

SAMPLE COST POLICY STATEMENT

Cost Policy Statement for Indirect Cost Rate Proposal

General Information

Organizations seeking reimbursement for indirect costs are required to establish a Cost Policy Statement (CPS) and submit the CPS with each indirect cost rate proposal. As a result, as accounting policies and/or recordkeeping changes occur, the impact of those changes to the CPS must be evaluated and incorporated, as necessary. The information provided below is an example of a CPS and is only intended to be used as guidance. Grantees must use the specific facts and circumstances related to their operations and may choose a format best suiting their organization's situation.

In the example below, the following assumptions are made:

- The Organization name is ABC Organization.
- ABC Organization uses the direct allocation basis to charge individual cost elements. If an entity's accounting procedures track costs in a manner allowing certain costs that would have otherwise been considered indirect costs, to be allocated to specific grants / contracts / projects, the direct allocation basis is an appropriate basis to be used in calculating an indirect cost rate. In the example below, see communications costs for insight as to the types of accounting procedures an organization might establish to direct charge costs that would be considered indirect costs if no tracking or allocation methodology was established.
- Direct salaries and wages, including applicable fringe benefits, are used to allocate the indirect cost pool.

It is important to note that a CPS must include a detailed description of all cost elements in the indirect cost proposal, as well as the cost method allocation methodology. Your organization may use far more or fewer cost elements, or cost elements significantly different from those listed in the example below.

SAMPLE COST POLICY STATEMENT

**COST POLICY STATEMENT
ABC ORGANIZATION
555 Anywhere Street
Anytown, Illinois 61111
(555) 555-5555**

I. General Accounting Policies

- A. Basis of Accounting - Accrual Basis (could also be Cash, Modified Cash, Regulatory, etc.).
- B. Fiscal Period - July 1 through June 30 (your 12 month fiscal period).
- C. Allocation Basis for Individual Cost Elements - Direct Allocation Basis (could also be Simplified Allocation Basis).
- D. Indirect Cost Rate Allocation Base - Direct Salaries and Wages, including applicable Fringe Benefits (could also be Direct Salaries and Wages, etc.).
- E. Adequate internal controls are maintained to ensure no costs are charged both directly and indirectly to grants or contracts.
- F. Costs and revenues are accumulated in accounts coded for the purpose and type of expense. All costs are required to be supported with detailed documentation.

II. Description of Cost Allocation Methodology -

A. Salaries and Wages

Auditable records are maintained to support salaries and wages, regardless of whether those costs are charged directly or indirectly to grants / contracts / projects. A supervisory review is performed and documented by an individual knowledgeable about whether the hours and/or compensation is reasonable for the work performed.

- 1. Direct Costs – Most employees direct charge their salary costs since their work is specifically identifiable to specific grants / contracts / projects, or other activities.
- 2. Indirect Costs – Some employees perform necessary services indirectly benefitting the activities of the organization, as a whole, and therefore charge their time as indirect costs.
- 3. Mixed Charges – Some employees divide their time across organization activities, performing some services directly benefitting specific grants / contracts / projects, or other activities, while also performing services necessary and beneficial to all programs. These employees charge their salary costs to both direct and indirect activities.

B. Fringe Benefits

Compensated absences, including vacation, sick, and holidays are considered salaries and wages and, as such, are recorded as salaries and wages when used. No separate claims are made for these costs. Compensated absences earned, but not used, are accrued and recorded in the period earned. All employees are covered by Social Security, workers' compensation insurance and unemployment compensation insurance.

Employees working 1,000 hours or more per year are also eligible for the following fringe benefits:

SAMPLE COST POLICY STATEMENT

1. Health insurance
2. Life insurance
3. Matching contributions to a 401(k) plan

Fringe benefits are tracked by individual employee and charged directly or indirectly in the same manner as salary and wages.

C. **Travel**

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

D. **Board Expenses**

Travel costs related to Board meetings are charged as indirect costs and are limited to those expenses allowed under the Federal Travel Regulations. The annual fee of \$500 paid to each Board member is also charged as an indirect cost.

All other expenses related to the Board are excluded from direct and indirect costs.

E. **Postage / Materials / Supplies**

To the maximum extent possible, office costs such as postage, material and supplies are direct charged to the grant / contract / project using the item. Postage, materials and supplies used by staff engaged in indirect activities are charged on an indirect basis.

F. **Occupancy Expenses**

General maintenance and repair costs are recorded as indirect cost and are allocated based on square footage

Building rental costs are allocated based on square footage and are charged as direct and indirect costs based on whether the space is occupied by staff whose salaries are directly charged or by staff whose salaries are indirectly charged. Costs for space occupied by staff whose salaries are charged on a mixed basis are allocated on a mixed basis in the same ratio as their salaries are allocated. For all common areas, such as conference rooms, reception areas, hallways and restrooms, costs are recorded as indirect costs.

G. **Utilities**

Natural gas and electric utilities are recorded as indirect costs and are allocated based on square footage.

H. **Communications**

1. Internet – Total Internet costs are allocated by the number of employees with Internet access and based on whether the user salaries are charged as direct or indirect. Users whose salaries are charged on a mixed basis are allocated on a mixed basis in the same ration as their salaries are allocated.
2. Telephone – Phone charges are identifiable to individual phone lines and are charged on the same basis as the staff assigned to the phone line.
3. Fax Line – Pre-assigned user codes are required to send fax messages. An automated log is maintained of all fax transmissions. The cost of fax services is charged on the same basis as the staff assigned to the pre-assigned user code.

I. **Photocopying/Printing**

Pre-assigned program codes (including codes assigned to administrative functions)

SAMPLE COST POLICY STATEMENT

are required to utilize the copying machine. An automated log is maintained of all copy/print jobs, allowing the costs to be allocated based on the volume logged to each program or administrative activity. As a result, photocopying and printing costs are charged as direct and indirect costs.

J. Professional Services

Costs incurred for the annual audit, legal fees, consulting and staff development specialists are charged based on whether the service benefits all programs and activities as a whole or whether one or more specific programs directly benefitted from the services provided. External audit fees are recorded as indirect costs, while legal fees may benefit all programs and be charged indirectly, or may be provided for one specific program and be charged directly.

K. Capital Items

The purchase price of capital items is charged directly to programs only if a contract or grant specifically authorizes such charges. The cost of capital items purchased with non-Federal funds, but used in a manner benefitting grants and contracts is recovered indirectly through depreciation charges.

L. 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 are allocated 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 operations; and administration of group benefits on behalf of members or clients including life and hospital insurance, annuity or retirement plans, financial aid, etc.

M. Unallowable Costs

Internal controls have been established to ensure unallowable costs, as defined in 2 CFR Part XXX (including, but not limited to advertising and public relations, entertainment and alcoholic beverages, capital expenditures, fundraising, interest and lobbying) are not charged to grant awards.

Signature

Date

Title

ABC Organization
555 Anywhere St.
Anytown, IL 61111