



Preparing a Grant Budget

The 3 Must-Have Core Components
of Every Federal Grant Budget



About Nevada GrantLab

Nevada GrantLab supports nonprofit organizations and their government partners to access and administer federal grants that benefit Nevadans. Our work is backed by a network of passionate experts who provide guidance and technical assistance, and is made possible by generous philanthropic support.

Successful federal grant applications address 3 must-have core budget components clearly, concisely, and accurately:

- 1. Expenses (calculating, categorizing, and justifying each one)**
- 2. Direct and Indirect Costs**
- 3. Matching Requirements (cash or in-kind)**

About the Expert

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1

Calculating, Categorizing, and Justifying Expenses

Every Funding Opportunity has a unique set of requirements for structuring costs and formatting budgets. Universally, high-scoring budgets address how each expense is calculated, categorized, and justified.

Calculating an Expense

Grant reviewers need to know exactly how you came up with the amounts in your budget. Applicants can illustrate their calculations using the fillable budget form that is typically provided within the grant submission portal. Generally, the form allows up to three input fields, along with an automatically calculated total field, like this:

$$\text{Unit} \times \text{Quantity} \times \text{Cost} = \text{Total}$$

Unit is the personnel, goods, or service that is needed to perform a specific activity. A unit might be an Executive Director, the laptop she uses, or the mileage she drives to an appointment. When only a fraction of a unit will be dedicated to a program-specific activity, such as only part of an employee's time, only include the appropriate allocation using a fraction or percentage. For example, if the grant program requires 10% of a social worker's time, this field value would be input as 0.1 (10%) Full Time Equivalent, or FTE.

Always double-check calculated totals for accuracy.

Important Note: When using a fraction of a full unit, the "unit cost" field should reflect 100% of the real cost, such as 100% of an executive director's "all-in" cost— like this:

$$0.1 \text{ Executive Director} \times 1 \times \$100,000 = \$10,000$$

1

Calculating, Categorizing, and Justifying Expenses (continued)

Quantity is the number of units. Quantity may indicate the number of stamps needed to mail required program materials. Typically, the quantity field only allows whole numbers, not fractions. However, in cases where the Unit field only allows phrases or whole numbers, the Quantity field is likely to allow a fraction to calculate the share of the full unit, like this:

$$\text{Executive Director} \times 0.1 \times \$100,000 = \$10,000$$

Cost is the total cost for each unit, like the all-in cost for an executive director or the purchase price of a postage stamp. The cost field should reflect the total unit cost (not a fraction), unless the form directs otherwise. For an Executive Director whose total cost is \$100,000, even though she's only spending 10% of her time on the project, the costs field should reflect \$100,000 (not 10%, or \$10,000); the Unit or Quantity field should be adjusted instead.

Categorizing an Expense

In accounting, every expense is organized by category. An employee's salary, along with the associated benefits and insurance costs, is categorized as personnel. Paperclips, pens, and paper are categorized as office supplies. Most nonprofits have a custom chart of accounts that guides how each expense should be categorized, however, the way expenses are categorized varies between nonprofits and governing agencies based upon their unique organizational needs.

While preparing a grant, applicants should categorize expenses based on the funding agency's chart of accounts and accounts codes, not their own.

The Funding Opportunity provides direction on which chart of accounts or coding methodology is required. In addition to account codes, funding agencies may also require fund codes, department codes, object codes, or function codes.

If you cannot find this information, or if it is unclear how an expense should be categorized, contact the funding agency to ask for direction. If it is still unclear how to categorize a specific expense, the safe bet is to use the code that most closely reflects the expense. Adjustments and corrections can usually be made in the grant reporting process if necessary.

Justifying an Expense

Justifying an expense requires an applicant to address two questions:

- 1. Is the expense reasonable, meaning comparable in price and scope to the market value?**
- 2. Is the cost necessary, meaning the proposed program could not be successfully carried out without it?**

Determining whether an expense is reasonable and necessary may seem subjective, so it's important to provide a clear explanation and show calculations for each expense. There are typically two areas of an application to do this – line descriptions and the budget narrative.

Line Descriptions allow you to briefly describe the expense and its calculation. A line description for postage stamps might be:

Mail survey packet with self-addressed return envelope to each of the 1,400 program participants. Based on previous survey responses, 50% (700) will require a second packet and 30% (420) will require a third packet. This amount of survey packets is necessary to achieve an adequate scientific threshold, or sample size. In total, we expect to mail 2,520 packets, each requiring two \$0.55 stamps (one for original and the other return mail), for a total of \$2,772 (2,520 x 2 x \$0.55).

The Budget Narrative is a more detailed explanation of how each expense advances the goal(s) of the program (why each expense is necessary). For example, the postage line description in the example above can be developed by clarifying that a hard-copy survey packet is the most statistically accurate way to collect program data.

The budget narrative should be concise and specific to expenses. Do not use it to explain the program.

An effective budget narrative helps grant reviewers to easily connect expenditures with desired program outcomes.

In addition to direct program costs, most grants allow a small portion of requested funds to be used for indirect costs, such as rent. Distinguishing between direct and indirect costs can be tricky, and the process for requesting indirect costs varies.

If an expense stops when the federally funded activity stops, it's a direct cost (e.g., stamps for the survey).

If the expense will continue even when the federally funded activity ends, it is usually an indirect cost (e.g., personnel cost for the team member stuffing the envelopes).

Indirect costs, if allowed under the Funding Opportunity, are typically requested in one of two ways:

1. Itemizing and including indirect costs within the overall budget. For example, assigning 10% of the total costs for an existing facility where the program will be operated. This can also be called "allocated expenses."

2. Separating indirect costs into a designated section and requesting a percentage of the total direct cost. For example, if the total direct cost of the program is \$50,000, requesting an indirect cost rate of 10% would yield \$5,000 to spend on indirect expenses.

Funding Opportunities that allow an indirect cost rate typically include a maximum allowable percentage. Organizations with experience managing federal grants may be able to apply for a predetermined indirect cost rate for all active grants in a fiscal year. Whether calculated for each Funding Opportunity or predetermined, using an indirect cost rate is often the most efficient option.

Recent changes to 2 CFR 200 Subpart E specify that federal award recipients can use a 10% "de minimis" rate that does not require proof of allowable costs covered under that rate. There is also a process to request and negotiate a higher indirect cost rate through the funding agency.



3

Matching Requirements (cash or in-kind)

Many grants require applicants to contribute other cash funding or in-kind contributions to “match” the requested grant funding. The purpose of a match requirement is two-fold: 1) to enhance program sustainability and 2) to ensure that a single entity is not bearing all the costs.

For a cash match, an organization can use funds it already has on-hand (that are not committed to another program), a new philanthropic gift or grant, or another government grant (generally, one federal grant cannot be used to match another federal grant).

If allowed by the Funding Opportunity, an organization can make an in-kind match by contributing personnel, goods, services, and in some cases, securing in-kind contributions from community partners that will participate in the proposed program. Demonstrating an in-kind match requires considerable documentation, so plan and start working early.

In any case, the match contribution section of a grant budget should be treated just like the rest of the budget, providing adequate details and illustrating calculations.

Match requirements are always specifically addressed in a Funding Opportunity, so be sure to review the application carefully, as well as 2 CFR 200 Subpart E, to ensure compliance.

