Foundation Center

Proposal Budgeting Basics

What is a project budget?

A project budget is the estimated financial plan for a project, for which funding is required. This document should include the expenses you anticipate to incur for a specified period of time, as well as earned income that will be generated during the course of the project. The budget is an important component of a proposal, as it represents a financial picture of the project. A well-crafted budget can add greatly to the grantmaker's understanding of your project.

Depending on the funder's guidelines, the budget may be a simple one-page statement of projected expenses, or an entire spreadsheet including projected support and revenue and a detailed narrative, which explains various items of expense or revenue.

Review

When reviewing proposals, grantmakers often look at the budget first.

Jane Geever, author of The Foundation Center's Guide to Proposal Writing, conducted interviews with a number of grantmakers and found that many do, in fact, consider the budget to be the best way to get a feel for the project without a lot of verbiage and hype. When asked the question, "How do you usually read a grant request?" here's what some of the respondents had to say:

"I look at the budget. Over the years I've learned that narrative can be enriching, but the numbers are stark and straightforward. I want to see that the money is doing the job described in the proposal." Joel Orosz W.K. Kellogg Foundation

"I skip around the document in the following way: first the budget, to see if the request is appropriate and to see the agency's financials; then the project section, to see what they want to accomplish; then the board list." Lynn Pattillo The Pittulloch Foundation, Inc.

"I often look at the budget and then read the proposal backwards." Michael Gilligan The Henry Luce Foundation, Inc.

Budget Preparation

You do not need to have an accountant prepare your budget.

Not all nonprofit organizations have a chartered accountant on hand to prepare project budgets. If this is the case, the best person to prepare a project budget may be someone who is very knowledgeable about the project, knows a great deal about the organization and has financial acumen. That person could be the project director, a staff member involved with the project, or the person who handles the finances for the organization.

Once the entire proposal has been completed, it is recommended that at least one other person close to the project look over the package to ensure that nothing has been left out, and that the budget accurately reflects the description of the project.

Budget Elements

The typical elements of a budget include a list of expenses, as well as support and revenue.

When you begin to assemble the budget, it's helpful to prepare a worksheet that includes a list of all personnel and non-personnel expenses related to the operation of the project. Consider any new costs that will be incurred if the project is funded (i.e. temporary employees or consultants), as well as any ongoing expenses for items that will be allocated to the project. Non-personnel costs might include items such as travel, equipment, office supplies and postage.

Personnel items might include salaries and benefits. Full time employees who will be assigned to work on the project should be included in the budget at the appropriate percentage of time. For example, if the administrative assistant plans to spend 20 hours of her 40 hour work week involved with a project that is expected to last one year, you may budget for 50% of her total salary for the twelve-month period.

Program Budget

EXPENSES

Personnel	
Administrative Assistant	
(50% of full time expense)	$17,000
Fringe Benefits (@ 15%)	2,550
Total Personnel Expense	$19,550
Non-Personnel	
Temporary Employees:	
Program Coordinator	
(15 hrs/week @ $15.00 per hour)	11,700
Program Assistant	
(20 hrs/week @ $9.50 per hour)	9,800
Fringe Benefits (@ 15%)	3,225
Job Readiness Workshop Materials	$1,400
Office Supplies	1,100
Postage	900
Staff Travel	1,000
Other	100
Total Non-personnel Expense	$29,225
Total Project Expense	$48,775

✔ Be careful not to put "Other" on a line with a substantial amount next to it. Remember that funders want to look at a budget and see that it is a reasonable representation of costs for your program. Make sure that "Other" does not take up too high a percentage of the total. A small amount, however, is perfectly reasonable.

Your list of budget items and the calculations you have done to arrive at a dollar figure for each item all should be summarized on worksheets. These can be essential when you need to remind yourself how the numbers were developed, when you are writing the proposal, and, at a later stage, discussing it with funders.

Revenue

If grant support has been already committed to your project through foundation funding, in-kind (non-monetary) gifts, government sources or individual contributions, you will need to provide this information in a **support and revenue statement**.

The total grant support already committed should then be deducted from the "Total Expenses" line on the budget to give you the "Balance Requested". Any earned income anticipated also should be estimated on the support and revenue statement. For instance, if you work for a local theater group and expect 50 people to attend a performance, charged at $10 per ticket, on each of the four nights, your line of income would show "Ticket Sales" at $2,000.

Program Budget

PROJECT REVENUE

Grants	
ABC Foundation	$30,000
XYZ Foundation	10,000
Government	10,000
Individual contributions	12,000
Special Events	
Ticket Sales	2,000
Total Revenue	$64,000

☼ If you are submitting proposals to several different foundations, it is usually a good idea to indicate this in your proposal. For example, you might state, "In addition to your foundation, this proposal is being submitted to the ABC Foundation and the XYZ Foundation" or "We have already received a grant of $30,000 from the ABC Foundation, and are requesting $15,000 from your foundation, which is the balance required for the project."

Overhead & Fringe Benefits

Project budgets may include items for overhead costs and fringe benefits.

Most budgets include overhead expenses (also called indirect costs), which allows the project to bear a portion of the administrative costs of the day-to-day operation. Depending on the preference of the funder, overhead can be entered in the budget as one line item, or as separate line items.

Some overhead items may include a percentage of the bookkeeper's salary, board meeting expenses, rent, electricity and the cost of running the human resources department. These are items that are incurred, whether or not you have the particular project for which you are budgeting, and you can't run an organization without these costs. The formula used for allocating overhead costs to project budgets is usually based on the organization's overhead costs to the organization's total program expenses.

Each year XYZ Inc., a nonprofit organization, spends $400,000 on its programs, and $100,000 in overhead costs.

What is the overhead rate?

$100,000 / $400.000 = .25

The overhead rate is 25%, meaning that for every dollar the organization spends on its programs, 25 cents is expended for overhead.

Guidelines

Funders will often include their policies on providing overhead funding in their guidelines.

Many funders have policies regarding the percentage of overhead that they will allow in a project budget. Some do not allow any overhead at all to be included, while others allow overhead to be a specific percentage of total costs or personnel costs.

Calculations

Employee benefits and payroll taxes must be included as part of personnel costs.

If a salary or a portion of a salary is being paid through a grant, it is important to include that proportion of the fringe benefits. Fringe benefits include such costs as social security taxes, health insurance, dental insurance and long-term disability insurance. Once you have determined the costs of all of the fringe benefits allocated to employees within your organization, you can divide that by total payroll and arrive at a benefit rate.

Narrative

A budget narrative is useful in defining the costs included on a project budget.

A budget narrative often is used to explain line items in the budget. It can be structured in one of two ways. You can create "Notes to the Budget" with footnote-style numbers or letters on the line items in the budget keyed to numbered or lettered explanations.

Alternatively, if there are a number of unusual line items, and an extensive explanation is required for the figures, you may want to structure the budget narrative as straight text.

Estimation of Expenses

Project your expenses as accurately as possible.

Program Budget – Food for the Elderly

EXPENSES

Salaries (a)	
Program Coordinator	$35,000
Social Worker	30,000
Benefits (b)	
(20 % of salaries)	13,000
Office Rent (c)	7,200
Office Supplies	1,000
Travel (d)	800
Total Expenses	$87,000

(a) A program coordinator is necessary to manage the program and ensure that services are delivered efficiently. A social worker is needed to work with the elderly participating in this program.
(b) Benefits include employer-paid taxes, dental insurance, health insurance and long-term disability insurance
(c) Rent for the office is calculated as 30% of the total rent.
(d) Social worker will attend the annual conference of the National Association of Social Workers.

Be certain that the expense estimates are neither too lean nor too high. If you underestimate costs, you may not able to operate within the budget. If this occurs, you will have to go back to funders already supporting the project and ask for additional assistance, seek new donors, or underwrite part of the cost of general operating funds. None of these alternatives is attractive. Likewise, consistently overestimating costs can lead to other problems. The donor awards a grant with the expectation that all of the funds will support the project, and most will instruct

you to return any funds remaining once the project has been completed. If you have a lot of money left over, it will reflect badly on your budgeting ability, and might affect the funder's receptiveness toward any future budgets you might present.

Remember to consider inflation or increases in costs, such as rent increases or annual salary increases. Certainly, funders don't expect perfection, and a certain degree of variation is acceptable, but if there's no way of knowing how much something is going to cost, it should not be included in your budget.

Additional Documentation

When applying for funding, grantmakers may require financial statements, in addition to the expense budget for your project's costs.

There is a variety of financial information, which may be requested during the proposal process. In looking at the documentation foundations expect, it is important to read guidelines carefully. Some funders will ask for audited financial statements for the previous fiscal year, a list of supporters and other funding sources, an annual report, and a recent tax return (Form 990).

To the right is an excerpt of the grant guidelines, posted on the Web site of **The Kettering Family Foundation**.

Note: Unless approved by a Trustee, this foundation does not provide costs such as capital construction, multi-year grants, or travel expenses.

Proposals submitted to this grantmaker are expected to include a project and/or organizational budget, one copy of the IRS 501(c)(3) tax determination letter, and two years of audited financial statements

Operating Guidelines

CURRENT OPERATING GUIDELINES

The Foundation holds annual meetings in May and November. Please consult the following information before submitting your proposal.

TRUSTEE-ENDORSED PROPOSALS:
Priority is given to those proposals personally endorsed by one or more Trustees. Once Trustee-endorsed requests have been reviewed and decided upon, unsolicited proposals will be considered if there are remaining funds to be distributed. **Typically, approximately 90% of all approved grants are Trustee-endorsed.**

UNSOLICITED PROPOSALS:
Unsolicited requests will be reviewed only once in a 12-month period from the same requesting organization and/or program.

The Foundation considers unsolicited requests in the following general areas of interest: Cultural/Arts, Education, Environment, Medical/Health, Social/Human Services.

Requests for funding for the following areas **are not** generally approved **unless** endorsed by a Trustee:

- Capital construction
- Foreign based or foreign purpose organizations
- Religious organizations for religious purposes
- Individual public elementary or secondary schools or public school districts

What Next?

What happens after the proposal is approved?

It is important to remember that while preparing the budget, you often will be required to report back to the funder on a line item basis. In other words, at the completion of the project, you may need to include a comparison between the budget you submitted with the proposal, and the amount of money you actually spent. Some funders will require that you explain variations of a significant greater or lesser amount.
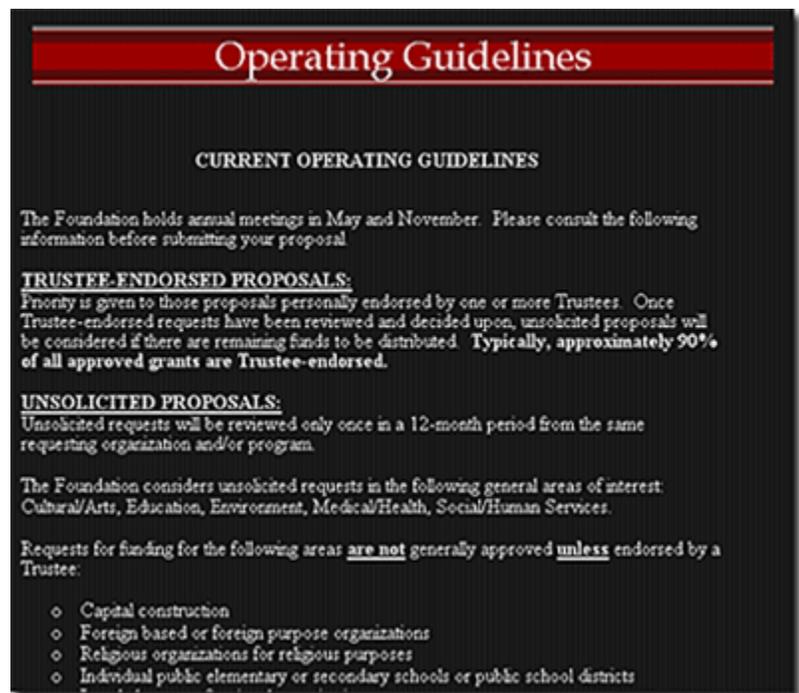
Above all, the project budget is a document that will live with you for the entire duration of the project. Preparing it accurately, and presenting it as a well-organized component of the proposal can be essential in the success of your fundraising campaign.

There are a number of resources on the Web, which provide samples of project budgets that might help you during the process of preparing the proposal:

- **Nonprofit Guides** has a sample budget, proposal cover letter, letter of inquiry, proposal, and other items that may be helpful to you.
- The Cleveland Foundation has on its Web site **sample templates for a project budget request**. http://www.clevelandfoundation.org/Grantmaking/GranteeToolKit.html
- **Nonprofit Works, Inc.** provides access to documents related to grantseeking. Scroll down to the section on budgets.