

Budget Info for Federal Grant Programs

By Henry Flood

Standard Form 424-A, the two-page budget form for non-construction programs, has been part of the federal government's common grant application package since 1988. Its purpose is to summarize and describe the financing associated with a request for federal funding.

The keys to successfully completing SF 424-A are:

- Understanding the use of the form as a whole;
- Understanding the purpose for each of the form's six sections;
- Correctly supplying and calculating the information requested; and
- Recognizing that the information entered must arise from—and not contradict—your accompanying detailed line item budget.

SF 424-A is neatly arranged into six sections:

Section A is the overall budget summary by federal and non-federal program.

Section B is the classified summary of your budget by grant program, function or activity.

Section C is the summary of funding from all non-federal sources.

Section D is used to summarize your first year of projected project funding by federal and non-federal sources for the year and for each quarter.

Section E (similar to Section D) is used to project future federal funding needs for “out years” (years two through five).

Section F is used to summarize other budget information.

One Form, Many Audiences

SF 424-A serves the needs of several audiences in many situations. Program officials are likely to focus on Sections A, B, and C of the form, together with supporting data, such as your line-item budget and budget explanation, to judge the reasonableness of your costs relative to your proposed activities. Program and awarding officials will also use the information you supply on SF 424-A to negotiate your final budget, which is usually accomplished by preparing an amended SF 424-A.

Outside reviewers will focus on these same three sections as your proposal is rated and ranked. Typically, the budget portion of your proposal is worth 10 to 15 of your total point score, a number that leads some applicants to pay minimal attention to the budget. That's a mistake for two reasons. First, every point can be crucial in a competitive discretionary review. Second, many otherwise good proposals have crashed and burned because of an inaccurate, sloppy or unrealistic budget. Some reviewers believe that if you can't do the math, you can't do anything else.

The federal cash management system is designed to discourage the release of grant monies prior to their actual need, so the government won't end up paying additional interest on its borrowed funds. Therefore, federal cash management officials who process grant award payments will be especially concerned about the rate at which you anticipate using awarded grant funds and the timing of your expenditures. This audience will pay special attention to the numbers you enter for forecasted cash needs in Section D of the form. These same officials will focus on Section E if your proposal involves multi-year funding.

The present and future cash needs data reflected in sections D and E of SF-424 are also used by budget officials within grantmaking agencies to help forecast future grant program budget requests. The more popular a program is in terms of numbers of applications received, the stronger is the case for future funding.

The most familiar use of SF 424-A is in gathering financial data associated with funding for a single program for a single year. The form is also used for:

- Recording data affecting a single program, but for multiple years
- Recording data for two or more programs for single-year funding

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- Recording data for two or more programs for multiple years of funding
- Recording data associated with a pre-award budget amendment based on award negotiations.

Let's examine each of the six sections of SF 424-A. We'll focus on the single-year, single-program application for this discussion, but we will allude to the other uses as well.

Section A - The Budget Summary

Section A asks for the grant program name and Catalog of Federal Domestic Assistance (CFDA) number. If you were applying for social and economic development strategy (SEDS) funding from the Administration for Native Americans (ANA), a sub-agency of the Administration for Children and Families (ACF), you would enter "ACF\ANA SEDS Program" in column (a) followed by the CFDA program number "93.612" in column (b).

Columns (c) and (d) are used to show the presence of unspent federal and non-federal funding. These columns are used for multi-year funding when carry-over from prior year operations is permitted; they are not completed if the request is for single-year funding. Columns (e) and (f) are used to record the total estimated federal and non-federal shares of funding for your proposed project.

Let's assume that your funding request to ANA is for \$100,000, with a 25% match. You would enter \$100,000 on lines 1(e) and 5(e). You would enter \$25,000 on lines 1(f) and 5(f). In the totals column, you would simply enter \$125,000 on lines 1(g) and 5(g). Note that lines 2 through 4 of Section A are for summarizing cost data associated with more than one program and that line 5(g) is the total of funding from all sources.

Where do these summary figures actually come from? They are the sum totals of all direct and indirect costs reflected in your detailed project budget—which should reflect your total funding source request, your total non-federal share of costs, plus a combined total project cost reflecting all shares of project funding.

Section B - Budget Categories

Now you're ready to break down the specifics of your funding request. The budget categories section of SF 424-A is the most important part of the form. The data for section B will come from your detailed line item budget, which must accompany the SF 424-A. The items contained in this form will be similar to the cost items in your line-item budget.

Using our single-program, single-year model as our guide, there are a number of possibilities for classifying the shares of funding. The simplest way is to enter the words "Federal" or "ANA" on line 6, column (1) and "Applicant" on line 6, column (2). The other columns may be used to summarize funding from sources other than the applicant or the federal funding source. Some applicants for funding use the extra columns to distinguish applicant cash and applicant "in-kind" shares of funding. In-kind costs are the fair market value of donated services, real or personal property or other items that have value and that will be used to meet your match requirement associated with a particular federal program.

Before we get specific about completing the items of costs, you should keep in mind that all the federal share of costs contained in your detailed line item budget and summarized in Section B of SF 424-A must be both allowable and reasonable. Disallowed costs may be covered from other funding sources, as long as the activity itself is not disallowed. But including disallowed federal share costs in your grant request could cause your grant to be reduced or rejected.

Now let's look at how the costs get distributed in Section B of SF 424-A. The total project cost is \$125,000. The total "Federal" (or "ANA") share is \$100,000. The total "Applicant" share is \$25,000. Let's further assume that your funding request is to develop a tribal constitution for a newly acknowledged Indian tribe, an activity that may in fact be carried out with ANA funding. You will need to cover personnel, fringe benefits, consultants, travel and some other costs to complete this project.

Personnel costs are the charges to directly hire someone and put them on your payroll. Let's assume that the project director will be paid \$30,000 exclusively from ANA funding. Enter \$30,000 in line 6a of column (1). Fringe benefits are the costs of health insurance, Social Security, Medicare, unemployment and other benefits that you pay on behalf of each employee you hire. The total of these fringe benefits is usually expressed as a

percentage of salary. Let us assume a fringe rate of 21%. The calculation is $.21 \times \$30,000$, which yields \$6,300. Enter \$6,300 on line 6b of column (1).

Travel costs are those that are necessary, reasonable and eligible for carrying out the project, both local and national. (In most cases, a federal funding agency will not pay for international travel unless the focus of the program is international.) Let's assume that total travel is \$10,000 and that you (the applicant) are going to pay for these costs. Enter \$10,000 on line 6c of column (2).

Equipment is something of capital value that will be used during the project and may have a residual value remaining once the project is finished, such as computers, printers or office furniture. Let's assume that you will need a new desktop computer system and a laptop system to carry out your project. A good desktop computer system retails for about \$2,000. A laptop computer will cost about \$1,600. A good office laser printer will cost about \$1,200. A monitor will cost about \$400. You are asking ANA to foot the bill. Enter \$5,200 on line 6d of column (1).

Supplies are non-capital items of costs needed to carry out a project, such as stamps, stationery, envelopes, software costing less than \$500 and other items that are consumed and have no value after their use. If the supplies associated with this project are estimated to cost \$8,000, and you want that cost split between the funding source and the applicant, you would enter \$4,000 on line 6e of column (1) and \$4,000 on line 6e of column (2).

Contractual costs are costs that you will pay to consultants for professional expertise (lawyers, accountants, etc.). A maintenance contract on equipment also fits into this category. For our hypothetical constitution project, you will need an expert in Indian law and governance. If that expert charges \$60 an hour, and you will require 500 hours of her time, the cost for that consultant would be estimated at \$30,000. Let's say you also need an accountant to audit the project, whose estimated charge is \$2,500, as well as a part-time community facilitator to develop materials and talk directly to community members in public meetings, who will charge a fixed price of \$20,700 for a six-month effort. You want the federal funding source (ANA) to pay for all these contract costs. Enter \$53,200 on line 6f of column (1).

Construction costs are the capital costs of new construction, repair and major renovation associated with a grant-funded project. Some major non-construction federal funding programs do permit construction activity. And some programs that do not permit major construction will permit funding of

minor alterations and repairs. Since ANA is one of those programs does not permit construction costs, in this example you would enter zero in both columns (1) and (2) of line 6g.

“Other” costs include costs from your detailed line-item budget that cannot be assigned to one of the specific cost classifications contained in Section B of SF424-A. Such costs might include the fair market value of donated space, the documented value of volunteer project help, printing charges, copying charges, utility charges (if directly charged) or other eligible costs.

Carrying through with our example, the applicant wishes to contribute the fair market value of 1,200 square feet of available office space valued at \$7 a square foot. This calculation comes to a total of \$8,400. Let’s assume that printing charges are going to be \$1,600 with the applicant and the funding agency splitting these costs. Let’s further assume that copying costs are expected to be \$1,000 during the life of the project and that these costs will be shared equally as well. The applicant is also donating long-distance phone charges of \$1,300, averaging \$108.33 per month. Adding up these calculations, you would enter \$1,300 on line 6h, column (1) representing the federal share of other costs and \$11,000 on line 6h, column (2) for the applicant share of other costs.

Now you are ready to calculate total direct project costs for the federal and applicant shares of cost. Simply add the figures contained in columns (1) and (2) for the costs contained in 6a-h and enter the total for each of the shares of funding.

Line 6i is for entering numbers that reflect indirect costs. Indirect costs are often referred to as overhead. These costs are costs that benefit more than one cost objective but are still a legitimate operational cost for your organization. Examples of indirect costs are utility charges, telephone charges, centralized accounting or other costs that cannot be charged as direct costs to a particular program. Most agencies will not give you an indirect cost rate for a single grant program unless the funding is substantial.

For guidance on indirect costs, nonprofits should consult OMB Circular A-122 States, local governments and Indian tribes should consult OMB Circular A-87. Colleges and universities should consult OMB circular A-21.

If you propose indirect costs as part of your application and do not yet have an indirect cost rate agreement with a federal agency, your initial proposed rate, if accepted by the funding source, will be termed provisional until you

submit an indirect cost rate proposal for review and approval. Once your indirect cost rate proposal is approved, the negotiated rate is what you charge against all grants as a cost of your operations.

Let's say you have an approved rate of 37%. Does this mean that you will always be able to charge this rate to every grant program? No. Many agencies cap their rates at 20% and some grant programs do not permit the charging of indirect costs. Therefore, you must be certain about what you can charge before inserting indirect costs into any grant proposal.

In our present example, all charges are direct because the program is a single year, one-time effort and no other grant programs are involved. Enter zeros in each box across line 6j. Line 6k is the total of all shares of direct and indirect costs. Since all costs are direct, you simply enter the same figures from line 6i on line 6k.

Program income is the focus of line 7. If your grant-funded effort will generate additional revenue because of fees, royalty income or other charges, that is program income. Suppose the grant supports creation of a new recreation program for which entrance fees will be charged. This is program income. Can you keep the money? Some agencies will let you keep it while others will reduce your grant by the amount of program income. (Indian tribes may retain program income.)

Now you are ready to sum all of the shares of costs. Add the numbers in columns (1) and (2) for items 6a-k once more to ensure accuracy. Using our example, you should have \$100,000 of federal (ANA) costs and \$25,000 of applicant costs. Now, simply add the numbers going across for columns (1) and (2) for each item of cost contained in 6a-k and enter the totals in column 5.

Section C - Non-Federal Resources

Section C tells the federal funding source where your match, or non-federal funding, is coming from. Your choices are "applicant," which means your organization's own funds, "state," and "other." The important point is to be as specific as possible about the source of the funding—such as "Tribal special appropriation" if, as in the case of our example, the applicant is providing its own cash match. Other examples might be things like "Safe Neighborhood Park Bond Funds," "applicant in-kind donations," or "state environmental protection funding."

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Many agencies will require proof of your non-federal funding as part of the attachments to your budget package. This can be accomplished by a certification letter, a resolution, a copy of funding commitments from other sources or similar documentation.

Section D - Forecasted Cash Needs

The purpose of Section D was discussed earlier. Let's do the calculations. Total federal funding requested is \$100,000. Enter this number on line 13 in the column titled "Total for 1st year." Normally, you would divide this number by 4 and enter \$25,000 in each of the designated quarter columns. Total non-federal funding associated with the grant is \$25,000. Enter \$25,000 on line 14 in the column titled "Total for 1st year." Divide this number by 4, and enter \$6,250 in each of the designated quarter columns.

Line 15 of Section D is the sum of all shares of funding divided by 4 with appropriate calculations inserted. On line 15, enter \$125,000 in the column titled "Total for 1st year" and divide this number by 4. Enter \$31,250 in each of the designated quarter columns. Even spending rates are the norm for forecasting needs. In some situations, however, you may have a project where certain costs are front-loaded, resulting in a larger cash need during the first quarter of the first year, or for year one of a multi-year project.

Section E - Budget Estimates of Federal Funds Needed for Balance of the Project

In multi-year projects, grant program and appropriations officials need to know the projected need for future funding. Remember, Congress funds most programs on a yearly basis. Future monies for a multi-year grant awards are contingent upon the availability of appropriated funding.

Let's say that you are applying to the Bureau of Health Professions within the Public Health Service for a grant of \$2,000,000, to support your nursing program over five years. Your initial year of federal funding will be summarized in Sections A and D. In Section E, you will show the "out years" of requested funding. On line 16 you would enter "Bureau of Health Professions Grant" and the sum of \$400,000 in each of the columns marked 1st, 2nd, 3rd and 4th years, comprising years 2-5 of future projected funds.

Line 20 is for the totals. If no other sources of federal funding are involved, simply enter the numbers from line 16 again.

Section F - Other Budget Information

This slender section asks about direct charges, indirect charges and has a space for “remarks.” On line 21 you simply enter the total of all of your direct charges. In our example, that number would be \$125,000. Line 22 is for indirect cost notations. Let’s say that you were submitting a proposal that had a 37% indirect cost rate amounting to \$42,000 based on salaries and fringe. What you enter on line 22 is “\$42,000 at a rate of 37% (see attached indirect cost rate agreement).” If your rate is provisional, note the pending submission of an indirect cost rate proposal.

Line 23 is for remarks. My advice is to enter these words: “See attached budget justification narrative”—and include such a narrative! Although the justification for some costs may be self-evident from your line-item budget, a succinct budget narrative will force you to answer the kinds of questions that a reviewer is likely to ask—and enhance your chances of getting the dollars you have requested.

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