



GUIDE TO STREAMLINING SERIES

Grant Budgets and Financial Reports

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PRINCIPLE 1

Take a fresh look at information requirements

PRINCIPLE 2

Right-size grant expectations

PRINCIPLE 3

Relieve the burden on grantees

PRINCIPLE 4

Make communications clear and straightforward

A collaborative initiative of the



In partnership with

Association of Fundraising Professionals
Association of Small Foundations
Council on Foundations
Forum of Regional Associations of Grantmakers
Foundation Center
Grantmakers for Effective Organizations
National Council of Nonprofits

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Project Streamline is an effort of funders and nonprofits to improve grant application, monitoring and reporting practices. It is a collaborative initiative of the Grants Managers Network, in partnership with the Association of Fundraising Professionals, the Association of Small Foundations, the Council on Foundations, the Forum of Regional Associations of Grantmakers, the Foundation Center, Grantmakers for Effective Organizations, and the National Council of Nonprofits. For more information, go to www.projectstreamline.org.

The Grants Managers Network (GMN) improves grant-making by advancing the knowledge, skills and abilities of grants management professionals and leading grant-makers to adopt and incorporate effective practices that benefit the philanthropic community. GMN has more than 1,400 members from 1,000+ grantmaking organizations who represent the breadth of the philanthropic community including small family foundations, prominent national foundations, grantmaking public charities, and socially responsible corporations. For more information, go to www.gmnetwork.org.

Project Streamline At A Glance

What can funders do to improve their grant application and reporting processes, reduce the burden on nonprofits, and free up more time for mission-critical activities? How can grantseekers support these efforts?

Project Streamline has worked with leaders in grantmaking and nonprofit organizations to identify challenges, propose solutions and develop resources to help you streamline.

Streamlining Challenges

Drowning in Paperwork, Distracted from Purpose, a Project Streamline study, found ten flaws in the current system of grant application and reporting:

1. Enormous Variability
2. Requirements Aren't "Right-Sized"
3. Insufficient Net Grants
4. Outsourced Burdens
5. Trust Undermined
6. Reports on a Shelf
7. Fundraising Gymnastics
8. Due-Diligence Redundancy
9. Double-Edged Swords
10. Time Drain for Grantmakers, Too

Streamlining Solutions

Our research suggests four core principles that grantmakers can adopt into practice to make things easier on nonprofits.

Principle 1: Take a fresh look at information requirements. Begin with a rigorous assessment of what kind of information you really need to make a responsible grant.

Principle 2: Right-size grant expectations. Ensure that the effort that grantseekers expend to get a grant is proportionate to the size of the grant, is appropriate to the type of grant, and takes into consideration any existing relationship with the grantee.

Principle 3: Relieve the burden on grantees. There are many ways that funders can reduce the burden that grant-seeking places on grantees. By minimizing the amount of time, effort, and money that nonprofits spend getting and administering grants, funders increase the amount of time, effort, and money devoted to mission-based activities.

Principle 4: Make communications clear and straightforward. Good communication is critical to a streamlined process and essential for fostering a mutually respectful relationship between grantmakers and grantseekers.

Streamlining Resources

We provide resources to help you streamline.

Guide to Streamlining Series

Guides on:

- Due Diligence
- Right-Sizing
- Grant Budgets and Financial Reports
- Online Applications and Reporting
- Communications

Making Streamlining Stick

Explores four steps to develop your organization's strategy:

1. Take stock
2. Make the case
3. Plan changes
4. Implement and Refine

Online Self Assessment

Tool to assess your current practice

Workshops

Interactive sessions for grantmakers

Website

Resources, events, ideas

Newsletter

Stories, voices, research

Guide Snapshot

Streamlining Grant Budgets and Financial Reports

This guide addresses a single—if not simple—question: How can funders minimize financial reporting requirements for nonprofit organizations, while still carrying out proper financial due diligence? Below is a summary of the answers we've identified.

The Bottom Line for Funders

The inquiry led us to four core recommendations for funders eager to streamline their grant budget and financial reporting processes. This guide explores these recommendations in detail.

1. Use the information grantees already have.

Nonprofits use budget and financial report formats that fit into their financial systems, yet funders regularly ask them to slice and dice their financial information into funder-specific formats. Using nonprofits' existing materials can not only save nonprofits time and add to the "net grant,"¹ it can also give you important insight into a nonprofit's financial sophistication.

2. Align grant schedules with the grantee's timing, not the funders. Funders should make sure two elements of grants—grant start and end dates and reporting periods—align with the grantee organization's fiscal cycles and project timelines. Too often these schedules are instead based on the funder's process, regardless of what makes the most sense for the grant.

3. Require less reporting than funders typically require of grantees. We recommend funders follow three principles:

- Reporting should generally be required on no more than an annual basis.
- When a number of funders jointly support a project or program, one budget and financial reporting format should be used, and all funders should agree to accept reports in that format.
- The smaller a grant is, the simpler the grant budget and financial reporting requirements should be.

4. Ask only for the information you will use. Funders need to know what information to ask for and what they're going to do with it. This guide includes tools, tips and resources to help with this process.

Tips for Nonprofits

Nonprofit organizations can help funders streamline their budget and financial reporting process and ultimately save themselves time by doing the following:

- Post your information online for easy funder access
- Watch for any red flags you might have and be prepared to explain them
- Be sure your grant budgets and financial information are internally consistent
- Ask if you're not sure about a funder's requirements
- Be upfront and clear about your existing reporting cycles

Principles in Action

The *Guide to Streamlining Grant Budgets and Financial Reports* responds to Project Streamline's Principle 3: Relieve the burden on grantees. Although online systems should make applying and reporting processes easier for everyone, they are often poorly designed and implemented, wasting time and frustrating grantseekers. The clear recommendations of this guide identify the essential and gold-standard features and practices of online systems to help your grantmaking organization select and implement—or retrofit, if needed—a system that is user-friendly and designed to help grantseekers succeed.

1. Based on work done by the Nonprofit Finance Fund, we define "net grant" as the amount of the grant, minus the cost of applying for and reporting on that grant.

Why Streamline Budgets and Financial Reports?

Here’s a fact that may catch you by surprise: when they make grants to 501(c)(3) public charities,² grantmakers have no legal obligation to obtain financial information from their grantees. They don’t even need acknowledgement that grants funds were spent. And yet funders feel—rightly, in our view—that they are obligated to exercise due diligence with respect to their grantmaking. To do so, they require budgets and financial reports.

On the surface, this should be a simple requirement. Nonprofit organizations have their own budget and financial reporting processes. These can be shared with funders just as easily as they’re shared with managers and board members.

But most funders take it a step further. They ask grantees—prospective and current—to *customize* their budget and financial information so that it fits the funder’s particular requirements. They might do this by asking them to fill out a special form or consolidate various financial information onto one page. In effect, they’re requiring nonprofit staff to jump through more hoops than are really needed for due diligence—and potentially draining scarce resources from mission-critical activities.

We recommend a different way. Consider the real costs to nonprofits of preparing customized budgets and reports. Make non-standard information requests the exception rather than rule. Meet grantseekers where they are.

Ask this simple question: How can we minimize financial reporting requirements to the maximum extent possible, while still carrying out proper financial due diligence? The answers might vary, of course. But we recommend that, as a general policy, funders do the following to streamline grant budget and financial reporting processes:

1. Use the information grantees already have
2. Align grant schedules with the grantee’s timing, not the funder’s
3. Require less reporting
4. Ask only for information you will use

While heavy financial scrutiny or requests for non-standard budget and financial reporting information might be appropriate at times, they should only be required in response to special circumstances.

To implement these recommendations, funders ought to ask themselves these questions when doing budget-related due diligence prior to a grant award:

- What financial information do I need to assess the proposal, the capacity of the applicant to undertake activities, and—after the grant has been made—the extent to which grant funds were spent as proposed?
- What existing financial documents will provide me with this information?
- What additional documents, if any, do I need?
- How can I best obtain this material?

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How can we minimize financial reporting requirements for nonprofits, while still carrying out proper financial due diligence?

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KEY TERMS USED IN THIS GUIDE

A budget is a plan, stated in dollars, in which an organization projects income and expenses for a specific period of time (usually one fiscal year).

Financial statements are the standard documents generally included in an audit, such as a Statement of Financial Position (Balance Sheet) and Statement of Activities (Income Statement).

Financial reports are regular updates prepared by an organization as part of their requirements under a grant and summarize the use of grant funds.

Please see “Getting Clear on Terms” on page 15 for a more detailed description of these three terms.

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2. The same cannot be said for “expenditure responsibility” grants, which have specific IRS financial reporting requirements.

RECOMMENDATION 1:**Use the Information Grantees Already Have**

Before a funder can assess a nonprofit's finances, it must first get the financial information, either from the organization itself or from public sources. When the funder asks for information from the nonprofit directly, as most do, what format should they require? Our answer: *whatever format the nonprofit already uses*. We recommend this for project grants and general operating support grants—in all cases.

More specifically, we believe funders should adopt this simple principle: Grant budgets and financial reports should follow the way the grantee organization generally accounts for the use of its funds.

While this may seem like common sense, many funders fail to follow it. For example, nonprofits and funders often account for funds using different categories. One may use a category such as “salaries and benefits,” whereas the other may break down “benefits” into further sub-categories. When a grantee is required to alter accounting codes to match a funder's—and in the process has to figure out, for example, what the funder means by “benefits”—it can create confusion, delays and errors.

The result can be grant budgets and reports that don't fit with the way the grantee typically organizes its budget and accounts for its use of funds. Some funders minimize this problem by making grants to the organization as a whole or grants to a particular program, then reviewing all expenditures incurred by the organization or the program. When funding a discrete portion of a project, we recommend that funders request the entire project budget and not just a budget covering that portion.

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Grant budgets and financial reports should align with the way the grantee organization generally accounts for the use of its funds.

Why use nonprofits' existing financial information?

1. Creates less of a burden: Grantseekers report that having to “slice and dice” their financial information to satisfy the requirements of a particular funder is one of the most time- and cost-intensive parts of grant seeking. By accepting grantseekers' existing budgets, funders help keep the “net grant” high.

2. Yields valuable information on capacity: It's true that some nonprofits struggle with budgets and financial statements. Receiving these documents in the grantseeker's format can allow the funder to assess the grantseeker's financial sophistication and organizational capacity.

3. Is more accurate: Accepting existing materials eliminates the chance that the nonprofit organization will make errors when transcribing budget or financial numbers into a new format. These materials are also most authentic to the grantseeker and most representative of the specific project (if a project grant) or type of organization (if a general operating grant).

4. Provides the information needed for small grants: We don't think that small project grants require a detailed organization-wide budget or report. Instead, an existing financial statement from the organization, paired with a project budget developed by the organization in its own format, should suffice.



DISCUSSION QUESTION If your organization requires groups to present their financial information in a specific format, how might it affect both your organization and grantees/applicants to encourage them to submit financial information in their own formats instead?

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If You Must Use a Template...

While we realize that there are a limited number of circumstances for which they're appropriate,³ we generally recommend that templates—standard forms requesting specific categories of information—not be used. Templates can be appealing to funders because they convey financial information in predictable, funder-defined categories. But keep in mind that, while templates may make things easier for the funder, they almost always make things harder for the nonprofit organization. As we've discussed, templates can force grantseekers to cut their budget and financial reporting information into categories that might not be authentic to the way they do business. Funders that choose to require budget templates should consider the time and cost implications.

If your organization does plan to use a budget or financial reporting template, make sure that it (1) uses a limited number of line items—ideally no more than seven—to allow grantees the flexibility to accurately represent their budgets or financial information and (2) is easy to understand and use.

Best Practice: Pull What You Need

Common practice has been for funders to require grantees—prospective and current—to customize their financial information to fit certain requirements, then “push” this information back to the funder.

There's a better approach. Where possible, funders should not only rely more on information already produced by the organization, such as financial statements and 990s, but shift to a “pull” model to get that information. Under this approach, nonprofits make financial information available on their website, or a public site such as GuideStar, and interested parties can pull this information from such online sources, if and when they need it. While this may at first take some adjustment, ultimately it would be a simpler system for nonprofits and funders alike.



DISCUSSION QUESTION If your organization requires applicants to provide copies of their most recent audit (or annual financial statement), how might it serve you to instead review the most recent Form 990 posted on GuideStar or an applicant's website?

3. Templates appear to make the most sense when a funder does a limited, consistent type of grantmaking, such as funding scholarships.

RECOMMENDATION 2:

Align Grant Schedules with the Grantee’s Timing, Not the Funder’s

Timing can be everything when it comes to grant budgets and financial reports. But *whose* timing? We think it should be the nonprofit’s, as a rule. Specifically, we recommend funders make sure two grant elements align with the grantee organization’s fiscal cycles and project timelines:

1. Grant start and end dates: Grant periods are usually tied to start dates, and these dates are often tied to funder practices and administrative procedures unrelated to the activity being funded or the organization doing the activity. We recommend grant timelines that reflect, where possible, the reality of the grantee’s situation. For example, many grantmakers prohibit funded activities from starting before the approval date of the grant. Funders may worry that pre-approval activity inappropriately presumes grant approval or may have an ingrained assumption that grant activity simply shouldn’t start before “approval.”

But neither of these is necessarily the case. Often funders support nonprofit efforts that are already in process. Other times, nonprofit projects are unnecessarily delayed due to grantmaker’s grant cycle timelines. In such cases it may be appropriate to allow a “pre-dated” project as long as:

- The funder clarifies that the grant is not a commitment until it is formally approved.
- The grant recommendation states that, if approved, the grant will be used in part to pay for activity that has already taken place.
- The grantee understands that any funds it spends in advance of approval are the responsibility of the organization until the grant is approved.

To be prudent, we recommend that start dates pre-date approval by no more than six months and should never be earlier than the beginning of the organization’s current fiscal year.⁴

2. Grant reporting periods: Nearly all nonprofits produce financial reports (audited or unaudited) at the end of their fiscal year. Many also prepare quarterly financials. When grant time periods don’t align with one of these natural reporting cycles, funders should consider shifting the reporting requirements of the grant so that reporting schedules align. For example, imagine a grantee has a December 31 fiscal year end date and it receives a two-year grant with a start date of July 1. In this case, the grantee should be given the option of having reports due each December 31 through the end of the grant.

Grant negotiations should also cover whether it makes sense to lengthen or shorten a grant period so that final reporting can align with the organization’s fiscal year end or other relevant cycle. Underlying this recommendation is the idea that, while funders should be able to expect regular reporting from their grantees, the timing of such reporting should align with the time period that makes the most sense to the *grantee*, not to the funder. Occasionally, a nonprofit’s project timelines differ from the natural reporting cycle of the organization as a whole. In those instances, funders should consider aligning the required reporting periods to the project timeline. When in doubt, talk with the nonprofit’s staff about what will work best from their perspective.

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While funders should be able to expect regular reporting from their grantees about the use of grant funds, the timing of such reporting should align with the time period that makes the most sense to the grantee, not to the funder.

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When in doubt, talk with the nonprofit’s staff about what will work best from their perspective.

4. Special consideration may need to be given to expenditure responsibility grants.

RECOMMENDATION 3:**Require Less Reporting**

To lighten the grant-reporting load typically required of grantees, we recommend funders follow three principles:

1. Require reporting on no more than an annual basis: In surveys, nonprofits have cited funders that require semi-annual or even quarterly reporting as some of the most challenging to work with. It's no wonder. Such frequent requirements can undermine the effectiveness of nonprofits, leading them to spend time on reporting that should really be devoted to doing their core work. Even worse, in many cases the reports themselves provide little added value to either party and leave some grantees feeling that they're not even read by the funder.

We think the default position for reporting should be annual. The bar for requiring a more frequent cycle should be both high and exceptional. And it should require explicit justification by the funder—for instance, if there are concerns about the organization, or a grant represents such a large percentage of the organization's overall budget that the funder will be working hand in hand with the organization on the funded activity. When a funder requires a grant update to relay to their board, we think the requested update should be brief and, where possible, rely on readily available material.

2. When a number of funders jointly support a project or program, use one budget and financial reporting format and make sure all funders agree to accept reports in that format: Grantees with multiple funders for one project or program should not have to submit different financial reports to each. Instead, they should be allowed to prepare one report that accurately reflects the overall activity of the project or program. At the same time, funders should be able to specify how they want their funds applied to the project and should rightly expect to be apprised of how and how much of their funds were used in a given time period.

The smaller a grant is, the simpler the grant budget and financial reporting requirements should be. "Smaller" here can be defined in absolute terms or in relation to a grantmaker or grantee's overall budget. Many funders have streamlined financial reporting requirements for grants that fall under a certain dollar threshold (e.g., \$10,000 or less) or that represent a small percentage of the grantee's overall budget. We think they should go a step further. When grants fall below a certain dollar or percentage threshold,⁵ we believe funders should accept a narrative statement from the grantee in lieu of a full financial report. The narrative should indicate how much of the funds were spent. Where funds have been designated to cover a particular line-item category, the grantee should clearly state whether or not funds were applied to that category. We also recommend funders have *no* reporting requirements for membership or other dues-like grants.⁶

In many respects, this is similar to individual donations to a nonprofit. Imagine if every individual who made a relatively small contribution to an organization required a detailed financial report—using their own format—that stipulated how the contribution was spent. It would certainly be considered unacceptable practice, be impossible for nonprofits to meet, and quickly lead to the breakdown of the fundraising model. We think the same should hold true for funders making small grants.



DISCUSSION QUESTION How might it benefit your organization and your grantees if their progress reports were part of their renewal applications?

5. For example, a grant amount of \$10,000 or 0.1% of the organization's budget.

6. Funders often pay a portion of their annual membership dues to organizations such as the Council on Foundations in the form of a grant. This typically represents the amount that larger funders pay over and above what they receive in services in order to support the general operations of the organization.

RECOMMENDATION 4:

Ask Only for the Information You Will Use

To effectively streamline grant budget and financial reporting processes, funders need to know what information to ask for—and what not to ask for. Funders often ask grantees for more information than they really need. This largely happens, we've found, because they haven't fully thought through what information they really need and where they can get it. There are a number of ways funders can determine which information they'll actually use. They can invest in educating staff about reviewing financial information from grantees, current and prospective. Resources permitting, they can assign staff specialists primary responsibility for requesting and reviewing financial information, or contract out these duties to consultants.

The bottom line: funders need to know what information to ask for and what they're going to do with it.

To help with this education process, we offer the following tips, tools and resources. Several are designed to help funders better understand financial statements and the Form 990 and to use common ratios to understand nonprofit financial status and identify red flags. We also provide tips to help grantseekers think about how they can contribute to streamlining grant budgets and financial reporting.

Reviewing Nonprofit Financial Statements

Rather than require new documents to be created, we recommend funders use a nonprofit's existing internal financial statements or audited financial statements as they assess its financial health.⁷

Because annual audits are costly, smaller nonprofit organizations often forgo them. In this case, we recommend funders consider two responses.

First, in place of audited statements, funders can review the organization's existing internal financial statements and Form 990. Sometimes funders can request interim unaudited financial statements—which nonprofits regularly present to their boards of directors—and avoid requiring an additional report from the grantseeker. The Form 990 can be dated for some organizations and may not reflect the most recent financial information available, so funders may want to supplement it with the nonprofit's internal financial statements.

Second, funders can pay for a grantee organization to get an audit. This can be a good way for a nonprofit to get a better sense of its financial situation and become more sophisticated about its finances (though it doesn't make sense for really small organizations). And it can help a funder build its financial reporting capacity and help promote greater accountability for all parties.

Financial statements can be hard to understand if you're not accustomed to reading them. To make it easier for funders to use existing financial information—and reduce the amount of new financial information that nonprofits must generate—here's a selective list of financial statement components that can help you surface issues or "red flags":

1. Cash and cash equivalents: This represents the cash immediately available to the organization. By using a ratio analysis tool, you can compare the amount of cash in relation to total assets and current liabilities. These help measure the liquidity of the organization and often indicate whether or not it will be able to meet its immediate debt obligations. See page 13 for more information on ratio analysis tools.

7. Nonprofit organizations that spend (but not those that receive) \$500,000 or more of federal funds in a given year are required to have an audit for that year, in accordance with the provisions of the OMB Circular A133. This will provide specific information on the organization's compliance with federal grant requirements and internal controls. The A133 audits can be obtained from the federal clearinghouse website: <http://harvester.census.gov/fac>.

2. Accounts receivable: This represents funds that are owed to the organization for services rendered or goods delivered. Consider this amount in relation to other assets. A large amount could indicate weak collection efforts.

3. Total assets: This is the total amount the organization *owns*. The dollar amount provides insight into the overall size of the organization.

4. Total liabilities: This is the total amount that the organization *owes*. Review the nature of each listed debt, noting any new lines of credit or loans, which may indicate a cash flow problem.

5. Net Assets: This is the difference between what the organization *owns* and what it *owes*—total assets minus total liabilities. Note the total amount of net assets as well as the portion that is unrestricted. Unrestricted net assets can be used for operations or unexpected costs without consideration of any donor restrictions. Don't confuse net assets with cash. If unrestricted net assets are greater than total cash, it means the organization will have to collect receivables or sell assets in order to use this portion for operations.

6. Sources and Amounts of Revenue: This summarizes the organization's revenue. Review each source and its relation to total revenue. This will indicate if there's overreliance on a limited number of sources. The list of funders may also provide insight into the quality and stability of the organization's donor base.

7. Sources and Amounts of Expenses: This summarizes the organization's expenses. Review each expense and consider its relation to total expenses. Note the percentage of costs that are listed as "program services" versus "management and general," as this provides an indication of overhead load. Every organization has overhead and fundraising costs, which vary greatly depending on the type of services provided by the organization, where it is in its lifecycle, and where it's located.

8. Change in Net Assets: This is the amount by which net assets have changed during the year. It can be an increase or a decrease and is calculated as total revenue minus total expenses. Keep in mind that ongoing decreases will erode the net assets.

Audited financials contain additional useful information, notably:

9. Auditors' opinion letter: This is the cover letter that must accompany the audit and includes the auditors' opinion of whether or not the organization's financial statements were prepared following generally accepted accounting principles (GAAP). For certain types of audits, this letter also provides information about the organization's internal controls and compliance with federal grants.

10. Auditors' notes to the statements: These include important information about the organization's finances. Look for pending litigation, recent organizational restructuring, tax issues, adjustments to prior year audits, and explanations of items in the financials.

How The New Form 990 Can Help You Streamline

The Form 990 has been redesigned, effective for the 2008 tax year.⁸ In general, the new form requires more disclosure from nonprofits and displays that information more prominently. Funders and others who review these forms as part of their proposal process will generally find the new form provides much more information for their review.

The new form has an 11-page core required from all 990 filers, with *supplemental schedules* (additional materials) to be completed by some organizations if they satisfy certain requirements. Areas of major change include information about the governance and compensation of officers, directors, trustees, key employees and the highest compensated employees. Some other changes include the supplemental financial statement, which reports on foreign activities (if more than \$10K), grants within the U.S. (if more than \$5K), fundraising/gaming/non-cash contributions, and related organizations.

Resources about the new Form 990:

Websites:

IRS: <http://www.irs.gov/charities/article/0,,id=176667,00.html>

Independent Sector: http://www.independentsector.org/programs/gr/Draft_Form_990.htm

National Council of Nonprofits: <http://www.councilofnonprofits.org/?q=policy/form990changes>

Webcasts:

IRS: <http://www.taxtalktoday.com/index.cfm?page=8.778>

IRS/Stay Exempt: <http://www.stayexempt.org/course4purple/index.html>

Articles:

Journal of Accountancy: <http://www.journalofaccountancy.com/Issues/2009/Mar/RedesignedForm990.htm>

Getting Clear on Terms

Funders need to understand the meanings and distinctions among basic financial terms. Here we define three.

A **BUDGET** is a plan, stated in dollars, in which an organization projects income and expenses for a specified period of time (usually one fiscal year). The budget is important because it represents how the organization expects to allocate its resources. It is also a key management tool against which the organization tracks its actual costs.

There are different types of budgets, including:

- Operating budget—shows all revenues and expenses
- Cash budget—focuses on the expected inflows and outflows of cash
- Capital budget—shows planned fixed asset purchases
- Functional budget—shows the revenues and expenses for each functional area or project separately

Each organization determines the level of specificity in its budget. For example, organization A may break down the costs into detailed line items, whereas organization B may use broad categories.

8. There is a phase-in period and two alternate forms for smaller organizations: 990N for gross receipts up to \$25K and 990EZ for gross receipts of greater than \$25K and less than \$1M and total assets less than \$2.5M.

FINANCIAL STATEMENTS are the standard documents generally included in an audit:

- Statement of Financial Position (Balance Sheet)
- Statement of Activities (Income Statement)

A Cash Flow Statement and Statement of Functional Expenses may also be included.

FINANCIAL REPORTS are regular updates prepared by an organization as part of their requirements under a grant and summarize the use of grant funds. The format of the reports may vary by funder.

The term is also used to describe unaudited financial statements that the organization prepares without the assistance of an external auditor. These reports are used for internally monitoring and for informing the Board of Directors about the financial status of the organization.

Additional Resources for Grantmakers:

Ratio Analysis Tool

Ratio analysis can help both the grantmaker and grantseeker get good information out of the financial data available. It allows you to consider various numbers from a financial statement in relation to other numbers and identify potential trouble spots by looking at the ratio generated. Because nonprofits operate differently, financial ratios have to be interpreted in the context of the organization being reviewed. Statistics and percentages may be misleading if taken at face value. This tool is meant to be the start of your questions, not the end of them. Visit www.projectstreamline.org for more information about ratio tools.

If you're interested in other ratio tools or learning more about using ratios, see the following sources:

Guidestar.com: Why Ratios Aren't the Last Word: <http://www2.guidestar.org/rxa/news/articles/2004/why-ratios-arent-the-last-word.aspx?articleId=850>

Nonprofit Assistance Fund: <http://www.nonprofitsassistancefund.org/%20pages/toolstemplates>

Tips for Grantseekers

Nonprofit organizations can help funders streamline their budget and financial reporting requirements and processes. We recommend the following basic guidelines to help nonprofit organizations do their part in keeping budget and financial reporting requirements simple and streamlined. Funders might consider distributing this page to their nonprofit partners.

1. Post your information online: We encourage nonprofit organizations to post your most recent Form 990 and audited financial statements online so that they can easily be accessed by funders. Some funders may be willing to use these materials in lieu of requiring specific budget and financial information⁹ to be sent.

2. Watch for any red flags you might have: Nonprofit organizations should know and analyze the kinds of things that funders look for in budget and financial information. Be aware of any red flags that might concern a grantmaker, and be prepared to explain them. Ratio analysis tools exist to help nonprofits assess their financial fitness.

3. Be sure that your grant budgets and financial information are internally consistent: Often grant application budgets are developed by a nonprofit program staff person, using categories and line items that make sense for that project. Meanwhile, the organization's financial documents, which may use a different set of categories and line items, can be used for grant reporting. It will streamline the process if you align these documents, ideally keeping them consistent with your organization's official accounting system.

4. Ask if you're not sure about a funder's requirements for financial information: Although this tip seems obvious, many nonprofit organizations hesitate to ask for help and clarification—even when they need it and grantmakers are ready to provide it. In turn, many funders' requirements aren't clear, and need your feedback to get them right.

5. Be upfront and clear about your project's real cycles: Be sure to let the funder know the actual start and end dates for the project, your organization's fiscal year, and other pertinent schedule information. Funders might not be aware that you may prefer to submit financial reports in alignment with your organization's timeline, not their own granting cycle.

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9. Although 93 percent of nonprofits have embraced the internet to disclose basic information about their programs and services, very few in a recent GuideStar survey had posted major documents online. Only 3 percent had posted information such as their IRS Letter of Determination online, according to GuideStar's first annual report on nonprofit transparency. The report, *The State of Nonprofit Transparency, 2008: Voluntary Disclosure Practices*, was written by GuideStar's Dan Moore, the former chief charity regulator in New Mexico, and includes recommendations from GuideStar, including the need for nonprofits to provide more information on their websites.



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