

Budgeting Basics

A **budget** is used to plan and monitor an organization's income and expenses over a period of time. An **operating budget** shows income and expenses for your entire organization. A **program budget** shows income and expenses for one specific program or service. A **project budget** shows income and expenses for a one-time project, for example a special event or capital campaign. All budgets should be realistic as their purpose is to guide and monitor your organization's actual financial activity.

Budgets are usually developed on a yearly basis. The budget process should get started at least two to three months before the year for which it is being planned. The process of collecting and analyzing information and making informed decisions is a collaborative effort of the Executive Director, board of directors, program staff, and accountant/bookkeeper. The progression of events should be as follows:

- 1. Review the previous year's budget.** Compare last year's actual income and expenses to those that were projected. If there are any large discrepancies, figure out why this happened and how you can plan better in the future.
- 2. Analyze spending habits.** Determine if there is anything your organization could spend less on, without sacrificing quality of service.
- 3. Review financial statements.** Get a good understanding of your organization's current financial situation. Identify areas of financial weakness that need to be addressed in the coming year.
- 4. Review program goals.** Your budget will be based on your anticipated levels of service for each program.
- 5. Analyze your resources.** Determine if your current facilities, equipment, and staff are adequate to support your program goals. Decide if any of these items need to be changed.
- 6. List your fixed expenses.** These expenses remain the same regardless of your level of service and may include rent, utilities, administrative staff, and equipment leases.
- 7. List your variable expenses.** These expenses are directly dependent on your level of service and are computed per unit. Variable expenses might include transportation, office supplies, program staff, or computer software.
- 8. Develop a fundraising plan.** Identify sources of revenue that will meet your expenses and enable you to achieve your program and service goals.

Each month, your actual income and expenses should be compared to your budget. By actively **monitoring** the budget, you will discover and be able to manage discrepancies, as they occur. Budgets are usually revised half way through the year to account for unexpected circumstances beyond the control of the organization.

All of your expenses should be categorized as program-related, fundraising, or administrative – you'll see this on the 990 (IRS tax return) form. Fundraising and administrative expenses should be kept to a minimum. Expenses can be split among the three categories. For example, office supplies that are used directly in programs can be classified as program expenses, even though it might be thought that 'office' supplies are an administrative expense. Staff salaries and benefits can be split according to the amount of time spent in each type of activity. The amount of spending in each of these three categories should be monitored throughout the year.