Developing a Budget and Budget Narrative for Grant Applications

Hanover Grants provides this document as a basic guide to assist clients in developing a budget and budget narrative for federal and foundation grant applications. This guide is not intended to be comprehensive or definitive, and clients must consult and comply with all documentation from the grantmaker.

Many grant seekers understandably focus on the proposal narrative when applying for awards from federal agencies, but even the best proposal narrative will not receive funding if the budget and budget narrative do not demonstrate that the applicant has carefully considered the costs associated with the proposed program. Hanover Grants has developed this guide to assist clients in developing budgets and budget narratives. Using this guide and complying with the documentation provided by the granting agency will increase your chances of meeting the agency’s budgeting expectations.

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I. Getting Started

1. Determine the budget requirements of the program for which you are applying—this information will be included in the funding opportunity announcement (available on the agency website or on grants.gov) and the grant application package (available on the agency grants submission website or on grants.gov). Important points to note:

• does the program require cost share/matching funds?
• if cost share/matching is required, does the program require or limit cash, in-kind, discounts, or other types of matching?
• does the program allow indirect costs?
• does the program exclude or limit certain costs?
• does the program require certain costs?
• what are the maximum and minimum awards?
• what is the anticipated budget period?
2. **Determine which budget form(s) are required**—this information is included in the grant application package. Note that while the SF-424a is the form most commonly required by federal agencies, some agencies (e.g., Department of Education, NSF) have their own forms. All federal budget forms are accompanied by basic instructions for completion. Be sure to download these instructions when you get the budget form.

3. **Determine the requirements for the budget narrative**—this information is included in the funding opportunity announcement and/or the application package. The requirements for this section are agency specific and may even vary by program within a given agency. For example, NSF limits the budget narrative to three pages, whereas many programs sponsored by the Department of Education do not have a page limit for the budget narrative.

4. **Determine which regulations are relevant for your proposal**—this information is typically included in the funding opportunity announcement and/or grant application package, but you may need to request additional information from a program officer if the information is not available. Different regulations apply depending on the funding agency, the type of applicant institution, and in some cases, the type of program or activity. Program officers and/or program documents may refer to these regulations as XX CFR XX.XX (where the Xs indicate numbers and letters) or OMB circular XX.XX. These regulations may be particularly important if the proposal includes any of the following:

   - consultant services
   - services or products obtained through a bidding process
   - discounted products
   - products or services provided by official program partners

**II. Budget Planning**

The budget planning process should parallel planning for and development of the proposal narrative. This will ensure that the costs associated with the proposed activities do not exceed the maximum allowable request. For each project activity, goal, or aim, you should consider the following items:

1. **Personnel**—what personnel are absolutely essential for this specific activity? What percentage of their time will be spent on this specific activity? Apply the appropriate percentage to the salary for each person associated with the specific activity. Determine whether the percentage of time or personnel required will be different in any or all grant years.

2. **Fringe benefits**—apply the appropriate fringe rate to each salary amount determined in the personnel section.
3. **Travel**—what travel is associated with this specific activity? When calculating travel expenses, research the actual cost of travel to and from the location. Airport parking is not an allowable expense under most circumstances. Include airfare, mileage, or rental car and fuel expense. Apply the appropriate reimbursement rate for mileage where appropriate (current IRS allowed rate is available at [http://www.irs.gov/taxpros/article/0,,id=156624,00.html](http://www.irs.gov/taxpros/article/0,,id=156624,00.html)). Then include ground transportation after arrival (train, subway, taxi, rental car). Use the US General Services Administration’s (www.gsa.gov) per diem rates to calculate per diem for all domestic travel. Include lodging, meals, and incidentals. If the specific travel location is not available in the GSA information, use the county or state rates assigned. Note that meals and incidentals for the first and last day of travel can only be charged at 75%. Including this level of detail and information in your budget calculations and budget narrative indicates to reviewers that you have carefully evaluated the costs associated with proposed activities rather than randomly assigning an amount. Separate the travel amounts by year of the award. For some agencies you will need to separate travel (and other expenses) by quarter to assist the agency in planning disbursements.

4. **Equipment**—this is one of the categories that varies considerably by agency and program. Many federal programs do not allow equipment purchases or do not allow purchases of equipment that will be usable beyond the award period. Other programs limit the minimum or maximum purchase amount for a single piece of equipment or for equipment overall. Thus you should carefully examine all information provided by the agency when determining whether you can or should include equipment. A common minimum definition for equipment is >$5,000 with >1-year lifespan. Note that most computers do not fit within this definition and are thus commonly included in the category of supplies or other, depending on how they will be used. But again, consult the documentation for the program. If in doubt, contact a program officer.

5. **Supplies**—what consumable supplies are associated with this specific activity?

6. **Contractual**—what contractual services are required for this specific activity? Common costs include consultants, evaluators, and service contracts. Note that specific agencies often have limitations on daily or hourly consulting fees. Some programs do not require evaluation by an external evaluator, whereas others require extensive evaluation plans (and associated costs). Almost all programs that require external evaluators place some importance on naming the evaluator and providing evidence of experience in the proposal narrative and supplemental documents. However, the expense associated with most evaluation plans requires that external evaluators be selected through a bidding process that complies with the relevant regulations. Unfortunately, many federal programs are announced and concluded faster than most institutions can complete a regulations-compliant bidding process. Thus, in
some cases the evaluation line item will be an estimate rather than a specific figure. For most programs that require an external evaluator, a fee of 8-15% is standard, though the specifics of the program, the size of the budget, and the expectations of the agency can push the percentage much lower or higher. If you are using a percentage rather than a set fee, determine the full budget for all other activities before applying the percentage. For projects that include cost share, the evaluation percentage should typically be applied to the total budget rather than the federal contribution.

7. **Construction**—what construction costs are associated with this specific activity? Most federal programs do not allow construction costs, and those that do typically have detailed instructions describing how to figure construction costs. Estimated construction costs must be supported by documentation including architects’ drawings and estimates, formal bids, etc. As with all other costs, follow the specific requirements of the program, as well as the relevant regulations.

8. **Other**—what costs associated with this specific activity have not already been covered by the areas above? These may include participant support costs (e.g., stipends, course materials), computer equipment or software, printing costs that can be specifically assigned to a grant activity, testing associated with evaluation, etc. Reevaluate any costs identified at this point to ensure they do not fit in one of the other categories.

9. **Repeat steps 1-8 for each project activity, goal, or aim.**

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### Special Considerations for Foundation Proposals

Foundations almost always require a project budget. Typically the requested format is a budget summary including all expected expenses and revenues for the proposed project or program. Foundations are interested in the income or revenue that an organization will acquire to support the project and the expenses for carrying it out. The budget should always equal zero when subtracting the revenue from its expenses—the goal is to break even. Also, it is critical that budgets not include items the foundation has expressly stated they are not willing to fund.

The Financial Accounting Standards Board (FASB) is a private, not-for-profit organization whose primary purpose is to develop generally accepted accounting principles (GAAP) within the United States in the public's interest. GAAP is the term used to refer to a set of governmentally accepted guideline standards for financial accounting in the preparation of financial statements.

#### FASB Financial Statements:

- **Statement of Financial Position** (Balance Sheet): Total Assets, Liabilities, and Net Assets
- **A Statement of Activities** (Income Statement or Statement of Revenues): Change in Net Assets
- **A Statement of Cash Flows**: Change in Cash and Cash Equivalents
- **Statement of Functional Expenses**: Decreases in Unrestricted Net Assets

More information is available in a PDF provided on the FASB website: [www.fasb.org/pdf/fas117.pdf](http://www.fasb.org/pdf/fas117.pdf)
10. **Additional expenses**—identify any additional expenses not directly associated with the activities or identified in steps 1-9. In some cases this may include additional personnel (e.g., administrative assistant), travel (e.g., required travel to national meetings), etc. Review the program design and/or proposal narrative to identify any other expenses that may be incurred for the project.

### Indirect Cost Rates

According to OMB Circular A-122 (2 CFR Part 230), indirect costs are “those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.”

An indirect cost rate is a measure used by federal agencies and some other grantmakers to determine what proportion of indirect costs should be charged to funded programs. Most federal opportunities require the applicant to use its institution’s negotiated indirect cost ratio in generating a budget. These ratios are determined for each institution through negotiation with the institution’s cognizant agency (see glossary for more information). The outcome of this process is a Negotiated Indirect Cost Rate Agreement (NICRA) that is binding for all government agencies.

If an institution does not have a cognizant agency or has not received federal funding previously, an indirect cost rate cannot be negotiated unless the institution has received firm notification that it will receive an award. If your institution does not have a negotiated rate, contact a program officer for direction on selecting an appropriate indirect cost rate for budgeting and application purposes.

OMB Circular A-122 provides additional information for **non-profit organizations**: http://www.whitehouse.gov/omb/assets/omb/fedreg/2005/083105_a122.pdf

OMB Circular A-21 provides additional information for **educational institutions** (even if part of a State or local government): http://www.whitehouse.gov/omb/circulars_a21_2004/

### Next Steps

1. **Prepare a draft budget for each year of the project.** Using the information from the budget planning process, prepare a budget for each year of the project. Use the required budget form where possible.

2. **Add any indirect costs.** Calculate indirect costs using the institutional indirect costs rate for the funding agency as directed by the funding opportunity announcement and/or grant application packet.

3. **Separate federal from non-federal funds.** In some cases you will be required to identify specifically how the federal and non-federal portions of the budget will be allocated overall and in each year. Record these in the appropriate places on the required forms.

### III. Developing a Budget Narrative

The process for developing a budget narrative is essentially the budget planning process in reverse. Thus if the budget planning process is orderly and documented, developing a budget narrative is straightforward. The purpose of the budget narrative is to describe to reviewers how the budget is related to the proposed activities.

Unless otherwise directed by the funding opportunity announcement or grant application package, the budget narrative should include separate statements for each project year. Within each project year, identify the line items indicated in the overall budget on the required budget form and describe and justify the expenses included in the line item. For example, if your project includes a
project director, the budget narrative would include an entry similar to the following:

**Year 1.**

**A. Personnel**

*Project Director (1.0 FTE)*

$47,500.00

The full-time project director we be responsible for overseeing all aspects of the project including...

Each of the expenses identified in the planning stage and included in the final budget will appear in some form in the budget narrative. If the funding agency limits the length of the budget narrative, compress entries and descriptions as needed to fit everything in if possible. If that is not possible, use larger groupings of expenses under each entry or combine entries across years if practical. The most important thing to remember about budget narratives is that you must justify any expenses that are not immediately obvious even to the unskilled reviewer, and it is helpful to state explicitly the calculations or assumptions used to arrive at specific figures.

**IV. Common Budgeting Problems**

1. **Insufficient funds.** The most common problem reviewers identify in budgets for federal grant programs is insufficient funds budgeted for the proposed activities. This problem typically occurs when applicants develop a program and proposal without considering the budget requirements and then develop a budget that fits the available funding rather than the proposed activities. Proposals with this problem will almost never be funded.

2. **Maximum funding request.** Requests for the maximum available amount or for an amount within a few pennies or dollars of the maximum available amount suggest to reviewers that the budget was prepared based on the funding available rather than on the actual costs of the proposed activities. The only time requests of this type are permissible is when cost sharing is required and the total budget (federal funds + matching funds) exceeds the total amount required if the maximum federal amount is requested (i.e., the matching funds exceed the required cost share percentage). Proposals with maximum requests are occasionally funded but only when the budget narrative clearly demonstrates that the budget is truly in line with the actual costs of the proposed activities.

3. **Personnel problems.** Budgets often contain requests for personnel that are a) not needed, b) not fully justified, or c) insufficient for the tasks proposed. The requests for personnel who are not needed can be divided into two further groups: those that truly are not needed and those that are needed but that cannot be justified by the proposal narrative or budget narrative. Insufficient requests can also be divided into two groups: not enough personnel (or time) are
requested to accomplish the task or not enough money is requested to fund an individual with the requisite skills and experience. Salaries must be in line with expected norms and with proposed responsibilities, and all responsibilities outlined in the project narrative must be covered by personnel, even if the applicant offers these personnel in-kind. Anything unusual must be clearly justified in the budget narrative.

4. *Inadequate match or cost share.* Proposals that do not meet the cost share requirements will not be funded. Occasionally a match is inadequate only because the budget narrative does not adequately describe the match. Most match or cost share inadequacies result from a failure to consult the program documentation and relevant regulations regarding which types of matches are allowed.

V. **Federal Budget Examples and Templates**

Hanover Grants’ clients most commonly use three federal forms:

- SF-424a
- ED 524
- NSF budget form

NSF’s form is completely electronic and only available through FastLane. However, NSF has developed a sample budget and budget narrative to assist applicants in the budget planning process. In addition to providing a template to follow, the NSF sample budget form includes interactive text that answers common questions about specific line items and explains certain calculations. For your convenience, we have provided this form as a supplement to this budget guide. However, you should consult all documentation for NSF budget development and your specific program before developing your budget and budget narrative.

We have developed a sample ED 524 budget and budget narrative and included a sample SF-424a budget narrative from SAMHSA to provide examples of the level of detail typically expected. These are provided as instructional examples only and should not be used for actual proposals. The budget narratives represent two approaches to presenting the information, and unless a specific format is required by the funding agency, you can use the format that is best suited to your needs as long as it conveys all the necessary information. Naming personnel is encouraged where possible but is not required in most cases. And again, budgeting and narrative requirements differ across programs and agencies, and you must consult and comply with any documentation associated with the program for which you are applying. Discrepancies between the provided examples and the program guidelines are to be expected, and the program guidelines supercede the examples provided.
In addition to the sample SF-424a and ED 524, we have included interactive copies of these forms as developed and provided by federal agencies. These forms are provided for your planning convenience and do not replace any forms provided in the funding opportunity announcement, the grant application package, or other agency materials.

List of materials provided:
- EXAMPLE ED-524.doc
- EXAMPLE BUDGET NARRATIVE for ED-524.doc
- EXAMPLE MULTI-YEAR BUDGET for SF-424a from NOAA.pdf
- EXAMPLE BUDGET NARRATIVE for SF-424a from SAMHSA.pdf
- EXAMPLE NSF BUDGET AND JUSTIFICATION from NSF.pdf
- sf424a.pdf (fillable form)
- ed524.doc (fillable form)

VI. Foundation Budget Examples and Templates

The Washington Regional Association of Grantmakers provides an excellent guide for developing budgets and supplemental information for proposals to foundations. The guide includes budget instructions on pages 4 and 5.

Common Grant Application guide:
http://www.washingtongrantmakers.org/s_wash/bin.asp?CID=4594&DID=13427&DOC=FILE.PDF

Associated Grant Makers provides an excellent template for foundation request budgets (in Excel format).

Foundation Budget template:
http://www.agmconnect.org/cpf/CPF_Budget_Template.xls

VII. Frequently Asked Questions

1. I found an error in my budget after submitting the application. What should I do?

It is not uncommon to find errors in program budgets even after multiple people have reviewed the budget. However, most errors are identified during discussions with the funding agency after a decision has been made to fund the program. If this is the case, you usually can request an adjustment to the budget, and if funding is available and the request does not make the total budget exceed the funding limits, the request is likely to be approved.
If you find the error after submission but prior to completion of the review process, review the agency protocol for amending submissions. If the agency does not provide information on this process, contact a program officer to describe the situation and request advice. Federal agencies rarely allow amendments to proposals after the due date. However, as described above, successful applicants often have an opportunity to adjust their budget or request revisions prior to the release of the award.

2. Do indirect costs count against the budget total? That is, must the direct costs plus indirect costs be less than or equal to the maximum allowed budget?

The answer depends on the agency and the particular program. Some agencies only count the direct costs against the maximum allowable budget (e.g., NIH), whereas others require that both direct and indirect costs be counted in the budget total. The budget instructions for the required budget form and the budget instructions for the particular program should indicate which approach is required. If the answer is not clear from these documents, check the agency’s overall proposal guidelines (usually available on the agency’s website). If you are still unsure, contact a program officer.

3. Can I include rent in the budget?

The answer depends on a number of factors including to which agency and program you are applying. Rent costs are typically allowed if 1) the facility is required for the proposed activities, 2) the facility is not already in use by the applicant for the same or similar purposes, and 3) the facility can be reasonably assumed to be rentable for general purposes. For example, rent cannot be claimed for most existing school facilities because school facilities (e.g., gyms, classrooms, office space) are not usually available for rent and are already in use by schools for educational purposes. However, if you wanted to lease space in a commercial building and the space is necessary for the proposed activities, it is probably allowable under most programs. Check the applicable OMB and agency regulations, and if in doubt, contact a program officer.

VIII. Glossary of Budgeting Terms

% time—the percentage of time an individual allocates to activities supported by the proposed grant; typically used in determining the amount of funding needed for personnel. Also see FTE.

benefits—see fringe benefits.

budget narrative—narrative that describes the specific expenses in each line item of a budget and that describes the purpose of the expenses and how they were calculated; typically presented by line item within each funding year
cognizant agency—the cognizant agency for non-profit organizations is determined by calculating which Federal agency provides the most grant funding. The Department of the Interior is the cognizant agency for all Indian tribal governments. For hospitals, HHS serves as the main cognizant agency. The Department of Health and Human Services (HHS) is the cognizant agency for all States and most cities.

contributions—cash or in-kind donations to a program.

cost share—requirement that the applicant identify additional funds or in-kind services for a specified portion (e.g., 20%) of the total program budget

equipment rental/purchase—actual cost of equipment to be rented or purchased for the proposed project; equipment is typically valued ≥ $5,000 with a lifetime of ≥ 5 years. Check agency regulations for specific definitions of equipment.

evaluation—systematic review of project activities and/or outcomes that produces quantitative and/or qualitative information on feasibility, efficacy, cost-effectiveness, or other measures.

event income—income produced by project activities; contrasted with pre-event income that is generated by project requests, donations, or other activities.

external evaluator—an individual contracted to evaluate a program for which he or she did not provide input into the design of the program, has not participated materially in the implementation of the program, and does not stand to gain from the ultimate outcome of the program; an unbiased evaluator from outside the department or institution operating the program.

fringe benefits—non-salary compensation associated with personnel; typically includes FICA, health insurance, and similar expenses as a percentage of personnel salary

FTE—“full-time employee.” Personnel time commitments for project activities are commonly reported as a portion of FTE. For example, if a project director contributes 50% of his or her time to the project, that is represented as 0.5 FTE. Likewise, three full-time technicians would be 3.0 FTE. Also see % time.

in-kind contributions—contributions of services, goods, or personnel rather than cash.

indirect costs—costs not attributable to a specific activity, goal, or objective within the proposed project; usually covers institutional expenses for utilities, maintenance and upkeep, administrative costs, etc., that are incurred by the project but that are not charged directly to the project.
indirect cost rate—a rate negotiated between the applicant institution and the federal agency to cover indirect costs

internal evaluator—an individual directly involved in the design and/or implementation of a program who evaluates program activities and/or outcomes.

materials and supplies—consumables required for project activities. Examples: office supplies, books.

official partner—a technical and legal term designating a particular type of partner allowed (or required) under certain federal programs; only official partners can receive subcontracts under certain program types.

other—expenses directly attributable to program activities but not included under the other itemized options on standard budget forms.

personnel—individuals paid to provide services for the program; may be named or listed as TBD (to be determined). Typically assigned % time or portion of FTE.

professional fees—fees paid to consultants, evaluators, or other professionals not directly employed by the project (i.e., not personnel).

publications—reports of program results; typically presented in peer-reviewed publications and encouraged as part of the dissemination of program findings.

sponsorships—agreements by outside agencies, foundations, partners, or other third parties to cover the costs of certain program activities or to provide general support for a program in exchange for public recognition of their financial support.

subcontracts or subgrants—financial agreements to acquire specific services or goods from a partner or vendor for the program; only allowed under select programs and subject to strict regulation.

supplies—consumables required for project activities. Examples: office supplies, books.

third-party grant management—use of an outside firm or individual to oversee financial, reporting, and/or other aspects of the program; some federal agencies do not allow the use of program funds for these services unless paid for out of indirect costs allocations, whereas foundations may be more amenable to funding this expense.

travel—any costs associated with transportation, lodging, meals, and incidentals incurred when conducting program activities away from the primary project site or when program recipients or
certain personnel travel to the primary site from other locations to participate in planned program activities.

*unrecovered indirect costs*—the portion of indirect costs for which the applicant is eligible but for which the applicant does not request reimbursement in the budget; may be considered part of the required cost share by some agencies. *Example:* institution is eligible for 25% indirect costs but only requests 10% in the budget and uses the unrecovered 15% as cost share.