



***THE INITIAL SOURCES AND USES DEVELOPMENT BUDGET
FOR A START-UP CO-OP***

This document will provide an introduction to the formation of an initial sources and uses development budget. Additionally, it will provide insight on how this budget fits into the overall financial projections.

Creating a rough draft of the start-up or project budget is a necessary first step to provide a clear **one to two page** financial picture of what the co-op is attempting to do.

Simply put:
Starting a business, any business, takes money, sometimes a lot; Where is it going to come from? And what is it going to be spent on?

The steps to creating a budget are simple:

- List any and all **uses** of funds
- List any and all **sources** of funds
- Balance until the **uses equal the sources**
- Remember: *there will be many drafts*

The sources and uses development budget will be a critical tool for management, planning and communications. Even though this is essentially the “back of the napkin” sketch, just the act of creating this budget will be a clarifying process for the team.

A sources and uses budget will eventually be the “cover page” to the financial projections or “pro forma”. While, the sources and uses budget alone doesn’t determine financial feasibility, the overall pro forma will be a key tool in determining financial feasibility. Pro forma financials serve as the stand-in model for the actual financials until the co-op begins actual transactions. The financials will be built on the development budget.

Keep unpleasant surprises to a minimum by being conservative in both your estimations of costs and income.

Sample Sources and Uses Budget

Sources	Uses
Owner Investment: Member Equity Member Loans Debt: Bank Loans Community loans Other Sources: Donations Grants (if any)	Facilities: Leasehold Improvements Real Estate Equipment (e.g. computers) Inventory Supplies (e.g. stationary) Working Capital Marketing/outreach Permits, Insurance, Admin, etc.
Total	Total

The creation of a list of funds, doesn’t provide license to spend money the co-op hasn’t yet received. Costs can be contained without compromising the quality of what you’re trying to accomplish. Having a clear picture of what you’re attempting to accomplish will aid in keeping costs low.

Creating the Budget

The board should start by asking itself what the co-op will need to create a profitable and sustainable business. These items should be listed regardless of whether they will be paid for in cash, credit or contributed by members and stakeholders. In other words, the total amount of “uses” listed in the uses statement should be equal to the project’s total start up cost.

Next the board should ask itself how the aforementioned costs will be paid for. Most likely, the two sides will not be equal and, unfortunately, probably not in the co-op’s favor. Don’t worry: *this is part of the process.*

Next, the Board uses its vision and ability to reconcile the difference between what is wanted, needed and possible. Here’s where the board must brainstorm on solutions.

Financial pro forma and financial feasibility

Eventually, the co-op’s financial pro forma may need to have most, if not all of, the following components:

- Sources and Uses Budget
- Assumptions
- Income statement (i.e. profit and loss)
- Balance sheet
- Cash flow
- Breakeven analysis
- Debt service schedule
- Comparison of expenses to industry standards
- Examination of key ratios (e.g. debt to income)
- Sales forecast

Monitor the sources and uses budget as the co-op progresses through the development process. This will be a “living” document

Why do all this?

Any lender, grantor or member should expect to be informed where their money is going and if the co-op is managing it wisely. Furthermore, if there are expectations of repayment, they will need to be articulated. A co-op, especially a start-up, cannot expect others to provide it with their money unless the answers to these questions can be explained.

For more info:

<http://biztaxlaw.about.com/od/businessstartupsteps/ss/bizstartupsteps-7.htm>

http://en.wikipedia.org/wiki/Financial_statements