

## Tool 8: Financial Planning

On Echoing Green's initial application, we ask "How much money have you fundraised to date? Who is your largest funder and what is the size of the gift? Provide an estimate of your total budget for each of the next two fiscal years." Even though it happens every year, we never fail to be surprised that a number of applicants answer this question by stating that their Echoing Green application is their first application for funding, they haven't yet created a budget and they don't know how much money they need. Clearly they believe this is a reasonable answer. It isn't.

Because Echoing Green funds organizations that are very early in their organizational life cycle, it is acceptable that an applicant hasn't developed a sophisticated, detailed budget model at the time they apply for our funding. However, we fully expect them to have a general understanding of their estimated budget annual budget for the two years of the fellowship. It is absolutely unacceptable when an applicant has done no work to estimate amount of resources they'll need to execute their plan and chooses not to answer the question.

### ***Because Echoing Green grants are fixed amounts rather than needs based, why do we ask about the organizational budget?***

In order to truly assess your proposal, Echoing Green needs to understand the scope and the cost of your model. Will your proposed organization operate with a budget of \$75,000 per year for the first two years or will it need to be able to access resources of \$750,000 per year? There isn't a "right" answer to this question. **We aren't automatically impressed by small budget estimates intended to communicate "we are lean and mean" or large budget estimates that project "we are highly ambitious." Rather we look for alignment between the goals of the organization and the applicant's understanding of the potential costs.** The budget estimates also give us insight into the organization's implementation plan and growth plan. For example, a small budget the first year and a significantly larger budget the second year communicates that the first year will likely be spent on planning and program development and that the organization will begin hiring staff and delivering services the second year. You shouldn't answer this question trying to second guess what Echoing Green considers a "right" answer. You need to be thoughtful in determining the actual needs of your organization.

Organizations that are asked to submit a second application to Echoing Green will be required to submit an actual line item budget, not just an estimate of annual expenses. The experts who review the application will analyze the budget to assess if the organization's planned spending aligns with the strategy put forth in the proposal. They may also reference the budget for clarification if parts of the application are not clear. They will be assessing the organizational budget to determine if the proposed organization is an efficient use of resources and to gauge the planned rate of growth.

### ***If I haven't yet started doing the work, how can I calculate projected expenses?***

To help applicants to think through their cost model, we have created four different worksheets to reflect the organizational models that we see most frequently in our application process. These worksheets will not produce cost estimates for you but will enable you to identify the types of expenses that you can reasonably expect to encounter in the first two to four years of running your organization. You can then apply cost estimates to each relevant expense category, reflecting market prices for the geographic area where you plan to work and your managerial savvy for cost containment. **Even if none of the descriptions below exactly fits your operational strategy, reviewing the questions can help you to begin to define your cost model. Please note that the work sheets are designed to serve as a guide; not all cost elements will apply to every organization and none of the worksheets will be all inclusive for an organization.**

Once you have created the list of expense items for your organization, you may find that you have no idea how much some of these items will cost. While you can do internet research or call vendors for estimates, in all honesty, the best way to estimate potential expenses is to ask other organizations what they spend for similar items. The social sector is surprisingly open in sharing information with other

organizations they could consider the competition. Use your networking skills to reach out to friends and contacts at similar organizations and ask them to help you to develop cost estimates. Needless to say, you need to be respectful when requesting financial information. Your contacts may not feel comfortable sharing their actual budget numbers or salary structure with you, but they will likely be happy to share information that can help you to develop appropriate ranges for different types of expenses.

***I expect to use volunteers and donated items. How do I include that information in my cost estimates and budget?***

Many new organizations rely heavily on in kind donations of office space, labor and supplies. If you plan to use donated items and aren't sure whether the value of those items or services should be represented on your budget, there is a simple rule that should guide your decision. Any donated service that is critical to the functioning of your organization must be represented on your budget. You want your budget to reflect the true cost of running your organization so if you would pay for something, be it space, labor or supplies, if it weren't donated to you, you must reflect that cost. For example, once you reach a certain size, your organization will most likely need a place to work. If your organization is able to secure donated work space, the market rate for the rent for that space or comparable space should be reflected on the revenue side of the budget as an in kind donation and the rental expense should be reflected on the expense side of the budget. If an organization receives in kind services that are "nice to have, not need to have", such as a group of volunteers to come in over the weekend to paint their office – a project that the organization would not have invested in had the volunteers not offered to do it and donated the paint and supplies - the organization does not need to reflect those in kind services or related expenses on their budget (although they may wish to describe them in the budget notes).

If engaging volunteers to deliver your program is a critical component of your service delivery model, you may find that including the market value of those services in your budget can make your organization look very expensive. For example, there are organizations that use volunteer lawyers or doctors to deliver services to community members. The market rate for these professional services could be as high as hundreds of dollars per hour. Including the value of these services in the budget could make an organization that operated on a budget of about \$100,000 per year appear more like an organization with an annual budget of \$1,000,000. The rule of thumb described above still applies under this scenario. If your organization wasn't able to secure these professional services on a volunteer basis, you likely wouldn't hire professionals at market rates to deliver them and thus you would never actual incur the expense. In fact, if you couldn't secure volunteers to provide the professional services, you would likely design a very different program. However, you still want your financial information to convey how services are delivered. In this case, we would suggest that you not include the value of the volunteer hours as both revenue and expense items. Rather you should describe the volunteer program and the value of the in kind services in a budget note.

***Financial Toolkit***

Please reference the appropriate worksheet based on the business model for your organization:

**Financial Worksheet 1:** Direct Services to Constituents (e.g., medical services, training programs, legal aid, counseling)

- Fellows' examples: Appropriate Infrastructure Development Group, The Reciprocity Foundation

**Financial Worksheet 2:** Advocacy Organizations

- Fellows' examples: Youth Represent, The Wage Justice Center

**Financial Worksheet 3:** Organizations Combining Direct Services & Advocacy

- Fellows' examples: Genocide Intervention Network, Workers Rights Law Center

**Financial Worksheet 4:** Social Enterprise – Creating a Revenue Generating Enterprise that Also Delivers Services/Programming (e.g., creating a business that produces and sells products and uses the proceeds of the business to provide job training and employment to difficult to employ community members).

- Fellows' examples: Hot Bread Kitchen, Skill-Life, Inc.