



# Creating A Program Budget

# Defining a Program Budget...

**ORGANIZATIONAL BUDGET:** Applies to an entire organization's activity, including everything that the organization does. Therefore all the programs and other activities are included in the organizational budget. An organizational budget corresponds with the organization's fiscal year (each year when the annual accounts are closed & a new annual accounting period begins).

**PROGRAM BUDGET:** As the title suggests, covers only the income and expenses associated with a particular program (e.g. department, project, etc.). It does not include income allocated for other purposes but organizational costs are sometimes included. A program budget time period however, is the time period corresponds to the expected life cycle of the program; if it is an on-going program and an integral part of the organization's mission; it will correspond with the organization's fiscal year; however sometimes, a program's budget is determined by the donor funding available or the funds available to cover program costs and thus, will not necessarily correspond with the organization's financial year.

# Program Vs Org Budget

EXPENSES	ORG BUDGET	PROGAM 1	PROGRAM 2
Staff salary and benefits			
Position	0	0	0
Position	0	0	0
Occupancy (rent & utilities)	0	0	0
Insurance	0	0	0
Legal, accounting	0	0	0
Equipment	0	0	0
Supplies	0	0	0
Printing & Copying	0	0	0
Telecommunications	0	0	0
Travel and meetings	0	0	0
Marketing & Advertising	0	0	0
Staff training/development	0	0	0
Contract services	0	0	0
Other	0	0	0
General Admin ("X" %)	0	0	0
<b>Total cash expenses</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>In-kind</b>			
List item	0	0	0
List item			
<b>Total In-kind</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Expenses</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

# Features of a Program Budget...

A Program Budget generally has the following features:

- ❑ A written overview explaining how the costs are allocated, possible reasons for fluctuations in the expected costs, and how to cover the expenditures.
- ❑ The overview justifies each of the listed purchases and sometimes offers solutions and/or alternatives to reduce the costs of the program.
- ❑ When listing ways to cover the expenditures, this may include proposed fundraising activities or shared resources with other programs within the organization.
- ❑ Reflects how the organization has planned for the costs.

# Significance...

- ❑ Helps organizations understand & actualize costs.
- ❑ May show that an organization cannot afford a given program; saving valuable time & resources.
- ❑ Shows how an organization can change/manipulate its original plans to do something more cost-effective.
- ❑ Can be used as a proposal to eliminate & select the most cost-effective vendors bidding on an organizational contract.
- ❑ Motivates a sense of accountability for those in charge of making purchases for the program & the budget information can be used to create purchasing guidelines & expectations.

# Breaking it Down...

**PROGRAM:** A plan of action aimed at accomplishing a clear organizational objective, with details on what work and/or activities are to be done, by whom, when, and what means or resources are needed. Creating a budget includes Fixed & Variable Costs.

❑ **FIXED COSTS:** The costs that exist or that are incurred regardless of production output. Examples include rent, advertising, insurance, office supplies, etc.

❑ **VARIABLE COSTS:** Variable costs are those costs that vary depending on a the quantity produced; they rise as production increases and fall as production decreases. Examples include direct material costs or direct labor costs necessary to complete program activities. Seasonal labor is an example.

❑ **TOTAL PROGRAM COSTS:** Computing the total value of your fixed and variable expenditures yields your overall program cost



# Program Cost Considerations...

- ❑ **BASIS FOR UNDERSTANDING PROGRAM COSTS:** Important to understand administrative costs; the difference between direct & indirect costs; what an indirect cost rate agreement (IDRA) is and how the IDRA is established.
- ❑ **UNDERSTANDING THE RELATIONSHIP:** It is also important when devising your Program Budget or managing an Organizational Budget to understand the relationship between administrative costs, program costs, direct & indirect costs, as well as the importance of tracking and reporting administrative and indirect costs.
- ❑ **CONSEQUENCES:** Failure to track and report costs accurately can lead to disallowed costs (pay back or no future funding). Some common problems include: distinguishing between administrative and program costs; distinguishing between administrative and indirect costs; and inappropriate reporting of costs may lead to exceeding limitations.

# Administrative Costs...

**DEFINED:** Allocable portion of necessary & reasonable costs that are not related to direct provision of services.

## TWO BASIC CATEGORIES

### Administration

- Function based
- Not related to direct program services
- Can be both direct and indirect

### Program Activities

- All grant costs that relate to direct provision of services to participants and employers



# Administrative Costs...

## Administrative Functions

- Accounting, budgeting, financial and cash management
- Procurement & Purchasing
- Personnel & Property Management
- Payroll, Audit & General Legal Services
- Oversight and monitoring of administrative activities
- Developing information systems & procedures related to administrative functions

## Administrative or Program?

- Goods and Services
- Travel
- Information Systems
- Costs of personnel who perform both administrative & program services – must be allocated based on job function (not job title)

*Assigning or allocating admin and program costs really depends on the nature of function or activity being performed*

# Direct or Indirect Costs?...

**DIRECT COSTS:** Those costs that can be readily identified with a particular cost objective or cost identified with a specific grant. Examples: (program specific)

- Salaries – LWIB program staff
- Space – sq. ft. occupied by direct staff
- Supplies – used by direct staff
- Communications – used by direct staff

**INDIRECT COSTS:** Those costs which are not readily identifiable with a particular cost objective. Examples:

- Salaries (Executive Director, Accountant, etc.); Space (sq ft occupied by indirect staff); Supplies (used by indirect staff); Communications (used by indirect staff).
- Cost shared among multiple programs and/or multiple categories

*Note: Direct and Indirect Costs Can Be Either Administrative or Program*

# Indirect Cost Rate Agreement...

- ❑ An IDRA is an agreement between a recipient and federal agency that specifies the treatment of indirect costs.
- ❑ Ratio between the total indirect expenses and some direct cost base.
- ❑ Based on indirect cost proposal and supporting documentation
- ❑ To obtain a IDR, must seek approval from cognizant Agency (determined based on Federal Agency providing largest amount of direct federal funding for non-profits; gov't orgs assigned by OMB) within 90 days of grant approval.
- ❑ Can apply for IDCR with DOL's Division of Cost Determination - Telephone: 202-693-4100 or Obtain "*A Guide for Indirect Cost Rate Determination*" at <http://www.dol.gov/oasam/programs/boc/ocd-guidemain.htm>

# Program Cost Relationships...

**The Relationship between Administrative, Program, Direct and Indirect Costs is complex and inter-connected**

- ✓ Not all direct costs are Program Costs
- ✓ Not all Administrative Costs are Indirect Costs
- ✓ Not all Indirect Costs are Administrative

# Program Cost Relationships...

## **Administrative Costs May be BOTH Direct & Indirect**

□ EXAMPLE: \$550,000 Total Grant Award

- ✓ \$475,00 is Direct for program activities/support
- ✓ \$55,000 is Administrative for oversight/management
- ✓ \$75,000 Indirect for shared organizational costs/line items (e.g. legal, accounting, etc.)

## **Administrative Costs ≠ Indirect Costs**

- Where a grant limits administrative costs based on a percent of the total grant award
- Indirect cost rates are a percent based on specific IDRA

# In-Kind Resources/Contributions...

**IN-KIND REVENUE:** Non-cash payments received in exchange for services rendered or in lieu of a cash contribution. In-kind income can come in the form of provisions, such as free rent, or free meals, or it can come in the form of property, or an exchange of services.

**ACCOUNTABILITY:** In-kind revenue is included in the revenue or income portion of your budget. For instance, in-kind office space can be calculated by square footage and the market rate for what it would cost you to rent the same square footage in the local market.

**MATCHING FUNDS:** In some cases, in-kind revenue can be used as “matching” funds for a grant application. It is solely dependent upon the grant specifications or requirements. If it is not outlined in the grant announcement, it can always be clarified with the funder.



# Basic Steps for Planning...

1. Define your program activities, resource needs to support these activities, cost for resources, staffing costs, etc.
2. Calculate the costs for an entire year for the following: salaries, benefits, facilities rental, utilities, telephone, internet access , printing, postage, supplies, equipment, professional fees, and travel.
3. Each cost should be recorded as a separate line item on budget spreadsheet. Add any other costs that are unique to your program. Add up the subtotals of these costs to arrive at your program budget figures.
4. Calculate your indirect cost rate (generally a percentage) or administrative overhead percentage as allowed by the grant funder and add to program budget.
5. Don't forget to calculate and track any in-kind contributions on an annual basis and breakout over 12-month period.

# Key Planning Considerations...

The following are key considerations to think about when planning and developing your Program Budget:

- Salaries for staff that will implement the program or work activities to be accomplished.
- Fees/costs for space and equipment.
- Independent vendor and/or consultant/contractor costs.
- Program publicity materials (i.e., flyers, brochures, newsletters, photocopying, etc.).
- Budget to purchase incentives (i.e., gift cards, t-shirts, water bottles, etc.).
- Other program materials (i.e., educational, marketing, promotion, incentives, rewards).

*Developing an accurate and comprehensive budget will make it easier for you to evaluate your program later and help you define where you might share cost savings with other programs or the parent organization.*

# Key Planning Considerations...

Additional key considerations in planning and developing your Program Budget, include:

- Piggyback on other activities that can be implemented together. For example, if you are planning to start an adult group & a student group; consider marketing them together to reduce marketing costs.
- Only include activities that achieve your program objectives to justify the budget to senior management.
- Make sure to keep track of program data to demonstrate the effectiveness of your program activities.
- Integrate and share your program ideas with other programs or departments; may help share costs, maintain or increase your budget, & enhance the visibility of your program.

# Key Planning Considerations...

Additional key considerations in planning and developing your Program Budget, include:

- Once your initial budget has been set and approved, you will need to justify the cost of sustaining this budget over time. The best way to do this is to track real against projected expenditures and regularly evaluate the program relative to the cost of implementing the program.
- If you are looking to increase your budget over time, make sure to stay on top of emerging issues within the organization and within the industry or market you are serving. For example, if there has been recent concern over rising absenteeism, you can make a case for using your program to address certain industry or organizational trends. You can set it as an objective in your mission, goals, and objectives and develop specific steps to target it.
- Before listing costs, budget analysts should gather information from multiple sources regarding prices. Determining which item to purchase for the program should be done only after consulting many prices.

# Program Budget In Review...

## A Program Budget...

- Plan ahead for times when revenues are down.
- Understand & Actualize costs. May indicate if organization can afford the Program.
- Original plans can be amended to pursue something more cost-effective.
- Can be used as a proposal & reviewing most cost-effective vendor bids.
- Facilitates accountability & can be used to create fiscal guidelines and expectations regarding cost.
- Ensures that all of your funds are being spent in the most effective ways possible, as well as identifying months or seasons in which your funding may be inadequate to accomplish your mission.
- Helps assure current and prospective donors that their donations are being used effectively and responsibly.

# Attachments...

- Multiple Program Budget Template
- Program Budget Planner Worksheet





**QUESTIONS....**