



Budgeting Nonprofit Income: Grants and Contributions

A resource article by Minnesota Nonprofits Assistance Fund

Anyone who has ever created a budget for a nonprofit organization knows that expenses are easy to plan – but projecting the income section can feel like a dart throwing contest. It would be ideal if all the grants and contributions needed for income were committed before preparing the budget, but that’s pretty unrealistic. In actual practice, preparing a budget for nonprofits requires making assumptions – and guesses – about the contributed income.

Uncertainty

One philosophical question to agree on before planning the budget is how much uncertainty to include in it. There is always some uncertainty when it comes to budget planning, but there is a wide range in the amount of uncertainty (risk) when it comes to making assumptions about contributed income. The most conservative approach is to plan for only the grants and contributions that have already been committed for the year. The most risky approach is to “plug” an assumed number in the contributed income section of the budget in order to make the budget balance. This approach requires the organization to commit to raising the funds during the year to ensure the budget balances. Most nonprofits use an approach that is between these two extremes. What’s most important is that everyone involved in creating and approving the budget understands the assumptions that were made.

Making Assumptions

A prudent method for developing a grant and contributions budget is to start with committed funds that the nonprofit knows will be coming to the organization, and then add the other

amounts in tiers. These tiers are based on whether the funds are (a) very certain; (b) likely, but not certain; (c) possible, but unknown; or (d) unknown. Determining which tier a potential grant falls into is a judgment call for the nonprofit based on a number of factors: experience with, and knowledge of, potential contacts; relationships with potential funders; and timing of grant cycles. Amounts in tiers (c) or (d) should only be included if there is confidence that the grants can be raised. Budgets that include a lot of “unknown” grant funds are very risky. It is better to plan for a smaller budget than to make unrealistic assumptions for grants and face a crisis later in the year.

Remember also to consider whether grants are for general operating expenses or restricted for specific programs or projects. Planning for “restricted” grants sometimes means that the nonprofit will receive funds that can’t be used during the current year because of the program or project schedule.

Planning for contributions other than grants in the budget uses a similar method. Based on past experience, project the amounts the organization expects to receive from individual donor campaigns, special events, or fundraisers. Be realistic in these assumptions. Budget for an increased amount of contributions only if there is a plan for how to generate the increase – a plan that includes specific action steps and responsibilities.

There is no “bulls-eye” when it comes to budgeting for grants and contributions for nonprofits. However, when an organization understands the assumptions behind the budget numbers, agrees how much uncertainty is acceptable, and implements an action plan to generate increased contributions, they are more likely to hit the target of a balanced budget.

Authored by Kate Barr, Executive Director of Nonprofits Assistance Fund. The Minnesota Nonprofits Assistance Fund (MNAF) program provides flexible loans and practical financial management training and advice to nonprofits. Other resources and articles on nonprofit financial management topics can be found at www.nonprofitsassistancefund.org. You can contact Kate Barr at 612/278-7180.