

Proposal Budgeting Basics

Glossary of Terms

Budget: A financial plan or projection for the income and expense of a particular organization as a whole (operating budget) or a particular project (project budget) for a specific time period

Budget narrative: A brief explanatory narrative that often accompanies a budget which clarifies and illuminates specific line items of a budget

Direct costs: Costs that are directly attributable to a project

Financial Statements: A set of financial schedules showing all of the financial activities of an organization usually prepared at the end of a fiscal year and often audited by CPAs. These usually include a balance sheet and an income statement

Indirect cost recovery and Indirect cost recovery rate: A principle by which indirect costs are funded through recovering costs through an agreed upon rate, often used in government grant accounting

Indirect costs: See overhead costs

In-kind contribution: The value of goods or services donated to an organization

In-kind expenses: The cost of goods or services donated to an organization

Overhead Costs: These expenses are amounts not directly attributable to the program, but are necessary to sustain the program. These costs could include rent, salaries of administrative and fundraising staff, electricity etc. These costs are sometimes called Indirect Costs or Supporting Services Costs or Administrative Costs

Payroll taxes: Employer-paid social security and other taxes

Program services costs: All costs associated with a particular program or programs

Project budget: The financial plan for a project for a specified period of time, showing both income and expense items

Revenue: Income earned by an organization by selling goods or services

Supporting services costs: Another term for the administrative costs of an organization

Support: Income from gifts and grants

Case Study: Knowledge Exchange Project

The Knowledge Exchange Project is a program of Pleasant Valley Community Center (PVCC) set to launch next year. It is a program that is based on the very successful Wisdom Exchange Project that has been operating in a neighboring community for many years. This new project is just one of several community projects run by the organization, which is a 501(c)(3) nonprofit.

The Knowledge Exchange Project is an after-school reading program for elementary school children, many of whom are recent immigrants. Most of the students require remedial reading assistance and will benefit from in-depth instruction in English. Two teachers will be instructing the students each day, each assisted by a teaching assistant. Approximately 20 students will attend each program location for each 10 week period. We anticipate that four groups of 20 students each will be assisted during the upcoming fiscal year, in each location.

The programs will be held in two locations, one on the north side of town and the other on the south side of town. In one location the space must be rented, but in the other location the space is being donated by a local church.

A consultant will be hired to conduct a pre-program and post-program testing of each participating student. PVCC is also committed to conducting an overall evaluation of the entire program at the end of the year. They expect to use the same consultant involved in the testing.

The project director will be responsible for outreach to the local schools. Students will be bused to and from the program using a contractual transportation company. A variety of supplies will be provided to each student including text books and other reading materials. Nutritious snacks will be served each afternoon for the participants.

Sally Smith is the Executive Director of PVCC and will provide the overall supervision for the project, but will limit her involvement to 10% of her time, since she's busy managing the three other main projects at the community center and overseeing the administration and fundraising activities, as well. One of the agency's program directors, Ben Jones, will be both the project director and one of the teachers. Ben will interface with the consultant on the testing and evaluation, manage the outreach to the schools and marketing of the program, and be the primary teacher in one of the locations. The other primary teacher is Ruth Givens, and there will be two hourly teaching assistants.

There are 5 other employees at PVCC—four of whom are involved in other programs and one who is purely involved in the bookkeeping and other administrative matters for the entire organization. It is estimated that overhead for the organization runs about 20% of the direct program costs.

PVCC has received a grant of \$5,000 to help launch the program.

Assume you were given the task of preparing the budget . . . what do you need to know?

Exercise: Knowledge Exchange Project

- 1) List all employees who will be included in the budget.

NAME	TITLE
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

- 2) What else do you need to know about them to complete the budget?

- 3) How many children will be served in this program?

- 4) List other direct costs that might be included in your budget?

_____	_____
_____	_____
_____	_____
_____	_____

- 5) What in-kind gift should be included in your budget? What is one way you would use to arrive at a value for this?

- 6) Can you think of costs at this organization—not directly attributable to the project—that would be included in indirect or overhead costs for this project?

_____	_____
_____	_____
_____	_____
_____	_____

- 7) If the program director says he expects to spend \$.50 per day per student on fruit and juice, calculate how much these nutritious snacks will cost?

Recommended Resources

Clarke, Cheryl A. *Storytelling for Grantseekers: The Guide to Creative Nonprofit Fundraising*. San Francisco, CA: Jossey-Bass Publishers, 2001. Clarke puts forward the notion that proposals share much with great stories: characters, setting, and plot. She shows proposal writers how to craft documents that include elements of drama, and includes a sample budget, as well as information on packaging the proposal. Chapter 8 is devoted to budgets. Call Number: 770 CLA

Collins, Sarah, ed. *The Foundation Center's Guide to Winning Proposals*. New York, NY: Foundation Center, 2003. The book reprints in their original form 20 proposals and four letters of inquiry that succeeded in securing foundation support. Each proposal is accompanied by commentary by the funder who awarded the grant and proposal writing advice. Chapter 10 focuses on sample budgets. Call Number: 780 FC WIN

Draper, Lee. "100% Goes to Charity?". *Foundation News & Commentary*, vol. 44 (January–February 2003), p. 32–7. Grantmakers and other donors wrestle with the issue of the proportion of administrative and fundraising costs to program costs, and this article elucidates how funders can better understand the essential nature of indirect costs for the functioning of a nonprofit. Also includes a glossary and a menu of activities that are typically considered indirect expenses.

Dropkin, Murray; La Touche, Bill. *The Budget-Building Book for Nonprofits: A Step-by-Step Guide for Managers and Boards*. 2nd ed. San Francisco, CA: Jossey-Bass Publishers, 2007. A primer for those interested in all kinds of budgeting, both organization and program based. Targeted to those with no financial background, as well as those with extensive financial backgrounds. It includes detailed explanations, checklists, worksheets, examples, and forms to address every phase of budgeting. It is a practical resource for anyone involved in the budgeting process of nonprofits. Call Number: 620 DRO

Geever, Jane C. *The Foundation Center's Guide to Proposal Writing*. 5th ed. New York, NY: Foundation Center, 2007. Guides the grantwriter from pre-proposal planning to post-grant follow-up. Incorporates excerpts from actual grant proposals and interviews with foundation and corporate grantmakers about what they look for in a proposal. Includes chapters on research, the budget, contacting and cultivating potential funders, as well as a sample proposal and a selected bibliography on proposal development. Call Number: 770 GEE PRO

Keating, Elizabeth K. "Is there enough overhead in this grant?". *Nonprofit Quarterly*, vol. 10 (Spring 2003), p. 41–4. Explains how to conduct a financial cost-benefit analysis before submitting a proposal. Provides tips on listing direct and indirect costs in a budget. Sidebar discusses overhead rates.

Knowles, Cynthia. *The First-Time Grantwriter's Guide to Success*. Thousand Oaks, CA: Corwin Press Inc., 2002. A toolkit for applying for moneys from government and private sources. Covers the elements of the proposal package, writing style, budget development, and other aspects of completing the application. Call Number: 770 KNO

Margolin, Judith B. (ed.); Lubin, Gail T. (ed.) *The Foundation Center's Guide to Winning Proposals II*. New York, NY: The Foundation Center, 2008. A companion to the Guide to Winning Proposals, volume II includes more than 30 new proposals from some of the nation's most influential funders. Each proposal includes a critique by the decision-maker who approved the grant. In addition to cover letters and budgets, volume II includes winning proposals for general operating support, special projects, seed money, evaluation, capacity building and other needs. Call Number: 780 FC WIN 2005

Margolin, Judith B. (ed.); DiMaio, Elan K. (ed.) *The Grantseeker's Guide to Winning Proposals*. New York, NY: The Foundation Center, Summer 2008. The third volume in the Foundation Center's *Guide to Winning Proposals* series includes 35 funded proposals. Each proposal includes commentary from the grantmaker who approved the request. The book reprints proposals for a range of requests. There are separate chapters with examples of budgets and cover letters. Call Number: 780 FC WIN 2008

Olenick, Arnold J.; Olenick, Philip R.; Foundation Center. *A Nonprofit Organization Operating Manual: Planning for Survival and Growth*. New York, NY: Foundation Center, 1991. Addresses the essential financial and legal aspects of managing a nonprofit organization. Divided into four parts, Part 2 contains chapters on the operating budget, program budgeting, cash and capital budgeting, fundraising, income-producing ventures, the "Generally Accepted Accounting Principles," establishing a management information system, and a practical approach to accounting. Part 3 covers financial reports and cash management, and Part 4 discusses required financial reports, grant management, the "IRS Form 990: Return of Organization Exempt from Income Tax," and other tax-reporting obligations. Call Number: 600 OLE

Quick, James A; New, Cheryl C.; *Grant Seeker's Budget Toolkit*. Hoboken, NJ: John Wiley & Sons, Inc., 2001. A detailed account of the budgeting process for staff of nonprofit organizations who are responsible for preparing a proposal budget. Step-by-step instructions help define a project and develop a budget for it. The book includes many examples and worksheets. Topics covered include personnel, travel, equipment, capital, supplies, materials, and others. Budget narrative is also explained. Call Number: 770 QUI

Wells, Michael K. *Understanding Nonprofit Finances*. Portland, OR: Portland State University, 2006. Call Number: 770 WEL UND Explains how to work with financial and accounting documents in preparing the budget for a proposal or grant application. Illustrated throughout with examples from three types of nonprofits.

Wing, Kennard T.; Hager, Mark; Rooney, Patrick; Pollak, Thomas. "Paying for Not Paying for Overhead". *Foundation News & Commentary*, vol. 46 (May–June 2005), p. 33–7. Presents the major findings of the Nonprofit Overhead Cost Project. The research involved an analysis of Form 990s for more than 10,000 organizations, as well as a survey. Among the conclusions: many nonprofits underreport fundraising expenses and classify accounting expenses as program expenses. In turn, foundations may well be under-funding these administrative costs and restricting grants in a way that curtails the effectiveness of a grantee. Research reports based on the survey can be found at coststudy.org

INTERNET RESOURCES

The Foundation Center's FAQs
(foundationcenter.org/getstarted/faqs/) The Frequently Asked Questions (FAQs) section in the Get Started area on Foundation Center's web site addresses a broad spectrum of questions about the nonprofit sector and the grantseeking process. Included are links to examples of nonprofit budgets (foundationcenter.org/getstarted/faqs/html/samplebudget.html)

Basic Guide to Non-Profit Financial Management
(managementhelp.org/finance/np_fnce/np_fnce.htm) From the Free Management Library for nonprofits, includes articles on bookkeeping, financial controls, and budgeting.

Nonprofit Genie FAQs on Funds Management
(compasspoint.org/askgenie/index.php?tpid=7) Includes FAQs on cost allocations, audits, cash flow management, and more.