

ATTACHMENT 8

Source: U. S. Department of Labor

Office of Cost Determination

A GUIDE FOR INDIRECT COST RATE DETERMINATION

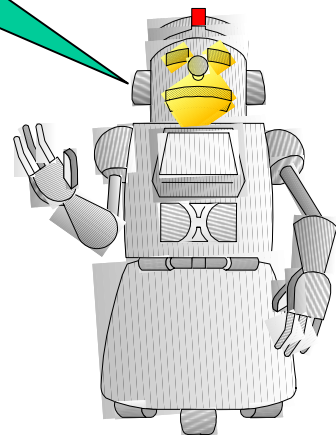
**Cost Principles and Procedures for Non-Profit
Organizations**

Required by OMB Circular A-122

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APPENDIX II

MODEL COST POLICY STATEMENT



The following CPS is intended to be used as guidance for non-profit organizations that seek reimbursement for indirect costs under Federal awards. This model assumes that the ABC Non-Profit Organization uses the direct allocation basis of charging 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).

COST POLICY STATEMENT

ABC NON-PROFIT ORGANIZATION

I. General Accounting Policies

- A. Basis of Accounting - Accrual Basis**
- B. Fiscal Period - July 1 through June 30**
- C. Allocation Basis - Direct Allocation Basis**
- D. Indirect Cost Rate Allocation Base-Direct Salaries and Wages Including Applicable Fringe Benefits.**
- E. If ABC Non-Profit 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.**

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.

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.

B. Fringe Benefits

ABC contributes to the following fringe benefits for its employees:unemployment insurance, worker's compensation, F.I.C.A., health insurance, and matching contributions to a defined benefit pension plan.Since 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.

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: (continued)

- 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.**

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F. Occupancy Expenses (continued)

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.**

(continued)

H. Communications (continued)

- 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. Nine 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. Five of the instruments are assigned to indirect staff; therefore, 5/50ths of**

(continued)

H. Communications (continued)

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.

- 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 is 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: maintenance of membership rolls, subscriptions, publications, and related functions, providing services and information to members, legislative or administrative bodies, or the public; promotion, lobbying, and other forms of public relations; meetings and conferences except those held to conduct the general administration of ABC Non-profit Organization; 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 the following costs, as defined in A-122, are unallowable charges to Federal awards and has internal controls in place to insure that such costs are not charged to Federal awards:

The cost of advertising and public relations, entertainment/alcoholic beverages, capital expenditures, defense claims by the Federal Government, interest, lobbying and fund raising.

(Signature)

(Date)

(Title)

**ABC Non-Profit Organization
1111 Main Street
City, USA 12345**

Questions?

