



Welcome to Foundation Center's *Introduction to Project Budgets*.

This class is designed as a follow-up to *Introduction to Proposal Writing* which hopefully most of you have taken. A project budget is typically included as part of a project proposal and is one of the most important components of the proposal.

Foundation Center recently did a survey of grantmakers for our most recent proposal writing book, and 30% of those grantmakers said that they look at the budget first, *before* they even look at the project description.

**Question/Point of Discussion:** Why do you think this is the case? **Answer:** The budget shows them immediately what their dollars will do/where their money is going.

We know that preparing a project budget is not most people's favorite thing to do, but in today's class we will show you how to create a general project budget and feel more confident about the process.

After class today you'll have time to start your own project budget. This is an optional exercise, but I encourage you to stay if you can.

# What Funders Want To See In Project Budgets



Your proposal describes your project in narrative form – your budget explains your project in financial terms.

Because it is the first thing many grantmakers will look at, usually along with the Executive Summary, it is important to have a thorough and complete budget. It doesn't have to be exact, but it should be a clear and realistic projection of what the project will cost. Your budget should include:

*[Click to drop picture and reveal text]*

- Your estimate of the true cost of your project
- Your expected income to meet those costs

# Components of a Project Budget

## Income

- Grants/Contributions
- Earned Income
  - Fees for Services
  - Sale of Goods

## Expenses

- Direct Costs
  - Personnel
  - Non-Personnel
- Indirect Costs (overhead)

Let's look at the components of a typical project budget.

Each grantmaker is different and many have their own budget format. However, most grantmakers will want to see a one-page summary of your financial projections, breaking down your project's income and expenses - including both direct and indirect costs.

Income: This is your support and revenue. These costs are made up of:

- Grants and Contributions – includes all grants from independent foundations, corporate and government grants, donations from individuals, and any other contributions
- Earned Income – includes income generated by charging fees for services or selling items or goods such as ticket sales or t-shirts for example.

Expenses: This is how much your project costs.

Direct costs are directly related to your specific project—meaning these expenses are used for or allocated to this project only. That's why they are called direct costs. These expenses include both personnel and non-personnel costs.

- Personnel – includes all staff *directly* involved in the project
- Non-personnel – includes all other expenses *directly* related to the project

Under expenses we also have indirect costs – this is your overhead, and we'll be talking about that in more detail.

Now that you know the basic components, let's talk a little about the process one would go through to develop a project budget.

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We're going to start by talking about the expense side of the budget first.



**Point of Discussion/Question:** Who is the best person to draft the project budget?

**Answer:** the person who knows the project best. It's often a team effort including the development/fundraising and program staff.

Two important things to keep in mind:

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- Your budget should be a mirror reflection of your proposal
- Everything that is in your proposal should be represented in your budget

For example, who are all the people working on this project? What supplies, materials, or equipment will you need?

# How Will I Know How Much My Project Costs?



So, how will you know how much your project costs?

If this is a project that you have already implemented, you will have a good idea of how much it costs. But remember costs go up, so be sure to account for inflation. If this is a brand new project, no worries, there's a standard formula to estimate projected costs.

We suggest you....

*[Click to drop picture and reveal text]*

- Research three (3) estimates – by either researching costs on the internet or contacting companies that manufacture the products or provide the services you are looking for.
- Collect and document each quote – so that you will have a record of your cost estimates.
- Choose the estimate that is the most reasonable and appropriate for your project—it doesn't necessarily have to be the lowest one, but the one that makes the most sense.

Ultimately your estimated costs should be reasonable, complete, and realistic.



# Estimating Personnel Costs

Personnel Costs		
Executive Director		\$ --
Program Director		\$ --
Program Assistant		
Tutors		
	Sub-Total	\$ --
	Fringe Benefit Rate	\$ --
	Personnel Total	\$ --

Who are all the individuals working on the project?

What are the amounts for salary wage

How much do we add for benefits?

How much time will they dedicate to the project?

Let's start with how to estimate personnel costs.

Personnel costs will most likely be the largest component of your budget - because it takes the right people to manage and implement a project successfully.

*[Click to reveal text box]*

First, list all of the employees who will spend time on the project.

*[Click to remove box]*

*[Click to reveal text box]*

Then, estimate what percentage of their time they will dedicate to the project. If it's the executive director, for example, they may only spend 10% of their time on the project, while the program director might spend 100% of their time on the project.

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*[Click to reveal text box]*

Next, you will need the amount of their annual salaries or hourly wages.

Calculate and allocate the portion of their salary this project will cover. For example, if the Executive Director spends 10% of her time on this project and she makes \$60,000 a year, the amount you would put in your budget for this line item would be \$6,000.



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*[Click to reveal text box]*

In addition to salaries, you should also include the costs of benefits. For example, if you offer health benefits or disability benefits you can include a percentage of the employers contribution for providing those benefits.

If your organization offers benefits, typically your accountant or finance person will know what your fringe benefit rate is and you can add that amount to your budget.

*[If a class participant asks specific questions about calculating their fringe benefit rate you can find lots of info by Googling "calculate fringe benefit rate"]*

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Add it all up and you have your personnel total.

## Estimating Non-Personnel Costs

Non-Personnel Costs		
Consultants		\$ --
Supplies/Materials		\$ --
Printing		\$ --
Postage		\$ --
Travel		\$ --
Food/Beverage		\$ --
Program Equipment		\$ --
Program Space/Rent		\$ --
Program Evaluation		\$ --
Non-Personnel Total		\$ --

Now let's do the same for Non-Personnel Expenses - otherwise known as everything else.

Every project is different so every budget will be different. Here we have a sample of non-personnel costs. Your list will be unique to your project, but this is a good list to start with.

*[Click to reveal text box]*

Often a budget will include costs for consultants or independent contractors. You should include these after your regular salary costs but be sure *not* to apply the benefit rate - since consultants typically do not receive benefits.

*[Click to remove box]*

If your project includes volunteers, hold on to that thought, we'll be getting to that in just a minute.

Think of every possible expense you might have with an estimated dollar value. Include as many of the potential costs and incidental costs as you can think of. For example, if you have a line item for travel.

*[Click to reveal text box]*

**Point of Discussion/Question:** What might that include? **Answer:** Gas, mileage, airplane ticket, hotel, food, etc.

Add it all up, and now you have your Non-Personnel Total.

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When you add the Personnel Total and the Non-Personnel Total, you have the total sum of your Direct Costs. Great job! You're almost done.

But don't forget to add a line for...

*[Click to appear text]*

Indirect Costs

# Indirect Costs

## Indirect Costs Are Also Known As:

- Administrative Costs
- Overhead Costs
- Supportive Services
- Operating Costs

*...Hidden Costs*

**Point of Discussion/Question:** What do we mean when we say Indirect Costs? What are indirect Costs? **Answer:** The cost of doing business. Costs not directly attributable to the project, but are necessary to sustain the project.

- Rent /Utilities
- Telephone / Internet
- Office Supplies
- Marketing/Communications
- Administrative Staff
- Fundraising

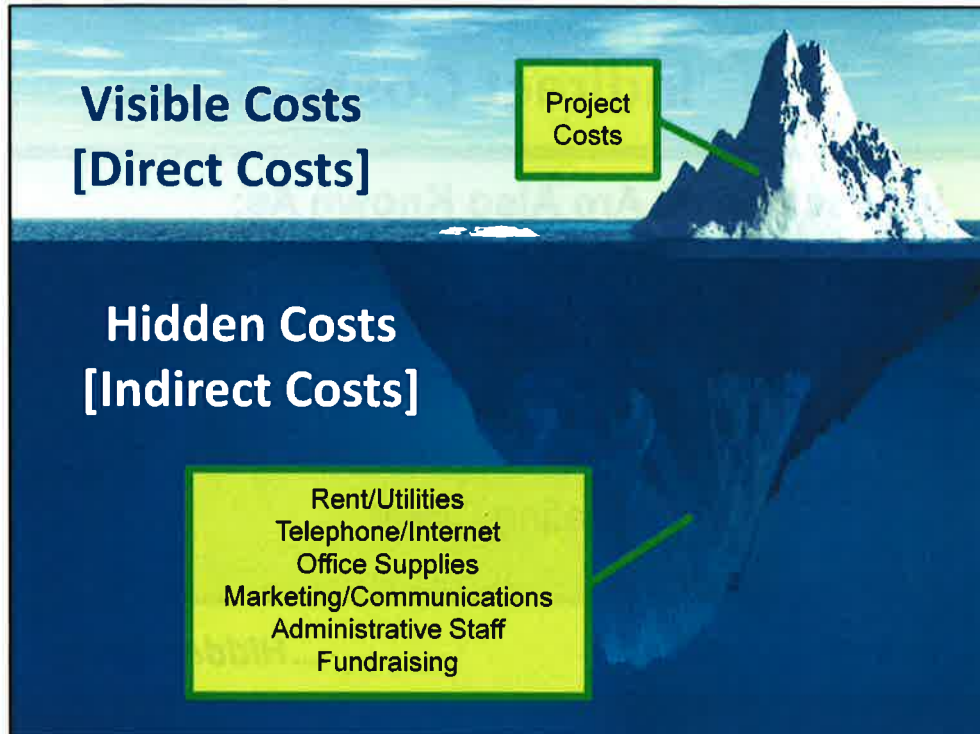
These costs are often called different things by different people. Indirect costs are also known as:

*[Click to reveal text]*

Administrative, overhead, supportive services, operating costs...They all mean the same thing and are generally considered hidden costs.

**Question/Point of Discussion:** Why do you think that is? Why are they called “hidden costs?”

*[answer is on next slide]*



**Answer:** Everyone, including grantmakers, can visualize the project and its anticipated impact...

*[Click to reveal text box]*

...but the hidden costs are what keeps the organization running.

*[Click to reveal text box]*

Some grantmakers will *not* fund indirect costs at all.

**Point of Discussion/Question:** Why do you think that is? **Answer:** Because it hard to see the direct impact.

Some grantmakers that *do* fund indirect costs may put specific limits on how much they will fund and may only allow a specific percentage of overhead costs.

No matter what, you should always follow the grantmaker's guidelines.

## Calculating Your Indirect Cost Rate

### Direct Program Costs

- Youth Leadership Program..... \$200,000
- College Prep Program..... \$300,000

**Total Direct Costs.....\$500,000**

### Indirect Program Costs

**Total Indirect Costs.....\$100,000**

**Indirect Cost Rate = Total Indirect Costs/Total Direct Costs**  
**\$100,000/\$500,000 = 20%**

So, how do you calculate your organization's indirect cost rate?

First, refer to your organization's annual budget and calculate:

*[Click to reveal text]*

- The total sum of direct costs for all programs: For example, if your organization has a Youth Leadership Program with direct costs of \$200,000 and a College Prep Program with direct costs of \$300,000, your total direct costs would be \$500,000.
- Next, calculate the total sum of all your organization's indirect costs. In this case, that total is \$100,000.

Next, divide the total indirect costs by your total direct costs...

*[Click to reveal text]*

...and you have your organization's indirect cost rate. For our example here, the indirect cost rate is 20%.

Now you can add that percentage to your total direct costs for your grand total!



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So, let's look back at our components of a project budget.

Now you have the grand total for your project expenses, so let's move to the income side.

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Remember income makes up both your support and revenue.

As we discussed earlier, support is any contribution for your project. Revenue is earned income.

## Showing Your Income

Grants/Contributions		
	Government	\$ --
	Foundations	\$ --
	Corporations	\$ --
	Individuals	\$ --
	Federated Giving Programs	\$ --
Earned Income		
	Events	\$ --
	Publications & Products	\$ --
	Fees	\$ --
	Membership/Dues	\$ --
	In-Kind Support	\$ --
	<b>Total Income</b>	<b>\$ --</b>

Just as you laid out the expenses for your project, you will also need to show your income as well.

Each project is different, but here is an example of how you could show your income. You may not be receiving all of these types of income, that's ok, you will only need to list what applies to your specific project or organization.

### Grants and Contributions

Here you'll want to include any contribution you have received from local, state, or federal governments, independent foundations or corporate grants. These should be only *confirmed* grants, not pending requests. As a separate part of your budget, some grantmakers may ask for pending requests. Typically that is outlined or listed as a separate attachment to your budget.

If you've received support from individual donors, that would also be included under contributions. But it is not necessary to list each individual, just the total amount received.

You'll also want to include any support you may have received from a federated giving program – such as the United Way or Combined Federal Campaign.

### Earned Income

Earned income includes fees for services or the sales of goods. These could be tickets to an event, the sale of publications or products, or fees for direct services such as student registration fees or tuition, museum entrance fees, or fees charged for tours.

For example, here at Foundation Center our earned income comes from the sale of our books, fees paid for classes and webinars, and subscriptions to our databases.

### Memberships/Dues

Some nonprofits charge membership fees or dues – if this is applicable for your organization, you'll want to include those in your income as well.

### In-Kind Support

**Point of Discussion/Question:** What are in-kind contributions? **Answer:** Gifts that are not monetary in nature.

A lot of times when we think about in-kind contributions, we think about goods, products or equipment, but in-kind contributions can also be pro-bono services, volunteers, or space.

## Adding In-Kind Contributions



So if you receive in-kind support – say a donated space for your program – it should be shown as both an expense and as income.

**Point of Discussion/Question:** Why would you include it as both an expense and as income? **Answer:** Even though you are receiving the space for free it is still an expense of the program and needs to be reflected as such. They should balance each other out. If you don't include in-kind contributions as both an expense and as income, then your budget will not reflect the *true* value of your project.

If your project includes volunteers, you can visit Independent Sector's website [[www.independentsector.org/volunteer\\_time](http://www.independentsector.org/volunteer_time)] to see the current national dollar value rate for volunteer time. Here, you'll also find a map which will break down the dollar value for each state.

For example, the current national value of volunteer time is \$23.07 per hour. So if you have a volunteer that will spend 30 hours on your project, you can put that person in your budget under income and expense for \$692.10.

*[Show Independent Sector's website if you have time]*

## Other Financial Information Often Requested



In addition to your project budget, there are other financial documents grantmakers may ask you for.

Each grantmaker is different, but we often see funders asking for:

*[Click to drop picture and reveal text]*

- Your most recent audited financial statements
- Organization-wide budgets for recent years
- A list of supporters and other funding sources
- Your annual report
- A Budget Narrative - A brief description that may accompany a budget; can be used to clarify specific line items, explain how the costs were estimated, and/or justify the need for the costs.
- Your 990 form

Remember to include everything the grantmaker asks for and very little of anything else. If you don't have something they require, be sure to give them a call to see if you can substitute something else in its place. Don't just leave it out. For example, if you don't have a financial audit (which can be very expensive) some grantmakers will accept a financial review instead (which often costs a lot less).

To make this process a little easier, when you are pressed for time as we all are, we suggest you keep all these possible attachments in one place so they are easily accessible. This is sometimes called a “document drawer.”

*[Click to reveal text box]*

A document drawer isn't so much a drawer, as it is an electronic folder where you keep these documents. The point is that they are saved in one place and ready to attach or print when it's time to submit your proposal. I suggest having them all saved as PDF's, but you may also want to keep hard copies of these documents as well and make sure you always have the most up-to-date versions on hand.



## Budget Considerations After the Grant is Approved



Let's assume for a second that your project was funded. Congratulations your proposal was accepted! But you're not done with your budget yet.

*[Click to reveal text]*

Your budget is something to be considered throughout the grant period. The budget becomes an essential project management tool as you implement your project. You will observe and monitor how the grant is being spent.

Remember that you're going to have to report back to the grantmaker during and/or after the grant period has ended, and they are going to want to know your actual costs vs. your projected costs. Most likely, they will ask you to include a comparison between what you submitted with your initial proposal and what you actually spent.

Many times funders require that you explain any significant variances and often require approval.



So, the key points to remember:

*[Click to drop picture and reveal text]*

- Know your project thoroughly
- Estimate all direct costs – be realistic about how much it will actually cost to implement your project
- Include a percentage for indirect costs
- Estimate all possible income, including in-kind contributions and earned income – be conservative about these projections and do not include pending requests, only those that you are sure of

You can see sample budgets on our website [GrantSpace.org](http://GrantSpace.org).

*[Show GrantSpace.org]*

