then sorting and your list into common categories.

[15:23](#) **Reflection questions**

To help you prepare for the next segment, we ask you to spend a few minutes with these reflection questions and prompts, to help transition us to the next segment.

What do you want to achieve in your next fiscal year? Work backwards from the end of your fiscal year and think about what will you need to accomplish your goals? What information do you already have at your disposal, that you'll use to estimate the cost necessary to achieve your goals? And what information or research will you need to seek out?

Thank you for tuning in and we will see you in the next video.