Capacity Building Toolkit: Budgeting and Financial Systems

Facilitator’s Edition

Project and Organizational Budgeting Processes

Maria del Carmen Sahonero

Toolkit Design and Coordination

Natasha Lamoreux
# Table of Contents

Acknowledgements.............................................................................................................. 1

Who We Are.................................................................................................................. 1

Preface .............................................................................................................................. 1

Introduction ...................................................................................................................... 2

Purpose and Structure ....................................................................................................... 2

Budgeting Training Sessions Overview ............................................................................... 3

Methodology: ADDIE (Analysis, Design, Development, Implementation and Evaluation) ........... 4

  Analysis ....................................................................................................................... 4

  Design...................................................................................................................... 4

  Development ........................................................................................................... 5

  Implementation ....................................................................................................... 5

  Evaluation ............................................................................................................... 5

Using This Toolkit for Online Training ............................................................................... 6

Session 1 – Budgeting: Basics & Process and Project/Grant Budgeting .................................. 7

  Session 1 – Budgeting: Basics & Process and Project/Grant Budgeting ......................... 8

  Part 1 Basics & Process .......................................................................................... 8

Outline ............................................................................................................................. 8

Introduction ..................................................................................................................... 8

Learning Objectives ........................................................................................................ 8

Tools and Materials ......................................................................................................... 8

Notes, Reminders, and Tips for the Facilitator .................................................................. 8

  Part 2 Project/Grant Budgeting ..................................................................................... 14

Outline ............................................................................................................................. 14

Introduction ..................................................................................................................... 14

Learning Objectives ........................................................................................................ 14

Tools and Materials ......................................................................................................... 15

Notes, Reminders, and Tips for the Facilitator .................................................................. 15

Session 2 – Project/Grant Budgeting – Case Study ................................................................ 27

  Session 2 – Project/Grant Budgeting – Case Study ....................................................... 28

Outline ............................................................................................................................. 28
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>28</td>
</tr>
<tr>
<td>Learning Objectives</td>
<td>28</td>
</tr>
<tr>
<td>Tools and Materials</td>
<td>28</td>
</tr>
<tr>
<td>Notes, Reminders, and Tips for the Facilitator</td>
<td>29</td>
</tr>
<tr>
<td>Session 3 – Organizational Budgeting</td>
<td>33</td>
</tr>
<tr>
<td>Session 4 – Organizational Budgeting – Case Study</td>
<td>47</td>
</tr>
<tr>
<td>IMPORTANT NOTE FOR FACILITATOR:</td>
<td>48</td>
</tr>
<tr>
<td>Outline</td>
<td>48</td>
</tr>
<tr>
<td>Introduction</td>
<td>48</td>
</tr>
<tr>
<td>Learning Objectives</td>
<td>49</td>
</tr>
<tr>
<td>Tools and Materials</td>
<td>49</td>
</tr>
<tr>
<td>Notes, Reminders, and Tips for the Facilitator</td>
<td>49</td>
</tr>
<tr>
<td>Getting Started</td>
<td>50</td>
</tr>
<tr>
<td>Step-by-step Guidance For Facilitators</td>
<td>50</td>
</tr>
<tr>
<td>Step-by-Step Guidance for the Facilitators</td>
<td>52</td>
</tr>
<tr>
<td>Step 5 – From Review 4 to Review 5 –FINAL</td>
<td>56</td>
</tr>
<tr>
<td>Conclusion</td>
<td>58</td>
</tr>
</tbody>
</table>
List of Appendices:
(Appendices are included in the electronic version on WLP’s website and the USB drive)

1. Session 1: Project/Grant Budgeting: PPT Presentation (5 pg)
      Accountants
   b. Budget Template Sample 1 - Ford Foundation (1 pg)
   c. Budget Template Sample 2 - Oak Foundation (6 pg)
   d. Budget Template Sample 3 – DfID (2 pg)
   e. Budget Template Sample 3 – USAID/OFDA (3 pg)
   f. Budget Your Way Worksheet (8 pg)
   g. Activity Budget Template Sample (1 pg)
   h. Budget Explanatory Notes Sample (2 pg)
   i. Online Grant Applications and Reporting: Practical Wisdom and Recommendations for
      Grantmakers – Foundation Center
   j. Calculating the Economic Impact of Volunteers
   k. Value of Volunteer Time – Independent Sector

2. Session 2: Project/Grant Budgeting: Case Study Directions – Background, Information Part 1,
   Checklist
   a. COD-OTP Budget Template
   b. COD-OTP Checklist Filled Out with Part 1
   c. COD-OTP Information Part 2
   d. COD-OTP Finalized Checklist Filled Out with Part 2
   e. COD-OTP Background and Information COMPLETE
   f. COD-OTP Project Budget and Budget Narrative

3. Session 3: Organizational Budgeting: PPT Presentation (3 pg)
   a. Nonprofit Budgets Have to Balance: False! – Blue Avocado
   b. Ten-Step Annual Budgeting Checklist – Nonprofit Assistance Fund (1 pg)
   c. Organizational Budget Sample (1 pg)

4. Session 4: Organizational Budgeting: Case Study Directions and Timesheets – ABC Non-Profit
   Organization (14 pg)
   a. ABC Organizational Budget – Multi-page Template or Rev0 (7 pg)
   b. ABC Organizational Budget – Rev1 (7 pg)
   c. ABC Organizational Budget – Rev2 (7 pg)
   d. ABC Organizational Budget – Rev3 (7 pg)
   e. ABC Organizational Budget – Rev4 (7 pg)
   f. ABC Organizational Budget – Rev5 FINAL (7 pg)

5. Assessment/Evaluation forms (PPPP WLP)
   a. Pre-training Assessment Survey Form (2 pg)
   b. Post-training Assessment Participants Survey Form (2 pg)
   c. Post-training Assessment Facilitator Survey Form (2 pg)
Acknowledgements

We are grateful for the generous support provided by the following foundations for the Women’s Learning Partnership for Rights, Development, and Peace (WLP) Online Learning Program ABAN trainings that led to this toolkit’s development and for the development of the toolkit itself:

The Channel Foundation  National Endowment for Democracy
The Ford Foundation  Oxfam-Novib
The Libra Foundation  Swedish International Development Cooperation Agency

This toolkit incorporates material suggestions and ideas from participants who attended the ABAN online training on budgeting in spring 2014. To them we give our deepest thanks for continuing to educate and inspire us.

Who We Are

Women’s Learning Partnership for Rights, Development and Peace (WLP):

A partnership of 20 autonomous organizations, Women’s Learning Partnership (WLP) trains and supports women in the Global South, primarily in Muslim-majority countries, to become leaders and advocates for a just, peaceful world. WLP creates culture-specific leadership trainings on democratic participation, and it partners with local organizations to help women gain the skills they need to fulfill greater leadership roles at the family, community and national levels. Over the past decade, WLP has developed curricula and education resources that encourage women’s leadership and rights, and bolster their capacities as agents for change toward the establishment of free, fair and democratic societies. In 2001, WLP published Leading to Choices, a leadership training manual for women with a special focus on women in Muslim-majority societies. By 2010, Leading to Choices had been translated into 20 languages and adapted for dozens of different cultural contexts. To date, WLP’s programs and training materials have reached tens of thousands of women and men in over 40 countries, strengthening local organizations to become self-sustaining and empowering women’s movements around the globe.

Preface

WLP is actively working to take advantage of online tools and platforms to assist women’s rights organizations and to broaden and deepen connections with activists around the world. Access to technology and increasing infrastructure is allowing more individuals and organizations from even remote and isolated areas to gain knowledge, build constituencies, raise awareness, and mobilize around democratic movements. In this new digital environment, it is critical that WLP utilizes online platforms and tools to provide activists and civil society actors with accurate information, resources, and opportunities to connect and build their capacities.

To that end, WLP is developing a robust online learning program that incorporates an Online Learning Portal, ABAN, to facilitate online workshops and other activities to build the capacities of partners and young people to learn, exchange, and enhance their skills to be prepared to fully participate in online and offline democracy building and civil society exchange.
In January 2014 and June 2014, WLP held online ABAN trainings on report writing and proposal writing, which led to the formation of this toolkit. These sessions were part of a series of online capacity building trainings focused on enabling participants to learn concrete skills that they can utilize to make their organizations and their work more sustainable and impactful in the long-term.

**Introduction**

Securing diverse and sustainable funding is a matter of necessity for virtually every organization. Without funding, organizations cannot carry out their programs, cannot deliver services, and cannot achieve their missions. Reliable funding is critical for any organization to carry out any project to operate and show results. However, in order to secure the funding needed to carry out any project, a manager needs to make sure that everyone on her team has the knowledge and skills to develop a clear project plans and also to prepare budgets that are coherent with organizational/project priorities and needs. Budgets are critical, and serve as project, programmatic, and organizational road maps, showing funders where the organization is going, and how it plans to get there.

> It is painful to lose a grant because of a weak proposal; however, it is even more painful to lose a grant because of a weak budget.

Preparing a strong proposal takes an enormous amount of effort, and while it might seem sufficient to have a strong, compelling narrative, it is equally critical to have a clear, concise, and transparent budget.

**Purpose and Structure**

The purpose of this module is to provide participants with tools enabling them to gain an overall understanding of how project and organizational budgets are prepared and to build their confidence to be an active part of those processes.

Building staff capacities in financial management and budgeting processes may not be at the top of a manager’s list of priorities, but transparent and accurate budgeting and financial management has become, over time, increasingly important for organizations of any size, and at any stage in the organizational life-cycle. Many more ‘mature’ or established organizations are beginning to require that their entire team have a good understanding of topics relating to budgeting and financial management, and the implications of these topics on organizational operations and mission achievement. Ensuring that staff members—from different departments and levels—are equipped with even basic knowledge about budgeting and financial management signals how seriously an organization takes role to serve the public in a way that is accountable and fiscally responsible. It also illustrates that the organization takes careful consideration of the budget in its programmatic and operational processes, and is dedicated to following the clear roadmap that it has set out to fulfill its mission. Building individual staff member capacities regarding budgeting and financial management is also essential for strengthening individual self-confidence, and providing a sense of ownership and responsibility for the program or project, and is critical for the organization’s overall financial planning.
In general, the budgeting process implies the planning of resources: the sources of any revenues or funds and how to spend them. The process of creating and adhering to a strong, clear budget provides staff and board members with an opportunity to actively contribute to the organization’s work. Integrating budgeting process with organizational, programmatic, and project planning helps to avoid inefficient modifications and adjustments, and contributes to get a better, more transparent and accountable, organizational environment where everyone understands where the organization is going, and how it is planning to get there. Well prepared budgets should always respond to the organizational priorities and annual plans, and this demonstrates a commitment that financial resources are wisely invested, monitored, and evaluated.

This module is designed to help organizations, their staff, board members, and volunteers, as well as individual practitioners with practical knowledge and skills that will enable them to be strong financial planners, managers, and stewards. With this toolkit, Women’s Learning Partnership aims to build the capacities of organizations of all sizes to be viable, sustainable, and fundable, by becoming strong, financially responsible and transparent.

This module has been developed for delivery through Women’s Learning Partnership’s online learning program, but with the ultimate aim that the participants will share the knowledge and resources acquired through these online trainings with others throughout their organizations and networks, helping to contribute to a robust, open civil society.

**Budgeting Training Sessions Overview**

The training material in this toolkit has been prepared to accompany a series of online training sessions. This module was designed to be delivered over four, 2-hour online training sessions, and each session has a number of sub-sections.

- **Session 1 – Budgeting: Basics & Process and Project/Grant Budgeting**
- **Session 2 – Project/Grant Budgeting – Case Study**
- **Session 3 – Organizational Budgeting**
- **Session 4 – Organizational Budgeting – Case Study**
Methodology: ADDIE (Analysis, Design, Development, Implementation and Evaluation)

This manual is based in the ADDIE model, which includes general processes widely used in adult learning theory to offer facilitators and managers a guideline for building effective training in five phases:

The ADDIE model was initially developed by Florida State University and revised over the years by different practitioners.

Analysis

This phase allows identifying performance requirements, current capabilities, gaps and potential ways to bridge the gaps. The design of the training sessions and the following steps will depend on the outcome of the analysis; therefore an assessment of the training needs has to be performed during this stage.

As this phase clarifies the instructional problems and objectives, it is essential to know the participants, types of learning constraints, delivery options, adult learning considerations and timeline.

Most of this information can be collected from the participants through a pre-assessment survey should be sent to the potential participants. The information to be obtained is the following:

- The level of knowledge of the participants in financial topics
- Their position and role in their organizations
- Their level of involvement in the specific financial topics that the training is prepared for
- Their concerns and expectations

That information will help the facilitator to know the audience and to understand their specific needs. At the same time, it is essential to match the concerns and expectations with the management’s objectives. In doing so, the design of the training will address the training needs and reach the organization’s objectives.

In order to minimize costly shifts, at the end of each stage, it is important to get the leadership approves all plans and expected results. At the end of the analysis, the deliverables need to be determined and approved too.

Design

As the material for this training is already designed and the skills gaps are identified, a review and adjustment to the needs should follow. The budgeting training is meant to be facilitated in four 2-hour online sessions. Decisions about the number of sessions and how they will be delivered should be based on participants’ profile, knowledge level and the available resources. Then, the following sequence should happen: adjustment to the outline of the overall structure for the training, review of contents, exercises and lessons planned and, finally, media selection.
Once it is decided how many sessions will be delivered, the specific learning objectives key learning points and the duration and sequence of sessions need to be revised. Whenever possible, performance measures to assess progress towards objectives should be set up and the way data gathered, grouped and reported. This information is the input of the following steps.

During this stage, frequently prototypes are designed to test the effectiveness of the training for producing the desired results. For this purpose, prototype 3-session training was designed and already delivered; and it was later adjusted to 4-session training.

**Development**

After the training design is revisited and adjusted, based on target audience and learning objectives, it is time to revisit the available material: table of contents, contents, case studies, PPT presentations, worksheets, graphics, material for participants and facilitators, and supplemental material (samples, exercises, case studies, etc.). The material to be used needs to be in line with the determined number of training sessions.

At the end of this step the course materials should have been adjusted, prepared, disseminated and evaluated.

**Implementation**

As the prototype training was already conducted and feedback from involved participants was received, the design and the development should be adjusted to refine the training. The procedures for facilitators and participants must be revised as well.

The facilitator will meet the course curriculum, learning outcomes, method of delivery and testing procedures. As Excel skills (basic/intermediate level) are required for this financial training, participants need either to take a tutorial e-learning course or to receive –from another source- a short introductory training related to the commands to be used during the budgeting training.

When online learning is involved, WLP’s staff provides IT support to minimize technical difficulties. Anticipation of any other e-learning tools or software needs will be important in this stage.

During and at the end of this phase, the design needs to be evaluated. The support team should ensure that material, equipment, learning applications or website functions, are in place before getting started.

The expected outputs of this stage include: trained participants who improved/acquired their knowledge, skills and/or attitudes as a result of the training, and feedback from participants, instructors and other involved party. Evaluation’s forms to receive feedback should be submitted; those will be analyzed in the next stage to determine the effectiveness of the training and to look for improvements.

**Evaluation**

This final stage measures the course’s efficacy and identifies opportunities to improve the training taking into consideration its purpose, performance measures and data gathering.
While the initial evaluation of the course is done during the development stage (formative stage), the summative portion occurs at the end of the training. In this instance, the training should be subjected to detailed final testing to determine “what,” “how,” “why,” and “when” was accomplished or not during the training.

It is important to keep in mind the main goal of the evaluation: to determine if the training objectives have been met and get to know what will be required in order to further the efficiency and success rate of the training going forward.

**Using This Toolkit for Online Training**

This toolkit provides detailed and technical information around budgeting, and as part, was designed with several interactive, participatory exercises. Facilitators should feel empowered to use the exercises included herein and also to adapt them to the needs of their specific training participants. Prior to facilitation, all facilitators will have been given an orientation to the online learning platform and available tools. We encourage you to think creatively about using the available tools and incorporating them into the training as you see fit. Sharing audio and video feeds, and chatting, are not the only tools available to you. Consider whether and how you might want to use other available tools (such as live polls, desktop sharing, etc.) as appropriate for your comfort level, the material, and the capacity of your participants.

Most of all, relax and enjoy yourself. This will be the best way to create a warm, sharing environment, where participants will feel encouraged and motivated to participate and share, and that will lead to rich learning on the part of all.
Session 1 – Budgeting: Basics & Process and Project/Grant Budgeting
Session 1 – Budgeting: Basics & Process and Project/Grant Budgeting

Part 1 Basics & Process

Outline

- What is a Budget?
- Best Practices and Qualities
- Types of Budgets
- Roles and Responsibilities
- Organizational Budget versus Project/Grant Budget
- Budgeting versus Reporting
- Q&A Session

Introduction

Non-profit organizations have a mission; to accomplish it they set up organizational priorities and strategic objectives to reach their target communities and get the desired results or impact. Therefore, their leaders develop programs, make operational and activity plans, implement and monitor them, assess results and present reports to their constituencies. All activities use resources – e.g. staff, equipment, software, etc. and those resources need to be quantified and be expressed in monetary units. As the resources are limited, it is essential to plan for them to be used efficiently based on the organization’s priorities. Budgets are produced to show how much the cost of the resources is and what the resources to get them implemented are. Therefore, budgeting becomes an important financial process which needs to be understood by the whole organization and requires the participation of the management team, staff, and the board members, as well. The level of required knowledge depends on the level of involvement in the process; however, it is a good practice that budgeting process be inclusive and promote participation, especially of relevant parties.

Learning Objectives

- To get an understanding about budget and its use in the organizations
- To learn basic concepts related to budgets (types of budgets, best practices and qualities, roles and responsibilities)
- To be able to recognize the differences between organizational and project budgets
- To be able to identify reporting needs while preparing a budget

Tools and Materials

- PPT presentation (Appendix 1)

Notes, Reminders, and Tips for the Facilitator

- Greet and welcome to the participants and training support team. It is a good idea to make small talk with participants before the training session begins: this allows participants to continue to get comfortable with the technology, eliminates ‘dead air’ and allows you to address any outstanding questions that participants may have before launching into the next session. Also consider starting with an ice-breaker activity. This can help participants to feel at ease, and also can help buy time at the start of the session while participants are either logging in late or addressing technical issues.
• Present the topic of the learning session and let them know that the results of the pre-assessment survey were taken into consideration to develop and deliver this training.
• Remind the participants this is a safe and open forum for everybody and invite/encourage them to participate asking questions, sharing experiences, etc.
• Ask questions to make sure concepts are understood.
• Take pauses and breaks often, to make sure participants are following along, and not falling behind, and to give space for participants’ questions, comments, and experiences they may want to share.
• Provide examples whenever possible.
• Core Materials:
  o Begin using PPT Presentation for Session 1

**Budget: A couple of Basic Definitions**

Before you can begin to create and use a budget, you have to understand exactly what a budget is. To start, think about what you understand a budget to be, and what a budget represents to you. We have included some basic definitions below to help you begin to understand the fundamental purpose of a budget: what it is and why it is important.

One straightforward definition of a budget:

In its simplest form, a budget is an organization’s annual financial plan that converts organizational goals and objectives into money (dinars, dollars, euros, francs, pounds, rupees, rubles or whatever the currency your organization operates in may be).

The budget has two purposes:

1. To **project** how much income can realistically be secured to meet expenses related to accomplishing this year’s goals, and
2. To **monitor** actual income and expense performance against what was projected, making changes in spending where necessary.

At the end of the year, your organization’s financial success or shortcomings will ultimately be a reflection of how well you composed, followed, and adjusted the budget.¹

Another simple explanation of a budget:

A **budget** expresses an organization’s goals and objectives in financial terms. In addition to serving as a planning tool, the budget also fulfills another critical function: to provide internal control. If used appropriately, this tool can provide management an early warning sign in the event that the organization’s financial goals are not being met.²

---


**Best Practices and Best Properties: What goes into a good budget?**

When it comes to building a strong budget, both how you approach (best practices) it as well as how it functions (best properties) are very important. You may already be familiar with some of these best practices and best properties, when it comes to budgeting and finance, but take some time to get familiar with both. Are there any best practices or best properties that are missing from the lists below? Share them with the group!

**Budgeting Best Practices – A brief list**

- Timeliness is key: Start early and give yourself enough time to pull together all of the information and input from your team to build a strong budget that is an accurate reflection of your organization’s goals and objectives for the year.
- Is the budget an accurate reflection of the organization’s goals and objectives? Make sure that the budget is coherent with the organization’s annual operational and ongoing strategic plans.
- Whenever possible, make the budgeting process participatory and inclusive. Incorporate staff who share responsibilities and oversight of projects, programs, and operations.
- Clearly determine roles and responsibilities of staff members who will be involved in and accountable to the budget. Communicate the roles and responsibilities well in advance, and allow staff adequate time to prepare for their role.
- Encourage collaboration.
- Prepare different budget scenarios. Having different scenarios will allow you and your team to quickly adapt to take advantage of new opportunities or make adjustments to challenges or cuts in funding.
- Monitor and evaluate budget implementation.

**Budgeting Best Properties – A brief list**

- Realistic
- Flexible
- Measurable
- Accurate
- Ongoing process

**Types of Budgets**

There are several ways you can approach budgeting. You may be familiar with one or another of the types of budgets below. Depending on what you are trying to measure, track, and communicate will help you determine which budgeting approach is best to take, and why. For this toolkit, we use the suggested classifications below—Organizational Budget, Unit Budget, and Specific Budget—though you may be familiar with each of these types of budgets using different terms.

**Organizational Budget:** Sometimes also called a Line-Item or Consolidated budget, this budget reflects the organization-wide financial plan. It can be annual, multiyear or for shorter periods
**Project Budget:** Sometimes also called a Unit, Program-Based, Functional, or Activity budget, this type of budget is a part of an organizational budget and can be presented by regions, departments or programs. It separates the activities of each individual program, or “unit” from the activities of other programs. It also separates program expenses from administrative and fundraising expenses.

**Income-Based Budget:** Sometimes also called a Specific Budget, this type of budget is specific to a particular grant proposal or project or activity such as training workshop, meeting, or trip. When a project aims to replace or upgrade equipment and the cost is significant, organizations often also prepare a capital budget, which includes the details of equipment/assets that the organization is hoping to acquire.

**Roles and Responsibilities**
Who is responsible for the budget? Depending upon the size of your organization, it could be several people. An accurate, responsive budget certainly requires the input of key staff and board members. Below, we introduce the idea of general roles and responsibilities of staff and board members, and we’ll explore this in greater detail during session 3.

**Roles and Responsibilities Reference List – may vary based on the size of your organization**

**Board of Directors:** Review and approval of the budget. The board is fiscally responsible for the organization, and should demonstrate strong oversight of the budget.

**Executive Director:** Oversight and leadership of the budgeting process. She conducts the final review before the budget is sent to the Board for review and approval.

**Head of Finance:** Overall coordination. While the Executive Director leads, the Head of Finance coordinates the budgeting process. She is responsible for developing the calendar, as well as delegation and oversight of tasks. She produces programmatic and consolidated budgets. Along with the Executive Director, she presents and explains the budget figures to the Board.

**Managers:** Program budgeting. Managers are responsible for leading their units’ (program area’s) budgeting process.

**The rest of the team:** Based on their position within the organization, each staff person can contribute to the budgeting process by taking on tasks such as gathering information, keeping track of calendars, providing historical data, making calculations, data entry and analysis, preparing preliminary data, etc.

**Components of a Budget**
What exactly goes into a budget? While some of the components of a budget may already be familiar to you, a budget basically has three components: income; expenses, and; notes.

**Three Components of a Budget**

**Income:** Income details sources of funds and revenue.

**Expenses:** Expenses detail all types of costs.
**Budget Notes or Memo**: Budget notes are prepared after the budget is finalized. They are useful to explain calculations, assumptions, and other important information to different type of audiences (e.g. Funders, Board Members, the Executive Director, Managers).

**Organizational Budget versus Project Budget**

Did you know there is a difference between the overall organizational budget and the program or project budget? In this section, we will begin to explore the difference between an organizational budget and a project budget, and how they differ in terms of planning and narrative, types of income, types of expenses or cost centers, process and timeline, and roles and responsibilities.

<table>
<thead>
<tr>
<th>Organizational Budget vs. Project Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organizational Budget</strong></td>
</tr>
<tr>
<td>- Plan/Narrative</td>
</tr>
<tr>
<td>- Types of Income and Expenses</td>
</tr>
<tr>
<td>- Process/Timeline</td>
</tr>
<tr>
<td>- Roles and Responsibilities</td>
</tr>
</tbody>
</table>

Figure 1: Organizational vs. Project Budgets

**Budgeting versus Reporting**

While they may seem similar, there are several key differences between a budget and a financial report. In short, a budget is a projection of how the organization plans to achieve its goals and objectives, in terms of finances, while a financial report is an account of what the organization actually did, in financial terms. It is important to highlight the importance of taking into account reporting needs while budgeting. In other words, as you begin budgeting, an important question for the organization is: What kinds of outputs are needed?

**Budget**

- A projection of income and expenses to plan what needs to be done.
- Developed according to strategic plan, organizational and programmatic priorities & goals.
- Built to address reporting needs: internal (e.g. Board, management, leaders, etc.) as well as external (e.g. donors, partners, auditors, etc.).
- Uses assumptions (projected income, planned activities, etc).

**Report**

- Shows *actuals* – what was done after the fact (how much income or funding the organization actually received; how much various line items actually cost, etc).
- Shows a comparison between actuals and budget (a comparison presented in currency and percentages). Comparing actuals versus budget (results versus planned goals) allows organizations to evaluate achievements/results (how much the organization accomplished with the available resources).
- Reports also include financial analysis (ratios, charts, narrative).

**Questions and Answers**
Take a moment to review the learning objectives with the facilitator and other participants. Do you have any outstanding questions or comments to share with the group?

**Additional Reading**
Part 2 Project/Grant Budgeting

Outline
- What is a Project? What is a Project Budget?
- Key Issues to Consider
- Roles and Responsibilities
- Process – Where to start? What to do first?
- Project Budget Sample Review
- Expenses: Types of Costs and Structure
- Income: Types of Income and Structure
- Project Budget – Single Column
- Project Budget – Multi-column
- Budget Narrative Sample
- Q&A
- Post-learning Evaluation

Introduction
Most nonprofit, NGOs or community-based organizations’ work is program-based. Often, each program may have multiple projects and each one has a set of activities, called plan of activities. When an organization needs to seek funding for an ongoing or multi-year project, or when there is an opportunity to develop a new project, often organizations will seek project-based funding, and begin preparing a proposal to present to donors. Proposals need to include, among other things, a logic framework, an activities plan and, usually, budgets and budget narratives. Therefore, an organization’s entire staff should understand the importance of preparing a project budget, particularly Project/Program Manager, who is the leader of the whole process and the one who will ultimately prepare and is responsible for the budget. Unless you have a very small organization, the project budget is not a task to be completed by the Head of Finance, but rather by those who will be working most closely to implement the planned activities.

As you we detail in the Grants Management Capacity Building toolkit and online training, even a large, coordinated effort on the part of your team to produce a proposal for a project may not ensure that the proposal will be approved for funding; success will depend on the project’s plan coherence with the intended outcomes, and how well they correspond to the funder’s priorities. Moreover, for a proposal to be successful, organizations must include reliable and accurate financial information, including budgets, financial statements, and audit reports, among other things. In this section, we will focus on providing you with the tools and information to help ensure that you are creating strong budgets that clearly communicate your organization’s projects to funders and other audiences.

Learning Objectives
- To gain an understanding of the importance of a project budget and key issues to consider
- To learn roles and responsibilities of those involved in building a project budget
- To understand the project budget building process, and where to start
- To be able to read and understand a project budget
- To be able to use different budget templates for different situations
• To understand what to include and how to write a budget narrative
• To be prepared to provide donors with additional information upon request
• To understand next steps to take after getting approval for your proposal

Tools and Materials
• PPT presentation – Part 2 (Appendix 1 – Part 2)
• Budget Template Sample 1 - Ford Foundation (Appendix 1.b)
• Budget Template Sample 2 - Oak Foundation (Appendix 1.c)
• Budget Template Sample 3 - DfID (Appendix 1.d)
• Budget Template Sample 3 - USAID/OFDA (Appendix 1.e)
• Budget Your Way Worksheet (Appendix 1.f)
• Activity Budget Template Sample (Appendix 1.g)
• Budget Explanatory Notes Sample (Appendix 1.h)

Notes, Reminders, and Tips for the Facilitator
• Present the topic of the learning session
• Encourage participants to take part asking questions, sharing experiences, etc.
• Ask questions to make sure the main concepts are understood.
• Provide examples whenever possible.
• Core Contents:
  o Restart using the PPT presentation – Part 2. Announce there will be a short break before beginning the review of the budget sample.

Project and Project Budget Definitions
In this section we will talk about projects and project budgets, as well as discuss their importance when presented to funders. When you begin the process of building a project budget, it is important to keep in mind the funder (or prospective funder’s) terms and priorities. This will ensure that you are ‘speaking the same language’ as the funder, and that you are communicating your planned project and activities in a way that is relevant to the funder, and aligns with their goals and priorities.

In this session, we encourage all participants to share their experiences and insights when it comes to developing project budgets for funder proposals.

**Project and Project Budgets: Some Definitions**

**Project:** a temporary endeavor creating a product, service or result or other specific outcome. Projects are not necessarily short-term; they can be multi-year

**Project budget:** the aggregation of estimated costs of an individual project and its income. It is the financial plan of the project (project income and project costs for a specific period and activities)

**Importance:** A project budget shows that there is a financial road map for the project, how project costs are structured (direct, indirect), and who is sharing the risk (other funders investing in the project). Donors may want to see who else is supporting the project to determine whether it is a good investment. Some donors
may even analyze the project budget first, and make funding decisions based on consistency and presentation of the project budget.

**Roles and Responsibilities**
As you begin to draft a project budget for a funder proposal, it is important to consider, who will be involved in planning and implementing the project itself, and making sure that they are involved in, if not ultimately responsible for preparing the project budget.

Often, the Project Manager is who leads the process and delegates the roles and responsibilities of the other members of the team; including Managers, Head of Finance, Head of Programs and Executive Director.

**Roles and Responsibilities Reference List – may vary based on the size and nature of the project, and the size of your organization**

**Executive Director:** Final review and approval

**Head of Programs:** Reviews the project budget prior to its presentation to the Executive Director

**Head of Finance:** Provides preliminary information, historical data, and secured income in case other donors are also funding the project; incorporates the project budgets into the consolidate budget

**Head of Programs:** Leads the project budgeting process, prepares the budget and makes sure it accurately reflects the project plan and the terms for the proposal.

**The rest of the project team:** Depending on their position within the department, they can gather information, keep track of calendars, make calculations, enter data, ask for quotes, prepare preliminary data, etc.

**Building a Project Budget**
To build a strong and accurate project budget, it is important to determine key tasks and establish a clear, achievable timeline. Then you can delegate roles and responsibilities as well as set deadlines to keep the team on track and ensure that you will complete the project budget with plenty of time to submit as part of your proposal. In this section, we will walk through the outline of a project budgeting process, step by step, and highlight key activities. Remember, it is of critical importance to submit the proposal to the donor according to their deadline.

Following establishing a timeline and delegating responsibilities and deadlines, the process of building a budget should start determining project expenses, followed by identifying income sources (if there is more than one). The final step is the budget narrative.

**Outline of a Project Budgeting Process:**

- **Determine key tasks**
- **Set up a time-line and delegate responsibilities based on deadlines.** Start early and communicate clearly!
• **Write draft narrative proposal.** A draft narrative proposal will allow you understand and anticipate the resources needed for success.

• **Agree on goals.** Make sure the project team understand the activity plan and objectives, and agrees on specific goals (e.g. amount to request to a donor, number of beneficiaries reached, number of workshops to be held, key dates, etc.).

• **Prepare the initial budget:** Start with any historical data and information about secured funds, then, begin calculating the costs the project will incur on (Expenses), followed by sources of needed funds (Income). Write the Budget Narrative using the preliminary calculations of the resources to be used and details about the income to be received (include in-kind donations).

• **Review draft budget and adjust:** Once the draft budget is completed, review it with the team and make modifications as needed. At this stage, the draft budget may require a review by the Head of Finance for consistency.

• **Get approval:** Depending on your organization’s size and structure, seek approval of the project budget from the Head of Programs or (in many cases), the Executive Director.

• **Double check donor’s requirements:** The entire team should be familiar with the terms, priorities, and requirements for the funder proposal. Check often to ensure that your proposal is in line with what the funder is asking for.

• **Document decisions:** It is critical to document all the major decisions related to the project (e.g. who participates in the project and her/his role, who makes changes in the plan and when, what resources are used). This documentation may be needed by decision makers and implementers to revisit actions taken, but it will also be helpful as a reference for future projects.

• **Submit proposal on time:** While the Project Manager oversees the whole process of gathering information, other members of the team may be assigned to keep track of details and keep the PM informed about progress. You may want to assign some member of the team to keep track of the schedule and make sure everyone is on target to meet upcoming deadlines. Keeping the team on schedule will help everyone identify any missing pieces, and how to allocate resources or adjust responsibilities to make sure everything is completed on time. After all the effort deployed, it would be disappointing to miss the donor’s deadline.

• **Final step:** Congratulation! You were successful, and the funder approved your request! Sign and return the grant letter, and ensure that necessary and ongoing monitoring and evaluation processes are in place to allow you to report your accomplishments back to the funder as needed.

**Sample Project Budgets**

Some funders provide project budget templates that you can use (some even require that you use them!) for your project proposal. In this section, we will briefly review four different project budget templates from four different donors: Ford Foundation, Oak Foundation, DFID (Department of International Development of the United Kingdom), and USAID (the United States Agency for International Development) (Appendix 1.a to 1.d).

We will walk through those templates to demonstrate the different types of information required and the different levels of complexity between them.
We will also discuss the importance of reviewing donors’ templates before getting started, so you know beforehand what kind of information to include in the budget as opposed to the one needed to include in the financial report (at the end of the project).

**Budget Templates:**

**Ford Foundation:** Ford Foundation uses a very simple format and doesn’t request a lot of calculations, nor a budget narrative. The template provides clear and simple guidelines. If needed, the project budget can provide additional information (e.g. detailed calculations of consultants’ costs such as daily rates and number of days, etc.).

**Oak Foundation:** The Oak Foundation uses a more complex template in a multi-sheet Excel format. They request detailed information about organizational sources of funds (historical and multi-year), a list of donors, detailed calculations of costs per year (for a multi-year project) and personnel costs, etc. It includes a reasonable set of guidelines, but it may be too complex for a Project Manager to fill it out without a close collaboration from a finance person.

**DfID:** This entity, as a unit of the United Kingdom government, requests the financial information to be presented in sterling (or pounds); this means, organizations will need to convert their figures from their local currency using an estimated future exchange rate (may be based on historical data plus analysis of currency fluctuation trends). Their template looks simple but it request to provide information by type of costs with an important level of detailed data: such as unit costs, number of units and to split total costs in local (in-country) and international (off-shore). It is not unusual that also other donors request organizations to distinguish those in-country and off-shore costs because they want to make sure the biggest portion of their contribution will be spent in the country or region the funds were requested for. Same as Oak Foundation, DfID funds multiyear project and they request to present the yearly information in additional columns (some donors may request one specific budget per year). It is not mandatory to present it in an Excel document; however, regardless how it is presented, it is highly recommended it is prepared in an electronic spreadsheet. If the project is complex, some additional schedules can be presented to support the costs calculations.

**USAID-OFDA (Office of U.S. Foreign Disaster Assistance):** Their template looks much more complex, but as soon as the organization’s team start and enter the data, the costs calculations are automated, which makes it easy to do adjustments. The Excel spreadsheet is designed in a way that users can prepare and present the information by type of costs and by objective, using detailed information such as quantity, units, cost per unit and per objective, and total costs. This donor requests to organizations to present their costs classified in 13 groups: salaries, fringe benefits, other short-term non-employee labor, travel and transport, overseas allowances, program supplies, other direct costs, beneficiary training, USAID branding and marking, contractual/sub-awards, equipment, audits and indirect costs. Note that for groups of costs 1 and 4 (salaries and travel/transport) USAID requests a greater detail of information. For salaries, organizations need to provide salary levels, number of months by individual positions, and for travel/transport hey need to know costs for international and in-country air travel, international and in-country per diem, and in-country ground transportation. This way, the donor can easily make a financial analysis and approve or reject proposals and also monitor approved projects and enforce applicable rules.
and laws’ compliance (one good example is to track the prior approvals of air travel costs). Another note; see at the bottom of the template, it shows the donor clearly wants to know if the organization is sharing the costs with their own funds or with other donor’s money. They also want to know if the intended program/project will generate its own income, so, this can be used to cover part of the project’s costs. Just this donor’s requirements would be enough to be studied in one or two learning sessions, specially their reporting requirements; however, as that is not possible in this program, to avoid painful experiences of getting proposals rejected due to poor financial information preparation, reading their instructions and follow them, is a must. A good practice, while the preparation of a big proposal is in progress, is to get one team of reviewers, who, with fresh eyes, can take another look, finds mistakes and minimizes the possibility of presenting proposal to donors with errors.

Budget Your Way: For donors which do not provide specific templates, organizations can create their own based on their requirements or use some suggested templates such as the one included as Appendix 1.f. That template is a multi-sheet Excel document and each tab has its own purpose and formulas. While the first tab is helpful to calculate income projections by category, the second one is to calculate both income and expenses. The following tabs show the budget details, which are used as source information to produce the consolidated budget. While this template is meant for organizational budget, it can still be used for project purposes, specially when the potential donor may fund a big portion of that budget they request to receive the full budget broken-down by program or sources of funds. This suggested template can be adapted to the needs.

**Expenses**

When it comes to monitoring and planning your expenses in your budget, there are two primary expense categories: direct expenses and indirect expenses.

Direct expenses can be applied to a specific activity (but not necessarily exclusively, meaning, you may apply a direct expense to more than one specific activities) and include both personnel costs as well as non-personnel costs. Personnel costs are all costs related to staff (salaries, taxes and benefits). Non-personnel costs include travel expenses, materials, consultants (though, some organizations choose to classify consultants as personnel costs), etc.

Indirect expenses (sometimes also called overhead expenses) are expenses that incur to multiple programs and across the organization, and cannot be directly assigned to just one, specific program. They may include costs such as audit and accounting fees, liability and insurance, the organizational annual report (as opposed to program- or project-specific annual reports). Indirect expenses are often allocated to project areas based on a formula or method developed by the management, and sometimes is presented as a percentage of total core or indirect expenses. You should be able to obtain the indirect expenses allocated to your project from the finance department or management.

**An Overview of Expenses**

**Direct Expenses:** All costs directly attributable to the project.

**Personnel Expenses:** Project Team (PM, Assistant, Facilitators, Interns); Shared personnel (ED, Programs Director, Finance Director)
Non-Personnel Expenses: Consultants, Trips, Training, Equipment, Software, Postage, Printing, Telephone, Miscellaneous Non-Personnel (for example: Project-specific Design, Monitoring, & Evaluation consultants; Facilitators; Travel & Meals; Equipment & Software; Printing & Supplies; Materials; Marketing expenses, etc).

Indirect or Overhead Expenses: Costs which affect the overall organization (General Management, Fundraising, M&E), or are assigned to all units (Rent, Utilities, Personnel costs including insurance, taxes, etc.). Indirect expenses are determined as a percentage of total core costs or indirect administrative costs.

Income
Almost all organizations have two sources of income: support and revenue.

Support is income that is in the form of donations, financial contributions, grants or tenders, and in-kind support of non-cash contributions including volunteer time, donated goods, supplies, materials, equipment, software, free use of space, etc.

Revenue is income that the organization generates through its work, such as fee-based services, sale of materials, etc.

The most typical sources of funding for a project comes in the form of project-based grants, individual donations, and in-kind donations.

Overview of Income

- **Support:** Contributions (cash or in-kind) coming from foundations, institutions, governments, or individuals.
  - Grants & Contributions: Institutional funds usually spanning one or more periods.
  - Individual Gifts: Cash contributions from individuals
  - In-kind Support: Non-cash contributions (time from volunteers, materials, equipment, and software). There are different ways to calculate volunteers’ contributions; one is to use historic information (cost paid from similar products/activities). There are other sources to use as a reference and this manual includes two useful documents for participants’ future use (Appendix 1.j and 1.k). Whichever source is used, it is important to keep on mind the volunteer cost/contribution should be calculated based on the activity the volunteer is performing, never based on the volunteer’s academic background.

- **Revenue:** Income generated from operations (Revenue is often counted as part of the organizational budgets). Income generated by a specific project (sale of project-specific materials or publications, fee-based services, etc) are usually allocated directly back to that project, but can also be allocated to other program areas.

Deficit/Surplus
Sometimes, a project, or organization, will operate at a surplus, meaning there is cash leftover at the end of a period once all the expenses have been subtracted from income. In other words, a surplus is the difference between income and costs when the actual income is higher than actual costs. This may be the
result of receiving more grants or contributions than projected, or if revenue-generating activities earned more money than anticipated, or that the project didn’t cost as much as projected.

Other times, a project, or organization, will operate at a deficit, meaning there was not enough cash to cover all of the project-related expenses. In other words, a deficit is the difference between income and costs when the actual costs are more than the actual income. This may be the result of unforeseen costs that arose during the project implementation, an increase of costs, or lower than expected contributions or revenue. You may be able to cover the deficit by drawing funds from other program areas, or from reserves. You may not be able to cover the deficit, and may need to consider either curtailing the scope of the project to save money, or returning to the donor to request funding to cover the deficit.

It is important to communicate any programmatic changes you make to a donor, particularly if you are scaling back what you promised to deliver in your proposal, or asking for additional funding to cover the deficit.

**Deficit/Surplus**

**Deficit:** Difference between Income and Costs (income is less than costs).

**Surplus:** Difference between Income and Costs (income is greater than costs).

**Break-even:** When Income and Costs are equal.

**Project Budget: Single-Column and Multiple-Column**

There are two common budget formats organizations often use to provide details about a project budget: Single-Column and Multiple-Column. In a single-column budget, both the income and expenses are listed in one column, and the total costs are shown as a lump sum, while in a multiple-column budget, the costs are broken down and given in more detail (by type of expense, as well as by funding source). The single-column project budget (Figure 2) shows the deficit, or how much you are requesting from the funder, while the multiple-column budget (Figure 3) does not show the budget deficit.

Many organizations prefer to present project budgets using a single-column budget, because it can provide the organization with greater flexibility in applying project support to cover expenses across the project budget. Because a multiple-column budget provides more details about the costs, organizations may have less flexibility in applying funding to expenses as needed, but may face more restrictions by the funder.
**Two ways to present a project budget**

**Single-Column Project Budget:** Simple. Regardless the sources of funds, all income and expenses are presented in one column. The requested funds are presented as Deficit. In this format, costs are presented as a lump sum (with no details). The single-column format is better because it allows the project to use the funds with more flexibility.

<table>
<thead>
<tr>
<th>Details</th>
<th>$ (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
</tr>
<tr>
<td>Support</td>
<td>60</td>
</tr>
<tr>
<td>Revenue</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL INCOME</strong></td>
<td><strong>62</strong></td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES (copy from last row)</strong></td>
<td><strong>112</strong></td>
</tr>
<tr>
<td><strong>DEFICIT (Funds requested to ABC Foundation)</strong></td>
<td><strong>(50)</strong></td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
</tr>
<tr>
<td>Direct Expenses</td>
<td>110</td>
</tr>
<tr>
<td>Indirect Expenses (OH)</td>
<td>12</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td><strong>112</strong></td>
</tr>
</tbody>
</table>

Figure 2: Single Column Project Budget
Activity budget

An activity budget is just what it sounds like: a budget that you create for a specific activity within a project or program, which helps you calculate the overall costs of the project budget. Organizations have different ways to produce Activity Budgets. See the Activity Budget Template (Appendix 1.g) which you can use to help you facilitate calculations. We won’t go into activity budgets in detail here, but we encourage you to use the Activity Budget Template for your own purposes and adapt it, as needed.

Budget Narrative

A budget narrative is used to explain any unusual line items in the budget and while some funders require a budget narrative, it is not always needed. If costs are straightforward and the numbers tell the story clearly, explanations are redundant. If you decide to include a budget narrative, it is very important to keep preliminary income and expense calculations because these are what you will use to write the budget narrative. The budget narrative should show the details behind the calculations of each cost category (at least the most significant details).
The budget narrative sample below shows the different ways you can present detailed information, either through a table or writing a paragraph or a combination of both.

**Budget Narrative Sample**

**Income**

- **Grants & Contributions** – Grant received from XYZ Foundation to support this project during 2015.
- **Individual Donors** – Funds from various anonymous donors
- **In-kind donation** – Support from a Volunteer Consultant (time to support this project). See Expenses for calculations.
- **Publications** – Sold publications produced in the project: 100 units; $20 each

**Expenses**

**Direct Costs – Personnel Costs**

- **Salaries and benefits** – Costs calculated based on timesheets of personnel participating in the project. Taxes and Benefits are added as a percentage of the total cost of salaries. Calculations are shown in the table below (figure 3):

<table>
<thead>
<tr>
<th>Details</th>
<th>Annual Salary ($)</th>
<th>Project %</th>
<th>Project ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Manager</td>
<td>32,000</td>
<td>50%</td>
<td>16,000</td>
</tr>
<tr>
<td>Facilitator</td>
<td>25,000</td>
<td>40%</td>
<td>10,000</td>
</tr>
<tr>
<td>Project Assistant</td>
<td>12,000</td>
<td>100%</td>
<td>12,000</td>
</tr>
<tr>
<td>Executive Director</td>
<td>60,000</td>
<td>6%</td>
<td>3,600</td>
</tr>
<tr>
<td>Program Director</td>
<td>40,000</td>
<td>105%</td>
<td>4,000</td>
</tr>
<tr>
<td>Finance Director</td>
<td>40,000</td>
<td>6%</td>
<td>2,400</td>
</tr>
<tr>
<td><strong>SUB TOTAL - Salaries</strong></td>
<td></td>
<td></td>
<td><strong>48,000</strong></td>
</tr>
<tr>
<td>Taxes and Benefits (25% of Salaries)</td>
<td></td>
<td></td>
<td>12,000</td>
</tr>
<tr>
<td><strong>TOTAL PERSONNEL COSTS</strong></td>
<td></td>
<td></td>
<td><strong>60,000</strong></td>
</tr>
</tbody>
</table>

**Direct Costs – Non-Personnel Costs**

- **Consultants**: Two consultants will be hired to support design and evaluation activities, whose costs will be $8,000 and $7,000 respectively.
- **Volunteers**: A facilitator will donate her time to the project to facilitate 5 events, 4 days each. $8,000.

- **Travels & Meals**: Project Manager trips (3) $4,000 (transportation, meals and hotel). Meals for 40 participants in 5 events $4,000

- **Equipment & Software**: 2 laptops $2,000; One printer/copier machine $2,000; Video camera $1,000; Software $3,000.

- **Printing & Supplies**: This figure represents the final publication printing cost $2,000 and costs of material provided to participants to 5 events $1,000 ($5 each)

**Indirect Cost Ratio (ICR)**

- 12% of direct cost. It represents an allocated portion of the organization’s costs related to: General Management, Fundraising and M&E. This percentage is allocated proportionally to all programmatic units.

“Budget Explanatory Notes” (*Appendix 1.h*) is yet another way you can present the budget narrative to donors.

**Additional Information Frequently Requested by Donors**

Virtually all organizations which receive support from funders know that a donor may request many different kinds of additional information. Think to your own experience with funding partners: what are some of the kinds of additional information you have been asked to provide? We invite you to share your experiences with the kinds of additional documents that your funders frequently request from you.

Below, we have provided a list of some of the items different funders most frequently request. What would you add to this list?

**Frequent Requests**

**Financial Information:**
- Financial Statements: for 1-2 prior periods.
- Audit Reports: for 1-2 prior periods.
- Organizational Budget: for 1-2 prior periods.
- Actuals year-to-date (YTD): Income and Expenses for the current period.
- Budget Narrative for proposal’s budget.

**Other legal/organizational**
- Articled of Incorporation, Organizational Constitutional Documents, Bylaws, and other permanent documents.
- Proof of nonprofit status (normally granted by the tax authority in your country).
- Strategic and Operational Plan: strategic, last version; operational, current period.
- Operational Policies (HR + financial): updated.
- Organizational Structure (Board, Executive Leadership, Staff, Volunteers, etc): updated.
- Bios: brief description of the key staff members who will be working on/contributing to the project.
- List of Donors: prior and current period. Some donors may want to know how much each donor is contributing to the organization and/or to the project.
Grant Approval – Next Steps

Congratulations! Your proposal has been accepted and your funder is providing you with financial support for your project! Before starting the celebration, it is critical to review the grant letter to ensure there is no need to make any essential adjustments that may impact the overall project.

One strategy is to prepare a check list to avoid taking those matters into consideration.

What do to before celebrating?

- Carefully review the grant letter to be aware of the terms and conditions.
- Double check grant’s period and adjust the plan and calendar of activities, if necessary. Sometimes the supported budget period doesn’t coincide with the one requested, which may create additional recalculation.
- Review reporting requirements, which typically include budget versus actual comparisons and sometimes submission of receipts as proof of incurred expenses.
- Confirm whether there is a requirement for pre-approval of any expenses (sometimes called prior-approval). Variances higher than 10% often require approval. Be aware of that because you may need to contact the donor during the project’s implementation.
- Send a signed acceptance letter, and be sure to thank the funder for their support.
- Get ready for the challenge and .......... Celebrate!

Questions and Answers

- Check your level of overall understanding of the information presented in this section. Is anything still unclear, or do you need further clarification or explanation of any of the points covered?
- Do you have any additional questions? If there is some time left in the training session, are there any other related topics you would like to cover?
- Review the learning objectives together with the facilitator and your fellow participants: did the session cover all the topics that were listed as part of the learning objectives?
- Congratulations, and get ready for the next session!

Additional Reading material

- Budget Your Way Worksheet
- Activity Budget Template Sample
- Budget Explanatory Notes Sample
- Online Grant Applications and Reporting: Practical Wisdom and Recommendations for Grantmakers – Foundation Center (Appendix 1.i) Calculating the Economic Impact of Volunteers (Appendix 1.j)
- Value of Volunteer time – Independent Sector (Appendix 1.k)
Session 2 – Project/Grant Budgeting – Case Study
Session 2 – Project/Grant Budgeting – Case Study

Outline
- Part One: Background and information
  - Organizational Background
  - Project Background
  - Preliminary information for staff and consultants
  - Indirect cost rate / Overhead
  - Pending Costs and Income
- Checklist of what you need to know to prepare the budget – template
- Checklist – Completed in Part One
- Part Two: Information
  - Additional information for staff and consultants’ costs
  - Information for Other direct costs
  - Secured income information – grants and in-kind donations
- Checklist template Filled Out with Part Two
- Budget Template
- Project/Grant Budget
- Budget Narrative
- Budget Review and Approval
- Q&A Session
- Post-learning Evaluation

Introduction
While some theory is important as a base for learning, practice is critical for capacity building. In Session 1, we provided some theory and shared some “real life” experiences which will be useful for Session 2, and will serve as reference material for the sample case study we will be working to complete this session. This is a process to be enriched by the combined use of:

- Assumptions and information provided
- Theory to analyze and decide how and when to use the information provided
- Excel as a tool to enable accurate calculations
- The experiences of the facilitator and the participants

Learning Objectives
- Put participants’ project budgeting knowledge into practice
- Learn how to use tools to gather information needed to prepare the project budget
- Acquire/reinforce practical knowledge by participating in a project budgeting process
- Gain more confidence to participate in their own organizations’ project budgeting process

Tools and Materials
- Microsoft Excel, a spreadsheet application (1)
- Case Study: COD Non-profit Organization – Online Training Project (OTP) – Background and Information (Appendix 2) (2)
- COD-OTP Budget Template (Appendix 2.a) (2)
- COD OTP Checklist filled out with Part One (Appendix 2.b) (3)
- COD OTP Information Part Two (Appendix 2.c)
• COD OTP Finalized Checklist filled out with Part Two (Appendix 2.d) (3)
• COD-OTP Background and Information, and Checklist COMPLETE (Appendix 2.e) (3)
• COD-OTP Project/Grant Budget and Budget Narrative (Appendix 2.f) (3)

*Important Notes:
(1) Basic Knowledge of Excel Required
Before the session, all participants should know how to:
✓ Copy data from different cells in the same sheet; import data from one sheet to another; and
from one document to another.
✓ Use basic Excel functions to produce formulas: addition, subtraction, multiplication, division,
equal, percentages.
(2) Participants will receive Appendices 3 and 3.a at least 2-3 days in advance of the start of Session 2.
It is important for participants to review all formulas throughout the Budget Template.
(3) Appendices 3.b, 3.c, 3.d, 3.e, and 3.f will be provided to participants during the course of the
training.

Notes, Reminders, and Tips for the Facilitator
• Greet and welcome to the participants and training support team. It is a good idea to make small
talk with participants before the training session begins: this allows participants to continue to get
comfortable with the technology, eliminates ‘dead air’ and allows you to address any outstanding
questions that participants may have before launching into the next session. Also consider starting
with an ice-breaker activity. This can help participants to feel at ease, and also can help buy time at
the start of the session while participants are either logging in late or addressing technical issues.
• Present the case study for the learning session.
• Remind the participants this is a safe and open forum for everybody and invite/encourage them to
participate by asking questions, sharing experiences, etc.
• Remind them it is best if all participants have read the background and information before the
learning session starts and have taken a look to the Checklist and Budget Templates.
• Ask questions to make sure the calculations and steps taken are understood.
• Provide other examples whenever possible.
• Core Materials: Case Study
  o Start using the Case Study Background and Information, and Checklist along with the
    Budget Template. In Part Two, provide the information and completed Check lists. Finally
    present the Budget and Budget Narrative.

Getting Started
Before beginning this session, we strongly encourage participants to have read the Case Study and Budget
Template provided. This will ensure that everyone is starting from the same place, and ready to move
forward in the training. We will not be allocating time for participants to read through the case study during
the session.

To start, please open Appendix 2, “COD-OTP Background and Information Part 1” (Appendix 2). First, we
will review the instructions on page 1 as well as the Checklist Template on page 2.

Step 1 - Instructions: Background and Information Part One and Checklist Template
Next, please also open the document “COD-OTP Budget Template” (Appendix 2.a). You will be referring to both of these documents during the session, so it is best if you can have them open on your computer. We will start by reviewing the information on the Checklist:

- Staff information
- Other services hired
- Other direct costs
- In-kind donations
- Overhead (OH)
- Pending costs and income

Staff Information, Other services hired, Other direct costs and In-kind donations
Using the information provided in the Case Study (Appendix 2), begin to fill out the Checklist (sections 1 to 5). As you do this, try to begin to assess what additional information you will need to gather to complete the calculations. Also add the needed columns to the tables on the check list and leave them empty; the information will be provided later. You may want to invent the names of the staff you were not provided with.

Overhead (OH)
For now, just include the percentage of Overhead on the Checklist (section 6). As the total direct cost is still unknown, the overhead will be calculated later.

Pending Costs and Income
In section 7, include some notes to request information from finance or other departments for information such as salaries, time allocations for key personnel, cost per hour of recurrent consultants, the value of any in-kind donations, secured income sources, potential donors, etc.

Step 2 – Reviewing and Using Background and information Part Two plus Checklist Template
Now we will review an example of this same document, as it might have been completed in the Case Study. Please open the document “COD-OTP Checklist filled out with Part One” (Appendix 2.b) and take a couple of minutes to compare with what you have produced for your benefit. For the case study purposes, continue using the one you were just given now (Appendix 2.b).

Please open also document “COD-OTP Information Part Two” (Appendix 2.c). Using Information Part Two, in the Checklist, calculate the following costs and income:

- Staff costs
- Other services hired
- Other direct costs
- In-kind donations
- Overhead
- Income: Secured and Still to raise

Calculations of Direct Costs

- First, we will complete the table in section 2, calculating project costs based on annual costs and the percentages of staff time dedicated to the project.
- Next, we will complete the table in section 3, calculating consultants, volunteer and internal costs based on the data provided, including number of hours and hourly rate or fees per activity.
- Next, we will complete the table in section 4, calculating communications and miscellaneous costs based on the data provided: cost per month and/or per year.
• Finally, try to calculate the Total Direct Costs by adding up: personnel costs + consultants/volunteers/intern costs + other direct costs.

Calculation of Overhead
After you have calculated the Total Direct Costs, try to calculate the Overhead (Total Direct Costs * % of Overhead) and the Total Project Costs (Total Direct Costs + Overhead) in section 6.

Calculations of Income
• Complete the table in section 5 by using the information provided regarding the volunteer assistant facilitator (number of hours and estimated value per hour). This amount will be included later in the budget in both the income and expenses sections. For the purpose of the case study, the volunteer hourly cost is provided in Information Part Two.
• Now, update section 7 in the Checklist by inputting the available secured funds + In-kind Donations and calculating the “Still to Raise” funds (remaining deficit).

Step 3 – Using Completed Checklist and Budget Template to prepare the Project Budget
For the next steps, we will be comparing the information in the Finalized Checklist in document “COD-OTP Finalized Checklist filled out with Part Two” (Appendix 2.d) with the information you filled out in your exercise.
Please refer back to document “COD-OTP Budget Template” (Appendix 2.a), which you already have opened. We will use this document again to produce the Budget and Budget Narrative. Using Information in the Finalized Checklist, next, begin filling it out:
• Income
• Costs
• Amount Still to Raise
• Budget Narrative
• Budget Review

Income
• Add In-kind Donations and Committed to Date income (rows 5 and 6) under the section called “Support”.
• You should see that this total is already calculated by the Excel formula in cell G8.

Costs
• Now, enter Personnel Costs (collapsed or detailed by employee in rows 14 and 15). When providing data on personnel costs, it is best not to provide too many details, unless required by the potential donor.
• Next, enter the other direct costs, including consultants (rows 19 to 26),
• Again, you should see the Total Direct Costs automatically generated in cell G29.
• Using cell G29 and the percentage of organizational overhead costs (enter 18% in cell E31), calculate the Overhead allocated to the project. That information is calculated in cell G31.
• You should see the total is already calculated by formula in cell G33.

Amount Still to Raise
As you should see in row 10, the Amount Still to Raise is also calculated by formula: Total Costs (G33) minus Total Secured Income (G8).
Budget Narrative
You will be able to write the Budget Narrative based on the information you have in the Budget and the Finalized Checklist (Appendix 2.d).

Finalized Version of Budget and Budget Narrative
Once you have finished the tasks, open the document “COD-OTP Project/Grant Budget and Budget Narrative” (Appendix 2.f). Your documents should look like this one.

Budget Review and Approval
- Now that the budget is produced, it will need to be reviewed first by the project team for coherence with the plan and goals.
- As soon as the team is in agreement with the adjusted figures, the document needs to be reviewed by the Finance Director for alignment with organizational priorities and institutional (consolidated) budget.
- Finally, the Executive Director, with recommendations from the project team and advice from the finance department will approve it and the budget will be ready to be submitted to the potential donor.

End of Case Study

Questions and Answers
- Check your level of overall understanding of the information and exercise presented in this section. Is anything still unclear, or do you need further clarification or explanation of any of the points covered?
- Do you have any additional questions? If there is some time left in the training session, are there any other related topics you would like to cover?
- Review the learning objectives together with the facilitator and your fellow participants: did the session cover all the topics that were listed as part of the learning objectives?
- Shared reflection: In addition to the evaluation survey you will be receiving (see below), are there any thoughts, reflections, comments, questions, or concerns you’d like to share about today’s session?

Post-learning Evaluation
- There will be a post-learning evaluation (for sessions 1 and 2). You will receive a link to a survey after the session is over.
- Please take a few moments to complete this evaluation. Your feedback is important to improve WLP’s future learning sessions.
Session 3 - Organizational Budgeting
Session 3 – Organizational Budgeting

Outline

- What is an Organizational Budget?
- Roles and Responsibilities
- Income – Types of income; restricted vs. unrestricted funds
- Income Budget
- Expenses – Cost Categories
- Expense Budget
- Assumptions
- Deficit/Surplus
- Tips for Organizational Budgeting
- Budget Calendar Sample
- Annual Budgeting Checklist
- Organizational Budget Sample
- Q&A Session
- Brief Session Assessment

Introduction

Non-profit organizations have to continually improve their operations and make them more efficient, especially during periods of economic uncertainty. Organizations must also constantly strive for sustainability. A well-prepared organizational budget focuses on the primary goals and organizational objectives. As important as it is to determine the organizational priorities and plans, it is also critical to develop an accurate budget that will allow you to maximize sustainability.

An organizational budget needs to be in line with the priorities and strategic plan; in other words, you cannot prepare a budget that ignores the objectives and the planned activities.

An organizational budget is a tool to be used for both internal and external purposes. The organizational budget building process is extensive and may involve virtually all members of the organization, depending upon the size of your organization.

Learning Objectives

- To know the importance of an organizational budget
- To learn the team’s roles and responsibilities in building the budget
- Become familiar with income categories used in Income Budget building
- Become familiar with cost categories used in Expense Budget
- To be able to identify assumptions used to build a budget.
- To learn some important budget-building tips
- To learn the importance of a calendar to keep track of the progress
- To get an overall picture of the budgeting process through reviewing a checklist
- To be able to read and understand an organizational budget
Tools and Materials

- PPT presentation (Appendix 3)
- 10 Step Annual Budgeting Checklist – Nonprofit Assistance Fund (Appendix 3)
- Organizational Budget Sample (Appendix 3)

Notes, Reminders, and Tips for the Facilitator

- Greet and welcome to the participants and training support team. It is a good idea to make small talk with participants before the training session begins: this allows participants to continue to get comfortable with the technology, eliminates ‘dead air’ and allows you to address any outstanding questions that participants may have before launching into the next session. Also consider starting with an ice-breaker activity. This can help participants to feel at ease, and also can help buy time at the start of the session while participants are either logging in late or addressing technical issues.
- Present the case study for the learning session.
- Remind the participants this is a safe and open forum for everybody and invite/encourage them to participate by asking questions, sharing experiences, etc.
- Remind them it is best if all participants have read the background and information before the learning session starts and have taken a look to the Checklist and Budget Templates.
- Ask questions to make sure the calculations and steps taken are understood.
- Provide other examples whenever possible.
- Core Contents: Start using the PPT presentation. Announce there will be a short break before starting the budget sample’s review.

Organizational Budget Definition

An organizational budget is not much different, in terms of definition, than a project budget, in that both are financial expressions of a set of activities. An organizational budget has more components than most project budgets, because it is the overarching financial expression of the entire organization.

Because organizational budgets are complex, and take into account many different things, it is recommended that organizations should begin the annual budgeting process at least 3 months before the fiscal year begins. Consider this recommendation, and compare it to what your organization currently does. How far in advance does your organization typically begin the annual budgeting process?

Organizational Budget: A Definition

http://en.wikipedia.org/wiki/Budget

A budget is a quantitative expression of a plan for a defined period of time. It may include planned income, resource quantities, costs and expenses, assets, liabilities and cash flows. It expresses strategic plans of business units, organizations, activities or events in measurable terms.

A budget is a quantified financial plan of an organization for a forthcoming period. It shows what it expects to accomplish during that period and what resources it counts on.

The operating budget is associated with the Profit & Loss, and involves projecting income and expenses for a period to accomplish an organization’s immediate mission agenda. The budget can be projected over
multiple years as part of a strategic plan to include the budget impact of identified strategic initiatives. In building an effective operating budget it is necessary to understand some terminology and concepts.

**Roles and Responsibilities**
Just as in creating a project budget, there are numerous roles and responsibilities when it comes to organizational budgeting. Also, same as with project budgets, organizational budgets are most accurate when the budgeting process is participatory and transparent. When staff members have a clear understanding of their roles and responsibilities in the budgeting process, they are more likely to feel their ideas, opinions, and concerns are represented, and they are more likely to take ownership over the budget and work to follow it. Think about previous annual organizational budgeting activities you have been involved in with your organization: What was your role? Who was the process leader? Who were the other involved participants?

Review the list of common roles and responsibilities, and see if these roles and responsibilities seem familiar or accurate to you.

**Organizational Budgeting: Roles and Responsibilities List [may vary depending on the size of the organization]**

**Board of Directors:** Final review and approval

**Executive Director:** Reviews before it is sent to the Board; She also leads the budgeting process

**Head of Finance:** While the Executive Director oversees the budget, the Head of Finance is who coordinates the entire process. She is responsible to produce timelines, check lists, delegate tasks and assign roles, follow-up on deadlines, elaborate program budgets, and produce the consolidated budget. Together with the Executive Director, she presents and explains the budget figures to the Board.

**Managers:** Responsible for leading their units’ budgeting process

**The rest of the team:** depending on their position within the organization, they can gather information, keep track of calendars, provide historical data, make calculations, enter data, ask for quotes, prepare some preliminary data, etc.

**Income**
As we discussed in the project budget section, there are usually just two primary income categories in organizational budgets: support and revenue. The table below illustrates the most frequent sources of funds (grants, individual donations, in-kind donations).
**Types of Income**

<table>
<thead>
<tr>
<th>By source</th>
<th>Support: Income from contributions provided by foundations, governments, or other institutions (such as grants) or by individuals.</th>
<th>Revenue: Income generated from operations (e.g. fees for services, interest, sale of goods such as promotional material, publications, etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>By type of resource</td>
<td>Cash donation: Monetary funds given directly to the organization through a check or wire transfer.</td>
<td>In-kind donation: Non-cash contributions (e.g. volunteer time consultants, donated equipment, software and office supplies)</td>
</tr>
<tr>
<td>By restriction</td>
<td>Unrestricted: Flexible funds, mostly received to support core operations (e.g. management &amp; general operating, fundraising, and reserves)</td>
<td>Restricted: Funds received for a specific purpose and/or period. Usually referred to as restricted by purpose (e.g. activity, project) or restricted by period (e.g. one month, a quarter or one specific fiscal year).</td>
</tr>
</tbody>
</table>

*Figure 4: Income Types*

**Income-Based Budget**

Just as we discussed earlier, an income-based budget is based on realistic, probable income projections. Organizational income-based budgets are naturally more complex than income-based project budgets, and will take more time planning and preparing. Keeping in mind what we have already learned about income-based budgeting, take a moment now to think about what is needed to get started for an organizational income-based budget. The list below provides helpful information about what you might need to do in order to prepare for developing the income-based budget for your organization.

**Getting ready to start the income-based budget**

**List of Sources:** Information from current and recurrent donors: foundations and individuals (e.g. names, contact person, emails, organizational priorities, current funding to the organization, etc)

**Past information:** Review past history (e.g. last three years) to determine trends

**Likelihood of sources renewing:** Use your analysis of the past history and funding trends to determine the probability of renewed funding

**List of potential new donors:** Foundations, governments, institutions, and individuals (e.g. names, contact person, emails, organizational priorities, current funding to the organization, etc). Identify them through their websites, annual reports from similar organizations, or from previous lists.

**Expenses**
While studying costs, we may find different classifications. Below, we present three of them:

**Fixed and Variable Costs**

All the costs faced by companies can be broken down into two main categories: **fixed costs and variable costs**. **Fixed** are costs that are independent of output. These remain constant throughout the relevant range and are usually considered sunk for the relevant range (not relevant to output decisions). Fixed costs often include rent, buildings, machinery, etc. In the nonprofit industry, the costs of some staff (such as the Executive Director and administrative personnel) are commonly included as fixed costs. **Variable** are costs that vary with output. Generally variable costs increase at a constant rate relative to labor and capital. Variable costs may include wages, utilities, materials used in production, etc. In the nonprofit industry, a common example is the consultancy costs.

In accounting they also often refer to mixed costs. These are simply costs that are part fixed and part variable. An example could be electricity--electricity usage may increase with production but if nothing is produced a factory still may require a certain amount of power just to maintain itself (*).

(*) Adapted from http://economics.fundamentalfinance.com/micro_costs.php

**Cost categories for accounting and budgeting purposes**

There are three main cost categories for organizational budget: Personnel Costs, Office Costs, and Activity-Travel-Events. These costs often fall into *Natural Accounts*. See table below for an illustration of this.

<table>
<thead>
<tr>
<th>Cost Categories</th>
<th>Natural Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel costs</strong></td>
<td>Salaries, Benefits and Related Taxes</td>
</tr>
<tr>
<td></td>
<td>Audit, IT and Accounting services (outsourced)</td>
</tr>
<tr>
<td><strong>Office Costs</strong></td>
<td>Office Supplies</td>
</tr>
<tr>
<td></td>
<td>Telephone &amp; Fax</td>
</tr>
<tr>
<td></td>
<td>Printing and Copying</td>
</tr>
<tr>
<td></td>
<td>Miscellaneous</td>
</tr>
<tr>
<td></td>
<td>Rent</td>
</tr>
<tr>
<td></td>
<td>Equipment</td>
</tr>
<tr>
<td></td>
<td>Reserve</td>
</tr>
</tbody>
</table>
**Activities**: mainly related to programmatic events such as workshops, training, meetings, etc.

<table>
<thead>
<tr>
<th>Consultants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airfare</td>
</tr>
<tr>
<td>Hotel &amp; Meals</td>
</tr>
<tr>
<td>Ground transportation</td>
</tr>
<tr>
<td>Materials &amp; Publications</td>
</tr>
<tr>
<td>Venue &amp; Equipment Rental</td>
</tr>
<tr>
<td>Communications</td>
</tr>
</tbody>
</table>

Figure 5: Cost Categories and Natural Accounts

**Direct and Indirect costs**

Here also there are two types of expenses, Direct and Indirect. We discussed the differences between Direct and Indirect costs earlier. Direct costs are made up of two different cost categories, personnel costs (all costs related to staff including salaries, taxes, and benefits) and non-personnel costs (all the other direct costs, including consultants, trips, etc.). Indirect costs (also called overhead) are expenses that benefit multiple programs and are determined and allocated to each project based on a method approved by the management. Indirect costs can be presented to the project manager as a percentage of total core costs.

**Direct costs**: all costs directly attributable to programs

**Personnel costs**: costs related to staff involved with programs.

*Full-time dedicated to programs*: programmatic and project teams

*Shared personnel*: Staff that partially dedicate time to programmatic activities: management (e.g. Executive Director, Head of Finance and Operations, Head of Programs) and other support personnel (e.g. accounting, IT)

**Non-Personnel costs**: other programmatic costs (e.g. consultants, trips, equipment, software, postage, printing, miscellaneous, shared office costs)

**Indirect Expenses**: also called Overhead, are the costs incurred by core organizational activities (management & general administrative staff, fundraising), and

**Personnel Costs**: typically shared costs for their time dedicated to core activities: management (e.g. Executive Director, Head of Finance and Operations, Head of Programs) and other support personnel (e.g. accounting, IT)
needed to keep the organizations’ doors open. Indirect expenses are sometimes presented as a percentage of total core/indirect costs and called ICR (indirect cost ratio). Determined by the Finance Department and allocated to each Unit (department, program or project) based on a method approved by the management.  

| Non-Personnel costs: other core costs shared (e.g. office costs, equipment, software) and non-shared costs (e.g. reserves, fundraising consultant) |

**Figure 6: Types of Expenses**

**Expense Budget**

Below are some of the things you should do to prepare your Expense Budget.

**Getting ready for Expense Budget**

**Align revenue sources to functional expenses**: it is critical to make sure each type of cost is related to its own income source and there is enough income to cover it (e.g. core funding to cover reserve or fundraising activities)

**Review line item expenses (natural accounts/chart of accounts)**: it is important to make sure that the chart of accounts is updated and responds to the current needs

**Allocate shared costs and overhead**: Shared costs and overhead are not the same. While shared costs refer to the costs of shared resources (personnel or non-personnel) directly affecting programmatic activities, shared overhead are the core costs split up into different programmatic areas.

**Assumptions**

Assumptions are basically your expectations around presumed income or expenses, and often based on historical data about previous budget cycles’ income and expenses, but should also take into consideration external factors such as changes in the economy, changes in funder priorities, and even things like conflict, war, natural disasters, etc. When you are developing your budget, you will be basing your figures off of different assumptions. Review the list of assumptions below. Are there any assumptions that you would add to this list?

**Common Assumptions Necessary for Budgeting**

**Organizational priorities**: These are what the organization wants to achieve, the most important goals during a certain period (e.g. assign more resources to women and environmental programs because of increased more funding opportunities; improve talent retention by increasing salaries of top managers to level them up to industry standards; get new partners/allies to implement an existing or a new program; strengthen internal control systems by hiring audit services, upgrading the accounting system, getting IT services, hiring a consultant to develop a fundraising strategy, etc).
- set clear goals,
- develop an action plan, and
- determine resources needed.

**Overall projected growth**: While some organizations want to set projections as a percentage (e.g. 10% growth compared to prior period), some others may want to proceed with a deeper review of each program to project their growth after that

**Staffing projections**: Based on the assumptions above, management will determine if there is a need to hire more staff or not (e.g. a manager for a new project)

**Plan of new projects, new offices, or new activities**: All of these additions will also increase the costs, which needs to be taken into account.

While the previously listed assumptions are all internal, organizations may want to consider and list some external assumptions too such as: inflation rate, devaluation rate, changes in cost of living, major donors priorities shifts, economic stability, even some political changes in the regions or countries where the organization works, which can greatly affect the level of activities to be implemented.

**Deficit/Surplus**

We discussed the difference between a budget *deficit* and a budget *surplus* earlier. The same logic applies here.

Organizations first need to determine their bottom line (deficit/surplus) and they may need to decide whether they want to get the budget approved with a surplus, deficit or if they want a balanced, or even budget. For example, you may have projected income of $50K but your projected expenses may only total $40K. In that case, you would then have a budget surplus of $10K. Your organization can then make a strategic decision what to do with the surplus (allocate to the organization’s reserves, spend the funds on new or upgraded equipment, expand a project, etc.). To adequately prepare for unforeseen financial challenges or opportunities, it is wise for the Head of Finance to prepare at least two (and better yet, three) budget scenarios so that the organization has guidance about how to proceed in the event of a budget surplus or budget deficit.

If the organizational budget is also to be sent to funders (donors who fund core activities or multi-programs almost always request a copy of the organizational budget, usually board-approved) you must be prepared to clearly explain and provide strong justifications for presenting a budget with a deficit (for example, the proposal in question may cover that deficit).

Often, organizations are very keen on having a balanced budget. For an interesting take on why that’s not necessarily a requirement, read the article *Nonprofit Budgets Have to Balance: False!* By US-based nonprofit think tank Blue Avocado (Appendix 3.a).

**Deficit/Surplus**

**Deficit/Surplus**: is the difference expressed in monetary units, between income and expenses: surplus, when income is greater than expenses; deficit when income is lower than expenses.
**Budget Scenarios**: are different versions of the budget prepared to facilitate decision making in the event of a budget deficit or surplus. For example: Scenario 1 may be the same as previous period’s budget, while Scenario 2 may be a budget showing a 10% increase in the overall activities. Scenario 3 may be presented, for instance, when the organization wants to add a new program, which will show the need for even more additional funding. Organizations may also choose to present a less ambitious budget with reduced activities. While the budget is being discussed for approval, usually the Board of Directors will ask questions about an idealistic budget, therefore it may be useful for the presenter to have the other versions handy.

**Tips for Building an Organizational Budget**
Because so much can go into preparing for and building your organizational budget, we've provided some helpful tips. Review the list below. What would you add to this list?

**List of tips**

- When designing Budget templates **always revisit internal** (Board, management, programmatic units) and **external** (donors, partners, auditors) **reporting needs**.
- Whenever possible **implement a time reporting system**. Timesheets are a powerful tool which help to make “a case” with a donor (e.g. to proof Executive Director dedicated some of her/his time to a specific program)
- **Build a Reserve** and include it as a line item in the Expense Budget. Secure a minimum of 3-months cost coverage. Ideally 6, or even 9 months.
- Try to secure as many **Unrestricted Funds** as you can. Having unrestricted funding will help you to manage financial resources with more flexibility. Try not to use them on activities, but to cover overhead.
- Don’t forget to **include “carry over”** as secured funding. Carry over are the remaining funds from previous periods; unused funds for some delayed activities, or left over/saving in costs of other activities or resources. Unrestricted funds raised from individual donors and not used in the prior period are also a good example of carry over.
- Don’t forget to include **costs of delayed activities** from current year into the next year’s budget.
- Always **prepare budget scenarios** (at least two). Some Board members may want to ask “what if?”
- **Budget package contents**: review what you want/need to include in your budget package, such as tables, charts, financial analysis, comparatives, budget narrative, detailed budget, etc.

**Budget Calendar/Timeline**
We have discussed the importance of creating a calendar, or timeline, for your budget. Again, having a well-defined budget calendar can help you ensure that you will have enough time to gather needed information from all units/programs/departments and address any questions that may arise in the review processes. Below, we have included a sample budget timeline with just some of the key activities you may need to consider. Take a look at the table below, and add any additional critical activities and/or dates that you think would apply to your organization.

**Sample Budget Timeline**
## Annual Budget Checklist – Process of Building a Budget

In order to make sure that you don’t miss any vital pieces of information or skip any critical steps in building your organizational budget, it is a wise idea to prepare an annual budget checklist.

Does your organization currently prepare a budget checklist? What is the process you follow to develop and monitor it? Who is responsible for the different tasks, oversight, review, etc?

Let’s now review the 10-Step Annual Budgeting Checklist from the Nonprofit Assistance Fund (Appendix 3.b). This list is just a reference, but it can give you an idea of how to start and what to include. Organizations need to prepare an annual budgeting checklist that responds to their needs. For larger organizations, the checklist may be extensive. Small organizations’ process may be less complex.

Regardless of the size of your organization, the process of building the budget should start by determining the expenses, followed by identifying the income sources (if there is more than one), and then finishing with the budget analysis and notes.

### Organizational Budget Format

As with project budgeting, there are different format options you can use to present the budget information. Think about the organizational budget your organization has prepared in the past. Do you know the format? Is your organizational budget easy or difficult read and understand?

---

<table>
<thead>
<tr>
<th>Major Tasks</th>
<th>Deadlines</th>
<th>Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Review priorities and draft the annual plan</td>
<td>Sep 1</td>
<td>Senior Management Team/ Board of Directors</td>
</tr>
<tr>
<td>- Communicate priorities to staff</td>
<td></td>
<td>Executive Director (ED)</td>
</tr>
<tr>
<td>- Set Budget goals</td>
<td></td>
<td>Executive Director</td>
</tr>
<tr>
<td>- Provide templates to team leaders and preliminary information (secured income and shared costs)</td>
<td></td>
<td>Head of Finance (HF)</td>
</tr>
<tr>
<td>- Get draft budget prepared</td>
<td></td>
<td>Team Leaders</td>
</tr>
<tr>
<td>- Consolidate budget and allocate OH costs</td>
<td></td>
<td>HD</td>
</tr>
<tr>
<td>- Get the budget reviewed</td>
<td></td>
<td>ED, HF, Head of Programs</td>
</tr>
<tr>
<td>- Send budget to Board of Directors (package)</td>
<td>Nov 1</td>
<td>HF/ED</td>
</tr>
<tr>
<td>- Get the budget approved</td>
<td>Nov 10</td>
<td>HF/ED</td>
</tr>
</tbody>
</table>
In the example below (also included as Appendix 3.c), we have provided an income based budget, and an expense based budget. We are using a multiple-column budget, which includes Core Units and Programs. It includes three main sections: Income, Deficit/Surplus by Unit, and Expenses. Additionally, you can see that it includes calculations of secure funding, percentage of secure funding over expenses, probable funding, and costs by category.

**Organizational Budget Sample- Income and Deficit/Surplus by Program/Unit**

**GHI Non-Profit Organization**

<table>
<thead>
<tr>
<th>CONSOLIDATED ANNUAL BUDGET</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GRAND TOTAL</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>INCOME</td>
</tr>
<tr>
<td>Opening Balance</td>
</tr>
<tr>
<td>Donor 1</td>
</tr>
<tr>
<td>Donor 2</td>
</tr>
<tr>
<td>Donor 3</td>
</tr>
<tr>
<td>Receivables</td>
</tr>
<tr>
<td>Donor 1</td>
</tr>
<tr>
<td>Donor 2</td>
</tr>
<tr>
<td>Donor 3</td>
</tr>
<tr>
<td>Donor 4</td>
</tr>
<tr>
<td>Donor 5</td>
</tr>
<tr>
<td>SECURE FUNDING</td>
</tr>
<tr>
<td>% of Secured Funds/Total Expenses</td>
</tr>
<tr>
<td>Likely</td>
</tr>
<tr>
<td>Donor 6</td>
</tr>
<tr>
<td>Donor 7</td>
</tr>
<tr>
<td>Individual Donors</td>
</tr>
<tr>
<td>Fee for Services</td>
</tr>
<tr>
<td>In-kind Donations-Facilitators</td>
</tr>
<tr>
<td>In-kind Donations-Consultants</td>
</tr>
<tr>
<td>In-kind Donations-Equipment</td>
</tr>
<tr>
<td>Prospect</td>
</tr>
<tr>
<td>Donor 8</td>
</tr>
<tr>
<td>Donor 9</td>
</tr>
<tr>
<td>Donor 10</td>
</tr>
<tr>
<td>LIKELY AND PROSPECTS</td>
</tr>
<tr>
<td>TOTAL INCOME</td>
</tr>
<tr>
<td>EXPENSES</td>
</tr>
<tr>
<td>------------------------</td>
</tr>
<tr>
<td>Personnel</td>
</tr>
<tr>
<td>Executive Director</td>
</tr>
<tr>
<td>Program Director</td>
</tr>
<tr>
<td>Program Manager A</td>
</tr>
<tr>
<td>Program Manager B</td>
</tr>
<tr>
<td>Program Coordinator</td>
</tr>
<tr>
<td>Program Assistant</td>
</tr>
<tr>
<td>Finance Director</td>
</tr>
<tr>
<td>Administrative Assistant</td>
</tr>
<tr>
<td>Activities, Events &amp; Trips</td>
</tr>
<tr>
<td>P1 Annual Regional Workshop</td>
</tr>
<tr>
<td>P1 5 Follow up meetings</td>
</tr>
<tr>
<td>P1 Publications</td>
</tr>
<tr>
<td>P1 Evaluation Consultant</td>
</tr>
<tr>
<td>P2 TBD</td>
</tr>
<tr>
<td>P2 TBD</td>
</tr>
<tr>
<td>P2 Publications</td>
</tr>
<tr>
<td>P2 Research Consultant</td>
</tr>
<tr>
<td>P3 TBD</td>
</tr>
<tr>
<td>P3 TBD</td>
</tr>
<tr>
<td>P3 Publications</td>
</tr>
<tr>
<td>P3 Evaluation Consultant</td>
</tr>
<tr>
<td>P4 TBD</td>
</tr>
<tr>
<td>P4 TBD</td>
</tr>
<tr>
<td>P4 Publications</td>
</tr>
<tr>
<td>P4 Research Consultant</td>
</tr>
<tr>
<td>Office Costs</td>
</tr>
<tr>
<td>Audit</td>
</tr>
<tr>
<td>IT services</td>
</tr>
<tr>
<td>Legal services</td>
</tr>
<tr>
<td>Rent &amp; Utilities</td>
</tr>
<tr>
<td>Telephone</td>
</tr>
<tr>
<td>Office Supplies</td>
</tr>
<tr>
<td>Miscellaneous</td>
</tr>
<tr>
<td>Equipment</td>
</tr>
<tr>
<td>Reserves</td>
</tr>
<tr>
<td>TOTAL EXPENSES</td>
</tr>
</tbody>
</table>
Questions and Answers

- Check your level of overall understanding of the information and exercise presented in this section. Is anything still unclear, or do you need further clarification or explanation of any of the points covered?
- Do you have any additional questions? If there is some time left in the training session, are there any other related topics you would like to cover?
- Review the learning objectives together with the facilitator and your fellow participants: did the session cover all the topics that were listed as part of the learning objectives?
- Shared reflection: In addition to the evaluation survey you will be receiving (see below), are there any thoughts, reflections, comments, questions, or concerns you’d like to share about today’s session?

Additional Resources
Nonprofit Budgets Have to Balance: False! –Blue Avocado (Appendix 3.a)
Session 4 – Organizational Budgeting – Case Study
Session 4 – Organizational Budgeting – Case Study

IMPORTANT NOTE FOR FACILITATOR:
This learning session is divided into 5 steps. After finalized each step, there will be a short break. Keep on mind that, based on the level of the participants and how the process progress, this exercise may be split up into two 2-hour sessions or may be extended to a 3-hour session.

It is expected all participants have read the Case Study Directions before the learning session starts and took a look of the Time Reporting System and the Budget Template (Rev 0). It may be good to send a reminding message one day before the learning session starts.

Outline
- Directions and Data
- Plan the Process
- Determine context and goals
- Time Reporting System
- Personnel Costs Calculations
- Non-Personnel Costs Calculations
- Income Budget
- Expenses Budget
- Shared Costs – Calculations and Allocations
- Reserves
- Activity Costs to Budgets
- Activity Costs as In-kind Donations to Consolidated Budget (Income)
- Preliminary Financial Analysis –Secure Funding, Income, Expenses, Deficit/Surplus
- Activity Costs in Programmatic Units
- Funds Allocation from Donors Supporting Overall Organization
- Overhead –Allocation to Programs
- Deficit/Surplus Total and by Unit
- Plan for additional Funding for Each Unit
- Basic Financial Analysis
- Q&A Session
- Post-learning Evaluation

Introduction
While some theory is important as a basis for learning, practice is critical for capacity building. In Session 3, we focused on providing some theory and we also shared some “real life” experiences. The information from the previous Sessions will be useful and serve as a reference as we work together to complete this case study exercise in Session 4. This is a process to be enriched by the combined use of:

- given information and assumptions,
- theory to analyze the given information and decide how and when to use it,
- *Excel* as a tool to facilitate calculations and to transfer information from prior sources,
• facilitator and participants’ experiences

Learning Objectives
• Put in practice participants’ knowledge –prior and acquired during this training- about organizational budgeting.
• Learn to determine a budget process’s steps according to the needs.
• Acquire/reinforce practical knowledge by participating in a budgeting process.
• Gain more confidence to participate in their organizations’ budgeting process.

Tools and Materials
• Microsoft Excel, a spreadsheet application (1)
• Case Study Directions: ABC Non-profit Organization –Directions and Time Reporting System (Appendix 4) (2)
• ABC Organizational Budget –Multi-page Template or Rev0 (Appendix 4.a) (2)
• ABC Organizational Budget –Rev1 (Appendix 4.b)
• ABC Organizational Budget –Rev2 (Appendix 4.c)
• ABC Organizational Budget –Rev3 (Appendix 4.d)
• ABC Organizational Budget –Rev4 (Appendix 4.e)
• ABC Organizational Budget –Rev5 -FINAL (Appendix 4.f)

Notes:
(4) Basic Level Required.
Before the session, participants need to know how to:
✓ Copy data from different cells in the same sheet; import data from one sheet to another; and from one document to another.
✓ Use basic Excel functions to produce formulas: addition, subtraction, multiplication, division, equal, percentages.

(5) To be provided to participants at least 2-3 days in advance. Need to request participants to review the formulas in all spreadsheets, especially in “Summary Costs” tab located in the document.

Notes, Reminders, and Tips for the Facilitator
• Present the topic of the learning session
• Encourage participants to take part asking questions, sharing experiences, etc.
• Indicate that this learning session will be split in 5 parts after: Reviews 1, 2, 3, 4 and 5.
• Remind them it is best if all participants have read the directions before the learning session starts and have taken a look to the Time Reporting System and the Budget Template (Rev 0).
• Announce after finalizing each part, or review, that there will be a short break. If the decision is to split it in 2 2-hour sessions, remind them and mention that the present session will stop after finalizing Review 2 and it will be resumed in the following one.
• Ask questions to make sure the calculations and steps taken are understood.
• Provide other examples whenever possible.
• Core Contents: Case Study
• Start using the Case Study Directions (Appendix 4). Later, introduce the Time Reporting System and finally the Budget Reviews (0 to 5).

Getting Started
For our case study exercise to be successful, it is best if everyone has read the materials in preparation for Session 4. Before we get started, share any questions you may have about the resources you read for this session. Does anything from the readings remain unclear or need clarification?

Throughout Session 4, we will be referring to document 4 “ABC Directions and Timesheets.” We recommend that you have it open on your desktop, and keep it open for the duration of this session. As you can see, this is an Excel spreadsheet. You can review the directions for today’s activities in the first two tabs called “Directions-part A” and “Directions-part B”. Review the instructions briefly, and let’s get started!

The individual monthly timesheets, together with the Summaries, are part of the Time Reporting System and they are the source of information you will use to calculate the Personnel Costs.

Step 1 – From Review 0 to Review 1
Below, we have provided a brief explanation of each component we will be reviewing in Step 1. We will be using “ABC Organizational Budget–Multi-page Template or Rev0” (Appendix 4.a) to give us all of the data we need to include. This document explains how we will input and use the following information, which we will go through step-by-step:

- Directions and Data
- Planning the Process
- Determine context and goals
- Time Reporting System
- Personnel Costs Calculations
- Non-Personnel Costs Calculations
- Income Budget
- Expenses Budget

We will be using many of the Excel functions that we outlined in the above Notes:

Step-by-step Guidance For Facilitators:
This is a full, complex exercise. Facilitators can choose to cut this down and adjust it to the specific needs of the participants. Facilitators have the option to choose fewer of the exercises, or fewer reviews, etc.

Personnel Costs Calculations
We will be taking information from Appendix 4.a “ABC Organizational Budget–Multi-page Template or Rev0” and putting it into the same document but into different tabs. We will also take information from Appendix 4 and put it into Appendix 4.a, as follows:

- Go to Appendix 4.a “ABC Organizational Budget–Multi-page Template or Rev0”, and locate the tab “Personnel Costs.” Go to row 46. You will see table called “A Salaries Costs” (which it is originated on timesheets file).
Now, using formulas, we will copy data in the same tab from table A into table “B Monthly costs calculations” (empty table located in row 34).

Start filling in table B, column C in –rows 35 to 42- with staff positions’ names (copying from Appendix 4 “ABC Directions and Timesheets”), Tab “Part A”: Executive Director, Program Director, etc.

Then, continue in Appendix 4.a, Tab “Personnel Costs”, table B copying data in all columns from F to N and rows 35 to 42.

Once it is done, make sure cell E43 (total) in table B, equals to cell E65 in table A, (Appendix 4.a).

Then, continue in Appendix 4.a, Tab “Personnel Costs” and copy staff positions’ names from cells C35 to C42, table B into table “C1 Yearly Personnel Costs”, cells C10 to C17.

Note that there are other two tables already formatted (C2 and C3 Allocations) with some formulas; leave them as is for now and we will come back to them later.

Non-Personnel Costs Calculations

- We will take information from Appendix 4 “ABC Directions and Timesheets” and put it into Appendix 4.a “ABC Organizational Budget–Multi-page Template or Rev0”, as follows: In Appendix 4.a “ABC Organizational Budget–Multi-page Template or Rev0” locate Tab “Non-Personnel Costs”.

Now, using formulas, we will copy data from Appendix 4 “ABC Directions and Timesheets” Tab “Part A” into Appendix 4.a “ABC Organizational Budget–Multi-page Template or Rev0”, Tab “Non-Personnel Costs”, table “D1 Yearly Non-Personnel Costs” (empty table D1 located in row 8).

Start filling in Table D1, column C in –rows 10 to 16- with types of costs (copying from Appendix 4 “ABC Directions and Timesheets”, Tab “Part A”): Audit, IT Services, etc.

Continue copying data in Appendix 4.a, Tab “Non-Personnel Costs”, columns D and E from column D (33-39) in Appendix 4, Tab “Part A”.

Once it is done, revisit calculations.

Note that there are other two tables already formatted (D2 and D3 Allocations) with some formulas; leave them as is for now and we will come back to them later.

Consolidated Annual Budget

- Now go to Appendix 4.a “ABC Organizational Budget–Multi-page Template or Rev0”, and locate the Tab called “BUDGET”. This is the consolidated budget, to be completed by the Finance Director, which shows the aggregated figures from all programs and units.

It is formatted as multicolumn with color code (by type of unit). It also includes sum up formulas to get vertical and horizontal Totals. It has 3 sections: Income, Deficit/Surplus and Expenses.

Income Budget

- In the Appendix 4.a “ABC Organizational Budget–Multi-page Template or Rev0”, same Tab “BUDGET”, see Income is classified as Secure, Likely and Prospects. Secure funds are the ones already received or committed (e.g. grants signed). Likely are the funds that the organization will most probably receive (e.g. renewals, future proposals). Prospects are prospective funds from potential donors.
• In the same Tab “**BUDGET**”, into column D, copy donors’ data from Appendix 4 “**ABC Directions and Timesheets**” Tab “Directions-part B”, table 17.a “Income-Secure and Likely Funding”; 17.b “Secure Funding-Receivables and Committed” and 17.c “Likely Funding –Renewal recurrent donors + proposals sent to new donors”.

• Refer to information in Appendix 4, Tab “Directions-part B”, tables 17.a, 17.b and 17.c to start allocating funds to each unit into Appendix 4.a Tab “**BUDGET**”. E.g. From funds of donor 3, from table 17.a, 70% will go to Program 1 and 30% will go to support M&G, Fundraising and M/E/C/R, $2,000 to each one.

• Where it says allocate later, leave it there and we will come back later.

**Expense Budget**

• In the Appendix 4.a “**ABC Organizational Budget–Multi-page Template or Rev0**”, same Tab “**BUDGET**”, see Expenses are classified by group of costs (Personnel; Activities, Events & Trips; and Office Costs). Each group of costs has a list of natural accounts, which we will see later.

• We will come back later to fill this section in.

**Program Budgets**

• In 4.a “**ABC Organizational Budget–Multi-page Template or Rev0**”, see Tabs “**P1**”, “**P2**”, “**P3**” and “**P4**”, which are budget templates for Programs 1, 2, 3, and 4.

• Locate Tab “**P1**” and open it. You will see it is a multiple-column format which includes costs by type, total costs as well as funding for each item (or group of items). Take a look at the sections (from I to IX); they include activity costs, personnel costs and other costs. So far, the format includes activities but not figures yet. We will come back to this later.

**Step 2 – From Review 1 to Review 2**

**Step-by-Step Guidance for the Facilitators**

• If participants finalized Rev0, they can continue using document 4.a “**ABC Organizational Budget–Multi-page Template or Rev0**”.

• If they didn’t finalize Rev0, ask them to close document 4.a “**ABC Organizational Budget–Multi-page Template or Rev0**” and to open document 4.b “**ABC Organizational Budget–Rev1**” (Appendix 4.b). They will see that this document contains all work done in Rev0. In document 4.b we will enter the following information:
  - Shared Costs – Calculations and Allocations
  - Reserves

**Instructions for the Participants**:

Now that we have completed review 1, open Appendix 4.b ABC Organizational Budget Rev.1, which includes all work done in prior steps, and compare it with your work. Correct your work and continue using Appendix 4.b.

**Shared Costs – Calculations and Allocation**

*Monitoring & Evaluation/Communications/Research (ME/C/R) Costs Allocation to Programs*
• To finalize tables C2 and C3, in Appendix 4.b, go to Tab “**Personnel Costs**”. First, in row 19, calculate the percentages of each unit of Total Year (e.g. in cell F19 you will see F18/E18). Total percentages should equal 100%.

  In cell G20, get Total Overhead Costs by adding Total Management and General (M&G) + Total Fundraising (FR).

• Go to row 23 and calculate the percentage of each Program (P1, P2, P3, and P4) of Total Programs (e.g. in cell K23 you will have K18/O18). Total percentages should equal 100%. These percentages will be used to allocate ME/C/R and Overhead costs to Programs.

• To complete table C2, multiply total ME/C/R, one by one by the percentages got in row 23 (e.g. for P1 – in cell K24: you will have H18*K23 as ME costs). Continue with C and R and finalize calculations for all programs.

• To complete table C3, multiply total Overhead (no need to do it one by one) with the percentages got in row 23 (e.g. for P1 – in cell K29: you will have G20*K23 as Overhead cost).

• To finalize tables D2 and D3, Go to Tab “**Non-Personnel Costs**”, into row 9, copy the percentages calculated in tab “Personnel Costs”, row 19; that will facilitate the remaining calculations. From there, repeat the same process followed to complete tables C2 and C3.

**Personnel Costs Allocation**

• In Appendix 4.b, go to Tab “**Budget**”. Get into column D (rows 45 to 52), copy **personnel cost** from Tab “**Personnel Costs**” (in the same appendix 4.b), table C1. Continue copying data by units into the columns.

• Copy the same information (**personnel costs**) into Program Budgets: Tabs P1, P2, P3 and P4 (e.g. in Program 1, Tab P1, copy Program 1 costs into column D, sections V, and VI).

**Non-Personnel Costs-Office Costs Allocation**

• In Appendix 4.b, go to Tab “**Budget**”. Into column D (rows 73 to 79), copy **office cost** from Tab “**Non-Personnel Costs**”, table D1. Continue copying data by units into the columns.

• Copy the same information (**office costs**) into Program Budgets: Tabs P1, P2, P3 and P4 (e.g. in Program 1, Tab P1, copy Program 1 costs into column D, section VII).

**M&E/C/R Costs Allocation to Programs**

• In Appendix 4.b, copy ME/C/R costs into Program Budgets: Tabs P1, P2, P3 and P4. For that purpose, we will need to add personnel and non-personnel costs (e.g. in Program 1, Tab P1, copy Program 1 costs into column D, section IV as follows: cell K24 from Tab “Personnel Costs” + cell K24 from Tab “**Non-Personnel Costs**”).

**Reserves**

• In Appendix 4.b, go to Tab “**Budget**”, cell D81, and copy **Reserves** from Appendix 4 “**ABC Directions and Timesheets**”, Tab “**Directions-part A**”, row 42. Reserve is and overhead cost -not a shared cost- and it is allocated to M&G, cell G81.
Step 3 – From Review 2 to Review 3

Step-by-step Guidelines for Facilitators:

- If participants have finalized Rev1, they can continue using document 4.b “ABC Organizational Budget–Rev1”.
- If they didn’t finalize Rev1, ask them to close document 4.b “ABC Organizational Budget–Rev1” and to open document 4.c “ABC Organizational Budget–Rev2” (Appendix 4.c). They will see that this document contains all the work done in Rev1. In document 4.c we will enter the following information:
  - Activity Costs to Budgets
  - Activity Costs as In-kind Donations to Consolidated Budget (Income)
  - Preliminary Financial Analysis – Secure Funding, Income, Expenses, Deficit/Surplus

Instructions for Participants:

Now that we have completed review 2, open Appendix 4.c ABC Organizational Budget Rev.2, which includes all work done in prior steps, and compare it with your work. Correct your work and continue using Appendix 4.c.

Activity Costs to Budgets

Activity Costs to Programs Budgets

- We are going to start with the work of Program Managers, who need to build their own budgets (Tabs P1, P2, P3 and P4, Appendix 4.c “ABC Organizational Budget Rev.2”). Now they need to include their units’ activity costs into their own budgets.
- Let’s start with Program 1. In Appendix 4.c, go to Tab “P1” Copy all activity costs from “Directions-part B” in document “ABC Directions and Timesheets”, rows 52 to 90. You will see all activity costs there (transportation, hotel, consultants, equipment, office costs, etc).
- Continue with Tabs P2, P3 and P4.
- Once the work is done, it is supposed for Program Managers to send their budgets to the Finance Director for her/him to include that information into the Consolidated Budget (Tab Budget”).

Activity Costs to Consolidated Budget

- Now, we are going to restart with the work of Finance Director, who needs to continue working on the consolidated budget in Tab “Budget”, located in Appendix 4.c.
- Go to Tab “Budget”. From Tab “P1”, rows 5, 16, and 27, copy totals by activities (annual regional workshop, 5 follow up meeting, publications) into section Activities, Events & Trips; from row 39, copy evaluation consultant into the same section; and from rows 54 and 55 copy equipment into section Office Costs. This information needs to be copied into column D.
- Continue with P2, P3 and P4. Then allocate by program (copy them into columns K to N).

Activity Costs as In-kind Donations to Consolidated Budget (Income)

- Go to Appendix 4 “ABC Directions and Timesheets”, Tab “Directions-part B”, column F (starting in cell F52, tables 19.a, b, c and d). You will see there are some notes about in-kind donations. Copy
those figures into Appendix 4.c, Tab “Budget”, section Income, Likely, columns D. Then allocate the income by program (copy them into columns K to N).

Preliminary Financial Analysis – Secure Funding, Income, Expenses, Deficit/Surplus

- At this point, the Finance Director can perform some preliminary financial analysis and determine if potential challenges may be presented. Remember, funds from donors supporting overall organization, unrestricted or partially restricted (Donors 1 and 2) are not allocated to units yet.
- In Appendix 4.c, go to Tab “Budget”. In column E formulas are already included to show percentages of total secure funding versus non-secured, income by groups, expenses by group of costs (personnel; activities, events and trips; and office costs). It is also possible to see, in row 22, the percentage of secure funds by each unit and program. This is called vertical and horizontal analysis and it is possible to set up additional formulas, as needed.
- Using this information the Finance Director can request units to revisit their budgets and make some adjustments, or even start the review with Executive Director.

Step 4 – From Review 3 to Review 4

Step-by-Step Guidance for Facilitators:

- If participants have finalized Rev2, they can continue using document 4.c “ABC Organizational Budget–Rev2”.
- If they didn’t finalize Rev2, ask them to close document 4.c “ABC Organizational Budget–Rev2” and to open document 4.d “ABC Organizational Budget–Rev3” (Appendix 4.d). They will see this document has all the work done in Rev2. In document 4.d we enter the following information:
  - Funds Allocation from Donors Supporting Overall Organization
  - Overhead – Allocation to Programs
  - Deficit/Surplus Total and by Unit
  - Basic Financial Analysis

Instructions for Participants:

Now that we have completed review 3, open Appendix 4.d ABC Organizational Budget Rev.3, which includes all work done in prior steps, and compare it with your work. Correct your work and continue using Appendix 4.d.

Funds Allocation from Donors Supporting Overall Organization

- The Finance Director, based on grant letters and needs coming from all units and further discussions/agreements with the Executive Director, starts allocating funds from donors who support overall-organization’s operations (Donors 1 and 2). Remember there are carry over funds from prior period (opening balance) as well as fresh funds for the current budget period.
- The Finance Director starts with opening balance (carry over) then continue with receivables.

Overhead – Allocation to Programs

- In Appendix 4.d, the Finance Director inserts the overhead costs into programs’ budgets, Tabs P1, P2, P3 and P4, which are personnel and non-personnel costs.
• **Overhead -Personnel Costs**: Go to Tab “P1”. In cell D70, copy **overhead personnel cost** from Tab “Personnel Costs”, table C3, cell K29. Do the same for P2, P3 and P4.

• **Overhead –Non-Personnel Costs**: Go to Tab “P1”. In cell D71, copy **overhead non-personnel cost** from Tab “Non-Personnel Costs”, table C3, cell K29. Do the same for P2, P3 and P4.

• Once this step is done, the Finance Director provides to programs’ leaders the finalized programs’ budgets, with all costs included.

**Deficit/Surplus Review –Total and by Unit**

• In Appendix 4.d, go back to Consolidated Budget, Tab **Budget**, to take a look again at the deficit/surplus: total and by units. At this stage, all secured and likely funds are assigned to all units; therefore, Income should have no unassigned funds.

• The Finance Director reviews the Consolidated Budget again and takes note of the main challenge: deficits are presented in all units. Deficits are shown in Tab “Budget”, row 42.

• The Finance Director then will meet with the Program Director and Executive Director to review deficits at the consolidated and unit levels and discuss further actions to be taken.

• Available options: expenses cutting or income increasing or a combination of both; usually, organizations decide for a combination of both.
  - To reduce expenses it will be necessary to go back to Program Managers and discuss what costs should be cut.
  - To increase income, fundraising’s plans may need to be revisited. This plan together with new and historical information can help the organization to decide which donors (current or new) to approach. Once this is done, the fundraising plans will need to be updated.
  - Once the figures are reviewed, FD, PD and ED will need to make some decisions that will affect the budget.

**Step 5 – From Review 4 to Review 5 –FINAL**

**Step-by-Step Guidance for Facilitators:**

- If participants finalized Rev3, they can continue using document 4.d “**ABC Organizational Budget–Rev3**”.

- If they didn’t finalize Rev3, ask them to close document 4.d “**ABC Organizational Budget–Rev3**” and to open document 4.e “**ABC Organizational Budget–Rev4**” (Appendix 4.e). They will see this document has all the work done in Rev3. In document 4.e we will enter the following information:
  - Plan additional Funding for Each Unit.
  - Basic Financial Analysis

**Instructions for Participants:**

Now that we have completed review 4, open Appendix 4.e ABC Organizational Budget Rev.4, which includes all work done in prior steps, and compare it with your work. Correct your work and continue using Appendix 4.e.

**Plan Additional Funding for Each Unit**

- After reviewing the draft budget, in Appendix 4.e, the decisions made by FD, PD and ED are:
- not to reduce costs, but to increase income, and
- have a break-even budget (not to have deficit, neither surplus)

- Based on these decisions, the fundraising plan is revisited and new potential donors are identified: Donors 8, 9 and 10 to cover each unit deficits, so, we have a break-even budget.
- Finance Director goes back to Consolidated Budget, Tab Budget”, and adds the figures into section Income –Prospect.
- Now that we have a break-even Consolidated Budget, it is time to start preparing the budget presentation to the Board.

**Basic Financial Analysis – Secure Funding, Income, Expenses, Deficit/Surplus**

- At this stage, with finalized figures, Finance Director can perform a new basic financial analysis and get prepared to respond to questions when presenting the budget to the Board. This case study doesn’t include preparing a second or third scenario, but in practice, it is important to prepare alternate scenarios prior to presenting the ideal budget to the Board.
- Now, in same document, Appendix 4.e, go back to Tab “Budget”. Again, in column E formulas are already included to show percentages of total secure funding versus non-secured, income by groups, expenses by group of costs (personnel; activities, events and trips; and office costs). It is also possible to see, in row 22, percentage of secure funds by each unit and program (called vertical and horizontal analysis).
- In the same Tab, row 84, there are additional ratios calculated (by formula). These show the percentage (of total programs’ budgets) that each program represents (e.g. cell K84 shows the percentage of Program 1 represent of total programs’ budgets = K83/083). This ratio is important to calculate the percentage of Overhead over Total Programs.
- End the Process

**Budget Final Version**

- Now that the process has ended, you will have the Final Version of the Budget as a product. Go to your materials and open document “ABC Organizational Budget–Rev5 FINAL” (Appendix 4.f). When you are done with yours, it should look like the final version.

**End of Case Study**
Conclusion
A clear, well-organized, accurate budget is essential to helping guide your staff to keep the organization and projects on a clear path towards success.

We hope you will use the skills you have learned in this training right away to ensure that your budget processes become increasingly efficient, reflective, and participatory. Share what you’ve learned here with others, and help spread the skills and knowledge necessary to create strong, vibrant, and sustainable civil society organizations that are interconnected and mutually supportive.

Post-learning Evaluation
- There will be a post-learning evaluation (for sessions 3 and 4). You will receive a link to a survey after the session is over.
- Please take a few moments to complete this evaluation. Your feedback is important to improve WLP’s future learning sessions.