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Introduction

Hi. My name is Kristine Alvarez. In this video, I'll provide a brief walkthrough of filling out the budget template and estimating costs and revenue. This ten-minute segment is the final part of a three-part series on the basics of building the budget from scratch. This series is intended for providing a starting point for those who are new to budgeting or creating a budget from scratch for the first time, or just in the early stages of their own financial management journey.

[00:27](#) Review of Key Budget Template Steps

In the first two segments, we walked through the first two steps of creating a budget from scratch. First, we focused on the five “W’s” of budgeting and the importance of planning out your goals upfront, to get clear on what it is that you want to accomplish next year, in terms of programs you expect to deliver, and the kind of impact you want to achieve in your communities. In the second segment, we walked through how to put your budget template in place by making and organizing a list of all the things that are needed to achieve those goals that you identified.

So, this video picks up on those conversations and focuses on the process of putting numbers to cost and revenue.

[1:06](#) Estimate Expense

Your budget template is simply a list that's been organized and sorted by common categories of expenses and revenue. Whether you created your budget template from scratch or modified a ready-made template, now you're finally ready to bring money into the picture and can start putting dollar estimates for every line item. Remember that you should think about numbers only after your budget template is in place and ready to go. In this example, the budget is structured in a basic layout of revenue and expense, and then our bottom line or surplus or deficit. So now for each line, we want to begin estimating and putting dollar values to the amount of the revenue we expect to receive or earn, and the amount of expenses we expect to spend in the next fiscal year. You can start with either side, either the revenue or the expense side. I personally like to start with the expense section, so that I'm leading with what my organization's goals are and the programs we're



trying to achieve. And then those costs can inform how much revenue I need to generate or raise in order to get us there. There are a few broad questions that can help guide your process for estimating expense. Ask yourself and your team, “What will you need to accomplish your goals? What will it cost? What will allow you to do your best work?”

You've also heard me say a few times how important it is to plan out goals first. And that's because in order to plan your year ahead and get to the numbers and cost estimates, it is valuable to start with your goals and walk backwards to get to those numbers. Many leaders who have gone through the process of estimating revenue expense, get to the end only to find that adjustments are needing to be made, and further refinement and iterating is needed before finalizing the budget. And so having those clear goals upfront will become especially useful in that situation because then we'll know whether it's the numbers that need to be adjusted, or whether it's our goals that need to be adjusted, or both.

In this example, this organization has formatted the budget so that there is a column for budget estimates and then a section for notes. Do make sure that you jot down notes and assumptions so that you can always have a paper trail, and you can remember how you arrived at those numbers later on. When you start the process of estimating expenses you may find yourself in one of two situations. The first is that you may be starting from a clean slate because this is your organization's first budget and you don't have a previous budget, or historical information, or track record to look back on. When you're in this situation and you don't have previous years information to guide you, rather than make educated guesses, do some homework or research to help you estimate and come up with the budget figure. As you're researching the costs of items and services, try to resist any temptation to assume that most expenses or services can get donated fully for the upcoming year. Even if you're planning to receive donated items it's really important to fully reflect and capture what are the full costs it takes to deliver your mission and put as close to a dollar value as you can. In our sector, there are a lot of systemic reasons that can pressure us to ask for less than what we need or assumes that we can absorb the full costs through sweat equity or on the backs of our team. Don't be afraid to ask for what you need and part of that comes from doing your homework and growing your confidence to stand by the numbers in your budget. And don't forget to account for the cost to run the operations as well as programs. So, things like banking costs, the rent, equipment, all of these things may not be directly connected to programs, but they are essential for achieving your mission, and are all part of your full cost of delivering services. If you're starting or running an organization for the first year, you'll also want to think about those up-front one-time expenses, such as if you need to start up a website, or get accounting software, or hire an accountant for the annual taxes, liability insurance, if you're working with volunteers or other software. Think about both those one-time expenses, as well as the costs that will recur on an ongoing basis in the future. NFF provides additional, more in-depth content about the concept and the importance of full costs and we invite you to explore the concept of full costs by going to our website. And so do the research and collect the data that will inform your expense figures.

In this example, the organization was planning to put on traveling performances for the first time in 2022. And so, this line item of travel expenses was new. On the first pass of the budget, the Director made a very rough guess about what travel would cost, but ideally before any numbers get added to the budget template, you want to not only gather information about the driving costs or the costs of train fare; you will also have had a



conversation with performers, and the staff involved, to brainstorm the details of what travel would need to look like, the number of days travel would likely happen, and how frequently. What kind of additional accommodations might be needed? Would there be parking? If equipment was also traveling? What additional expenses would be involved there? And even if you don't have information that's that precise, you can also talk with colleagues or peers who have experience running similar programs, ask them how much do they pay for travel, and what surprises they learned along the way to help inform your perspective. Now, that does take more time to do that kind of homework, but it will allow you to get to better information to inform your budget going forward.

Now, that was the first situation where you don't have previous budget information as a reference. But if you find that you are in a situation where you have the benefit of last year's budget, that can be a useful reference for gut checking your assumptions.

07:18 Previous Budget & Actual Performance: Variance Analysis

And so, if you do have a budget from last year before you add numbers for next year, review last year's budget, and also review your actual results or performance. Remember that the budget is a plan for the future and that is different from actual performance. By putting these two columns together, side by side, of budget figures and actual results you can more easily compare your plan against your actual performance. And now go through each line and take note where there are differences or variances and capture that difference; which this organization does in this third column. This kind of comparison is called variance analysis. The most important part of variance analysis is not the size of any variance, though magnitude does play a role. The more important part is understanding why the variance is there and why did it happen. There may be a lot of different reasons for why a variance happens. For example, the cost of supplies might have been higher than what we expected. Or we thought we would be paying for five artists but instead wound up contracting eight artists instead. Maybe we simply forgot to include the cost of gas and mileage in the budget, which gives us a learning opportunity for next year's budget. This kind of analysis can also happen on the revenue side. You might see a variance because a particular grant didn't come in as expected. There's a lot of value in this one line at a time kind of review. It helps you understand not only what happened last year, but also whether those circumstances apply to the next year, and ultimately helps you decide what to include in the budget in the end. Again, knowing why a variance happened is more important than the actual existence of a variance.

Now on the revenue side, the budgets should consider both earned and contributed revenue. Earned revenue is that support that we earned through fee for service or other out of pocket fees. In this example, you can see that those kind of transaction, exchange kind of revenue, is earned in the form of teaching fees, ticket sales, and rental fees. But there are also contributed dollars here that include donors and grants from both government and foundations. We want to make sure that our budget includes only the revenue amounts that are available for usage in the upcoming year. In particular, it should include revenue that is unrestricted and meant for the daily course of operations. In NFF's other resources on budgeting, we go into further detail about how to separate restricted and unrestricted revenue in your budget. Estimating or forecasting revenue also involves making a series of informed assumptions and educated guesses. We never have 100% crystal ball visibility into what revenue or support will look like, but just like the expense



side, it is valuable to gather the information that is available to you, so that you can make informed decisions and an informed estimate. And just like expenses, if you have the benefit of a previous year, being able to review the variances can be valuable in informing your budget revenues.

10:50 Reconcile: Revenue vs. Expenses

And lastly, after you've estimated revenue and expenses now you can compare each side of the budget and determine whether you're planning a surplus or a deficit. We want to be asking ourselves in our budgets, do we expect to earn enough revenue just to cover our expenses? Or are we planning to generate some level of surplus that we can reinvest back into the organization, or put into savings, or direct towards a specific goal for this upcoming year? Nonprofits need profits. And so, it is valuable to manage our budget to surplus as best as possible. We also know that given the limitations of the system, some of us may find ourselves in a situation where we're estimating a deficit, or a loss in the future. And while a deficit itself isn't necessarily a red flag, there are many circumstances in which an organization may plan a deficit. But it can also present challenges, such as needing to have in place savings, in order to absorb a loss. Or that it may affect conversations that we have with donors or foundations, or others who hold power in terms of financial support. Whatever your result, make sure you are clearer and have ownership of the story behind the numbers in your budget. Remember that the budget is an opportunity to tell the story of your plan for the upcoming year, and so spending the time planning and refining your budget, will be yet another source of support for telling your organization's story with ownership and confidence.

12:27 Review: Budget Timeline

In this series, we've walked through the key steps of starting the budget from scratch. The series focused on the budget planning process that occurs prior to board approval, and ongoing monitoring that happens over the year. If you've found this series helpful, we invite you to check out the rest of our financial management trainings on our website. Thank you very much for tuning in and we hope to see you again next time.