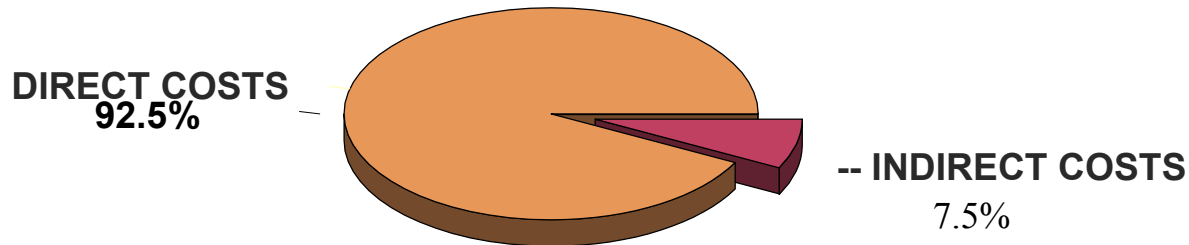


ATTACHMENT 1

OMB Circular A-122

Cost Principles for Non-Profit Organizations Training



Instructor:
Stephen Garfinkel

Presented by the:
Office Of Departmental
Grants Management
and Oversight
December 16, 17, 2002

History of OMB Circular A-122

- **Issued June 27, 1980**
- **Updated numerous times**
- **Last big revision - June 1, 1998**

Objectives of the Circular

- **Provide guidelines for Non-Profit organizations concerning reimbursement requirements**
- **Provide uniform standards of allowability**
- **Provide uniform standards of allocation**
- **Does not supersede limitations imposed by law**
- **Simplify intergovernmental relations**
- **Encourage consistency in treatment of costs**

Structure of Circular A-122

- **Background**
- **Current Revisions**
- **Attachment A: General Principles**
- **Attachment B: Selected Items of Cost**
- **Attachment C: Non-Profit organizations not subject to this Circular**

June 1998 Revisions to A-122

- **Amended definition of equipment to the lesser of the amount used for financial statement purposes or \$5,000**
- **Required major nonprofits (those receiving more than \$10million of direct Federal funding) to report indirect costs into “Facilities” and “Administration”**

(Continued)

June 1998 Revisions to A-122

(continued)

- **Modified the multiple allocation base method of computing indirect costs to be consistent with A-21. However, major nonprofits are not required to use the MAB method**
- **Clarified treatment and provided consistency across Circulars of the following costs:**

(Continued)

June 1998 Revisions to A-122

- **Alcoholic beverages**
- **Advertising and public relations**
- **Organization-furnished automobiles**
- **Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements**
- **Housing and living expenses**
- **Insurance**
- **Memberships**
- **Selling or marketing of goods and services**

Relation to Other Circulars

Type of Institution	Cost Principles	Administrative Requirements	Audit
State/Local Government	A-87	"Common Rule" A-102	A-133
Colleges & Universities	A-21	A-110	A-133
Hospitals & Care Facilities	Various, 45 CFR 74	Various, A-110	Various, A-133
Other Non-Profits	A-122	A-110	A-133
For Profit (commercial)	48CFR Part 31	FAR	FAR

General Principles

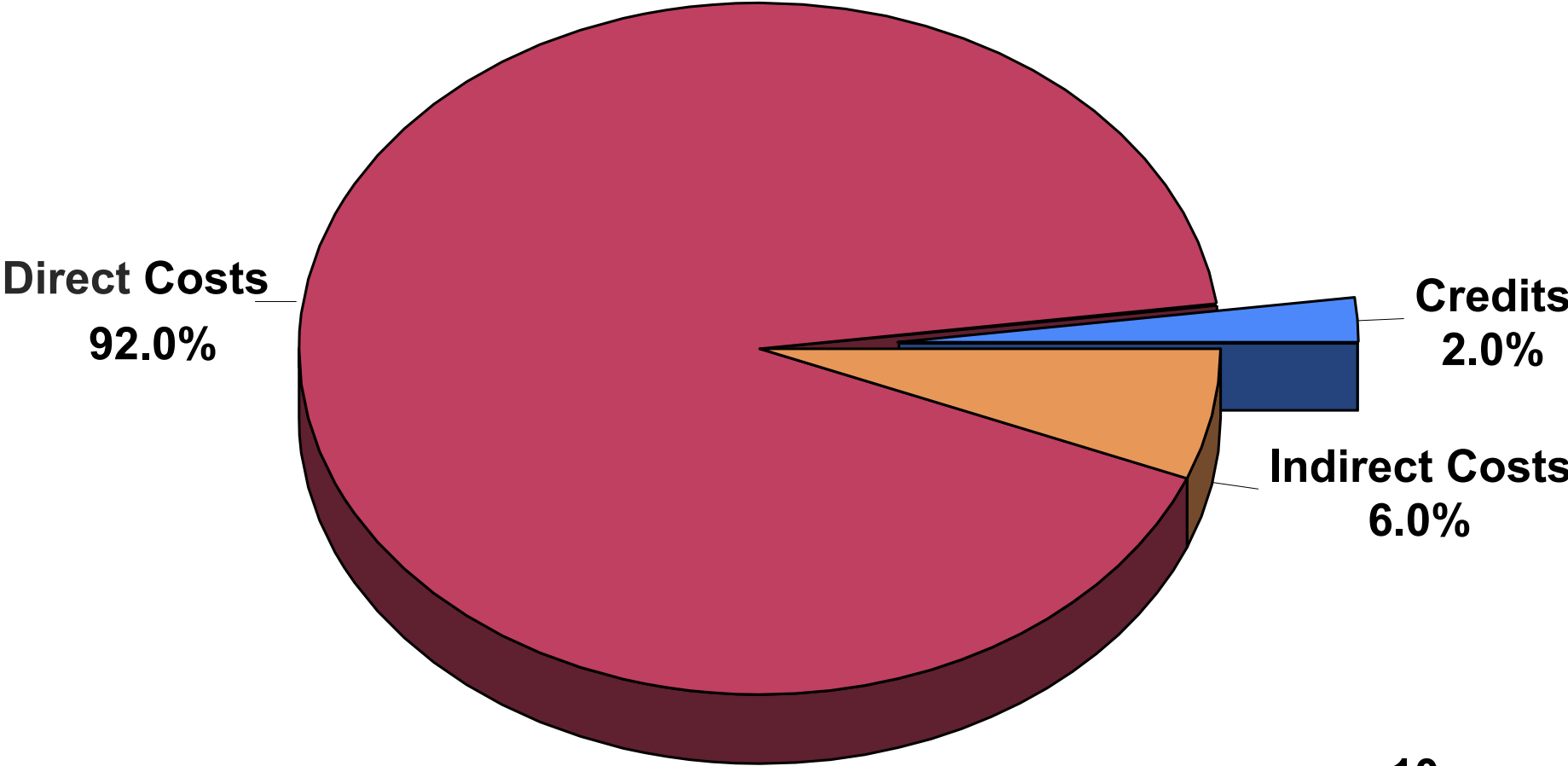
Composition of Total Costs

The total cost of any grant program is composed of the

ALLOWABLE DIRECT and

**ALLOCABLE INDIRECT COSTS less
APPLICABLE CREDITS**

Graphic of Total Costs



General Principles

Factors Affecting Allowability Of Costs

1. Reasonableness and allocability
2. Conformance to any grant or contract limitations
3. Consistent treatment
4. Determined in accordance with GAAP
5. Not included as cost or match in any other Federally-funded program
6. Be adequately *DOCUMENTED*

General Principles

Reasonable Costs

A cost is **reasonable if, in its nature or 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 costs. Some considerations might be:**

- Effect on Federal program dollars**
- Prudence under the circumstances**
- Deviations from established practices**

General Principles

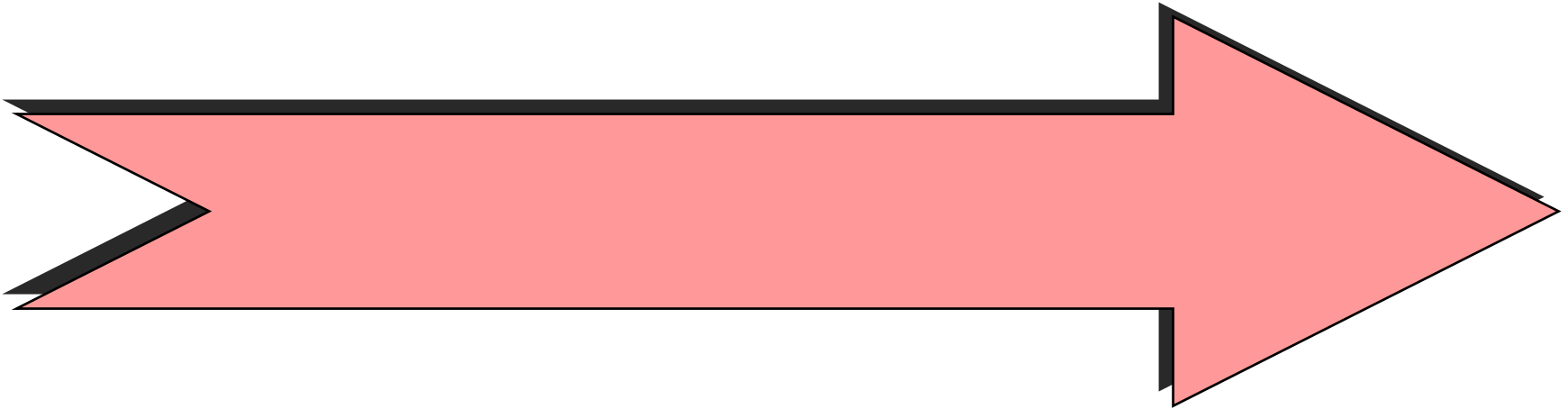
Allocable Costs

- **A cost is allocable to a particular cost objective in accordance with the relative **benefits received****
- **An allocable cost benefits a cost objective -- either directly, or indirectly (continued)**

General Principles

When is a cost allocable?

Costs are considered to be allocable to Federal grants in three circumstances



(continued)

General Principles

When is a cost allocable?

1. When a cost is incurred directly for the purposes of a specific grant/contract.
(continued)

General Principles

When is a cost allocable?

2. When the cost benefits a grant/contract and other cost objectives and it can be distributed among objectives in reasonable proportion to the **benefits received** (continued)

General Principles

When is a cost allocable?

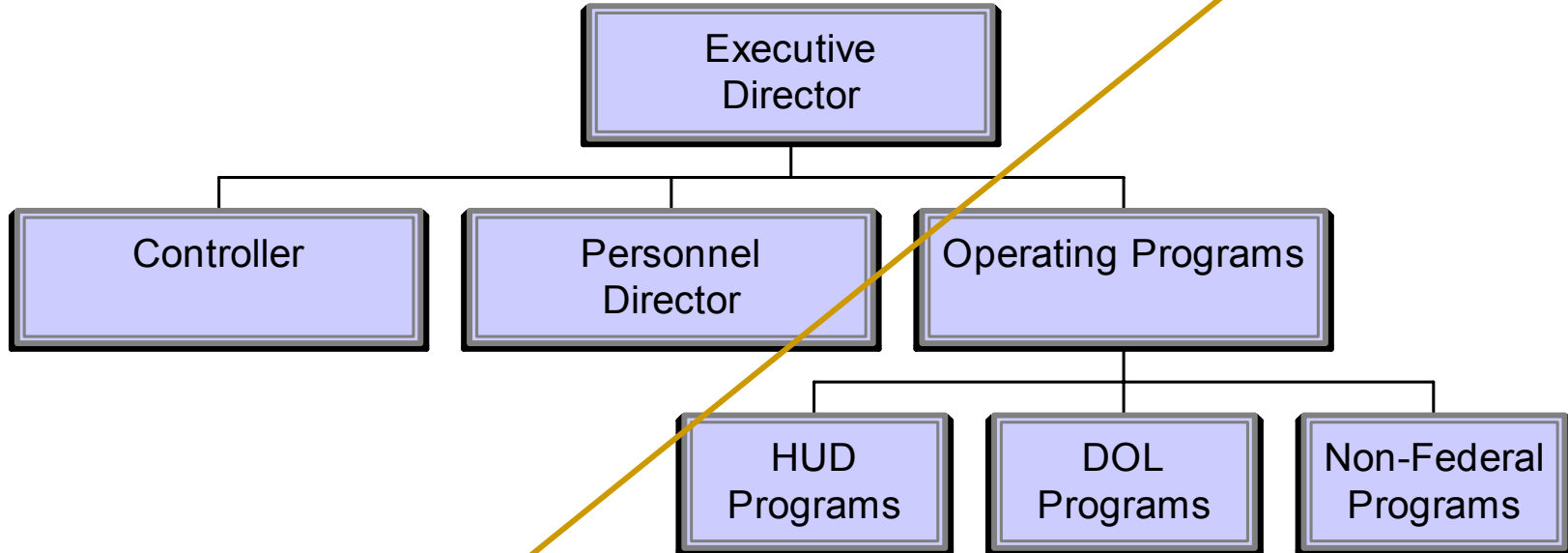
3. When a cost is necessary to the overall operation of an organization although a direct relationship to any particular cost objective cannot be shown (continued)

General Principles

What's Allocable?

Pool

Typical Nonprofit Corporation, Inc.



Base

General Principles

Applicable Credits

Receipt or negative expenditure types of transactions which operate to offset or reduce expense items that are allocable to grants or contracts as direct or indirect costs

Examples include:

- Purchase discounts, refunds, rebates or allowances**
- Sales of scrap or incidental services**
- Adjustments of overpayments or erroneous charges**

General Principles

What are direct costs?



- Those costs that can be readily identified with a particular cost objective. Examples: (program specific)
 - Salaries
 - Space
 - Supplies
 - Communications

General Principles

What are indirect costs?



- Those costs which are not readily identifiable with a particular cost objective. Examples:
 - Salaries
 - Space
 - Supplies
 - Communications

General Principles

Direct vs. Indirect Costs

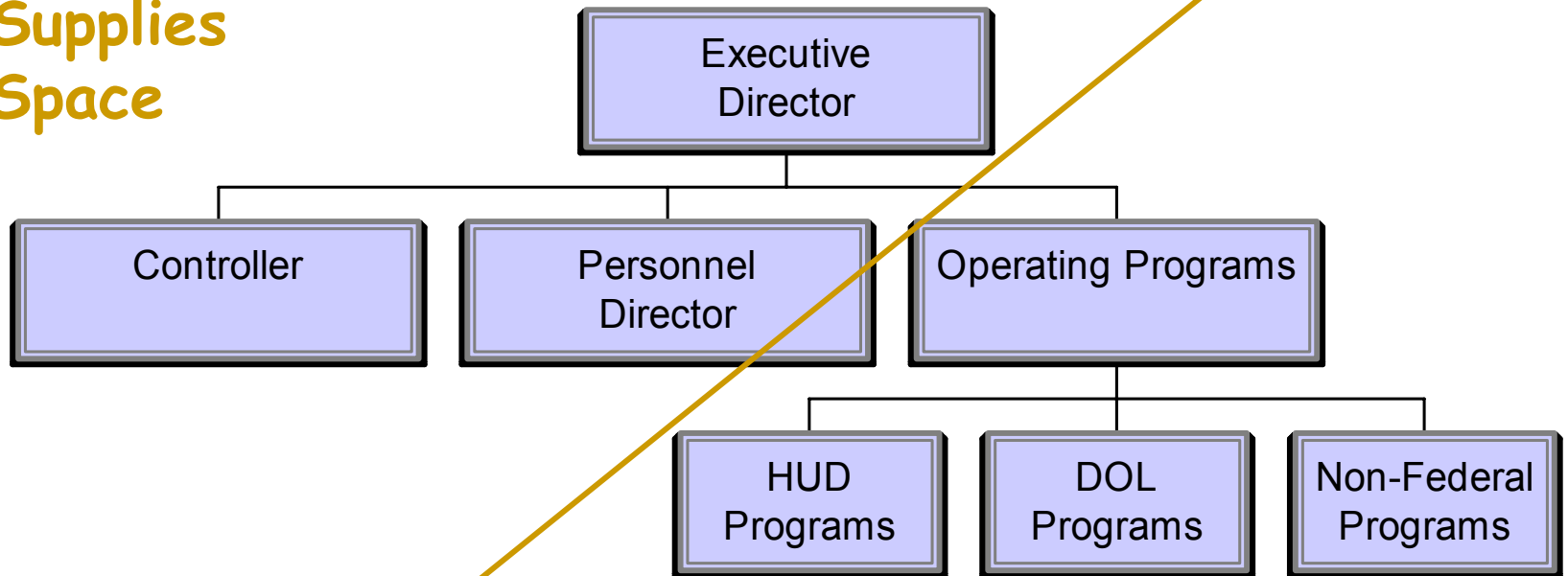
- **The decision to treat a cost as either a direct cost or an indirect costs depends upon the treatment of that cost within the grantee's accounting system.**
- **Cost policy statements provide documentation on how the grantee treats costs within the accounting system.**

General Principles

Direct vs. Indirect Costs

Typical Nonprofit Corporation, Inc.

Ind S/W
Supplies
Space



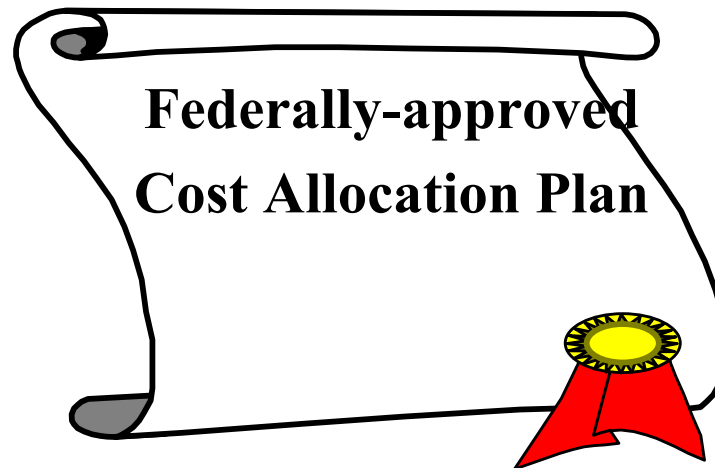
Program S/W
Supplies
Space

Total Costs =
Direct Costs
Plus
Indirect Costs
Less
Applicable Credits

General Principles

What is a Cost Allocation Plan?

- A document that identifies, accumulates, and distributes allowable direct and indirect costs and declares the allocation methods used for distribution



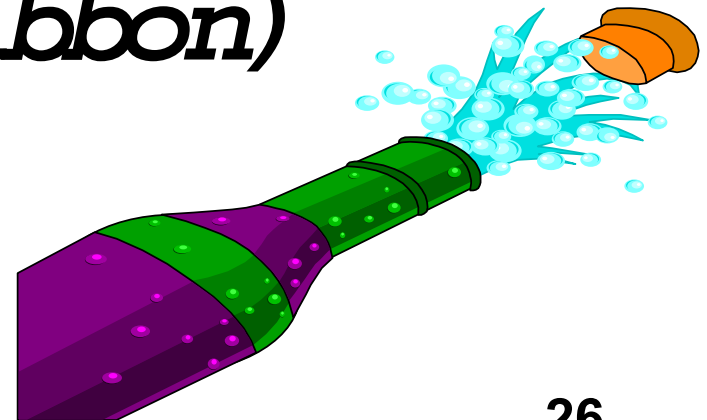
General Principles

What is an Indirect Cost Rate?

The ratio, expressed as a percentage, of an indirect cost pool and some direct cost base. Some might say it's:

PBR (Pabst Blue Ribbon)

$\text{Pool/Base}=\text{Rate}$



General Principles

Indirect Cost Rate

- **Example:**

Indirect Cost Pool = \$ 10,000

Distribution Base = \$100,000

(Salaries & Benefits)

Indirect Cost Rate = 10%

General Principles

**Which organizations need
to have an approved
indirect cost rate?**

\$Single Funding Source

Indirect cost rate not needed

\$\$\$Multiple Funding Sources

Indirect cost rate needed

General Principles

What purposes are served by having the rate?

- **Management Information**
- **Compliance with Federal regulations; e.g., OMB Circulars A-122, A-87 & A-21**
- **Documentation for auditors**

Indirect Cost Rates

Indirect Costs		<u>\$150,000</u>	
Direct Costs			
Salaries & Wages		\$300,000	
Other Direct Cost		<u>200,000</u>	
Total Direct Cost		<u>\$500,000</u>	
<u>\$150,000</u>			
\$300,000	=	50%	Direct Labor
<u>\$150,000</u>			
\$500,000	=	30%	Total Direct Cost

Recovery of Costs

<u>Direct Labor Base</u>		<u>Total Direct Cost Base</u>	
Contract/Grant A	\$150,000	Contract/Grant A	\$275,000
- times rate	<u>50%</u>	- times rate	<u>30%</u>
Ind/Cost Recovery	\$75,000	Ind/Cost Recovery	\$82,500
Contract/Grant B	\$150,000	Contract/Grant B	\$225,000
- times rate	<u>50%</u>	- times rate	<u>30%</u>
Ind/Cost Recovery	\$75,000	Ind/Cost Recovery	\$67,500
Total Recovered	<u>\$150,000</u>	Total Recovered	<u>\$150,000</u>

General Principles

Allocation vs. Classification

- **Allocation** involves assigning costs to the benefiting objective(s) equitably. This process is **covered by A-122** and other cost principles
- **Classification** of costs involves placing costs into some category such as administration, program, or some other category as **prescribed by statute**

General Principles

Indirect Cost Rate

Allocation Bases

**Select the base which results in
allocation of indirect costs
according to “benefits received”,
the golden rule of Federal cost
principles**

General Principles

Indirect Cost Rate

Examples of Allocation Bases

- **Direct S/W including FB**
- **Direct S/W including release time, but excluding all other FB**
- **Modified Total Direct Cost(various)**
 - **Total Direct Costs excluding capital expenditures and flow-through funding**

General Principles

Methods of Calculation

(for A-122 organizations)

- **Simplified Method**
 - **Federal awards are not material**
 - **Organization has only a single function**
 - **All programs benefit from indirect costs to about the same degree**

(continued)



General Principles

Methods of Calculation

- **Multiple Allocation Base**
 - All programs do not benefit to the same degree
 - Indirect costs allocated to direct cost objectives based on various distribution bases
 - Primarily used only by A-122 organizations which are large enough to capture costs by department (for example, accounting department, purchasing department, etc.)

(continued)

General Principles

Methods of Calculation

- **Direct Allocation Method**
 - All costs are charged directly to programs except for general administration
 - Preferred method used by a majority of nonprofit organizations
 - Various bases are selected to “directly allocate” costs to programs(for example, space allocated based on square footage occupied) (continued)

General Principles

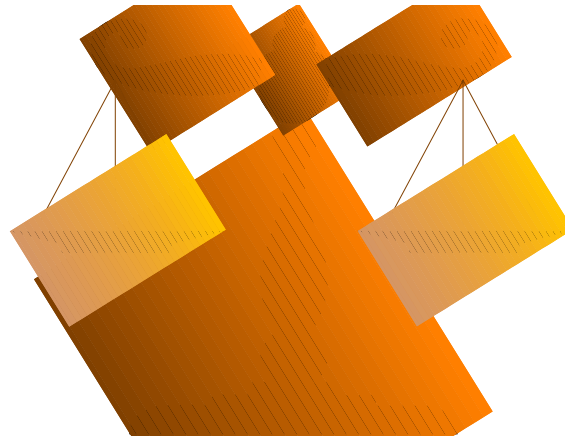
Allocation of Costs

- **Rule #1 - Direct charge when possible.**
- **As stated, the preferred method is the “direct allocation method”**
- **The more costs that are charged directly via specific identification or allocated directly, the less indirect costs there will be to be allocated (continued)**

General Principles

Allocation of Costs

- Any method of distribution can be used if it results in an equitable distribution of costs based on “benefits received”



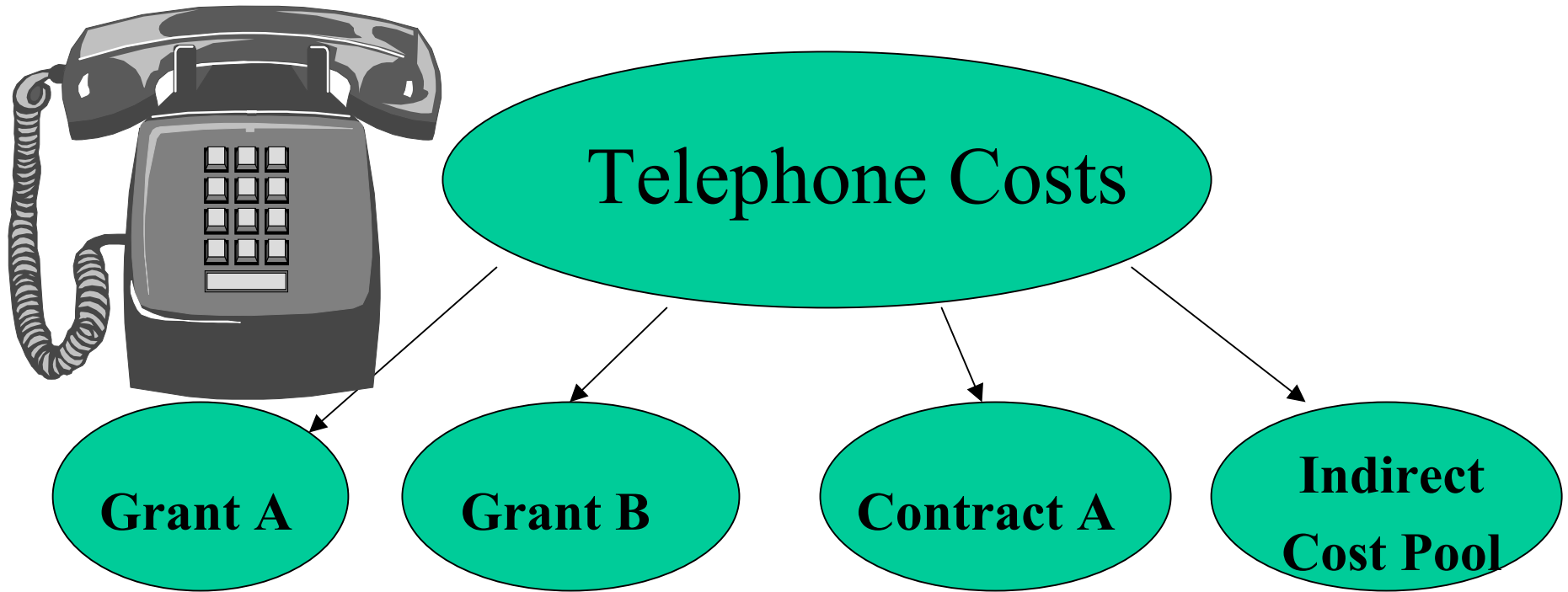
(continued)

Examples of Allocation Bases



(continued)

Telephone costs - # of instruments

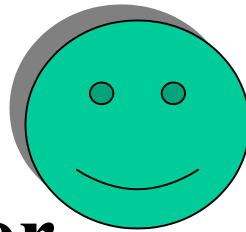


Are cell phones allowed?

(Reasonableness is key)



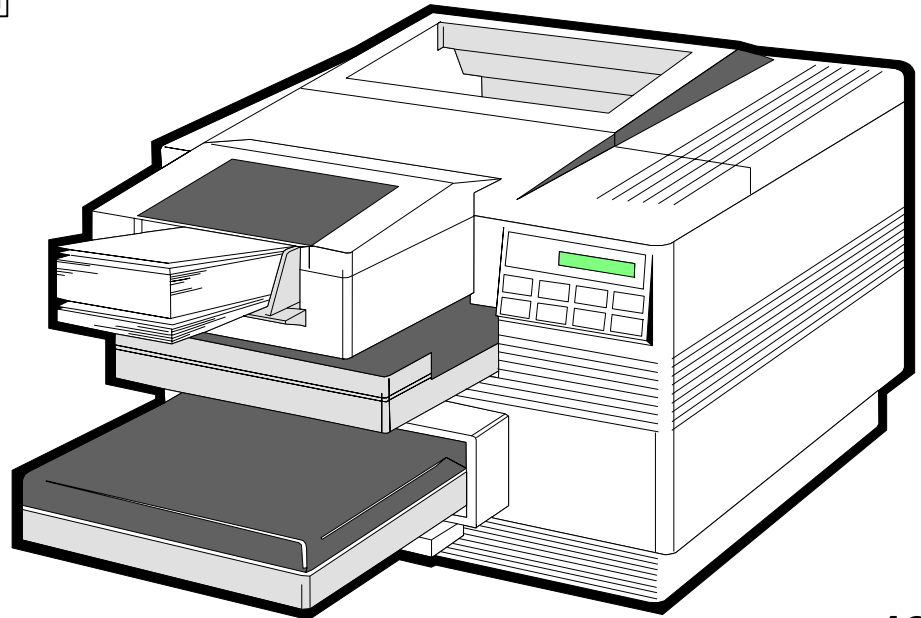
Motor Pool Costs



Miles driven or
days used

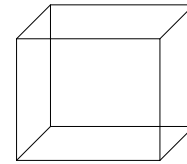


Printing Costs



Rental of Office Space

Square Footage



Submission of Indirect Cost Rate Proposals

- **Proposals must be submitted annually**
 - **No later than six months after the end of the organization's fiscal year**
 - **New grantees must submit within three months after the effective date of the award**
 - **Extensions of time may be granted (continued)**

Submission of Indirect Cost Rate Proposals

- **Organizational Chart**
- **Cost Policy Statement**
- **Financial Reports**
- **Personnel Cost Worksheet**
- **Allocation of Personnel Costs
(continued)**

Submission of Indirect Cost Rate Proposals

- **Statement of Employee Benefits**
- **Indirect Cost Rate Proposal(s) reconciled with the financial reports, audit report or budget**
- **A completed Certificate of Indirect Costs**
- **A listing of grants and contracts showing source, amounts, and relevant dates**

Types of Indirect Cost Rates



General Principles

Types of Indirect Cost Rates

- **Billing**
- **Ceiling**
- **Provisional**
- **Final**
- **Fixed**
- **Predetermined**

(continued)

General Principles

Types of Indirect Cost Rates

Billing Rate

- **Rate stated in the award to allow recovery of indirect costs until an indirect cost proposal is completed and submitted**
- **Set by the Contract/Grant Officer**
- **Normally only valid for 90 days (continued)**

General Principles

Types of Indirect Cost Rates

Ceiling Rate

- **Set by the Contract/Grant Officer**
- **The maximum rate at which indirect costs may be recovered under a particular award (continued)**

General Principles

Types of Indirect Cost Rates

Provisional Rate

- **A rate based on projected information, historical information, or a combination of the two for the organization's fiscal year**
- **This rate allows for recovery of indirect costs during the contract/grant period until the rate can be finalized (continued)**

General Principles

Types of Indirect Cost Rates

Final Rate

- **The experienced indirect cost rate based on actual data for the organization's fiscal year**
- **All provisional indirect cost rates must eventually be “finalized” (continued)**

General Principles

Types of Indirect Cost Rates

Fixed Rate

- **A permanent rate that is not subject to change**
- **Any differences between estimated and actual costs are carried forward as adjustments to rate computations in future periods**
- **Seldom issued to nonprofit organizations (continued)**

General Principles

Types of Indirect Cost Rates

Predetermined Rate

- **A rate negotiated for a certain length of time, usually several years**
- **Not subject to change**

Questions?

