The Art Of Grant Budgeting: A Guide For Nonprofit CFOs

Is your organization's CFO ready to put together a grant proposal budget that will make an impact with potential funders? By Mary Diegert

Vital questions, top practices, and strategic insights to enhance your nonprofit's grant applications.

The nonprofit CFO is an MVP throughout the entire grant funding cycle. However, they tend to shine the brightest when their expertise concerning the organization's financials come into play during the grant proposal budget preparation phase.

During budget preparation, there are two questions the CFO must keep in mind. Let's tackle one at a time.

First question: What does the application say the funder wants to see in the proposal budget?

Quite frankly, the more you can find out about the budget requirements and the review process, the better. The first step is to look for a budget template in the application package that specifies a format that is either required or optional. Here is an example of a completed budget following a typical format. (Note: The numbers in this sample budget are based on a project referenced later on in this article.)

Of course, grantmaking institutions vary widely in size, administrative resources, and overall approach to the review process. Your reviewer, for example, may be a board member, a United Way volunteer, a seasoned program officer, or an overwhelmed government worker. Regardless of format, then, your objectives should always be clarity, accuracy, and respectful demonstration of the grantor's wishes.

Second question: How can we learn about the grantor's wishes?

Of course, the best way to learn about the grantor's wishes is by studying all application materials — but also you might consider asking. The point of contact might be a foundation officer or even an executive director, depending on the institution's size.

Especially when working with local foundations, a healthy approach is to think of yourself as a potential collaborator. The grantor has a mission to fulfill (just as you do) and is looking to share their community service goals with the right organization for the right project. Personal contact between funder and applicant/grantee is not always possible, but many foundations allow and even welcome it. Making a call to ask a question about submission requirements gives you and the funder the opportunity to get to know each other, which will only further strengthen your connection to each other — and ultimately, your grant application.

Let's move back to the number side of things. After all, many CFOs feel most comfortable when it comes time to put numbers on the proposal budget page. But even as we start to bow our heads over our calculators (or computer keyboards), we must always remember that our numbers are meant to describe our mission-driven project that aligns closely with the funder's mission as well. Our charge is to provide a budget document that tells the whole story accurately *and* succinctly.

How to Calculate and Document Your Cost Estimates Based on Funder Wishes

Now let's get down to business. As we delve into the nuances of proposal budget construction, there are four things for the CFO to keep in mind.

1. Estimate Every Cost with Care

We finance-types pride ourselves on our accuracy, but there are two reasons why accuracy is especially important in a grant application.

Reason 1: The final award will be based (largely) on your budget estimates.

This means you have a fair amount of sway over how much funding your organization ends up receiving. But beware: either too much or too little funding will create headaches later. a budget proposal is not the place to add "cushion" because you run the risk of having to return funding. On the other hand, it is also not the place to skimp. Yes, you want the application to be competitive, but your organization can't afford to carry out the project if the funding is inadequate.

Reason 2: Line items matter.

To make sure you have enough funding for all aspects of your programming, you need to be clear about which line each cost will go to. Newcomers to the process might think that as long as they have adequately estimated their overall costs, it doesn't matter how they are broken down between line items. Wrong! Funders expect their grantees to stick to the budget lines. Many require a budget amendment request to move funding from one line to another, and there is no guarantee the request will be approved.

Both of these reasons demonstrate how integral cost estimation is, and accurate estimates start with a full understanding of the activities you aim to describe with these numbers. Of course, the program manager will often provide some of the budget numbers, but the more familiar the CFO is with exactly how the project's mission will be carried out, the more the CFO can guide the process to the best possible conclusion.

Let's look at an example: if your project is to perform 30 mental health assessments per month for low-income children, the estimates for computer and telecommunication equipment, office space, and travel cost depend on whether the assessments are done in the office or at the child's home. A good understanding of the project helps the CFO to integrate all aspects of the budget, from personnel to travel, equipment, office space, supplies, and even postage.

To fine-tune your estimates, consider obtaining price quotes. Checking prices for items like office equipment, furniture, vehicles, contracted services, space rental, and telecommunications is a best practice — even if quotes are not required by the funder.

2. Use Budget Worksheets

I highly recommend the use of spreadsheet worksheets for budget calculations. Of course, initial setup requires an investment of time. But as the process drags on and assumptions change, the worksheet will allow you to make revisions quickly without losing accuracy.

Say your project is a homeless outreach program. You are budgeting for three outreach workers and a half-time supervisor. Your costs will be based on 3.5 FTEs (along with other assumptions). A template that automatically calculates your costs as you change variables — such as number of FTEs, travel cost per mile, square footage of office space, etc. — will save you time. For this project's budget, you might design a worksheet that looks something like the aforementioned sample budget attachment. In the sample worksheet, you can see instantaneously how the budget line items and the bottom line are affected as your assumptions change.

If you decide to make a worksheet, please also note that "number of months" (i.e., of programming) represents one of your variables. In the example, I used 12 months, but we all know it usually takes time to get a project off the ground. If you anticipate a three-month delay, say, in hiring staff, your worksheet will give you precision in estimating all of the costs that are based on FTEs. It will be valuable throughout the life of the grant as a reminder of how you arrived at your numbers.

3. Identify Types of Costs

A number of terms can be used to describe types of cost, but not everyone agrees on their definitions. The CFO's challenge is to identify the definitions that the funder adheres to while characterizing costs as "direct" whenever possible.

Generally speaking, the term "direct cost" is understood to mean a cost that can be clearly identified with the activities of a specific program. For example, a preschool program's direct costs will be teacher salaries, textbooks, supplies, etc.

However, definitions get murkier when we introduce the ideas of "indirect," "operating," or "overhead" costs. Again, there are no hard and fast definitions for these three concepts: some funders think of all costs that are not explicitly direct as "operating" costs, whereas others focus on the idea of "indirect" or "overhead" costs (which means costs like utilities, insurance, or repairs and maintenance that are shared by multiple programs). These costs are allocated to specific line items on the budget based on some criteria such as square footage, program participants, etc.

In a funder's mind, operating, indirect, or overhead costs may fall into a lower tier of eligibility for funding since they are perceived to be less essential than direct costs. To be clear, this is by no means a blanket statement; most grant awards *do* include these costs, but it is still useful to be aware of the perceived distinctions.

I would argue that all costs aside from Management and General (M&G) *are* direct costs, not operating, not indirect, and not overhead. For me, M&G is indirect in the true sense of the word because costs such as human resources, board expense, or payroll processing cannot be spread to the line items on a program budget. M&G appears on the budget as a single amount, usually calculated by multiplying total expense before M&G by a specific percentage — you can see this in action on the aforementioned sample budget if you're so inclined!

My recommendation is to avoid the concept of indirect or overhead costs by allocating such costs to direct line items on the budget whenever possible. Again, if you refer back to the completed sample budget, all costs are assigned a specific line-item description, whether or not the amount represents an allocation of a shared cost.

For example, an office space that costs $6,000/month to rent may well be an allocation of a shared cost; however, I would argue that office space represents an integral part of the program and should be considered direct.

Of course, if you should encounter a grant application that does not fund "operating" or "indirect" costs, you will need to incorporate other sources of funding into the program design.

4. Pay Attention to Length

For the most part, I'd say try to keep the budget to one page, but make sure you're still telling the whole story. If required, the budget narrative will then be an additional page.

So, what does this mean in practice? Or, put another way: how do we keep our budgets succinct, accurate, *and* comprehensive? Here are some things to keep in mind:

- Keep the revenue and expense lines somewhat broad. Even if the application includes a budget form, you may have leeway to group expenses. Think about how much detail your busy reviewer has indicated they need to see.
- Avoid the "other" category. The problem with "other" is that it lacks transparency; this will immediately get you off on the wrong foot with the reviewer. Instead, try to find the line item that is the best match for an expense, rather than including it in a group with no description. The same goes for anything you are tempted to categorize as "miscellaneous" or "operating" (yet another reason to hate the term "operating)." Just like when you are identifying costs, identifying the line item that most closely aligns with these expenses might help condense your budget.
- Round to even numbers. No matter how hard you work to arrive at sound estimates, you can only achieve a certain level of precision. Rounding to the nearest twenty, fifty, or hundred dollars shows that your numbers are well-thought-out estimates.

Feeling overwhelmed at how to absorb all of this information into a small space? If you look back at our completed sample budget, you'll see that it all boils down to a final product that is simple and readable. But wait, we're not done! As previously mentioned, sometimes funders require budget narratives. If this is the case, make sure your budget narrative is clear and accurate. This means:

- Explaining the items in the order they appear on the budget.
- Showing your calculations; and
- Checking, double-checking, and triple-checking to be sure each figure matches the budget to the dollar.

Again, not all funders require a budget narrative, but it might even be worth reaching out to the funder to see if this additional resource would be helpful in assessing your proposal.

Remember, the budget is an integral component of the grant application.

At the end of the day, the grant application's budget communicates the organization's ability to carry out the project successfully. As CFO, you are seeking to prove that your nonprofit has both the expertise and the ability to carry out programs that align with the funder's wishes.

If the grant is awarded, these numbers translate to dollars that will fund your mission-driven service. The CFO and the management team collaborate with the grantmaker to carry out nonprofits' respective mission via funded programming.