

MODEL COST POLICY STATEMENT

The following model Cost Policy Statement is intended to be used as guidance for nonprofit organizations that seek reimbursement for indirect costs under Federal awards. The model assumes that the ABC Nonprofit 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 as to how photocopy costs are charged).

COST POLICY STATEMENT ABC NONPROFIT 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 – Salaries and Wages including Applicable Fringe Benefits
 - E. (If ABC Nonprofit 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 costs 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 employee’s 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 time records which reflect the actual activities of employees.

2. **Indirect Costs** – The following staff charge 100% of their salary costs indirectly:

Executive Director
Chief Financial Officer
Personnel Officer
Secretary to the Executive Director
Receptionist

3. **Mixed Charges** – The following employees may charge their salary costs to both direct and indirect activities:

Project Officer
Director of Operations
Data Entry Clerk

The distinction between direct and indirect is primarily on functions. 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 more programs they are direct because they do not benefit all.

Auditable time 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, workers' compensation, F.I.C.A., health insurance, and matching contributions to a defined benefit pension plan.

Since ABC's accounting systems tracks fringe benefit costs by individual employee and charges those costs directly or indirectly in same manner as salary and wage costs are recorded, ABC does not need to have a fringe benefit rate established.

C. Travel

Travel costs are charged either as a direct charge or an indirect charge depending upon the predominant purpose of the trip. Costs incurred for travel are supported by auditable travel vouchers and costs are limited to those

allowable under the Federal Travel Regulations, unless expressly allowed by a contract or grant.

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:

- (a) Direct Costs – The cost of space occupied by staff whose salaries are direct charged to costs directly.
- (b) 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 rates (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 costs 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

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.

Long distance telephone calls are charged either directly or indirectly based upon whether a direct or indirect activity benefits from the transmission.

Local telephone service costs are prorated to direct and indirect charged based upon the number of telephone instruments assigned to ABC. Each telephone instrument is identified to either an indirect or direct activity. For example, ABC has 50 telephone instruments assigned to it. Nine of the 50 instruments are assigned to the Employment and Training program. Therefore, 9/50ths of the monthly local service charges are direct charged to the E&T grant. Five of the instruments are assigned to indirect staff; therefore, 5/50's 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.

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 costs.

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 service costs for its annual audit, legal fees, and for staff development specialists.

The cost of the annual audit is charged indirectly.

In general, legal fees are charged directly to the benefiting program or activity.

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.

L. Depreciation Charges

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

M. Service to Members

The cost of activities performed primarily as a service to member, 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 Nonprofit 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 are unallowable charges to Federal awards and has internal controls in place to insure that such costs are not charged to Federal awards:

Fund Raising, Entertainment/Alcoholic Beverages, Lobbying, Capital Expenditures unless expressly authorized by a Federal award, Advertising costs (other than for recruitment of staff or for the disposal of property) Bad Debts, Fines and Penalties and Contributions.

The cost of unallowable activities that benefit from the indirect cost pool will be included in the distribution base used to calculate the indirect cost rate.

(Signature)

(Date)

(Title)

ABC Nonprofit Organization
1111 Elm Street
Mount Pleasant, PA 15666

Sample - Indirect Cost Rate Proposals

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(SAMPLE)
PERSONNEL COST WORKSHEET
 JULY 1, 19XX TO JUNE 30, 19XX

POSITION	ANNUAL SALARY (A)	FICA (B)	STATE UNEMPLOY. COMP. ©	WORKERS' COMP. INSURANCE (D)	HEALTH INSURANCE (E)	RETIREMENT (F)	TOTAL PERSONNEL COSTS
EXECUTIVE DIRECTOR	\$60,000	\$4,311	\$240	\$600	\$2,400	\$4,800	\$72,351
ADMINISTRATIVE ASSISTANT	22,000	1,683	240	220	2,400	1,760	28,303
CONTROLLER	45,000	3,443	240	450	2,400	3,600	55,133
ACCOUNTANT (3)	90,000	6,885	720	900	7,200	7,200	112,905
PROGRAM PLANNER (4)	120,000	9,180	960	1,200	9,600	9,600	150,540
FIELD OPER. DIRECTOR	35,000	2,678	240	350	2,400	2,800	43,468
AREA COORDINATOR*	15,000	1,148	240	150	1,400	1,200	19,138
PROGRAM SPECIALIST	25,000	1,913	480	250	4,800	2,000	34,443
PERSONNEL DIRECTOR	40,000	3,060	240	400	2,400	3,200	49,300
PERSONNEL CLERK (3)	60,000	4,590	720	600	7,200	4,800	77,910
MIS DIRECTOR	45,000	3,443	240	450	2,400	3,600	55,133
HEAD START DIRECTOR	45,000	3,443	240	450	2,400	3,600	55,133
DATA ENTRY CLERK *	12,000	918	240	120	1,200	960	15,438
ALL OTHER POSITIONS	700,000	53,550	12,000	7,000	120,000	56,000	948,550
	\$1,314,000	\$100,245	\$17,040	\$13,140	\$168,200	\$105,120	\$1,717,745

(A) IN THIS EXAMPLE, VACATION, HOLIDAY, SICK LEAVE AND OTHER PAID ABSENCES ARE INCLUDED IN SALARIES AND ARE CLAIMED ON GRANTS, CONTRACT AND OTHER AGREEMENTS AS PART OF SALARY COSTS. SEPARATE CLAIMS FOR THE COSTS OF THESE ABSENCES ARE NOT MADE. (REFER TO ENCLOSURE IV).

(B) FICA TAXABLE WAGES WERE COMPUTED AT (6.2% X BASE OF \$55,500 PER EMPLOYEE AND 1.45% BASE OF \$130,200 PER EMPLOYEE).

© STATE UNEMPLOYMENT COMPENSATION TAXABLE WAGES WERE COMPUTED ON THE FIRST \$8,000 FOR 71 EMPLOYEES AT 3% (71 X \$8,000 X 3% = \$17,040).

(D) WORKERS' COMPENSATION WAS ESTIMATED AT 1% OF SALARIES (1% X \$1,314,000 = 13,140)

(E) HEALTH INSURANCE IS COMPUTED AT \$200 PER MONTH PER EMPLOYEE: PAYS 50% OF COST.

(F) RETIREMENT IS COMPUTED AT 8% OF SALARIES.

* THIS REPRESENT EMPLOYEES WHO WILL WORK LESS THAN A TWELVE MONTH PERIOD DUE TO A GRANT NOT RENEWED.

** THESE POSITIONS HAVE BEEN CONSOLIDATED FOR ILLUSTRATIVE PURPOSES ONLY: ALL PERSONNEL POSITIONS MUST BE IDENTIFIED SEPARATELY ON THIS EXHIBIT.

NOTE: THE SALARIES AND FRINGE BENEFITS INCLUDED IN THIS SCHEDULE ARE FOR ILLUSTRATIVE PURPOSES ONLY.

**ENCLOSURE II-i
NOTES TO ENCLOSURE II**

<u>Heading</u>	<u>Explanation</u>
Position	Identify positions on the staff; includes all staff members, both professional and nonprofessional.
Annual Salary	Reflects the actual amount to be paid for that position during the year. In some cases some positions stop and start with grants/contracts; and the organization's personnel may fill more than one position during a year, but not at any one time.
F.I.C.A.	Should be computed in accordance with the rates and maximum appropriate earnings of Social Security in effect for the period covered. This is the organization's share.
State Unemployment Compensation	Should be computed in accordance with the rates and maximum appropriate earning of Unemployment Compensation in effect for the period covered. This is the organization's share.
Worker's Compensation	Costs should be obtainable either from the insurance policy or its insurance agency.
Health Insurance	Should be the actual cost to the employer for this coverage.
Retirement	Should be the actual cost paid by the employer for the Retirement Plan.

**SAMPLE - ALLOCATION OF PERSONNEL WORKSHEET
JULY 1, 19XX TO JUNE 30, 19XX**

POSITION	THIS YEAR'S SALARY	INDIRECT COSTS	DEPT OF LABOR OSTP	DEPT OF HHS	DEPT OF EDUCATION MIGRANT	DEPT OF AGRICULTURE FMHA	IMMIGRATION & NATURALIZ- ATION SER.	STATE SERVICE DELIVERY AGENCY	P FOU
EXECUTIVE DIRECTOR	\$60,000	\$54,000 (90%)							
ADMIN. ASSISTANT	22,000	22,000							
CONTROLLER	45,000	45,000							
ACCOUNTANT (3)	90,000	90,000							
PROGRAM PLANNER (4)	120,000	12,000 (10%)	72,000 (60%)	12,000 (10%)	12,000 (10%)	6,000 (5%)		6,000 (5%)	
FIELD OPER. DIRECTOR	35,000	5,250 (15%)	8,750 (25%)	5,250 (15%)	3,500 (10%)	1,750 (5%)	3,500 (10%)	5,250 (15%)	
AREA COORDINATOR*	15,000							15,000	
PROGRAM SPECIALIST	25,000		20,000 (80%)	5,000 (20%)					
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					
DATA ENTRY CLERK*	12,000		9,000 (75%)		3,000 (25%)				
ALL OTHER POSITIONS**	700,000		280,000 (40%)	105,000 (15%)	70,000 (15%)	35,000 (5%)	70,000 (10%)	105,000 (15%)	
TOTALS	\$1,314,000	\$373,250	\$398,750	\$163,250	\$85,000	\$42,750	\$73,500	\$131,250	

* THIS REPRESENTS EMPLOYEES WHO WILL WORK LESS THAN A TWELVE MONTH PERIOD DUE TO A GRANT NOT RENEWED.

** THESE POSITIONS HAVE BEEN CONSOLIDATED FOR ILLUSTRATIVE PURPOSES ONLY, ALL PERSONNEL POSITIONS MUST BE IDENTIFIED SEPARATELY ON THIS EXHIBIT.

NOTE: THE SALARY INCLUDED IN THIS SCHEDULE ARE FOR ILLUSTRATIVE PURPOSES ONLY.

ENCLOSURE IV

SAMPLE – STATEMENT OF EMPLOYEE FRINGE BENEFITS
JULY 1, 19XX TO JUNE 30, 19XX

	<u>METHOD A</u>	<u>METHOD B</u>
ANNUAL LEAVE EARNED		\$ 50,384
SICK LEAVE TAKEN		25,269
HOLIDAYS		<u>50,384</u>
SUB-TOTAL RELEASE TIME		\$ 126,037
FICA	\$ 100,245	\$ 100,242
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>
TOTAL EMPLOYEE BENEFITS	\$ 403,745	\$ 529,779
	=====	=====
ALLOCATION BASE:		
TOTAL SALARIES	\$1,314,000	\$1,314,000
LESS: RELEASE TIME	<u> </u>	<u>126,037</u>
CHARGEABLE SALARIES		\$1,187,963
		=====

EMPLOYEE FRINGE BENEFIT RATE:

\$403,745		=	30.73%
-----			=====
\$1,314,000			
\$529,779		=	44.60%
-----			=====
\$1,187,963			

UNDER METHOD A, FOR ESTIMATING PURPOSES ON BUDGETS, GRANTEES/CONTRACTORS INCLUDE RELEASE TIME AS PERSONNEL SALARY COSTS; I.E., TOTAL SALARY, ACCORDINGLY, THE FRINGE BENEFIT POOL SHOULD EXCLUDE RELEASE TIME FOR VACATION, HOLIDAY, AND SICK LEAVE THROUGH THE FRINGE BENEFIT RATE. THE DECISION TO USE EITHER METHOD WILL DEPEND ON THE GRANTEES/CONTRACTORS ACCOUNTING SYSTEM AND TIME DISTRIBUTION SYSTEM.

NOTE: THESE RATES ARE FOR ILLUSTRATION PURPOSES ONLY.