

The Purpose of a Budget

A budget provides reviewers with an in-depth picture of how the project will be structured and managed. Budget details usually reveal whether a proposed project has been carefully planned and may ultimately be feasible. Furthermore, a budget must be complete and reasonable. A reasonable and complete budget will be based on actual costs when possible and include all costs for personnel, supplies, and will serve as a blueprint for spending the project's funds. The proposed budget must give an accurate assessment of all cost items and cost amounts. If the project is funded, the budget will become the financial plan used by the funding agency to provide support.

Common Types of Budgets

There are two common major types of budgets in funding research - **cost reimbursement** and **fixed price**.

Under a **cost reimbursement** funding agreement, the funding agency will reimburse the University for the actual costs associated with a project. This is where the budget assumes a special importance because project expenditures are strictly limited to the items authorized by the approved project budget. Any items purchased that were not included in the budget will be disallowed by the funding agency and the University; unless prior approval for those expenses has been given (in writing) to the PI/Department by the funding agency.

Under a **fixed price** funding agreement, the funding agency obligates a fixed sum of money to support the project. If the project incurs expenses less than the fixed sum, the University may retain the balance. However, if the project's expenses exceed the fixed sum, the funding agency is not obligated to provide additional funds. The anticipated project expenses must be carefully planned and accurately assessed. Often you will find that the funding agency may request an itemized budget to justify the fixed-price amount.

Common Cost Groups

Most budgets are composed of two kinds of costs: **direct costs** and **indirect costs**.

Direct costs are those expenditures that are made by the project and directly allocable to the project. These include expenditures for project personnel salaries and employee benefits, supplies, travel, equipment, publication costs, software licensing, and maintenance contracts.

Indirect costs are expenditures that cannot be allocated to a specific project and could often be considered A-21 type items or services.. These include the costs associated with building renovations, general office supplies, office equipment, custodial services, telephone and data lines, and utilities.

Cost Sharing

Cost sharing can be voluntary or mandatory and committed or uncommitted. Mandatory cost sharing is required by the sponsor and will be found in their request for proposals or their policy manual. The University has an obligation to document the dollars that were cost shared in order to report these back to the sponsor.

Voluntary committed cost share is applied when the PI, Department, or University offer such support in the proposed budget and justification. This commitment was not required by the sponsor at the time of application, however if the grant/contract is awarded, then this voluntary committed cost share becomes binding. On the other hand, **voluntary uncommitted** cost sharing means the sharing of project costs over and above sponsor cost-sharing requirements. It is not offered as a part of a funding application and it is not considered mandatory since it does not become a part of the award requirements.

Matching

A budget may require matching of funds. Usually they are either **cash** and **in-kind**. All items that require the exchange of money are regarded as cash matching; such as the costs of faculty salaries, supplies, or travel which are to be charged to a University operating account. Items that do not involve cash are classified as in-kind matching. In-kind would include any waived indirect costs or the use of specialized facilities or equipment.

Cost Limitations on Grants

Most state and local government agencies specify cost principles required of all projects funded by a sponsor. For most federal agencies, these regulations are published in OMB Circular A-21 (U.S. Office of Management and Budget). However, some federal agencies have adopted additional regulations and/or have developed their own policies regarding grant management. Be sure to read the program announcement and all policy materials before developing the budget.

A-21 Items

Circular A-21 uses three basic rules to test whether project costs are appropriate: **allowable**, **reasonable**, and **necessary**. A cost is **allowable** if it is within the applicable regulations or has been approved by the funding agency. It is **reasonable** when the funds budgeted and supplies requested would be similar to what any person would request when performing a similar task or specific aim. Finally, a cost is considered **necessary** if it is required to successfully and satisfactorily complete any given task/project. If any of your items on your budget do not meet these criteria, then it is necessary to reconsider if these should be included in the proposed budget.

Budget Format

Some funding agencies provide budget forms. Others specify the budget categories that they will approve. The following budget categories are commonly used:

Personnel. All persons on a project including the Principal Investigator, research associates/assistants, graduate assistants, student assistants, project coordinators, technicians, and even administrative support if applicable and allowable by the agency. Staffing should be sufficient and appropriate to the needs of the project.

Fringe Benefits. All benefits provided to project personnel that are paid by the project, including FICA, vacation leave, sick leave, and health insurance. Be sure to use the WSU fringe benefit rate that will be in effect at the time the grant is awarded.

Equipment. WSU defines any piece of equipment costing \$5,000 or more to be budgeted in this category. Equipment such as shakers or scales costing \$4,999 or less, will be budgeted as supplies. Also keep in mind that some funding organizations do not allow the purchase of equipment and others may require specific approval for equipment purchases. Be sure to read the RFP or guidelines for specific information regarding the budgeting and purchasing of equipment.

Supplies. Any special items that are necessary and will be consumed by the project; such as chemicals, antibodies, film, plasticware/glassware, and specialty test kits. If the project requires the use of vertebrate animals, be sure to base the purchase and care costs on actual estimates. Obtain quotes based on species, age, gender, etc., from a vendor and the current animal care charges from DLAR.

Travel. All travel should be based on estimates from similar previous trips. When crafting this section of the budget, be sure to review the agency guidelines as many smaller agencies will have a cap on this line item.

Other. Examples of costs in this category include, Publication costs, center costs, maintenance contracts, software purchases/licenses, and tuition.

Consultation Services. Each individual consultant or company must be itemized along with the consulting rates and duration of each professional service to be purchased by the project.

Indirect Costs. WSU uses the Modified Total Direct Costs (MTDC) to determine Indirect Costs. MTDC consists of all salaries and wages, fringe benefits, materials, supplies, services, travel and subcontracts up to the first \$25,000 of each subcontract (regardless of the period covered by the subcontract). Calculations shall **exclude** equipment (capitalized at \$5,000), capital expenditures, charges for patient care, tuition remission, rental costs of off-site facilities, scholarships, and fellowships as well as the portion of each subcontract in excess of \$25,000.

Current WSU Rates:

52.0% On Campus Organized Research

51.0% On Campus Instruction

40.0% Other, on Campus sponsored accounts

26.0 % Off Campus, All Programs

Total Agency Cost. The sum of the **direct costs** and the **indirect costs**.

Total Project Cost. When **cost sharing** is used, the total project cost is the sum of the total agency cost plus the cost sharing dollar value.

Budget Principles

Finally, most funding organizations require that a proposed budget be based upon a **good faith estimate** of the anticipated costs. A person may not knowingly include false, inaccurate, or misleading cost information. You must make a conscientious effort to obtain comparable cost information in preparing a budget. Cost estimates cannot be simply fabricated, but must have a reasonable basis.