

**U.S. DEPARTMENT OF AGRICULTURE  
FARM PRODUCTION AND CONSERVATION**

**BUDGET NARRATIVE GUIDANCE  
FOR GRANTS AND COOPERATIVE AGREEMENTS**

**March 2025**

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## Background

This Budget Narrative Guidance applies to all FPAC mission area agencies and the Commodity Credit Corporation. The Farm Production and Conservation (FPAC) mission area encompasses the following USDA agencies:

- Natural Resources Conservation Service (NRCS)
- Farm Service Agency (FSA)
- Risk Management Agency (RMA)

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- FPAC Business Center (FPAC-BC)

The FPAC-BC Grants and Agreements Division provides the following guidance for applicants and their proposed subawardees to prepare a detailed budget narrative. A detailed budget narrative will aid the administrative review and processing of an award and any related subawards. Amounts included in the budget narrative are estimates; in the event of an award, payments will be based on actual expenditures.

## Overview

All costs must comply with the cost principles of 2 CFR Part 200, [Subpart E – Cost Principles](#). All costs (both Federal and any non-Federal cost share) must be:

- Allowable, in accordance with [2 CFR 200.403](#).
- Allocable to the agreement ([2 CFR 200.405](#)).
- Reasonable in amount ([2 CFR 200.404](#)).
- Necessary to carry out the project.

See Appendix C for examples of unallowable costs.

This guidance is consistent with [2 CFR Part 200 -- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#). Many institutions' accounting systems have default cost categories aligned for their operational efficiencies that don't line up exactly with the guidance presented. Use this guidance to facilitate agency review of your application where possible.

For each budget category:

- Use the level of detail indicated below for each category.
- Explain why the costs are necessary for the project.
- Round to the nearest dollar to avoid errors and add efficiency to the review process.
- Include a total for each category.
- Show costs for the life of the agreement. Provide individual costs for each year as well as annual subtotals for each category.
- If non-Federal cost share is required, provide the same level of detail as for the Federal funds.
- Provide calculations where appropriate to substantiate the amounts requested.

## Budget Categories

### PERSONNEL

Only include employees of applicant organization. Personnel costs include salaries and wages of personnel of the applicant organization (i.e., employees) that will be working directly on the project. For each position, identify the role and describe contributions to the project. Also include annual salary, percent of effort, and the period of time contributed to the project along with the associated funds requested for support. If calculations include an annual salary increase, include a statement to support calculations. Personnel does not include fringe, [indirect costs](#), or profit. Fully burdened rates are not acceptable.

In accordance with 2 CFR 200.413(c), administrative and clerical staff salaries should normally be treated as indirect costs. Direct charging of these costs may be appropriate only if they meet all of the following conditions:

- (1) The administrative or clerical services are integral to a Federal award;
- (2) Individuals involved can be specifically identified with a Federal award; and
- (3) The costs are not also recovered as indirect costs.

### FRINGE BENEFITS

Fringe benefit costs include, but are not limited to, the costs of leave (e.g., vacation, family-related, sick or military), employee insurance, pensions, and unemployment benefit plans. These costs are only applicable to applicant employees working directly on the project. See [2 CFR 200.431](#), Compensation-Fringe Benefits.

### TRAVEL

Travel costs include the transportation, lodging, subsistence, and related items incurred by applicant employees in travel status working directly on the project. Travel and per diems for consultants, subawardees, or other non-applicant personnel should be included in the applicable budget category. Applicants must prepare the budget in accordance with their organization's travel policy. Absent a policy, follow the U.S. Federal government policy, see <http://www.gsa.gov/federaltravelregulation>. Identify whether organizational travel policies or government policy is used.

Provide as much detail as possible including purpose and how it benefits the project, destination, dates of travel, and number of individuals for each trip. If the dates of travel are not known, specify estimated length of trip. Conference fees associated with Travel may be included here or in the "Other" budget category.

### EQUIPMENT

[Equipment](#) costs include acquisition of tangible property having a per-unit acquisition cost of \$10,000 or more (unless the organization has established lower levels) and an expected service life of more than one year.

[Equipment](#) acquisition costs include the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges such as taxes, duty, protective in transit insurance, freight, and installation may be included in or excluded from the acquisition cost in accordance with the applicant's or subrecipient's regular accounting practices.

These costs should only include the costs to purchase. Renting or leasing costs should be included in the "Contractual" budget category. The agency may request a lease vs purchase comparison for particularly large acquisitions, e.g., over \$100,000.

[General purpose equipment](#) costs are only allowable at the agency's discretion.

## **SUPPLIES**

[Supply](#) costs, as defined in [2 CFR 200.1](#), include all tangible personal property other than those defined as [equipment](#) in [2 CFR 200.1](#). A [computing device](#) is a supply if the acquisition cost is less than the lesser of the capitalization level established by the applicant for financial statement purposes or \$10,000, regardless of the length of its useful life. See [2 CFR 200.453](#), Materials and Supplies Costs, Including Costs of [Computing Devices](#), regarding the allowability of costs.

Indicate general categories of expendable supplies including an amount for each category. Caution: If a category is viewed as too general or the associated amount is too high, the agency may request further itemization. Therefore, use good judgement in determining the level of detail to provide.

## **CONTRACTUAL**

Contractual costs include purchasing of goods and services, including consultant services. For each contract, describe:

- A description of the work or goods/services to be provided.
- An estimate of costs and basis for estimation. For example, quotes, competitive bid (Requests for Proposals) historic data, research, etc.

Contracts must be awarded in accordance with 2 CFR 200.317 – 200.327. Any sole source contract needs justification (e.g. no other providers are available) and a budget with the same level of detail as the applicant's budget.

See Appendix B for contractor versus subaward determination.

## **CONSTRUCTION**

See Appendix A for definition of [construction](#).

Applicants must provide an itemized cost breakdown.

## **OTHER**

Include costs that do not fit in one of the budget categories above, using the same level of detail. Break out by subcategories such as subawards, [participant support costs](#), publication costs, workshop/field day costs, conference registration, stipends, speaker fees, tuition, fee-for-service (institutional lab fees, motor pools, etc.), etc.

If the budget contains subawards, provide the subaward budget narrative using the same level of detail as the prime budget. If the subaward details are not yet determined, provide the nature of the work, estimated number of subawardees, and estimated dollar amount. Once subawards are finalized, provide the budget details to the agency, in accordance with the FPAC-BC-Grants and Agreements Division (GAD)- Prior Approval Matrix: <https://www.fpacbc.usda.gov/about/grants-and-agreements/applicant-and-award-resources>.

See Appendix B for contractor versus subaward determination.

## **INDIRECT COSTS**

Identify the rate and base used and show the calculation.

### **General**

[Indirect costs](#) are costs to support multiple activities or projects and cannot be easily linked to one specific project or activity. Other terms commonly used to describe [indirect costs](#) include:

- “overhead”
- “Facilities and Administrative (F&A)” costs
- “administrative costs”

There is no universal rule for classifying certain costs as direct or [indirect costs](#). However, costs must be consistently charged as either indirect or direct costs and may not be double charged or inconsistently charged as both.

To claim [indirect costs](#), applicants must either:

- Have a Negotiated Indirect Cost Rate Agreement (NICRA). If using a NICRA, provide a copy.
- Elect to use the [de minimis](#). Applicants that do not have a current Federal negotiated indirect cost rate (including provisional rate) may elect to charge a [de minimis rate](#) of up to 15 percent of modified total direct costs.
- Have an approved cost allocation plan

### **Proposed Indirect Cost Rate**

If your organization has submitted a proposal for a negotiated indirect cost rate agreement (NICRA), use the rate and base in the proposal to calculate the [indirect costs](#).

If the rate specified in the NICRA exceeds the rate used to calculate the agreement budget, the agency may at its discretion reimburse the Recipient for the difference if appropriated funds are available and the agreement is amended to obligate the additional funds.

If a NICRA is not successfully negotiated and established within 90 days of the agreement period of performance end date, the Government will not reimburse the Recipient for any [indirect costs](#). Once the NICRA is finalized, the recipient may request reimbursement and the Government shall pay indirect costs accrued during the agreement period of performance at the rate specified in the NICRA, provided it does not exceed the rate used in the agreement budget and for which funds were obligated.

## **Indirect Cost Limitations**

Some USDA programs do not allow indirect costs recovery. Refer to the applicable notice of funding opportunity to determine if indirect costs are allowable.

The USDA annual appropriation act limits indirect costs to 10 percent of total direct costs for cooperative and contribution agreements with nonprofit entities; for purposes of this limitation “nonprofit entities” includes institutions of higher education. For agreements subject to this limitation:

1. Apply the 10 percent indirect cost rate to the agreement’s total direct costs (Federal and any non-Federal);
2. Apply the indirect costs using the NICRA or [de minimis](#);
3. Use whichever rate results in the lowest indirect cost amount.

**Unrecovered Indirect Costs for Cost Sharing:** Applicants may include [unrecovered indirect costs](#) as part of cost sharing with the prior approval of the Federal agency or pass-through entity. See 2 CFR 200.306(c).

**Voluntarily Reduction/Waiving of Indirect Costs:** An applicant may voluntarily reduce or waive recovery of indirect costs at its sole discretion and must not be encouraged or coerced in any way to do so by the agency. If organizations waive indirect cost recovery and request only direct costs, the organization is required to include in the award budget only those types of costs consistently treated as direct costs by the organization.

## Appendix A: Definitions

**Computing Device.** Means machines that acquire, store, analyze, process, and publish data and other information electronically, including accessories (or “peripherals”) for printing, transmitting and receiving, or storing electronic information. (2 CFR 200.1)

**Construction.** means construction, alteration, or repair (including dredging, excavating, and painting) of buildings, structures, or other real property. For purposes of this definition, the terms “buildings, structures, or other real property” include, but are not limited to, improvements of all types, such as bridges, dams, plants, highways, parkways, streets, subways, tunnels, sewers, mains, power lines, cemeteries, pumping stations, railways, airport facilities, terminals, docks, piers, wharves, ways, lighthouses, buoys, jetties, breakwaters, levees, canals, and channels. For the purposes of 2 CFR part 184, construction also encompasses structures, facilities, and [equipment](#) incorporated into an infrastructure project regardless of whether they constitute real property. (2 CFR 400.0)

**De minimis rate.** Recipients and subrecipients that do not have a current Federal negotiated indirect cost rate (including provisional rate) may elect to charge a de minimis rate of up to 15 percent of modified total direct costs (MTDC). The recipient or subrecipient is authorized to determine the appropriate rate up to this limit. Federal agencies and pass-through entities may not require recipients and subrecipients to use a de minimis rate lower than the negotiated indirect cost rate or the rate elected pursuant to this subsection unless required by Federal statute or regulation. The de minimis rate must not be applied to cost reimbursement contracts issued directly by the Federal Government in accordance with the FAR. Recipients and subrecipients are not required to use the de minimis rate. When applying the de minimis rate, costs must be consistently charged as either direct or indirect costs and may not be double charged or inconsistently charged as both. The de minimis rate does not require documentation to justify its use and may be used indefinitely. Once elected, the recipient or subrecipient must use the de minimis rate for all Federal awards until the recipient or subrecipient chooses to receive a negotiated rate. (2 CFR 200.414(f))

**Equipment.** Means tangible personal property (including [information technology systems](#)) having a useful life of more than one year and a per-unit acquisition cost that equals or exceeds the lesser of the capitalization level established by the recipient or subrecipient for financial statement purposes, or \$10,000. See the definitions of capital assets, [computing devices](#), [general purpose equipment](#), [information technology systems](#), special purpose equipment, and supplies in this section. (2 CFR 200.1)

**General Purpose Equipment.** General purpose equipment means equipment that is not limited to research, medical, scientific, or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles. (2 CFR 200.1)

**Indirect Costs.** Means those costs incurred for a common or joint purpose benefitting more than



one cost objective and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. It may be necessary to establish multiple pools of indirect costs to facilitate equitable distribution of indirect expenses to the cost objectives served. Indirect cost pools must be distributed to benefitted cost objectives on basis that will produce an equitable result in consideration of relative benefits derived. For Institutions of Higher Education (IHE), the term facilities and administrative (F&A) cost is often used to refer to indirect costs. (2 CFR 200.1)

**Information Technology Systems.** Means [computing devices](#), ancillary [equipment](#), software, firmware, and related procedures, services (including support services), and resources. (2 CFR 200.1)

**Modified Total Direct Costs (MTDC).** Means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$50,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes [equipment](#), capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, [participant support costs](#), and the portion of each subaward in excess of \$50,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs and with the approval of the cognizant agency for indirect costs. (2 CFR 200.1)

**Participant Support Costs.** Means direct costs that support participants (see definition for Participant in 2 CFR 200.1) and their involvement in a Federal award, such as stipends, subsistence allowances, travel allowances, registration fees, temporary dependent care, and per diem paid directly to or on behalf of participants. (2 CFR 200.1)

**Supply.** Means all tangible personal property other than those described in the [equipment](#) definition. A [computing device](#) is a supply if the acquisition cost is below the lesser of the capitalization level established by the recipient or subrecipient for financial statement purposes or \$10,000, regardless of the length of its useful life. (2 CFR 200.1)

**Unrecovered Indirect Costs.** Means the difference between the amount charged to the Federal award and the amount which could have been charged to the Federal award under the recipient's or subrecipient's approved indirect cost rate. Unrecovered indirect costs, including indirect costs on cost sharing, may be included as part of cost sharing with the prior approval of the Federal agency or pass-through entity. (2 CFR 200.306(c))

## Appendix B: Contractor Versus Subaward Determination

Recipients use a subaward to contribute to the goals and objectives of the project by carrying out part of the award. It does not include payments to a contractor, beneficiary, or participant. The terminology used by the recipient to refer to these relationships is of no consequence. The determining factor is the nature of the relationship. The determination how to characterize the relationship as either a contract or a subaward is the responsibility of the recipient. However, misclassifying a relationship can lead to inaccurate cost calculations, delays in processing, and difficulty getting approval for project changes. Recipients are advised to consult agency staff with questions. In making this determination consider the table below. It demonstrates common examples of distinguishing characteristics.

<b>Contractor</b> <b>Used to obtain goods and services</b>	<b>Subrecipient</b> <b>Used to contribute to the goals and objectives of the project (carry out a portion of the project)</b>
Provides the goods or services within normal business operations	Contributes to the goals and objectives of the project by carrying out part of a Federal award
Provides similar goods or services to many different purchasers	May determine who is eligible to receive what Federal assistance
Normally operates in a competitive environment	Responsible for programmatic decisions
Performance is measured based on goods or services received	Performance is measured in relation to whether the objectives of a Federal program were met
Provides goods or services that are ancillary to the implementation of a Federal program	Responsible for adherence to applicable Federal program requirements specified in the Federal award
Must follow procurement standards in 2 CFR 200	Reimbursed for actual costs/no profit allowed

## Appendix C: Unallowable Costs Examples

Unallowable cost generally include:

- Costs above the amount authorized for the project.
- Costs incurred after the award period of performance end date, except for costs in accordance with 2 CFR 200.403.
- Costs not identified in the approved budget or approved budget revisions.
- Costs which lie outside the scope of the approved project and amendments thereto.

The costs below are not allowed. This list is not exhaustive. For general information about the allowability of particular items of costs, please see 2 CFR Part 200, "Subpart E - Cost Principles".

<b>Unallowable Costs</b>	<b>Description</b>
Building and Facilities Repair or Renovations	Unless specifically allowed by the agency or program, renovation or refurbishment of facilities, the purchase or installation of fixed equipment in facilities, and the planning, repair, rehabilitation, acquisition, or construction of buildings or facilities.
Consulting Services by Federal Employees	Consulting services performed by a Federal employee during official duty hours when such consulting services result in the payment of additional compensation to the employee.
Costs normally charged as Indirect costs	Costs normally charged as indirect costs may not be charged as direct costs without proper justification and agency approval. Proper justification includes documentation that the costs meet the criteria for allowability (see 2 CFR 200.403). Examples of such costs include rent, utilities, depreciation on buildings and equipment, the costs of operating and maintaining facilities, and general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting.
Entertainment	Regardless of their apparent relationship to project objectives
Honorarium	A payment made to someone for a service when a price is not legally required or customary. Honoraria are often given as a gesture of appreciation or "thank you" to guest speakers or lecturers and are unallowable. However, <u>speaker fees</u> are allowable.
Meals	Meals may be charged to an award only if they are necessary for the performance of the project. For instance, meals (normally only lunch) that are a necessary part of the costs of meetings and conferences (i.e., required attendance and continuity of a meeting), the primary purpose of which is the dissemination of information, are allowable, as are costs of transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences. Note: Meals consumed while in official travel status do not fall in this category. They are considered to be per diem expenses and should be reimbursed in accordance with the organization's established travel policies subject to statutory limitations or in accordance with Federal travel policies.

<b>Unallowable Costs</b>	<b>Description</b>
Personal Injuries or Damages	Compensation for injuries to persons or damage to property arising from project activities
Profit and Management Fees	Recipients may not earn and keep income resulting from an award.
Promotional Items or Memorabilia	Including models, gifts, and souvenirs.
Salaries not commensurate with level of work	All costs must be reasonable to be allowable (2 CFR 200.403), and 2 CFR 200.404 defines a reasonable cost as one if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Salaries determined not to be reasonable compared to the level of work will be unallowable.