



## Basic Financial Terms in Pursuing and Administering Federal Grants

This quick guide introduces and explains essential financial terms that applicants and recipients of federal grants must understand. These terms are critical for budgeting, compliance, reporting, and audit readiness throughout the grant life cycle.

### A Foundational Guide for Grant Seekers and Managers

#### Publish Date

**DATE**

#### Background

Federal grants are governed by 2 CFR Part 200 (Uniform Guidance), which outlines the financial principles and administrative requirements for managing federal awards. Understanding key financial terms helps ensure proper stewardship of public funds and reduces the risk of noncompliance.

#### Key Components

##### A. Pre-Award Financial Terms

- **Budget Narrative:** A detailed explanation of how grant funds will be used, aligned with the project's goals and allowable costs.
- **Cost Sharing / Match:** The portion of project costs not paid by federal funds, which may be required by the funding agency. May only be applied to allowable costs.
- **Indirect Cost Rate (IDC):** A percentage rate used to recover overhead costs. Entities may use a negotiated rate or the 15% de minimis rate, if eligible.
- **Modified Total Direct Cost (MTDC):** 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).

## B. Post-Award Financial Terms

- **Obligation:** A legally binding commitment to spend funds (e.g., signing a contract or placing an order).
- **Cash Basis Accounting:** A method of accounting in which income is recorded when cash is received, and expenses are recorded when cash is paid out.
- **Accrual Basis Accounting:** A system of accounting based on recognizing (recorded) revenue when earned and recognizes expenses when incurred, regardless of when cash is paid out.
- **Expenditure:** The actual outlay of funds for goods or services.
- **Advance Payment:** This refers to funds provided to the recipient in advance, before any expenses are incurred. These payments must be restricted to the minimum amount necessary and timed to align with the recipient's actual and immediate cash needs.
- **Reimbursement:** Often referred to as a "draw-down request," this process involves the recipient initially using their own funds for project expenses and then submitting a request to the federal awarding agency to be reimbursed for those costs.
- **Drawdown:** The process of requesting and receiving federal funds, typically through systems like Payment Management System (PMS) or Automated Standard Application for Payments (ASAP).
- **Cash Management:** Ensuring that funds are drawn only when needed and used promptly to avoid excess cash on hand. Excess cash on hand for a time period may incur interest which can trigger compliance requirements around interest.

## C. Cost Principles (2 CFR Part 200 Subpart E)

- **Allowable Costs:** Costs that are necessary, reasonable, allocable, and conform to federal regulations and the terms of the award. Tests for allowability are designed to prevent waste and abuse of federal funds.
- **Unallowable Costs:** Costs that cannot be charged to a federal award (e.g., alcohol, lobbying, entertainment).
- **Allocable Costs:** Costs that benefit the grant project and can be assigned in proportion to the benefit received.
- **Reasonable Costs:** Costs that a prudent person would incur under similar circumstances.

## D. Reporting and Audit Terms

- **Federal Financial Report (SF-425):** A standard form used to report expenditures and cash status.

## Understanding the Impact

- **Performance Reporting:** Narrative or quantitative updates on progress toward project goals.
- **Single Audit:** Required for entities expending \$1,000,000 or more in federal funds annually; focuses on financial and compliance controls.

### For Applicants:

- Accurate budgeting and understanding of cost principles improve competitiveness and compliance post-award.

### For Recipients:

- Proper financial management ensures sustainability, audit readiness, and eligibility for future funding.
- Organization-wide shared understanding of the federal definitions of these financial terms, and how they may differ from local usage, increases the efficiency and effectiveness of financial management.

### For Auditors and Funders:

Clear financial documentation supports transparency and accountability.

## Next Steps & Recommendations

- **Train staff** on Uniform Guidance, cost principles and reporting requirements.
- **Develop internal controls** for budgeting, drawdowns, and financial documentation.
- **Financial Management Systems** that meet the criteria for the financial management of grants.
- **Use grant management systems** to track obligations, expenditures, and reporting deadlines.

## Additional Resources

- [2 CFR 200 - Uniform Guidance](#)

## Ready to Transform Your Grant Management?



Bookmark [Center for Grant Excellence!](#)



Follow us on [LinkedIn](#)



[Contact Us!](#)