

# Worksheet: Deep Dive Into Budget and Finances



While I have a list of the top ten things to think about when reviewing a nonprofit's budget, my actual concern is that you may spend too much time scrutinizing a nonprofit's budget.

Think of budgets as a helpful tool to understand the organization's overall priorities, but be careful not to get too exacting. It's not the end of the world if a nonprofit's budget is in the red, for example, and I will explain why in the budget review discussion.

Use the list of top ten things as guideposts. Over time you will discover which of these ten points is most relevant to you or the funders you work with. You will soon realize that you don't need to review all ten points on every occasion.

In my opinion, the most important budget consideration is whether the group has an adequate rainy day fund to be able to weather the bad times. I usually look for a 3-6 month cash reserve. You typically will need to proactively ask about the cash reserve because it is not always obvi-ous in the yearly budget numbers.



## ■ Reviewing a nonprofit's budget: The Ten Point List

### 1. Cash reserve/rainy day fund?

It is important to know that a nonprofit you care about can weather the hard times. This is probably the most important question you can ask if you care about an organization's longevity.

### 2. Balanced budget?

A balanced budget helps to understand the true priorities of the organization as a whole. Note that while a balanced budget is nice to see, it is not necessarily a bad thing if you notice that the budget is in the red. Often a budget in the red simply means that the fiscal year is not reflecting a large grant expected early in the following year and/or another logical reason.

### 3. Do actuals align with budget?

Comparing the actuals with the budget can be really helpful in understanding how realistic the organization's budget is when compared to what they are really earning. If the actuals are very different from the budget, it is a helpful guide to understanding how realistic they are in forecasting their spending from year to year.

### 4. Anti-fraud measures in place?

So many times I have heard from nonprofits that they are trustworthy and they *are* usually! But I have observed over my career incidents where staff members stole substantial sums of money from a nonprofit organization and corrupted the financial records. It is important to make sure that anti-fraud measures are in place in an organization.

## 5. If a project budget – no lobbying!

You need to consult with a legal professional for more detail on this subject. It is important to be aware that if you are funding a project budget, you are prohibited from funding lobbying if you desire a tax deduction and are structured as a private family foundation. If you do want to fund something that requires lobbying and do not care about a tax deduction, there are ways to structure your donation so that you are able to fund the work. But as a rule of thumb, if you are unsure and want the tax deduction, it is best to err on the side of caution in this regard and not fund lobbying. More on what lobbying means and how to navigate this issue in my lesson on *how to be legally savvy*.

## 6. Overhead?

Some foundations and donors believe strongly that a nonprofit organization should be allowed to apply for funding that covers its administrative costs, not just the public-facing programs it offers. Other foundations and donors feel that all of their funding should go to the program or projects and not to administrative overhead.

The philosophies are very different here. The folks who feel funding *should cover overhead believe that the group itself should be sustained* and not only the project or program; other funders are skeptical of overhead and *believe that individual donors and membership should pay for administrative costs*, not funders who are supporting specific promised projects with outcomes. The sustainer-funders tend to lean more into including overhead, whereas campaigner-funders tend to be more reticent about overhead, and launcher-funders are between the two because they see the need for administration in the beginning but tend to taper off their funding over time as the group is launched, with additional members and funders come into the mix in support of the work.

## 7. Paying staff enough?

You may notice that a group is paying its Executive Director or other staff way below market value for their work. As a funder you can ask about this and your question could help empower the Executive Director to bring the question to the board. It also shows that you value the quality of their work. While you have no ultimate authority over what staff is paid at the organization, just asking shows you care, and may initiate an important discussion.

## 8. Diverse Funding Sources?

It is fundamentally important that an organization is not overly dependent on just one funding source. If that particular source changes for any reason the organization could be in a lot of trouble. I like to see a budget with multiple sources of funding from foundations, from individual donations, and from other creative sources of funding, such as a store that brings them income, or a Canvass account, etc.

## 9. Fiscal year?

I like to look at the fiscal year because it helps me to understand what year the grant I am considering for them is applied toward. If the application is in December and the fiscal year is January–December, it is important to determine if the grant is actually going toward a past project that already occurred in the last calendar year, or if it will be applied in the coming year. Also, if the application is right at the cusp of a fiscal year, it could mean that the overall budget information you have is old. It's good to have a general idea of this in terms of timing and overall relevance of the other budget information in their proposal.

## 10. What do other funders think?

It is worthwhile to look at the list of major donors to the organization or project you are considering funding. If you've been funding in that area for awhile, you will usually see other funders you know on the list, and you can contact them to compare notes about the organization. If you are newer to the funding scene, this list of donors is a window into new colleagues and friends you can contact to discover more about their take on the organization. I have gotten so much valuable advice and information from partner funders that I have seen on a nonprofit's list.

## Homework

1. Out of the top ten list which of the budget issues do you think are most important to you?

2. Are there any key questions you'd like to add to this list?

3. What do you think are the biggest hurdles that the nonprofit will need to overcome in relation to budgetary constraints?

4. How can you make it easy for the organization to present their budget to you?

*If you would like my direct feedback, please fill out the online assessment provided in this lesson.*