

Step 8

Preparing the Program Budget

I am most pleased when I read about a great program followed by a strong proposal that directly supports the program. The proposal is ultimately bolstered by a well-articulated budget. Many times my colleagues and I will read the executive summary of a proposal first, followed by a review of the budget to see if they are accurately reflective of each other—before we dive into the full proposal. We need to see that your budget is reasonable, logical, and is well-connected to what you are proposing. Be mindful of your overhead—and be knowledgeable about what your overhead costs are, just in case you are asked.

—PHYLLIS CALDWELL

President

Washington Area Women's Foundation

(a public grantmaking charity in Washington, D.C.)

THIS STEP HELPS you estimate how much your program will cost and introduces you to the key elements of a program budget. Examples aid you in defining budget elements and guidelines for budget preparation are provided.

Purpose of the Program Budget

Put simply, a program budget is the program plan from a financial point of view. This definition is borrowed from *Grant Seeker's Budget Toolkit*, by James Aaron Quick and Cheryl Carter New, a solid and in-depth resource for anyone who needs more specific knowledge or guidance about preparing budgets. The best budgets directly translate the methods section of the proposal into dollars—words into numbers. For example, a budget typically includes the number and cost of staff and volunteers needed to implement the program plan, as described in the proposal. Always remember that the program budget is your best “guesstimate”—a projection—of the income and expenses you anticipate for your program.

Definition

Projection. "A prediction or estimate of future conditions, based on present data or trends."

Content of the Budget

In most instances you will be asked to submit your organization's operating budget for the current fiscal year, so be prepared by having copies handy. You will also need to submit a budget specific to the funding request you are making. For a program support grant, you will be asked to develop a budget outlining all expenses and revenues associated with that specific program. If a nonprofit is seeking operating or general support, you should submit the budget for the whole agency along with a request for unrestricted funds. This will serve as your "program" budget. Depending on the funding source, you may be asked either for a very detailed budget or for a general outline of income and expenses.

Definition

Unrestricted funds. Funds "not specifically designated for a particular use by the donor, or for which restrictions have expired or been removed." Also known as operating or general support funds.

Whereas government funding sources often require considerable financial detail and provide instructions and budget forms that you must use, many foundations and corporations require less detail than this. They still, however, give serious consideration to your budget as they evaluate the merit of the proposal. In a trend currently growing in popularity, more and more grantmakers are now including a budget template among their guidelines. (Some samples of this approach are included on the CD accompanying this workbook.) Even when a funder says the budget template is optional, you should use it. It is also always time well spent to call the foundation to which you are applying to speak with someone about the budget, if at all possible, because he may provide additional information and clarity about funder expectations. For example, you might learn that although a funder excludes equipment *purchases* from consideration, it does permit equipment *leasing*.

A budget may be one or more of these types:

- *Program (or project) budget:* the income and expenses associated with the specific program for which the nonprofit is seeking funding.

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- *Agency budget*: the income and expenses projected for your whole organization, inclusive of all its programs.
- *Detailed or justified budget*: a high level of detail about certain income and expenses items; also sometimes referred to as a budget narrative or justification.
- *In-kind contribution budget*: the donated goods and services expected to be used in a specific program or elsewhere in the organization. This budget is commonly prepared as part of a program, agency, or detailed budget.

The level of detail you need to supply in your budget will vary from funder to funder and from program to program. In rare instances a grant-maker may not require a budget if the funds are to be used for a specific item—such as to purchase a single piece of equipment or food or tickets for a particular event.

Tips for Developing the Budget

To develop the budget component of a proposal for a program, follow these steps:

1. Establish the budget period, the length of time the budget covers.
2. Estimate expenses, obtaining cost estimates as necessary.
3. Decide whether and how to include overhead costs.
4. Estimate the donated goods and services that will be used.
5. Estimate the anticipated revenues for the project.
6. Check that the budget as a whole makes sense and conveys the right message to the funder, which is this: the budget is appropriate and in line with the objectives and methods of the program to be funded.

Establish the Budget Period

Are you proposing an eighteen-month program or a six-month project? You need to state clearly in your proposal what the grant period will be. Your budget will directly reflect that designated period by showing income and expenses for exactly that time.

If program implementation depends on obtaining funding, you will likely not know exactly when the program will start. Should this be the case, prepare a budget for the time period only, rather than for specific months—that is, if you are proposing a one-year grant, draw up your budget for one year without specifically identifying the starting or concluding months. Be mindful that the period for the program does not need to match your orga-

nization's fiscal year. However, if you are also submitting an agencywide budget, that document should be the actual budget for the current or upcoming fiscal year.

Estimate Expenses and Costs

Begin by estimating direct costs, expenses that are directly related—and indispensable—to the program. Such expenses typically include

- Program staff salaries and benefits
- Office space (which may be an assigned percentage, based on your program budget as a proportion of your organization's overall budget)
- Supplies (office, educational, and so forth)
- Equipment
- Program-related travel
- Program-related rent (percentage of nonprofit office space used)
- Printing and copying

Use the worksheet you filled out in Step Five (where you developed methods and a timeline) as the basis for calculating your program's direct expenses. For larger expenses, such as equipment or space rental, get some cost estimates so that you won't under- or overbudget on these large items. At this stage don't try to determine each item down to the last penny; make your best guess of how much it will cost to hire a good intake worker (remember to include the costs of benefits) or to design and print a program brochure. Use industry standards as your guide and you should be within the appropriate range. Not sure what industry standards are for some items? Ask a colleague, either one within your organization who runs another program or one at another nonprofit.

Calculate Overhead Costs

Indirect costs, often called overhead or administrative costs, are costs shared by all the organization's activities and programs, such as the cost of the audit, the executive director's salary, general liability insurance, the copier lease, and the phone system. Indirect costs are the nuts-and-bolts expenses that it takes to operate a nonprofit, yet are not specific to any one program (telephones, a postage meter, Internet access, electricity, and office machines are a few more examples).

Every program and special project at an organization benefits from agency functions that are classified as overhead costs. Therefore, including a portion of these costs in the request for funding has become fairly standard. A good place to begin, as always, is by reviewing the funder's guidelines. There is a good chance that the funder has specifically addressed its policy on

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overhead in this material; some funders will name the maximum percentage they will consider for overhead costs.

Although it is usually reasonable to include overhead costs, avoid the temptation to assign more overhead costs to a grant than are justified. Most foundations, when providing support for a specific program, do not want to pay for more than the program's fair share of these costs. Your research on the funder and conversations with the program officer should ultimately tell you what you can include.

Estimate Donated (In-Kind) Goods and Services

Never underestimate the benefits of donated goods and volunteer time, as they are important to many nonprofit ventures. If, for example, you receive in-kind copying from a board member and have a volunteer receptionist, the dollar costs of the program will be reduced.

Reality Check

Do not spread yourself too thin in this area. Be sure to verify your volunteer commitments as best you can—perhaps consider getting them (unofficially) in writing (via a memorandum of understanding) and submitting them as backup to the budget—in addition to building in a small contingency plan in case your in-kind support falls through.

Including in-kind contributions in your budget is helpful for several reasons:

- It allows the full scope and costs of the project to be understood by the funder.
- It demonstrates community support for your project and agency, which is very important to donors.
- It reminds you and the donors and volunteers of the value of their contributions.

Think about it this way: Why would a funder want to support your organization's program if you cannot demonstrate that your own community supports it?

In-kind contributions are usually shown as both income and expense, at the same levels. If, for example, your program receives \$5,000 in in-kind printing and copying from a local business, your budget should also show an "expenditure," or cost, of \$5,000 in printing and copying. If a volunteer teacher contributes \$5,000 worth of her time, your organization should also record a payout of \$5,000 in teaching expenses.

Estimate Anticipated Revenues

The power of leveraging should also not be underestimated. If you are applying to more than one funder for program support (as you absolutely should be doing!), you want to have that information reflected in your budget. Many times, funders feel more comfortable investing in programs along with their fellow funding institutions.

In addition, some programs will generate income through fees that can help pay program expenses. Other income may include individual contributions, a special event, or as just mentioned, grants from more than one source. Each possible source of revenue for the program should be estimated for the grant period and included in the budget.

As a general rule, funders expect to see a balanced budget for a project, one in which income and expenses are equal. Most grantmakers will likely shy away from supporting programs that are projected to end the grant period with either a large deficit or a major surplus of cash.

Helpful Hint

If your organization is sending requests to several foundations at once, it's to your benefit to let all of the funders know. Funders do talk to each other, so it is quite possible that you could leverage your chances of receiving grants if they all know up front whom you have approached. You might use language such as this: "In addition to your foundation, we are submitting this proposal to the ABC Foundation and the XYZ Foundation," or, "We have already received a grant of \$25,000 from MNO Foundation, and are seeking to leverage this funding with a grant of \$25,000 from your foundation. Together, these two grants would fully fund our program for the year."

Check for Sense

After preparing the initial budget, take a close look to ensure that it makes sense and corresponds closely to the methods you developed for your program back in Step Five. Make adjustments in income and expenses as appropriate, always keeping in mind that you do not want to raise any red flags. Take a step back and review the budget from an objective perspective: Is there anything that stands out? What is not clearly tied to the methods proposed? What raises your own eyebrows?

Use Worksheet 8.1A to prepare a budget for your project. Enter your projected revenues and expenses, and add categories if necessary and appropriate. Worksheet 8.1B contains a completed budget, which shows you what the budget for the Senior Latino Community Outreach Pilot Project looks like. Asking the Budget Review Questions at the end of this step will highlight those areas in your budget that need further attention.

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WORKSHEET 8.1A: Revenue and Expense Budget

Worksheet 8.1B contains a sample budget. Please use it as an example as you complete this budget worksheet.

	Cash Required	In-Kind Contributions	Total Budget
REVENUE Foundations Government Corporations Individual contributions Donated printing & supplies Volunteer services Other (specify): Total revenue			
EXPENSES Salaries (prorated if less than full-time) _____ _____ _____ _____ Payroll taxes & benefits (% of salaries) Bookkeeping contractor Other (specify): Total personnel Office rent (% for program) Supplies Printing Utilities Telephone Copy services Postage Travel Membership dues Other (specify): Total nonpersonnel Total expenses			

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WORKSHEET 8.1B: Revenue and Expense Budget Example

	Cash Required	In-Kind Contributions	Total Budget
REVENUE			
Foundations	\$100,000		\$100,000
Government	50,000		50,000
Corporations	25,000		25,000
Individual contributions	5,000		5,000
Donated printing & supplies		\$5,000	5,000
Volunteer services		5,000	5,000
Other (specify):			
Total revenue	\$180,000	\$10,000	\$190,000
EXPENSES			
Salaries (prorated if less than full-time)			
<u>Bilingual nurse</u>	50,000		
<u>Program assistant</u>	40,000		
<u>Executive director</u>	11,250		
(15%)			
Payroll taxes & benefits (32% of salaries)	32,400		
Cultural comp. consultant	12,400		
Other (specify):			
Total personnel	143,650		143,650
Volunteer services		5,000	
Supplies	2,500		
Printing		5,000	
Food & beverages for meetings	5,000		
Equipment (medical & computer) ^a	8,850		
Copy services	2,500		
Postage	1,300		
Conferences, travel, & mileage ^b	4,800		
Membership dues			
Overhead ^c at 10%	9,000		
Total nonpersonnel	\$33,950	\$10,000	\$43,950
Total expenses	\$180,000	\$10,000	\$190,000

^a Includes computers for new staff, tracking software, medical supplies not donated in-kind.

^b Includes sending three to the National Organization of La Raza conference in San Diego; all mileage costs associated with the project.

^c Includes rent and all utilities, including telephone.

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Budget Review Questions

1. Is the budget consistent with the proposal's program plan (methods)?
2. Is there a budget narrative that explains items that may not be immediately clear?
3. Does the budget include in-kind revenues and expenses?
4. Does the budget address the question of how overhead costs will be recovered?
5. Is the budget realistic? In other words, can your organization accomplish the intended objectives with the proposed budget?
6. Have you kept your budget worksheet, so that you have a record of how you determined costs for the expense items?