

The operating budget, also referred to as the organizational or annual budget, is the financial plan for an organization's fiscal year. Broken up by revenue and expenses and organized by programmatic activity, it is the central financial guide for your team and all activities. But it's also a communication tool: Whatever the majority of the money is being spent on is flagged as a priority by stakeholders.

STEP ONE:

To create the operating budget, you must go through a collaborative budgeting process. What fiscal year will be used? Will it be January–December or another span of time? Determine the best budgeting strategy for your program/project/event. The most common budgeting strategy is to begin with known expenses and then fill in with anticipated revenue. The fund-raising goal fills in the revenue gap. Some other budgeting strategies to consider are:

- **Budgeting by organization** outcome goals. Here you would set your outcome goals from the top down in prioritized order. From there, specific, measurable goals should be identified for each intended outcome. Then the financial impact should be determined or predicted for each.
- A second option is **budgeting by revenue** and expense targets. This approach asks leadership to set targets based on the total revenue and expense goals for the year, build out individual line items, and then make programmatic decisions and goals accordingly.
- A **unit draft budgeting method**, a third strategy, involves starting with draft budgets from each area of your team, which you would then compile. You may have your team members draft an ambitious and a conservative version so you have different scenarios to consider.
- A fourth strategy is **zero-based budgeting**, for when you need or want to create a budget from scratch. This involves analyzing each program or activity you have planned for the year, determining if it is essential to achieving your goal, and building the budget out from there.

STEP TWO:

Review these six steps to any budgeting process:

- **Preparing:** Evaluate the previous year (if you can) and take into account any external considerations.
- **Estimating:** Project the expenses and revenue for the year.
- **Approving:** for a nonprofit, this would fall under the board of directors' governance duties. Otherwise, your team leadership would take this on.
- **Implementing:** Put your budget and financial plan into action.
- **Monitoring:** Ongoing tracking of variances between what was budgeted and the actual income or expenses. Budgets are iterative and can change as the program/project/event details change. Budgets are snapshots in time.
- **Auditing:** this assessment process, formalized for nonprofits, takes place at the close of the fiscal year. It is a great practice to review your own small budget to analyze why changes took place.

STEP THREE:

Put these steps into practice. Start putting numbers down on paper. Identify expenses and possible revenue. What changes need to be made to prevent a loss?

STEP FOUR:

Review the budget regularly with the team and make adjustments as needed. Do certain line items need to be reduced because anticipated revenue is not coming in at the level projected? Is more revenue coming in and allowing you to expand certain programs?

STEP FIVE:

After the year is complete, compare your first budget to actual expenses and revenue. Use the final budget to inform the following year's projections.