The SCAN Foundation®

Budget and Financial Planning Workbook Instructions

BUDGET AND FINANCIAL PLANNING WORKBOOK INSTRUCTIONS

TABLE OF CONTENTS

Overview

This workbook is designed to assist organizations with setting up a budget for a specific project, and planning for its financial sustainability. Each worksheet tab in the excel workbook represents a separate year for the project (for a five-year period). There are three main parts to each worksheet:

1. Total Funding Sources
2. Total Expenses
3. Net Surplus/(Deficit)

The workbook is formatted to allow the user to enter information into the un-shaded white cells. Shaded cells are locked and will automatically calculate based on inputs.

The *Total Summary* tab displays the total project cost and funding. The last group of tabs in the workbook is a collection of charts that will automatically generate. Edit and make changes to these charts for further analysis or presentation. The accompanying ***Budget Assumptions Worksheet*** is used to discuss assumptions related to estimating project funding.

Headings

Enter the <u>Organization Name</u> and <u>Project Name</u> on the *Year (1)* tab. This data will automatically carry over to all other tabs. <u>Project Period</u> (the 12 month time period the budget will cover, e.g., July 1, 2013 to June 30, 2014) will have to be entered separately on each tab.

Part 1 – Total Funding

This part of the worksheet displays the various potential funding sources to sustain the project. Sections for the five types of potential funding sources are provided. Each section contains the following four columns:

1. **Probability of Funding** – Enter the estimated percentage of the likelihood of receiving the listed funding.

    a. Describe assumptions used to determine probability of funding on the ***Budget Assumptions Worksheet***. These could include – previous relationships with potential funders and sector partners (service fees), fundraising history for other programs within the organization and history of securing loans.

2. **Total Grant/Fundraising/Fees/Loans/Funding** – Enter the total dollar amount of the anticipated funding.

3. **% Applicable** – Enter the percentage of the funding that will be applicable to the project.

4. **Most Probable Amount of Funding** – This column will calculate automatically by multiplying the previous three columns. This provides a reasonable estimate for the amount of funding that is expected to be received for the project.

Section 1.1 – In-Kind Support

List all sources of in-kind support in this section. In-kind support (gift in kind) is when an organization receives a good or service in lieu of monetary grants (e.g., free rent, free supplies), or, if certain staff expenses are currently already covered through other grants.

List the expenses related to in-kind support again in the Expense section. This presentation of In-Kind Support may appear different than a typical budget submission. This tool splits up the funding and expense components of in-kind support in order to demonstrate the true full cost of the project. Knowing the true full cost is essential for project replication.

If the in-kind support is fully guaranteed, then list 100% under the <u>Probability of Funding</u> and

% Applicable columns. List an identical total amount under the Expense section. This will in effect zero out the cost of the in-kind supported expense.

The split presentation will also account for uncertainty with in-kind support. For example, if it is uncertain that an organization's office space will continue to be donated, then lower the Probability of Funding. Then determine how critical the in-kind support of office space is to the project and plan ahead for any shortcomings in funding.

Section 1.2 – Grants

List all sources of grants in this section. For multi-year grants, break down the amount by years and list it separately in each yearly worksheet. Potential grant sources include:

- Foundations
- Government Contracts
- Corporations

Most grants awarded by foundations and corporations can be categorized as one of two types:

- Operating Grants – Grants given to support the general expenses of operating the organization. For these grants, determine the amount that will be applied towards the project and enter that in the % Applicable column.

- Project Specific Grants - Grants given to support a specific, connected set of activities, with a beginning and an end, explicit objectives and a predetermined cost. Typically for these grants, enter 100% in the % Applicable column.

When determining the probability of funding there are several factors to consider:

- Understanding of how a potential funder operates, e.g., do they fund in this potential area? What do they fund, core support, services? Do they provide multi-year grants? Do they engage in partnerships and provide fees for services rendered to their population?

- Previous relationship with potential funder.

- Do they leverage each potential funding source, e.g., can fundraising be increased? Are there potential partners to contract with on a fee-for-service basis? Is projected growth in alignment with potential funding, e.g., is the organization growing too fast?

Section 1.3 – Service Fees

List any possible funding from service fees in this section. Service fees can include payments from the end users or (fee-for-service) reimbursements from government or corporate organizations (do not double count the latter in the Grants section).

NOTE: This tool is not designed to help determine the best price to charge for service fees. Calculate total service fees separately and enter the result into this tool. For more information and resources on service fees, please review the ***Pricing Guide*** available on The SCAN Foundation's website.

Section 1.4 – Fundraising

List all sources of fundraising in this section. Potential fundraising sources include:

- Individual Donations
- Fundraising Events
- Endowment Income

For more information on fundraising, refer to the following resources:

Foundation Center – The Foundation Center provides online interactive training courses that reinforce lessons with assignments, and self-tests.

http://foundationcenter.org/getstarted/training/online/

The Fundraising Resource Group - The Fundraising Resource Group helps non-profit organizations with services designed to minimize cost, maximize return, and transfer the skills necessary for ongoing benefits. Non-profit organizations can benefit from training courses and free webinars no matter where an organization is in their fundraising programs.

http://www.thefundraisingresource.com/

The Grassroots Institute for Fundraising Training (GIFT) - GIFT promotes the connection between fundraising, social justice and movement-building and provides training, resources, and analysis to strengthen organizations, with an emphasis on those focused on social justice.

http://www.grassrootsfundraising.org

Section 1.5 – Loans

List any potential funding from loans in this section. If loans will be used as a funding source, remember to include *Loan Repayments* as an expense item under Non-Personnel Other Costs. For more information on loans, refer to the following resources:

U.S. Small Business Administration (SBA) – The SBA site provides individualized consulting and training for both new and growing businesses.

http://www.sba.gov/category/navigation-structure/starting-managing-business/starting-business/explore-loans-grants-fund

USA.gov – The USA.gov site provides information and services developed for non-profits, including grants, loans, assistance, taxes, management and more.

http://www.usa.gov/Business/Nonprofit.shtml

Self Help – The Self-Help site provides lending and industry expertise for both non-profits and businesses.

http://www.self-help.org/business-and-nonprofit-loans

Section 1.6 – Other

List any other potential funding sources.

Part 1 – Total Funding

Row 82 represents the grand total of all funding related to the project.

Part 2 – Total Expenses

This part of the worksheet breaks down all the costs of the program. For additional guidance on costs, please refer to The SCAN Foundation's *Cost Categorization Guide* found on the website.

Section 2.1 – Direct Expenses

Direct Expenses are costs that can be directly attributed or allocated to the project. There are two subsections: Personnel and Non-Personnel.

Section 2.1.1 – Personnel

1. **Personnel** – List all personnel who will work on the project for the year.

2. **Annual Salary** – Input the full annual salary under the project for each individual.

3. **% of Effort** – Input the percentage of each individual's time that will be spent on the project.

4. **Months per Year** – Input the total months of the year that each individual will contribute to the project.

5. **Total Project Cost** – This column will automatically calculate based on the previous inputs. This

represents the total cost for each individual that can be attributed to the project.

6. **Fringe Benefits** – Input the percentage of fringe benefits (Payroll Taxes, Retirement Benefits Health Insurance, etc.). The related cells will automatically populate.

7. **Total Personnel** – This row will automatically calculate. The totals in this row represent the total project cost for personnel.

If the project has multiple personnel operating in a similar role, list the position once and inputting the total annual salary of all individuals. For example, ten nurses with an average salary of $70,000 each can be input as "10 Nurses - $700,000".

Section 2.1.2 – Non-Personnel

1. **Non-Personnel** – A list of common non-personnel expenses has been prepopulated. Amend the list or add other expenses to the space given. If any of the expenses listed will be included under indirect costs, then do not double count them here.

   The following columns are designed to help you calculate the amount of each expense line item that can be attributed to the project.

   - Total Annual Cost – Input the total annual cost.
   - % Applicable – Input the percentage of the line item that will be applied to this project. This is typically based on the percentage of employees or office space dedicated to the project. Please view the ***Indirect Cost Worksheet*** for additional guidance.
   - Months per Year – Input the number of months per calendar year the project will be in operation.
   - Total Cost – This cell will automatically calculate.

   If each line item to be attributed to the project is known in advance, enter that amount under Total Annual Cost; enter "100%" under % Applicable; and enter "12" under Months per Year.

2. **Total Non-Personnel** – This row will automatically calculate. The total in this row represents the total project cost related to non-personnel items.

3. **Total Direct Expenses** – This cell will automatically calculate. This represents the total of personnel and non-personnel expenses that can be directly attributed to the project.

Section 2.2 – Indirect Expenses

Indirect Expenses are costs incurred for joint objectives or projects that cannot be easily attributed to a specific project. Examples may include:

- Rent
- Utilities
- Audit and legal
- Administrative work
- Office supplies
- Depreciation on equipment
- Insurance
- General management
- Equipment rental
- Fuel
- Maintenance
- Security
- Telephone
- Postage and printing

Some expenses may fall into either direct or indirect cost categories (such as rent). Do not include these expenses in both categories when preparing a budget.

NOTE: Indirect expenses in this tool may be different than the indirect costs submitted for grant and other funding applications. Funding organizations may limit the amount of indirect expenses that they are willing to fund to a certain percentage or rate of direct costs. This tool intends to show the true full cost of the project, therefore users need to calculate the true indirect costs that are allocated to the project.

Please view **_Indirect Cost Worksheet_** for guidance and examples for calculating true indirect expenses.

Input the results from the **_Indirect Cost Worksheet_** here. Calculate separate indirect expenses for each year.

A Note on Sunk Costs

Sunk costs are indirect expenses that will be incurred by the organization regardless of whether or not the project is pursued. These expenses will not be affected by volume. Sunk costs should not be included in the financial planning decision.

A common error that occurs with financial planning is the inclusion of sunk costs. Allocating sunk costs to the total expenses will drive up the costs, which could result in an apparent loss in net income. In these cases, new service proposals appear to lose money, but in reality they would still add to the bottom line of the organization. As long as the total funding is above the relevant (not sunk) expenses, there will be a positive financial contribution that "contributes" to offsetting the sunk cost.

To avoid this fallacy, exclude sunk costs from the Financial Planning Tool. Do not include sunk costs in the *Indirect Cost Worksheet*.

A Note on Full Cost Recovery

Knowing the full cost, including Sunk Costs, can still be useful for financial planning. Presenting the full cost is advantageous in situations where the buyer or funder only wants to pay enough to cover the project's costs. Sunk costs are still vital to an organization to ensure effective management and growth. Full cost should be used in the negotiations. Any amount above the direct costs is acceptable as long as the organization as a whole is financially better off.

To project the full cost of the project, include Sunk Costs in the *Indirect Cost Worksheet* and input the results in Section 2.2. The tool will calculate total expenses, including Indirect Sunk Costs.

See The SCAN Foundation's *Cost Categorization Guide* for more details on Sunk Costs.

Part 2 – Total Expenses

Row 45 represents the grand total of all expenses related to the project.

Part 3 – Net Surplus/(Deficit)

Row 131 shows the net surplus or deficit for the project year. This part of the worksheet will automatically calculate. The Net Surplus/(Deficit) is the difference between Total Funding and Total Expenses. If Total Expenses are less than Total Funding, then there will be a net surplus. If Total Expenses exceed Total Funding, there will be a net deficit, which is signified by parentheses around the number. Ideally the project should have a net surplus greater than zero in order to be sustainable. Annual deficits can be sustainable if surpluses in other years exceed the deficit so that the total for all years' results is a surplus.

Row 133 shows the accumulated net surplus or deficit for the project. This is the rolling total from all previous years. This will show when the project starts to become sustainable.

Two columns are presented here, both of which automatically calculate:

1. **Total Possible** – This represents the best case scenario for the project. This assumes that all of the potential funding will be received and will be applied to the project.

2. **Most Probable** – This represents the most likely scenario for the project. It takes into account the probability of funding and applicable amount of funding.

This entire worksheet will automatically calculate based on the data from the yearly tabs. Each section of the Total Summary tab is summarized by year. This gives an overview of the Total Expenses, Total Funding, and Net Surplus or Deficit of the project.

Analysis

The following table lists the potential results for the net surplus or deficit and the implications of each result.

Total Possible	Most Probable	Analysis
Surplus	Surplus	The project is sustainable. If there is a significant difference between the Total Possible surplus and the Most Probable surplus, then there is room for improvement. Funding sources can be reviewed for ways to improve the probability of funding. Additional expenses can be spent on the project if needed (as long as they do not create a deficit).
Surplus	Deficit	The project may not be sustainable, but has the potential to be. Revisit funding sources for ways to improve the probability of funding. Seek additional funding sources. Review expenses for items that can be reduced or eliminated.
Deficit	Deficit	The project is not sustainable. Seek additional funding sources. Review expenses for items that can be reduced or eliminated.

Assumptions Document

This document is used for informational purposes to document key assumptions used in the budget. The cells are not protected or locked. Cells can be resized to properly display entries. The data entered here will not affect the other worksheets.

Projection of Program Growth Years 1 - 5

Enter a brief summary of the assumptions used in the budget for program growth.

CPI – Inflation Assumptions

Include an estimate of growth and inflation for multi-year projects. Common practice is to use the Consumer Price Index (CPI) as an estimate for expense increases. Government CPI tables can be found at:

http://www.bls.gov/cpi/tables.htm

Probability of Funding

Describe assumptions used to determine probability of funding for each source. These could include previous relationships with potential funders and sector partners (service fees), fundraising history for other programs within the organization, and history of securing loans.

Service Fee Calculations

For initiatives that include the provision of services, an organization should have an estimate of the need in the community they serve and base their assumptions on this. For each year of the five-year plan, an organization will need to make certain assumptions about the number of persons served, estimated uses of units/service by each person served, and how this will increase from year to year. Following is an example to determine these numbers.

Sample Calculation for a Fictitious Initiative

Door-to-Door Transportation Initiative
This initiative will focus on two communities in Los Angeles City – Highland Park and Eagle Rock.

There are 3,900 people over the age of 65 in Eagle Rock

There are 5,785 people over the age of 65 in Highland Park

Assumptions Document

Based on income and functional limitation/disability information, it is estimated that 6% of the population over the age of 65 will be eligible for the Door-to-Door Transportation program.

Total number of potential participants – 581 (= 6% of 9,685 people over 65)

In year one, the program is estimated to serve 100 participants providing an average of one roundtrip ride per week. Total of 5,200 roundtrip rides (units) in year one (100 people x 1 ride per week x 52 weeks).

In year two, the program is estimated to grow by 40% and will serve 140 participants providing an average of 1 roundtrip ride per week. Total of 7,280 roundtrip rides (units) in year two (140 people x 1 ride per week x 52 weeks).

In year three, the program is estimated to grow by 40% and will serve 196 (140 + 56 = 196) participants providing an average of 1 roundtrip ride per week. Total of 10,192 roundtrip rides (units) in year three (196 people x 1 ride per week x 52 weeks).

In year four, the program is estimated to grow by 75% and will serve 343 (196 + 147 = 343) participants providing an average of one roundtrip ride per week. Total of 17,836 roundtrip rides (units) in year four (343 people x 1 ride per week x 52 weeks).

In year five, the program is estimated to grow by 75% and will serve 600 (343 + 257 = 600) participants providing an average of one roundtrip ride per week. Total of 31,200 roundtrip rides (units) in year five (600 people x 1 ride per week x 52 weeks).