

SECTION III
Sample Exhibits to Support
Indirect Cost Rate Proposals

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* Examples of the Statement of Total Costs (STC) are shown in this Section, as applicable, for the simplified method or direct allocation method. Organizations may select either method (Exhibit D or E) based on their cost allocation methodology.

Exhibit A
Sample - Personnel Cost Worksheet
Fill in: Final or Provisional & Organization's Fiscal year

Position	Annual Salary (A)	FICA (B)	State UI (C)	Worker's Comp. (D)	Health Insurance (E)	Retirement (F)	Total Benefits	Total Personnel Costs
	a						b	(a+b)
Executive Director	\$ 60,000	\$ 4,311	\$ 240	\$ 600	\$ 2,400	\$ 4,800	\$ 12,351	\$ 72,351
Administrative Assistant	22,000	1,683	240	220	2,400	1,760	6,303	28,303
Controller	45,000	3,443	240	450	2,400	3,600	10,133	55,133
Accountant (3)	90,000	6,885	720	900	7,200	7,200	22,905	112,905
Program Planner (4)	120,000	9,180	960	1,200	9,600	9,600	30,540	150,540
Field Operations Director	35,000	2,678	240	350	2,400	2,800	8,468	43,468
Area Coordinator *	15,000	1,148	240	150	1,400	1,200	4,138	19,138
Program Specialist (2)	25,000	1,913	480	250	4,800	2,000	9,443	34,443
Personnel Director	40,000	3,060	240	400	2,400	3,200	9,300	49,300
Personnel Clerk (3)	60,000	4,590	720	600	7,200	4,800	17,910	77,910
MIS Director	45,000	3,443	240	450	2,400	3,600	10,133	55,133
Head Start Director	45,000	3,443	240	450	2,400	3,600	10,133	55,133
Data Entry Clerk *	12,000	918	240	120	1,200	960	3,438	15,438
All Other Positions **	700,000	53,550	12,000	7,000	120,000	56,000	248,550	948,550
TOTAL	\$ 1,314,000	\$ 100,245	\$ 17,040	\$ 13,140	\$ 168,200	\$ 105,120	\$ 403,745	\$ 1,717,745

(A) In this example, vacation, holiday, sick leave, and other paid absences were included in salaries and claimed on other grants, contracts, or agreements, as part of salary costs. Separate claims for these absences are not made. Refer to Exhibit C.

(B) FICA taxable wages were computed at 6.2% of \$55,500 per employee, and 1.45% based on \$130,200 per employee.

(C) State unemployment compensation taxable wages were computed on the 1st \$8,000 for 71 employees at 3% ($\$8,000 \times 71 \times 3\% = \$17,040$)

(D) Worker's compensation was estimated at 1% of salaries ($1\% \times \$1,314,000 = \$13,140$).

(E) Health insurance was computed at \$200 per month per employee.

(F) Retirement was computed at 8% of an employee's annual salary.
Example: Executive Director's annual salary: $\$60,000 \times 8\% = \$4,800$.

* This represents employees who will work less than a twelve month period due to a grant/contract not being reviewed.

** These positions have been consolidated for illustrative purposes only; all personnel positions that require charging time to more than one cost objective must be identified separately on this exhibit.

Note: Salaries and fringes included in this exhibit are for illustrative purposes only.

Exhibit A-1

<u>Heading from Exhibit A</u>	<u>Explanation</u>
Position	All staff salaries.
Annual Salary	Actual or estimated salary amount for the year depending on type of proposal (final or provisional).
FICA	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Should be computed in accordance with the applicable rates This is the organization's share.
State Unemployment Compensation	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Should be computed in accordance with the applicable rates This is the organization's share.
Worker's Compensation	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Cost should be obtainable from the insurance policy or agent.
Health Insurance	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Cost should be obtainable from the insurance policy or agent.
Retirement	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Cost should be based on the organization's retirement plan.

Exhibit B
Sample - Allocation of Personnel Worksheet
Fill in: Final or Provisional & Organization's Fiscal year

Position	Annual Salary	Indirect Costs	Direct Costs (a+b)	Federal Programs			Non-Federal Programs		
				a			b		
				U.S. Dept. of Labor	U.S. Dept. of HHS	U.S. Dept. of Education	State Service Delivery Agency	Fundraising	Private Foundation Commercial
Executive Director	\$60,000	\$54,000	\$6,000					\$6,000	
Administrative Assistant	22,000	22,000							
Controller	45,000	45,000							
Accountant	90,000	90,000							
Program Planner (4)	120,000	12,000	108,000	\$72,000	\$12,000	\$18,000	\$6,000		
<i>% of Distribution</i>	<i>100%</i>	<i>10%</i>	<i>90%</i>	<i>60%</i>	<i>10%</i>	<i>15%</i>	<i>5%</i>		
Field Operations Director	35,000	5,250	29,750	8,750	5,250	8,750	5,250		\$1,750
<i>% of Distribution</i>	<i>100%</i>	<i>15%</i>	<i>85%</i>	<i>25%</i>	<i>15%</i>	<i>25%</i>	<i>15%</i>		
Area Coordinator *	15,000		15,000				15,000		
Program Specialist	25,000		25,000	20,000	5,000				
<i>% of Distribution</i>	<i>100%</i>		<i>100%</i>	<i>80%</i>	<i>20%</i>				
Personnel Director	40,000	40,000							
Personnel Clerk (3)	60,000	60,000							
MIS Director	45,000	45,000							
Head Start Director	45,000		45,000	9,000	36,000				
<i>% of Distribution</i>	<i>100%</i>		<i>100%</i>	<i>20%</i>	<i>80%</i>				
Data Entry Clerk *	12,000		12,000	9,000		3,000			
All Other Positions **	700,000		700,000	280,000	105,000	175,000	105,000		35,000
TOTAL	\$1,314,000	\$373,250	\$940,750	\$398,750	\$163,250	\$204,750	\$131,250	\$6,000	\$36,750

* This represents an employee who will work less than a twelve month period.

** These positions have been consolidated for illustrative purposes only. All personnel positions that require time to be charged to more than one cost objective must be identified separately in this worksheet.

Note: The salaries included in this exhibit are for illustrative purposes only.

Exhibit B-1

Sample - Employee Time Distribution Report for Work/Non-Work Hours

USA Company
1776 Democracy Boulevard
Washington, D.C. 20099

Employee Name: _____

1st Week

2nd Week

Sunday Monday Tuesday Wednesday Thursday Friday Saturday Sunday Monday Tuesday Wednesday Thursday Friday Saturday Total

Summary of Work Hours

Direct Program/Grant/Contract Activities*														Total
Project # 1														0
Project # 2														0
Project # 3														0
Project # 4														0
Indirect Activities**														0
Subtotal	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Summary of Non-Work Hours - Release Time

Annual Leave														0
Sick Leave														0
Holiday														0
Other***														0
Subtotal	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Employee Signature _____ Date: _____ Supervisor Signature _____ Date: _____

General Note on this Exhibit: - This sample time distribution report is intended to show the minimum requirements that organizations need to capture to comply with applicable regulations to support claims for salaries and wages. For additional information on these requirements, see OMB Circular A-122, Attachment B, 8.M.

- Notes:**
- * "Projects" must be specifically identified to the actual program worked with name/title/code, etc. Note that "fundraising" is considered a direct activity.
 - ** Indirect - can be changed, or a row can be added showing G&A, Overhead Onsite/Offsite, if applicable.
 - *** "Other" could include other types of leave. If so, they must be identify here or detailed in the organizations' cost policy statement.

Exhibit C

Sample - Statement of Employee Benefits

Fill in: Final or Provisional & Organization's Fiscal year

	<u>Method A</u>	<u>Method B</u>
Annual Leave Earned		\$50,384
Sick Leave Taken		25,269
Holidays		<u>50,384</u>
Subtotal - Release Time		\$126,037 a
FICA	\$100,245	\$100,245
State Unemployment Compensation	17,040	17,040
Worker's Compensation Insurance	13,140	13,140
Medical Insurance	168,200	168,200
Pension	<u>105,120</u>	<u>105,120</u>
SubTotal	\$403,745	\$403,745 b
Total Employee Fringe Benefits	\$403,745	\$529,782 (a+b)
Allocation Base:		
Total Salaries	\$1,314,000	\$1,314,000
Less: Release Time		<u>126,037</u>
Chargeable Salaries		\$1,187,963
<u>Employee Fringe Benefit Rate</u>		
Fringe Benefits	\$403,745	\$529,782
Allocation Base	\$1,314,000	\$1,187,963
Fringe Rate	30.73%	44.60%

NOTE:

Method A - For estimating purposes on budgets, grantees/contractors include release time as personnel salary costs; i.e. total salary.

Method B - The fringe benefit pool includes time for vacation, holiday, and sick leave and is distributed through a fringe benefit rate.

The decision to use either method will depend on the grantee/contractor's accounting system and time distribution system.

Introduction to Sample Exhibit D Simplified Allocation Method

The **Simplified Method** is used whenever the major functions of an organization benefit from its indirect costs to approximately the same degree. The allocation of indirect costs may be accomplished by:

- (1) classifying the total cost for the base period (usually the organization's fiscal year) as either direct or indirect and
- (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base.

The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal financial assistance programs and contracts. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method may also be used where:

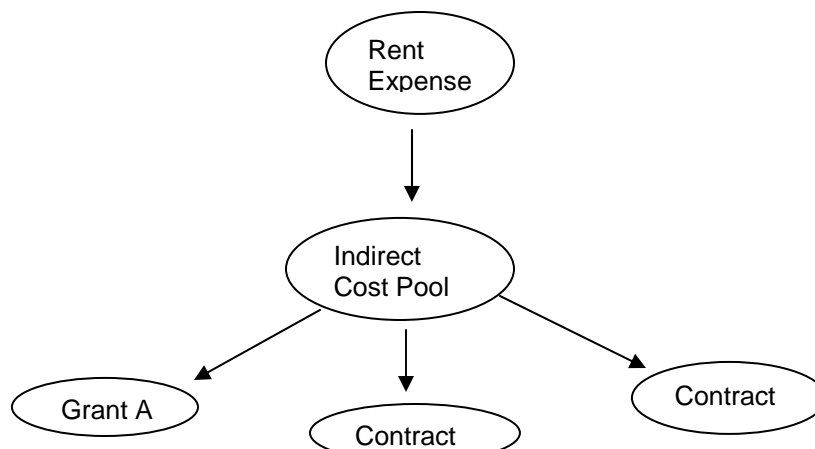
- (1) the organization has only one major function encompassing a number of individual projects or activities, and/or
- (2) where the level of Federal awards to that organization is relatively small.

Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs must be included in the direct cost base (if they represent activities to which the indirect costs are properly allocable).

The distribution base may be:

- (1) total direct costs (excluding capital expenditures and other distorting items, such as flow-through funds, the portion of each subaward in excess of \$25,000, etc.),
- (2) direct salaries and wages,
- (3) total costs less G&A expenses (commercial contractors),
- (4) another base which results in an equitable distribution.

Under the Simplified Method, for example, rent expense would be entirely classified as indirect costs and distributed to benefiting activities on one of the bases described above. A pictorial of this example is shown below:



A sample format for the computation of an indirect cost rate under the **Simplified Method** follows.

EXHIBIT D
Sample - Statement of Total Costs - All Funds - and
Distribution of Indirect Costs to the Cost Centers using two Sample Methods of Allocation ⁽⁶⁾ (3 STEPS)
Simplified Allocation Method

Fill in: Final or Provisional & Organization's Fiscal year

STEP 1 - Do Statement...					Federal Programs			Non-Federal
Budget Category	Total Costs	Less: Direct Exclusions and Indirect Unallowable Costs	Indirect Costs (3)	"Modified" Total Direct Costs (MTDCs)	Total Federal Programs	Dept. of Labor	Other Federal Programs	Total Non-Federal Programs
	A = B+C+D	B	C	D = E+F	E			F
Salaries	\$1,314,000		\$373,250	\$940,750	\$766,750	\$515,000	\$251,750	\$174,000
Fringe Benefits (30.73%)	403,746		114,686	289,060	235,596	158,242	77,354	53,464
Total Personnel Costs	1,717,746		487,936	1,229,810	1,002,346	673,242	329,104	227,464
Consultant Services	26,000		14,000	12,000	10,300	10,300		1,700
Staff Travel	94,000		20,000	74,000	67,300	43,600	23,700	6,700
Bad Debts	10,000	\$10,000 (1)						
Office Rent	170,000		170,000					
Consumable Supplies	161,000		11,000	150,000	22,500	15,000	7,500	127,500
Subcontracts	175,000	107,000 (2)		68,000	10,200	8,200	2,000	57,800
Purchase, Lease of Equipment	82,000	22,100 (2)	59,900					
Telephone	109,400		55,000	54,400	8,200	6,200	2,000	46,200
Entertainment	1,800	1,800 (1)						
Printing and Reproduction	48,000		11,000	37,000	5,500	3,500	2,000	31,500
Insurance and Bonding	42,000		42,000					
Postage and Delivery	34,000		5,100	28,900	4,300	2,300	2,000	24,600
Depreciation	28,800		8,800	20,000	3,000	2,000	1,000	17,000
Emergency Assistance	54,000	54,000 (2)						
Training Materials	82,000			82,000	12,300	10,000	2,300	69,700
Participant Support Costs	184,000	184,000 (2)						
Total Non-Personnel Costs	\$1,302,000	\$378,900	\$396,800	\$526,300	\$143,600	\$101,100	\$42,500	\$382,700
TOTAL	\$3,019,746 (4)	\$378,900	\$884,736	\$1,756,110	\$1,145,946	\$774,342	\$371,604	\$610,164

STEP 2 - Rate Calculation...		STEP 3 - Distribution to the Cost Centers						
<u>Indirect Cost Rate Calculation*</u>		<u>Distribution of Indirect Costs (ICs) - (5)</u>						
Indirect Costs	\$884,736					<u>a</u>	<u>b</u>	<u>Total a+b</u>
Method A - Total Direct Salaries & Benefits	1,229,810	<u>Method A (6)</u>	Allocation Base	1,002,346	673,242	329,104	227,464	1,229,810
Indirect Rate	71.94%		Times Indirect Rate	71.94%	71.94%	71.94%	71.94%	
			Equals Allocable Share of ICs	\$721,096	\$484,336	\$236,760	\$163,640	\$884,736
Indirect Costs	\$884,736	<u>Method B (6)</u>	Allocation Base	1,145,946	\$774,342	\$371,604	610,164	1,756,110
Method B - MTDCs	\$1,756,110		Times Indirect Rate	50.38%	50.38%	50.38%	50.38%	
Indirect Rate	50.38%		Equals Allocable Share of ICs	\$577,333	\$390,117	\$187,216	\$307,403	\$884,736
			Difference between A & B (A-B)	\$143,764	\$94,219	\$49,545	(\$143,764)	

(1) and (2) - Refer to notes of Exhibit E for explanations.

(3) This column must be split to show multiple rate structures (G&A, onsite, offsite, if applicable).

(4) Must reconcile to the Financial Statements.

(5) Is the result of multiplying the indirect rate times the allocation base for each cost center.

(6) For sample purposes only. Other allocation methods may be proposed as long as it provides and equitable and rational distribution of indirect costs. Contact DCD for more details.

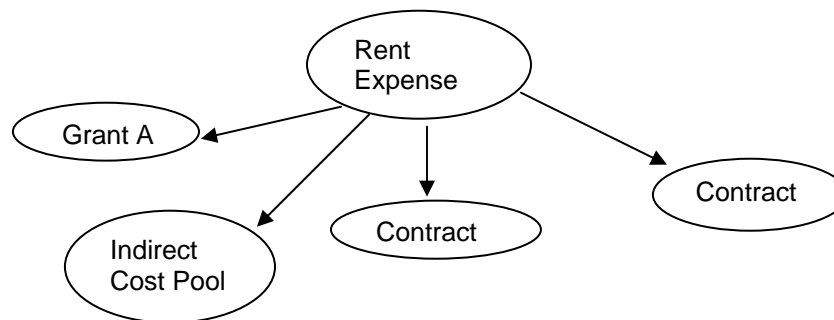
Note: The costs included in this exhibit are for illustrative purposes only.

Introduction to Sample Exhibit E Direct Allocation Method

The **Direct Allocation Method** is used by organizations that treat all costs as direct costs except general administration and expenses. These organizations generally separate their costs into three (3) basic categories:

- (1) general administration and expenses,
- (2) fund raising, and
- (3) other direct functions (including projects performed under Federal awards).

Joint costs, such as depreciation, rental expense, operation and maintenance facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each award or other activity using a base most appropriate to the particular cost being prorated. A pictorial example of the proration of rental expense is shown below:



*** Note that the only rent expense allocated to the indirect pool is the indirect portion of rent expense as a whole.**

Under this method, indirect costs consist exclusively of general administration and general expenses. In all other respects, the organization's indirect cost rates shall be computed in the same manner as demonstrated in Exhibit D.

This method is acceptable provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. A listing of suggested allocation bases is included in Exhibit E – Suggested Allocation Bases.

A sample format for the computation of an indirect cost rate under the **Direct Allocation Method** follows.

EXHIBIT E
Sample - Statement of Total Costs - All Funds - and
Distribution of Indirect Costs to the Cost Centers using two Sample Methods of Allocation ⁽⁶⁾ (3 STEPS)
Direct Allocation Method

Fill in: Final or Provisional & Organization's Fiscal year

STEP 1 - Do Statement...				Federal Programs					Non-Federal Programs		
Budget Category	Total Costs	Less: Direct Exclusions and Indirect Unallowables Costs	Indirect Costs (3)	Modified Total Direct Costs (MTDCs)	Total Federal Programs	Dept. of Labor	Dept. of HHS	Dept. of Education	Total Non-Federal Programs	Private Foundation	Fund-raising
	A = B+C+D	B	C	D = E+F	E				F		
Salaries	\$1,314,000		\$373,250	\$940,750	\$766,750	\$398,750	\$163,250	\$204,750	\$174,000	\$168,000	\$6,000
Fringe Benefits (30.73%)	403,746		114,686	289,060	235,596	122,522	50,161	62,913	53,464	51,620	1,844
Total Personnel Costs	1,717,746		487,936	1,229,810	1,002,346	521,272	213,411	267,663	227,464	219,620	7,844
Consultant Services	26,000		14,000	12,000	10,300	7,000		3,300	1,700	1,700	
Staff Travel	94,000		20,000	74,000	67,300	28,100	12,600	26,600	6,700	6,700	
Bad Debts	10,000	10,000 (1)									
Office Rent	170,000		32,000	138,000	113,200	46,900	27,600	38,700	24,800	22,000	2,800
Consumable Supplies	161,000		11,000	150,000	132,000	36,000	43,500	52,500	18,000	18,000	
Subcontracts	175,000	107,000 (2)		68,000	50,000			50,000	18,000	18,000	
Purchase, Lease of Equipment	82,000	22,100 (2)	10,700	49,200	39,900	16,700	8,400	14,800	9,300	9,300	
Telephone	109,400		18,600	90,800	73,600	30,900	15,400	27,300	17,200	13,600	3,600
Entertainment	1,800	1,800 (1)									
Printing and Reproduction	45,800		11,000	34,800	32,100	11,800	4,800	15,500	2,700	1,900	800
Insurance and Bonding	41,800		8,400	33,400	29,200	9,100	8,700	11,400	4,200	4,200	
Postage and Delivery	35,500		5,100	30,400	24,500	12,100	4,900	7,500	5,900	2,400	3,500
Depreciation	29,700		8,800	20,900	20,000	10,000	10,000		900	900	
Emergency Assistance	54,000	54,000 (2)									
Training Materials	82,000			82,000	76,300	36,100		40,200	5,700	5,700	
Participant Support Costs	184,000	184,000 (2)									
Total Non-Personnel Costs	1,302,000	378,900	139,600	783,500	668,400	244,700	135,900	287,800	115,100	104,400	10,700
TOTAL	\$3,019,746 (4)	\$378,900	\$627,536	\$2,013,310	\$1,670,746	\$765,972	\$349,311	\$555,463	\$342,564	\$324,020	\$18,544

STEP 2 - Rate Calculation...		STEP 3 - Distribution to the Cost Centers												
Indirect Cost Rate Calculation		Distribution of Indirect Costs (ICs) - (5)												
Indirect Costs	\$627,536	<u>Method A (6)</u>	Allocation Base	<u>a</u>	1,002,346	521,272	213,411	267,663	<u>b</u>	227,464	219,620	7,844	Total <u>a+b</u>	1,229,810
Method A - Total Direct Salaries & Benefits	<u>1,229,810</u>		Times Indirect Rate		51.03%	51.03%	51.03%	51.03%		51.03%	51.03%	51.03%		
Indirect Rate	51.03%		Equals Allocable Share of ICs		\$511,468	\$265,990	\$108,897	\$136,581		\$116,068	\$112,066	\$4,003		627,536
Indirect Costs	\$627,536	<u>Method B (6)</u>	Allocation Base		1,670,746	\$765,972	\$349,311	\$555,463		342,564	\$324,020	\$18,544		2,013,310
Method B - MTDCs	<u>\$2,013,310</u>		Times Indirect Rate		31.17%	31.17%	31.17%	31.17%		31.17%	31.17%	31.17%		
Indirect Rate	31.17%		Equals Allocable Share of ICs		\$520,761	\$238,749	\$108,878	\$173,134		\$106,775	\$100,995	\$5,780		627,536
			Difference between A & B (A-B)**		(\$9,293)	\$27,241	\$19	(\$36,554)		\$9,293	\$11,071	(\$1,777)		

(1) and (2) - Refer to notes of Exhibit E for explanations.

(3) This column must be split to show multiple rate structures (G&A, onsite, offsite, if applicable).

(4) Must reconcile to the Financial Statements.

(5) Is the result of multiplying the indirect rate times the allocation base for each cost center.

(6) For sample purposes only. Other allocation methods may be proposed as long as it provides and equitable and rational distribution of indirect costs. Contact DCD for more details.

Note: The costs included in this exhibit are for illustrative purposes only.

Notes to Exhibit E

- (1) Examples of expressly unallowable costs in this exhibit include entertainment expense and bad debts. Other indirect unallowable costs include lobbying costs, bad debts or allowances for doubtful accounts, fines and penalties, losses on Federal or non-Federal projects, provisions for contingencies, and charitable contributions.

Note: the costs included in the indirect cost pool (as well as direct costs) shall be net of applicable credits (OMB Circular A-122, Attachment A, paragraph 5).

- (2) Examples of direct costs exclusions using MTDCs as the allocation base in this exhibit include amounts over the first \$25,000 of each subcontract, purchase and lease of equipment, emergency assistance and participant support costs. See OMB Circular A-122, Attachment A, paragraph D.2.c. for more details. Details of the direct costs exclusions are as follows:
 - a. The portion of subcontract costs in excess of \$25,000 each. As a general rule, the organization and DCD agree that only the first \$25,000 of each subcontract, subgrant and professional service agreement should be included in the distribution base. This recognizes that grantees/contractors expend a minimal amount of indirect costs on subcontracts.
 - b. Equipment and other capital expenditures, such as major renovations, alterations and improvements.
 - c. Participant support costs. This represents payments for stipends, travel allowances and registration fees paid to participants (but not employees) in connection with training projects.
 - d. Payments to participating agencies, e.g. OJT contractors, (flow-through- funds). If the organization is significantly involved in the administration or oversight of the participating agencies, a special rate might be necessary for that activity.

Other information

Exclusions of direct costs for the MTDC base are only presented in this exhibit for allocation purposes; it is not related to direct costs reimbursement.

Note that if the organization's unallowable activities (lobbying, fundraising, membership) include salaries, occupy space, and benefit from the organization's indirect cost, they should be included in the direct cost allocation base for the purpose of determining the indirect cost rate and be allocated their share of the organization's indirect costs. (Refer to OMB Circular A-122, Attachment A, Paragraphs B.3. & B.4.). This sample exhibit includes these types of costs in the MTDC base.

From the examples provided on Exhibit D or E, the data can be used to compute either an indirect cost rate based on direct salaries and wages including applicable fringe benefits, or an indirect cost rate based on modified total direct costs (MTDCs). As stated in OMB Circular A-122, Attachment A, paragraph D.2.c., the distribution base may be direct salaries and wages, total direct cost, or another base which results in an equitable distribution to all activities that receive benefit from the indirect cost pool. S

Since most organizations receiving grants are labor intensive, using a distribution base of direct salaries and wages including applicable fringe benefits is most often recommended by DCD.

Exhibit E Suggested Allocation Bases

The allocation base selected by the non-profit organization or commercial organization must be:

- (1) reasonable and consistently applied to direct costs,
- (2) supported by accurate and current data,
- (3) appropriate to the particular cost being distributed, and
- (4) one which results in an accurate measure of the benefits provided to each activity of the organization.

The following are suggested allocation bases:

<u>TYPE OF SERVICE</u>	<u>SUGGESTED BASIS FOR ALLOCATION</u>
Accounting	Number of transactions processed.
Auditing	Direct audit hours.
Budgeting	Direct hours of identifiable services of employees of central budget.
Building lease management	Number of leases.
Data processing	System usage.
Disbursing service	Number of checks or warrants issued.
Employees retirement system administration	Number of employees contributing.
Insurance management service	Dollar value of insurance premiums.
Legal services	Direct hours.
Mail and messenger	Number of documents handled or service employees served.
Motor pool costs including automotive management	Miles driven and/or days used.

Office machines and equipment maintenance repairs	Direct hours.
Office space use and related costs(heat, light, janitor service, etc.)	Sq. ft. of space occupied.
Organization and management services	Number of employees.
Payroll services	Number of employees.
Personnel administration	Number of employees.
Printing and reproduction	Direct hours, job basis, pages printed, etc.
Procurement service	Number of transactions processed.
Local telephone	Number of telephone instruments.
Health services	Number of employees.
Fidelity bonding program	Employees subject to bond or penalty amounts.

NOTE: Any method of allocation can be used which will produce an equitable and rational distribution of costs.

Exhibit F

**SAMPLE: Cost Policy Statement (CPS)
for Indirect Cost Rate Proposal**

The following CPS is intended to be used as guidance for organizations that seek reimbursement for indirect costs under Federal awards. This model assumes that ABC Organization uses

- A. the direct allocation basis to charge individual elements of costs. That is, in addition to direct costs, ABC has in place accounting procedures which enable it to direct charge some costs that would otherwise be considered indirect costs (see, for example, the description below on how the photocopy costs are charged).
- B. the direct salaries and wages including applicable fringe benefits, to allocate the indirect cost "pool".

IMPORTANT NOTE: The CPS should have a detailed description of all the cost elements in the indirect cost proposal. It should also include the cost element allocation methodology.

COST POLICY STATEMENT
ABC ORGANIZATION

I. General Accounting Policies

- A. Basis of Accounting - Accrual Basis
- B. Fiscal Period - July 1 through June 30
- C. Allocation Basis for Individual Cost Elements - Direct Allocation Basis
- D. Indirect Cost Rate Allocation Base - Direct Salaries and Wages including applicable Fringe Benefits.
- E. If ABC Organization needed a fringe benefit rate, it would describe its fringe benefit allocation base at this point.
- F. ABC maintains adequate internal controls to insure that no cost is charged both directly and indirectly to Federal contracts or grants. A description of the accounting system software would be described at this point.
- G. ABC accumulates all indirect costs and revenues in accounts titled, "Indirect Cost-Expense" and "Indirect Cost-Revenue" respectively.

II. Description of Cost Allocation Methodology -

A. Salaries and Wages

- 1. Direct Costs - The majority of ABC's employees direct charge their salary costs since their work is specifically identifiable to specific grants, contracts, or other activities of the organization such as lobbying, fund raising or providing services to members. The charges are supported by

auditable labor distribution reports which reflect the actual activities of employees.

2. Indirect Costs - The following staff charge 100% of their salary costs indirectly:
 - Office Business Manager
 - Secretary/Receptionist
3. Mixed Charges - The following employees may charge their salary costs to both direct and indirect activities:
 - Executive Director
 - Administrative Assistant

The distinction between direct and indirect is primarily based on functions performed. For example, when the positions shown are performing functions that are necessary and beneficial to all programs they are indirect. When functions are specific to one or more programs they are direct because they do not benefit all programs.

Auditable labor distribution records which reflect the actual activities of employees are maintained to support the mix of direct/indirect charges. The time records are certified by the Executive Director or designee.

B. Fringe Benefits

ABC contributes to the following fringe benefits for its employees:

1. unemployment insurance,
2. worker's compensation,
3. F.I.C.A., health insurance and
4. matching contributions to a defined benefit pension plan.

Treatment of Fringe Benefits: ABC's accounting system tracks fringe benefit costs by individual employee and charges those costs directly or indirectly in the same manner as salary and wage costs are recorded. ABC does not need to have a fringe benefit rate established.

Treatment of Paid Absences - Release time costs (vacation leave earned, sick leave used, and holiday pay) are considered part of salary costs. Consequently, separate claims for release time costs are not made. ABC's accounting system records release time as a direct or indirect cost in the same manner that salary costs are recorded. Vacation leave earned but not used during each fiscal period is recorded as a cost in the period earned.

C. Travel

Travel costs may be charged as either direct or indirect costs depending on the purpose of the trip.

For example:

The Executive Director of Company ABC travels to a regional office to give employees a quarterly update. This trip is indirect in nature and should be

charged as an indirect cost. However, if the Executive Director of Company ABC travels to a regional office to perform a specific task for a contract, the trip would be considered a direct cost.

D. Board Expenses

Board expenses charged on an indirect basis are for travel to/from Board meetings (limited to expenses allowed under the Federal Travel Regulations) and an annual fee of \$250 paid to each Board member.

Other Board expenses are absorbed by ABC and are not charged either directly or indirectly to Federal contracts or grants.

E. Supplies and Material

To the maximum extent possible, office supplies and materials are direct charged to the contract/grant which uses the supplies or materials.

Supplies and materials used by staff who are engaged in indirect activities will be charged on an indirect basis.

F. Occupancy Expenses

Rent - ABC occupies space it leases from Lessor Corporation. The lease provides for equal monthly payments during the term of the lease. Monthly lease costs are allocated, based on: square footage, directly and indirectly as follows:

1. Direct Costs - The cost of space occupied by staff whose salaries are directly charged is charged directly.
2. Indirect Costs - The cost of space occupied by staff whose salaries are indirectly charged is charged indirectly. The cost of space for staff whose salaries are charged on a mixed basis will be allocated on a mixed basis in the same ratio as their salaries are allocated.

The cost of space required for common areas (hallways, restrooms, and ABC's conference room) will be accounted for as an indirect cost.

ABC has developed a floor plan which identifies what areas are designated as direct and indirect charge space (based on square footage).

G. Utilities

ABC's lease includes the cost of all utilities except electricity. The cost of electricity is charged directly and indirectly in the same ratio as its space costs are charged.

H. Communications

1. A log is maintained of all fax transmissions. The cost of fax services is charged either directly or indirectly based upon whether a direct or indirect activity benefits from the transmission.
2. Long distance telephone calls are charged either directly or indirectly based upon whether a direct or indirect activity benefits from the transmission.

3. Local telephone service costs are prorated to direct and indirect charges based upon the number of telephone instruments assigned to ABC. Each telephone instrument is identified to either an indirect or a direct activity. For example:

ABC has 50 telephone instruments assigned to it:

- (1) Nine (9) of the 50 instruments are assigned to the program funded by HHS. Therefore, 9/50ths of the monthly local service telephone charges are direct charged to the HHS grant.
- (2) Five (5) of the instruments are assigned to indirect staff. Therefore, 5/50ths of the monthly local service charges are charged indirectly.

No telephone instruments are charged on a mixed basis since the costs incurred on that basis are immaterial in amount.

4. ABC uses a meter system for postage charges. The postage meter has been programmed to identify the specific program or activity to charge costs against. Express mail costs are also specifically identified to the program or activity incurring the cost.

I. Photocopying and Printing

ABC maintains a photocopy activity log. From this log, ABC is able to prorate its photocopy expenses to each program based on the specific volume of copies made for each program.

Administrative personnel will record copies made to the benefiting program to the maximum extent practical. In situations where the photocopies being made by administrative personnel cannot be identified to a specific program and the matter being copied relates to the activities of ABC in general, the cost of such copies will be charged to the "Indirect Cost-Expense" account.

Printing expenses are charged to the benefiting activity.

J. Outside Services

ABC incurs outside services costs for its annual audit, legal fees, and for staff development specialists.

1. The cost of the annual audit is charged indirectly.
2. In general, legal fees are charged directly to the benefiting program or activity.
3. Legal fees that are not identifiable to specific direct programs are charged indirectly.

K. Capital Items

Capital expenditures are charged directly to programs only in cases where a contract or grant specifically authorizes such charges. No capital item is charged indirectly.

The cost of capital items purchased with non-Federal funds are recovered through depreciation charges. ABC's capitalization threshold is \$500.

L. Depreciation

The cost of capital items purchased with non-Federal funds which are used in a manner which benefits Federal programs is recovered through depreciation charged. ABC recovers the cost of capital items using straight line depreciation methods in accordance with generally accepted accounting principles. Depreciation is charged indirectly.

M. Service to Members

The cost of activities performed primarily as a service to members, clients, or the general public are classified as direct costs and bear their fair share of indirect costs. These activities include:

1. maintenance of membership rolls,
2. subscriptions,
3. publications, and related functions, providing services and information to members, legislative or administrative bodies, or the public;
4. promotion, lobbying, and other forms of public relations;
5. meetings and conferences except those held to conduct the general administration of ABC Organization;
6. maintenance, protection, and investment of special funds not used in operation of ABC; and administration of group benefits on behalf of members or clients including life and hospital insurance, annuity or retirement plans, financial aid, etc.

N. Unallowable Costs

ABC recognizes that unallowable costs, as defined in OMB Circular A-122 (2 CFR Part 230) or the FAR, cannot be charged to Federal awards and has internal controls in place to insure that this is followed. Examples of unallowable costs are:

1. advertising and public relations,
2. entertainment/alcoholic beverages,
3. capital expenditures,
4. defense claims by or against the Federal Government,
5. interest,
6. lobbying and fund raising.

Signature

Date

Title

ABC Organization
1111 Main Street
City, USA 12345

Exhibit G

CERTIFICATE OF INDIRECT COSTS

I have reviewed the indirect cost proposal dated _____ . This is to certify that:

1. All costs included in the proposal(s) submitted on _____ to establish provisional, final, or fixed indirect cost rate(s), for the period _____, through _____ are allowable in accordance with the requirements of grants/contracts to which they apply and with the Federal cost principles; i.e., (please check those applicable cost principles):

- _____ OMB Circular A-87 (2CFR Part 225) Cost Principles for State, Local and Federally recognized Indian Tribal Governments.
- _____ OMB Circular A-122 (2 CFR Part 230) Cost Principles for Non-Profit Organizations
- _____ Federal Acquisition Regulation (FAR), Subpart 31.2, Cost Principles for Commercial Organizations.

2. This proposal does not include any costs which are unallowable under applicable Federal cost principles. For example:

advertising, contributions and donations, bad debts, entertainment costs, fines and penalties, general government expenses, and defense of fraud proceedings;

3. The requirements standards on lobbying costs for non-profit (A-122) and commercial (FAR) organizations have been complied with for the fiscal year ended _____, and
4. All costs included in this proposal are properly allocable to U.S. Department of Labor grants/contracts on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable Federal cost principles.

Subject to the provisions of the Program Fraud Civil Remedies Act of 1986, (31 USC 3801 et seq.), and the Department of Labor's implementing regulations, (29 CFR Part 22), the False Claims Act (18 USC 287 and 31 USC 3729); and the False Statements Act (18 USC 1001), I declare to the best of my knowledge the foregoing is true and correct.

Grantee/Contractor: _____

Signature: _____

Name of Authorized Official: _____

Title: _____

Date: _____

Organization ABC
Sample - Listing of Grants and Contracts
Provisional (or Final) Indirect Cost Proposal for 12/31/XX

<u>Grantor</u>	<u>DOL SubAgency</u>	<u>Funding Source</u>	<u>Grant/Contract Amount</u>	<u>Period of Performance</u>	<u>Indirect Cost Limitations or CAP Limitations</u>	<u>Grant/Contract Award Notice Provided as part of proposal</u>
		American Recovery Reinvestment Act				
Federal	U.S. Dept. of Labor	ETA	\$5,000,000	1/1/09 to 12/31/09	None	Yes
	U.S. Dept. of Labor	ILAB	\$300,000	1/1/06 to 6/30/09	None	Yes
	U.S. Dept of HHS	Head Start	\$3,500,000	7/1/06-6/30/09	5% of Total Award	Yes
Non-Federal	Various		\$500,000	1/1/09-12/31/10		