



Building Blocks: Budgets & Financial Statements

Why Are Budgets and Financials So Important?¹

Preparing budgets and financials is probably everyone's least favorite part of grantseeking. However, this element of the work is just as important as writing a powerful proposal or case statement. Here are some reasons why your budgets and financial statements are so important:

- Your proposal is like looking at the outside of a house. Budgets and finances are like going into the crawl space to see how well built and sturdy it is, or reading pest and inspection reports. The house may look great, but what if the foundation needs replacement, or there aren't enough 2x4 joists to hold it up?
- Budgets and financial reports tell us what you really value and what your priorities are. It's important that your budget and financial reports corroborate or support what you've written in the proposal.
- Budget and financial reports are concrete statements of accountability and transparency. You've told us you want to accomplish certain goals with resources from our fund. You are telling us you need money—budgets and financials are concrete evidence of this. And your reports (which usually include an accounting of how you spent the money as compared to the budget you submitted) are a way of being accountable.
 - Note: providing accurate up-to-date information to a funder is an important part of creating a relationship with them.
- As recipients of public money dedicated to public good (we are all tax exempt and tax deductible), we are legally and morally obligated to be transparent about finances, which requires regular bookkeeping and accounting.
- The people at a foundation reviewing your proposals and financials are NOT the donors to the foundation. They are staff or Board members, or donor-advisors. In other words, it's not their own money – they're entrusted with other people's money. That means they need to

¹ Partially Adapted from materials originally supplied by Cathy Lerza

be confident that they've done their best due diligence about the recommended funding – and this includes being able to recommend that there is a clear plan for how the grant would actually be spent. This is a different dynamic than with many individual donors, who are much more likely to give based on emotions and shared values. The emotions and values are important to foundations too -- that's part of developing a relationship with the foundation's program officer. But most program officers are also trained to be “professional skeptics” -- part of their job is to evaluate the numbers.

Let's Get Practical - Some Useful Definitions

What does all this mean when it comes time to complete a proposal?

1. **Budget:** A budget is a plan or a guide. It reflects your aspirations for both revenues (or income) and expenses over a given time period.
2. **Actual revenues and expenses:** A report that documents what you actually raised and spent over a specific time period. It is always helpful to track actuals against your budget for obvious reasons. In business, this might be called profit and loss, or income/expense.
3. **Statement of financial position or balance sheet:** A report showing the financial condition of the organization – assets (what you own), liabilities (what you owe) and net assets (assets minus liabilities)– at a particular moment in time. This report is an organization's big picture, but does not provide useful information about day-to-day finances.
4. **Unrestricted funds:** Funding that can be spent at any time and on anything. Also called general support.
5. **Restricted funds:** Funding that must be spent on a specific program or over a specific period of time. Funds can be restricted to a program without time constraints, or support general operations but with time constraints.
6. **Carry over:** Money raised in one year, but then “carried over” into the next to be spent.
7. **Reserve Fund or Operating Reserve:** Money an organization sets aside for a rainy day, usually enough for 3 - 6 months of operation. The goal is not to spend reserves unless absolutely necessary and usually the decision to use them is made by the Board. Reserves show up on a balance sheet as assets, not on actual expenses and revenues (unless an organization needs to spend reserves in order to operate.) An organization might include a reserve fund in its budget if it is trying to raise money for one, or to increase the amount available. Reserve funds are not included in carry over.

8. **Allocations:** How an organization categorizes its spending, e.g., personnel (salaries, benefits, payroll taxes); fees (consultants, attorneys, non-staff specialists); occupancy (rent, utilities, parking, janitorial); communications (telephone, internet, website hosting, development and management); other categories might include equipment purchase and repair; printing, copying & postage; fundraising events (venue rental, food, etc). Different groups might classify the same expenses differently (for example: IT costs could be fees or communications). The main thing is to group related expenses together, and to be consistent (for example: don't call IT support "communications" one month and "fees" the next).
9. **Overhead:** Funds not identified with a specific program but needed for the general administration of the organization. Total overhead costs can be divided among programs or listed in their own category. Also called general and administrative costs, e.g., fundraising, CRM purchase and day to day management, rent, accounting and bookkeeping, etc. Most funders don't like to pay large overhead costs, so it's usually a good practice to break out the bigger parts of your overhead into separate lines.

Tips for Creating Your Budget & Financial Statement

Here are some tips that have been compiled from frequently asked questions that grantees ask when putting together their budget / financial statement:

- Put time and thought into your budgets and financial reports. Don't leave them to the last minute. And make sure that all the key stakeholders (staff, board, volunteers) are part of the process.
- Think about how a project budget fits into the larger organizational budget.
- Budgets are about revenue as well as expenses, so have a very specific fundraising plan. Be clear and realistic about where you are seeking funding. Budgets can be aspirational, but they should be educated and realistic projections of how much money you'll raise, not just what you wish you had in a perfect world. How likely are grants to come through? What's the timeframe? When does your organization typically get larger influxes of contributions? Are there special events that make money for you? When do those occur?
- Develop a system of allocations (or categories) that work for you and use it. It's not helpful to funders to get your full detailed QuickBooks statements, or anything that looks like your checkbook register. Roll up expenses and revenues into categories.

- If your budget is aspirational, be ready with a revised budget, or maybe a bare bones budget. How much do you need to have on hand or committed to run your organization? How do you recognize your organization or a project is in trouble? Bring in all the stakeholders to take action to right the situation. If you host various programs, you might want to separate out a program budget from your core operational budget. And if you are helping another organization by acting as a pass-through, you definitely want to show that so that funders can understand that you don't have the full use of all the revenue which shows on your financial statement. If there are any unusually large revenue or expense items (for example: a one-time technical support contract from a government funder), provide a note which explains it.
- Make sure you can track expenses and revenues at least quarterly.
- Be clear about dates – what is the time frame you are reporting on?
- If you get large grants, but they are restricted by time or program or both, make sure that information is clear. Footnotes are good!
- If you have in-kind support, make sure you include it. When you list volunteer time please include how you are valuing that time (how much per hour?) and how many hours.

Starting A Budget: Grassroots Template

Here's a template we have developed for our grassroots grantees to use when creating a budget and financial statement from scratch. This template combines the information needed for both the budget and financial statement.

[continued on next page]

**Financial Information Template
For the Northern California Environmental Grassroots Fund**

Organization Name:	
Current year budget dates (month, year to month, year):	<i>example: January 2013 - December 2013</i>
Last completed fiscal year dates:	<i>example: January 2014 - December 2014</i>

(optional)

Current Year Budget Income & Exp for Group	Organization Last Year Actual Income & Exp for Group	Current Year Budget Income & Exp for Project
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Income

- Carryover
- Donations
- Grants Received
- Government
- Memberships
- Special Events
- Other (please describe):

Total \$ - \$ -

List non-cash contributions and
in-kind donations (please describe):

Expenses

- Personnel (salaries, payroll taxes, benefits)
- Professional consulting services
- Rent and utilities
- Postage and Delivery
- Equipment, equipment maintenance, depreciation
- Supplies
- Telephone/Internet
- Copying/Printing
- Website
- Travel
- Other (please describe):

Total Expenses \$ - \$ -

Income less Expenses \$ - \$ -

Budget Notes: *(you may add any notes here -- optional)*

Where to Start: Lay out the time periods

- Start at the top of the worksheet and fill in your organization's name
- Next, fill in the dates that the budget and financial statement will encompass
- This is usually your organization's fiscal year - most commonly from January to December, or July to June.

Financial Statement

- The financial statement in this template is the middle column of the worksheet (labeled "Organization Last Year Actual Income & Expense for Group").
- Fill in your organization's income and expenses for the previous fiscal year. These are the actuals for money in and money out that totaled up from the previous year.
- Feel free to use the categories provided, and you can add any important categories that your organization tracks, or remove any categories that are not relevant.

Organizational Budget

- The budget in this template is the leftmost column of the worksheet (labeled "Current Year Budget Income & Expense for Group").
- Fill in your organization's budgeted income and expenses for the current fiscal year. These are the estimates for money in and money out that your organization is projecting for the year.
- Feel free to use the categories provided, and you can add any important categories that your organization tracks, or remove any categories that are not relevant.

Project Budget (if needed)

- The project budget in this template is the rightmost column of the worksheet [labeled "(Optional) Current Year Budget Income & Expense for Project"].
- Fill in your project's budgeted income and expenses for the current fiscal year. These are the estimates for money in and money out that you are projecting for this specific project for the year.
- Feel free to use the categories provided, and you can add any important categories that your organization tracks, or remove any categories that are not relevant.

Notes

- Don't forget to add any notes (as needed) to the bottom of the worksheet.
- For example, you may have listed a large government grant as income in your Organizational Budget. You can add a note saying that this grant is restricted funding for a specific project (if that's the case).