

Indirect Cost Rates for Nonprofit Organizations: Reimbursement of Facilities and Administrative Costs

WEDNESDAY, JULY 7, 2021, 1:00-2:50 pm Eastern

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July 7, 2021

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Indirect Cost Rates for Nonprofit
Organizations: Reimbursement of
Facilities and Administrative (F&A)
Costs



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Agenda

- ❑ “Old School” versus new regulations
- ❑ Review of 2CFR 200 (not so new rules)
 - General provisions
 - Rules on cost principles
 - Rules on Indirect (F&A) costs
- ❑ How the Indirect (F&A) rate works
- ❑ Methods of Charging Indirect Costs
- ❑ Types of Indirect (F&A) rates
- ❑ Nuances of Indirect (F&A) rate rules (quirky rules)
- ❑ Computing/Negotiating an Indirect (F&A) rate
- ❑ Frequently asked questions



What Were “Old School” Rules?

2CFR 200 – Replaces the OMB Circulars

- A-21 “Cost Principles for Educational Institutions”
- A-122 “Cost Principles for Non-Profit Organizations”
- A-87 “Cost Principles for State, Local and Indian Tribal Governments”
- A-110 “Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations”
- A-102 “Awards and Cooperative Agreements with State and Local Governments”
- A-133 “Audits of States, Local Governments, and Non-Profit Organizations”
- A-89 “Federal Domestic Assistance Program Information”
- A-50 – Sections Related to Audits Performed Under the Single Audit Act

New Rules (2CFR 200)

2 CFR 200 - Organization

- Subparts A - F (200.0 – 200.521) plus Appendices
 - A-Acronyms and definitions in the front
 - B-General provisions
 - C-Pre-Award – Federal
 - D-Post Award – Recipients
 - E-Cost principles
 - F-Audit

RULES!
1. You SHALL!
2. You WILL!
3. You MUST!

Effective Date - 200.110

- For new and incremental funding awarded after 12/26/14
- This means “Now”

Indirect Rules: 2CFR 200 Appendices

- Subpart E – Cost Principles (200.400 – 200.475)
- Appendix III – Indirect...Institutes of higher education
- **Appendix IV – Indirect...Nonprofit Organizations**
- Appendix V – Cost Allocation plans – State & Local Gov' t
- Appendix VI – Cost Allocation plans – Public Assistance
- Appendix VII – Indirect Cost Proposals – State & Local and Indian Tribes
- Appendix VIII – NFP Exempt from subpart E Cost Principals of Part 200
- Appendix IX – Hospital Cost Principles (which basically say to go to 45 CFR Part 75 Appendix E) – No Changes

Why are there different appendices

- Operational structure different
 - Appendix III – Higher Ed
 - Instruction function, Research, Other Institutional Activities (dorms, sports)
 - Generally much larger operational budget
 - Multiple rates (Instruction, Research, etc.)
 - Appendix IV – NFP Organization
 - Generally smaller budgets
 - One rate (can have multiple)
 - Definition of indirect costs vary
 - Appendix IX - Hospitals
 - Clinical function
 - Allocate costs through a cost report
 - Common to have multiple rates



What is a Facilities & Administrative Cost Rate?

- A percentage
- Ratio between indirect (F&A) and direct costs
- Simply stated if the F&A rate is 40%:
 - For every \$1.00 spent on research or sponsored projects
 - 40 cents of cost is incurred by the Organization or should be allocated to the sponsored project
- Why don't we charge the sponsor 40 cents directly?
 - F&A; because it is not directly associated with a project; is difficult to estimate project-by-project

Translation

- English definition: Indirect Costs (n) IN-der-EK-t/CAH-st
 - Synonymous with Facilities and Administrative cost (F&A)
 - Sometimes called overhead Rate, G&A Rate, Administrative rate (it's more than administration)
 - Benefits different activities and cannot be easily identified to benefit any one activity.

Frequently Asked Questions

Question: Are indirect costs and administrative costs considered the same, particularly when a Federal statute places a limit or a cap on administrative costs ?

- **Answer:** It depends on the treatment of the costs. The term administrative costs pertains to both indirect and direct costs, depending on whether the administrative support can be identified directly or indirectly to the cost objective. These costs can be both personnel and non-personnel, and both direct and indirect.
- Direct administrative costs are associated with the overall program management and administration. They are not directly related to the provision of services to participants and are otherwise allocable to the program cost objectives. **By contrast, indirect costs, such as rent and accounting, are incurred by the entity and cannot be readily attributed to a specific program or Federal award because they are shared across all programs.**
- Any limitation or cap applies to the combined claims for indirect and direct administration costs. Generally, direct administration costs differ from indirect charges in that the latter are considered organization-wide costs. In some instances, administrative costs are allocable as a direct cost to a grant.

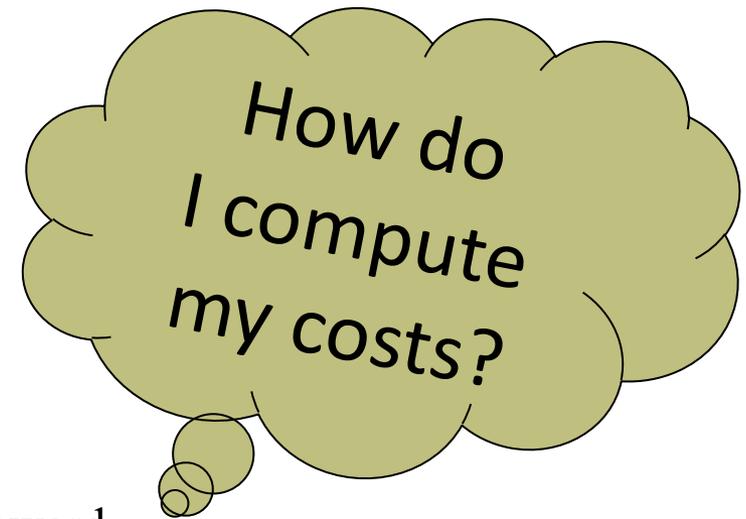
Importance of F&A Cost Reimbursement

- Permits Institution to recover **real** costs on awards
- Non-recovery can be costly and would require other funding sources to cover costs
- Administrative functions are difficult to fund
- Establishes consistency in allocation of costs to projects



Cost Principles-Basic Considerations

- Consistent costs applied to contracts 200.403
 - Have good policies and procedures
- Reasonable costs 200.404
 - Sound business, market prices, etc..
- Allocable costs 200.405
 - Cost must be incurred for the award
 - Cost must benefit the award
 - Cost should be necessary
 - Costs must be appropriately allocable to award
- Applicable credits 200.406
 - Must use coupons to get best deal if available
- Prior approval 200.407
 - Suggested to get prior approval on unusual costs



Cost Principles: 200.420-475

Non-Allowable Costs:

- Entertainment
- Fundraising
- Advertising
 - Except for employment
- Donations & Contributions
- Investment Management Fees
- Lobbying
- Bad Debt Expense



Cost Principles 200.412

- Direct vs. Indirect Costs: Which is which?
 - No universal rule for classifying direct or indirect costs

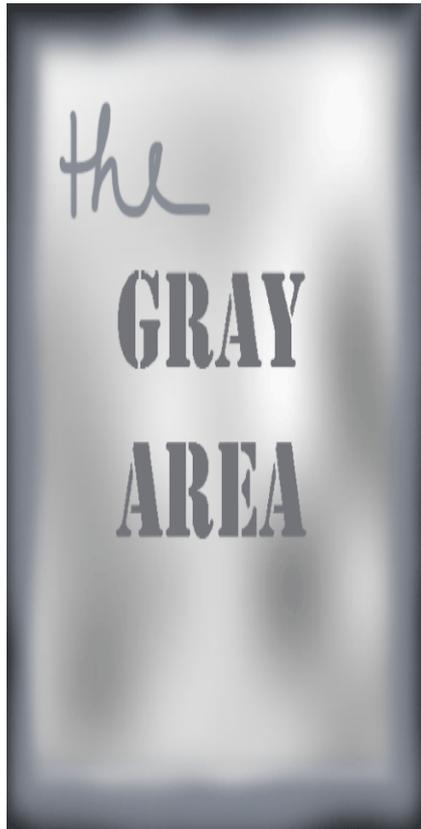


Cost Principles: Direct Costs 200.413

- Costs that can be identified to the Award with relative ease
- Typical costs include:
 - Compensation
 - Fringe benefits
 - Cost of materials



Splitting Direct & Indirect Costs (200.414b)



- Diverse nonprofit accounting practices mean it may not be possible to specify costs classifying as direct or indirect (F&A) in all situations
- Determining factor in distinguishing between direct & indirect costs:
 - *Identification with Federal Award rather than the nature of the goods & services*
- Typical Examples of Indirect (F&A) costs:
 - Depreciation of buildings & equipment
 - Operations & maintenance
 - Administrative & general expenses (salaries & business related spending)

Official definition- Indirect Costs / F&A Costs (200.56)

- *Indirect (F&A) costs* means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.
- To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs.
- Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Cost Principles: Indirect Costs 200.414



Normally those costs that are not direct

- Salary of Administration
- Other costs
 - Facility
 - Depreciation
 - Equipment
 - Operations/Maintenance
 - Administrative
 - Accounting, Legal, HR

Allocation Methods

- Simple Method – Used when Major Functions Benefit for indirect costs in the same degree – **One pool / One Base / One rate**
- Multiple Allocation Base Method – When organization has several major functions which benefit from its indirect costs in varying degrees (e.g. Clinical vs Research, instruction, other sponsored activity) – **More Than One Rate**
- Direct Allocation Method – When programs are charged for all costs directly (except residual A&G)

Direct Allocation Method

- Joint costs – depreciation, rental cost, repair & maintenance, telephone, and the like (utility, property insurance, etc) are charged directly
- Prorate costs on a base that accurately measures benefits provided to each direct award and indirect department
- In order to use the Direct Allocation Method, make sure the grant proposal has a line item for joint costs or **occupancy and you are reimbursed for these costs**

Cost Allocation Plans

<u>Directly Allocated Costs</u>	<u>Common Allocation Bases</u>
Occupancy	<ul style="list-style-type: none">■ Sq. ft. of programs■ Cost of programs
Property Insurance	<ul style="list-style-type: none">■ Sq. ft. of programs■ Cost of property per dept.
Professional Liability Ins.	<ul style="list-style-type: none">■ # of staff with prof. degrees
Information Technology	<ul style="list-style-type: none">■ # computers■ # personnel■ Hours spent per dept.

Cost Allocation Plans

<u>Directly Allocated Costs</u>	<u>Common Allocation Bases</u>
Human Resources	<ul style="list-style-type: none">▪ # of employees▪ Payroll dollars
Internal Audit	<ul style="list-style-type: none">▪ # of employees▪ Hours worked per dept.
Maintenance Services	<ul style="list-style-type: none">▪ Sq. ft. of programs▪ Actual charges
Grant & Contract Adm.	<ul style="list-style-type: none">▪ Revenue of grants & K's▪ Cost of programs▪ % of salary charged direct

Multiple Cost Pools

Multiple Allocation Bases

Multiple Allocation Method

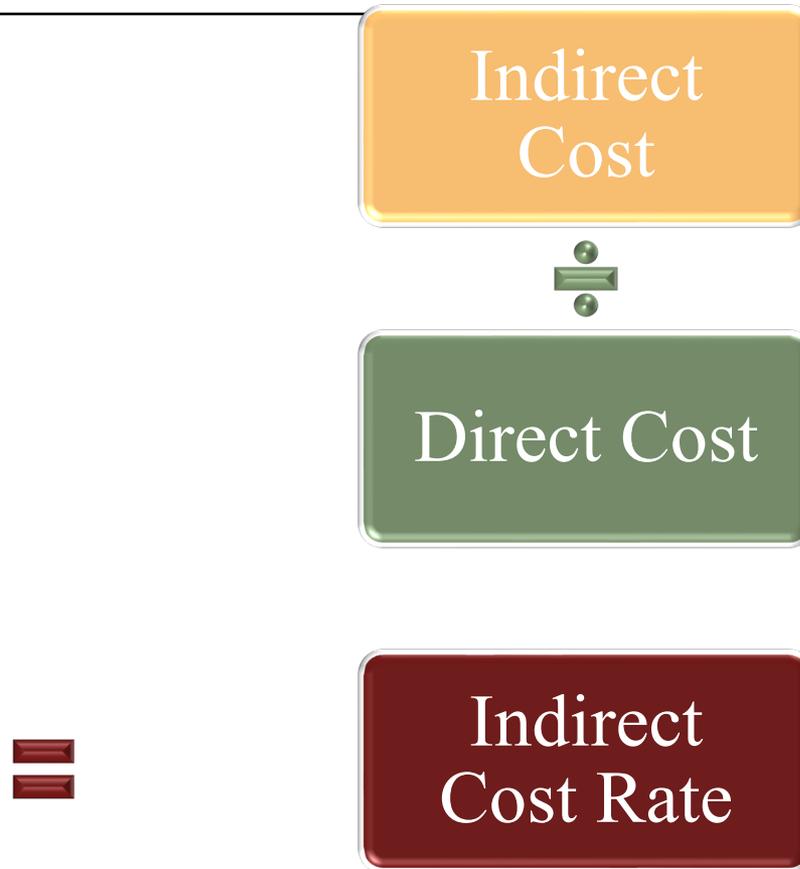
- ❑ Indirect costs benefit major functions in varying degrees
- ❑ Indirect costs accumulated into separate cost groupings
- ❑ Constitute a pool of expenses that are of like character as they relate to base
- ❑ If you have 2 pools, you should have 2 bases and then 2 rates
- ❑ This method is not too common but does happen

Simple Method

Simple Method

- If a nonprofit organization has only one major function
- Or where all its major functions benefit from its indirect costs to approximately the same degree
- Where an organization has only one major function encompassing a number of individual projects or activities, **and may be used where the level of Federal awards to an organization is relatively small**

Simple Indirect Rate Computation



INDIRECT COST RATE CALCULATION EXAMPLE

F & A Costs

Direct Costs

Overhead costs incurred to support Research activities:

- Depreciation of Buildings & Equipment
- Operation & Maintenance of Research Areas
- Administrative & General Services

Costs incurred in performing sponsored project activities/protocols:

- Salaries and Fringe Benefits of Lab Personnel
- Research Supplies and Materials
- Research Consultants
- Travel

\$58,000



F & A Costs
Direct Costs

\$100,000

F & A Cost Rate = 58%

“Never Had A Rate” Rule (200.414f)

- ❑ (f) any non-Federal entity that does not have a current negotiated (including provisional) rate, except for those non-federal entities described in Appendix VII to this part, paragraph D.1.b.
 - ❑ May elect to charge a de minimis rate of 10% of Modified total direct costs (MTDC) which may be used indefinitely. No documentation is required to justify the 10% de minimis indirect cost rate.
 - ❑ As described in 200.403 (factors affecting allowability of costs), **costs must be consistently charged as either indirect or direct costs, but may not be double charged** or inconsistently charged as both.
 - ❑ If chosen, this methodology once elected **must be used consistently for all federal awards until such time as a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time.**



Frequently Asked Questions

Question: If a non-Federal entity's last negotiated indirect cost rate was 9 percent MTDC, and the rate has since expired, can the organization elect to use the de minimis rate going forward?

Answer: Yes. Please inform your cognizant agency for indirect costs that you will be switching to the de minimis rate and will not be submitting indirect cost proposals for future years. Negotiated provisional rates and fixed rates need to be resolved and the carry-forward for the last year of the fixed-rate will need to be resolved with the cognizant agency for indirect costs.



Frequently Asked Questions

Question: Does a non-Federal entity using the de minimis rate need to provide documentation to substantiate its costs?

Answer: No. The de minimis rate was designed to reduce burden for small non-Federal entities. The non-Federal entity must report in its SEFA whether it elected to use the de minimis rate for its Federal awards. See §§ 200.414(f) and 200.510.

Indirect Cost Acceptance Rule (200.414c)

- Federal Agency Acceptance of Negotiated Indirect Cost Rates
 - The negotiated rates **must** be accepted by all federal agencies
 - A Federal agency may use a rate different from the negotiated rate for a class of federal awards or a single federal award only when required by federal statute or regulation, or when
 - Approved by a federal agency head or delegate based on documented justification.
 - Agencies must notify OMB of any exceptions approved by the agency head.

200.332 Requirements for pass-through entities

200.332 Requirements for pass-through entities.

All Pass-through entities **must**.....

- (a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. **Required information includes;**
 - 1) (xiii) **Indirect cost rate for the Federal award (including if the de minimis rate is charged) per 200.414 Indirect.**
 - 2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award;
 - (3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports;

200.332 Requirements for pass-through entities (continued)

- (4)(i) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government. If no approved rate exists, the pass-through entity must determine the appropriate rate in collaboration with the subrecipient, which is either:
 - (A) *The negotiated indirect cost rate between the pass-through entity and the subrecipient; which can be based on a prior negotiated rate between a different PTE and the same subrecipient. If basing the rate on a previously negotiated rate, the pass-through entity is not required to collect information justifying this rate, but may elect to do so;*
 - (B) The de minimis indirect cost rate.
- (ii) The pass-through entity must not require use of a de minimis indirect cost rate if the subrecipient has a Federally approved rate. Subrecipients can elect to use the cost allocation method to account for indirect costs in accordance with § 200.405(d).



Frequently Asked Questions

Question: If a subrecipient requests to negotiate an indirect cost rate, does the pass-through entity have to facilitate the negotiation to establish the rate?

Answer: The pass-through entity must determine the appropriate rate in collaboration with the subrecipient. See § 200.332.



Frequently Asked Questions

Question: Is it acceptable to require a subrecipient to accept a rate lower than the de minimis rate, or their negotiated F&A rate?

Answer: If the subrecipient already has a negotiated F&A rate with the Federal government, the negotiated rate must be used. It also is not permissible for pass-through entities to force or entice a subrecipient without a negotiated rate to accept less than the de minimis rate.



Frequently Asked Questions

Question: When a pass-through entity uses Federal and its own non-Federal funds to make a subaward, can it allow an indirect cost rate only for the Federal portion of the subaward?

Answer: The non-Federal entity must apply the negotiated indirect cost rate consistently for Federal and non-Federal funds for making the subaward. See § 200.400(e).

Getting an Approved Rate



- ❑ Must have a notice of grant, contract or other award
- ❑ Must submit notice as part of rate proposal
- ❑ Need to submit rate proposal to Cognizant Agency

Negotiating an Indirect (F&A) Rate

- First: Find a cognizant agency
 - Predominant funding
 - HHS –Cost Allocation Services
 - Office of Naval Research
 - Department of Interior
 - Department of Labor
 - Department of Education
 - Department of Agriculture
 - National Science Foundation



Negotiating an Indirect (F&A) Rate

- **U.S. Department of Labor** <https://www.dol.gov/agencies/oasam/centers-offices/office-of-the-senior-procurement-executive/cost-price-determination-division>
- **U.S. Department of Health and Human Services** <https://rates.psc.gov/>
- **U.S. Department of the Interior**
<https://www.doi.gov/ibc/services/finance/indirect-cost-servic>
- **National Science Foundation**
<https://www.nsf.gov/bfa/dias/caar/docs/idcsubmissions.pdf>
- **U.S. Department of Education**
<https://www2.ed.gov/about/offices/list/ocfo/fipao/icgindex.html>
- **U.S. Department of Agriculture** *National Institute of Food and Agriculture*
<https://nifa.usda.gov/indirect-costs>
- **USAID**
<http://www.usaid.gov/work-usaid/resources-for-partners/indirect-cost-rate-guide-nonprofit-organizations>



Cognizant Agency for IDC

- Unless different arrangements are agreed to by the Federal agencies concerned, **the Federal agency with the largest dollar value of Federal awards with an organization will be designated as the cognizant agency for indirect costs** for the negotiation and approval of the indirect cost rates and, where necessary, other rates such as fringe benefit and computer charge-out rates
- **Once an agency is assigned cognizance** for a particular nonprofit organization, the assignment **will not be changed** unless there is a shift in the dollar volume of the Federal awards to the organization **for at least three years**
- After a rate has been agreed upon, **it will be accepted by all Federal agencies.**

Timing of Submission

- A nonprofit organization which has not previously established an indirect cost rate with a Federal agency must submit its initial indirect cost proposal immediately after the organization is advised that a Federal award will be made and, in no event, later than three months after the effective date of the Federal award.
- If you submit within 3 months you will get a rate agreement retroactive to the beginning of the award otherwise generally from date of submission
- Organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency for indirect costs within six months after the close of each fiscal year.



HHS New Grantee Guidance

Your initial indirect cost proposal must be accompanied by:

1. Most current certified financial statements and/or other official financial reports.
The line items of your proposal must be cross-referenced and reconciled to the financial statements and/or reports.
2. Organization charts
3. Copies of initial direct Federal awards
4. Copy or description of fringe benefit policies
5. Description of administrative functions
6. Completion of enclosed form(s)

U.S. Department of Interior – Proposal Requirements

Proposal Components:

- Cover Letter
- Part I – Checklist, narrative information and certificates
- Checklist
- Part I - Narrative
- Required Certifications
 - Certificate of Indirect (F&A) Costs for Nonprofits
 - Lobbying Cost Certificate for Nonprofits
 - Statement of Treatment of Paid Absences
- Part II – Excel File/Cost Schedules
- Excel File includes:
 - Schedule B – Indirect Cost Pool Personnel Salaries, Wages and Fringe Benefits
 - Schedule C – Summary Expenditure Schedule
 - Financial statement reference data
 - Elements of cost (salaries and wages, etc.)
 - Direct cost program expenditures
 - Indirect cost pool expenditures
 - Adjustments for unallowable costs
 - Federal percentage of direct funding
 - Schedule D – Subaward Listing
 - Schedule E – Schedule of Expenditures of Federal Awards (SEFA)
 - Schedule F – Contractual/Professional Services

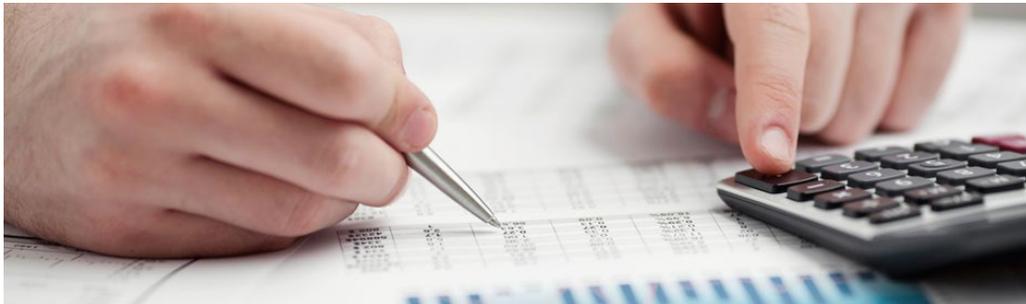
Types of Rate Bases for NFP's

- Modified Total Direct Cost (Most Common)
- Salary & Wage (2nd Most Common)
- Total Direct Costs (not common but happens)
- Salary & Wage plus Fringe (not as common)
- Pro's & Con's to both
 - S&W (higher rate, but not recovery)
 - MTDC (most organizations use this base)

Modified Total Direct Costs (MTDC)

Determining the MTDC:

- Definition of MTDC (or the denominator)
- Examples of the MTDC computations
- Costs to be Cognizant of (pun intended)
 - Participant Support costs
 - Proposal costs
 - Fundraising costs



MTDC Definition (200.68)

- ❑ *MTDC* means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award).
- ❑ MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, **participant support costs** and the portion of each sub-award in excess of \$25,000.
- ❑ Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

MTDC Distribution Base

- Includes all direct functions:
 - Salary/Wages
 - Fringe benefits
 - Materials and supplies
 - Services
 - Travel
 - Subcontracts up to the first \$25K
- Excludes:
 - Equipment and capital expenditures
 - Subcontracts in excess of \$25k
 - Charges for patient care
 - Rental costs
 - Tuition remission, fellowships, and scholarships
- *Note: Other items may be excluded if Federal agency deems necessary*



MTDC Example

Total Direct Costs in our budget: \$160,000

Salaries/benefits: \$ 95,000

Supplies: \$ 5,000

Subawards under \$25k \$ 25,000

Subawards over \$25k: \$ 20,000

Capital Equipment: \$ 10,000

Participant Support Costs \$ 5,000

Modified Total Direct Costs:

= \$160,000 - \$10,000 - \$20,000 - \$5,000

= \$125,000 MTDC * 20% = \$25,000 (IDC)



Frequently Asked Questions

Question: If the subaward is made up of several individual funding agreements, does each individual subaward require including up to \$25,000 in the MTDC base?

Answer: The allowance of \$25,000 is for one time during the period of performance of each individual subaward.



Frequently Asked Questions

Question: Is the MTDC applied to the first \$25,000 for an award's period of performance or is it applied to each year of a multi-year agreement?

Answer: The allowance of \$25,000 is for one time during the period of performance of each individual subaward.

Participant Support Costs (200.75)

- ❑ *Participant support costs* include items such as:
 - ❑ stipends or subsistence allowances
 - ❑ travel allowances
 - ❑ registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects.
- ❑ Applies to types of organizations
- ❑ The treatment of participant support costs is in the definition of modified total direct costs and in the appendices on indirect cost rates

Proposal Costs (200.460)

- ❑ Preparing bids
 - ❑ Proposals
 - ❑ Applications on Federal & Non-Federal awards
 - includes the development of data necessary to support the non-Federal entity's bids or proposals.
-
- 
- ❑ Whether successful or not, should be treated as indirect (F&A) costs and allocated to all activities of the non-Federal entity.
 - ❑ No proposal costs of past accounting periods will be allocable to the current period.

Fundraising Activities: Unallowable

- Activities undertaken to induce potential donors to contribute money, securities, services, materials, facilities, other assets, or time.
- Examples:
 - Fund-raising campaigns
 - Maintaining donor mailing lists
 - Conducting special fundraising events
 - Preparing and distributing fundraising manuals, instructions, and other materials
 - Conducting other activities involved with soliciting contributions from any source.



Description	Program Services	Development and Fundraising	Total Direct Costs		Total Facilities Administrative	Total Expenses Per Audited F/S
Salaries and Wages	\$ 18,415,687	\$ 1,057,676	\$ 19,473,363	A	\$ 3,577,525	\$ 23,050,888
Benefits	5,484,442	362,914	5,847,356		1,021,679	6,869,035
Subtotal Personnel Expense	\$ 23,900,129	\$ 1,420,590	\$ 25,320,719	B	\$ 4,599,204	\$ 29,919,923
Print, Postage & Supplies	\$ 559,338	\$ 38,572	\$ 597,910		\$ 217,783	\$ 815,693
Maintenance and Repair	445,454	5,932	451,386		785,378	1,236,764
Marketing & Advertising	1,145,967	-	1,145,967		76,547	1,222,514
Professional Services	3,070,248	350,627	3,420,875		1,133,800	4,554,675
Materials & Services	3,318,775	-	3,318,775		602	3,319,377
Subawards	988,058	-	988,058		-	988,058
Interest Expense	-	-	-		734,569	734,569
Depreciation	2,129,789	25,936	2,155,725		665,803	2,821,528
Participant Costs	269,556	-	269,556		-	269,556
Allocated Expenses	1,211,465	99,489	1,310,954		(1,310,954)	-
Subtotal Other Expenses	\$ 13,138,650	\$ 520,556	\$ 13,659,206		\$ 2,303,528	\$ 15,962,734
Total Expenses	\$ 37,038,779	\$ 1,941,146	\$ 38,979,925		\$ 6,902,732	\$ 45,882,657
Adjustments:						
Reverse Allocation of Depreciation	\$ (2,129,789)	\$ (25,936)	\$ (2,155,725)		\$ 2,155,725	\$ -
Reverse Allocation of Allocated M & G	(1,211,465)	(99,489)	(1,310,954)		1,310,954	-
Reclass Bid & Proposal Costs	-	(405,462)	(405,462)		405,462	-
Exclude Participant Support Costs	(269,556)	-	(269,556)		-	(269,556)
Exclude Subcontracts/Subawards > \$25,000	(958,205)	-	(958,205)		-	(958,205)
Subtotal Adjustments	\$ (4,569,015)	\$ (530,887)	\$ (5,099,902)		\$ 3,872,141	\$ (1,227,761)
Subtotal Modified Total Direct Costs	\$ 32,469,764	\$ 1,410,259	\$ 33,880,023	C	\$ 10,774,873	\$ 44,654,896
Unallowable Expenses:						
Advertising	\$ -	\$ -	\$ -		\$ (76,547)	\$ (76,547)
Line of Credit Fees and Unallowable Interest	-	-	-		(269,568)	(269,568)
Investment Management Fees	-	-	-		(65,454)	(65,454)
Subtotal Unallowable Expenses:	\$ -	\$ -	\$ -		\$ (411,569)	\$ (411,569)
Net Adjusted Expenses	\$ 32,469,764	\$ 1,410,259	\$ 33,880,023		\$ 10,363,304	\$ 44,243,327
Indirect Cost Rate (Modified Total Direct Cost based)					30.59%	(D/C)
Indirect Cost Rate (S&W and Fringe based)					40.93%	(D/B)
Indirect Cost Rate (Salary & Wage based)					53.22%	(D/A)

Description	Total Costs
Fringe Benefit Expenses	
Payroll Taxes	\$ 2,204,734
Medical Insurance	2,504,389
Dental Insurance	404,661
Life Insurance	203,553
Disability	136,018
HAS Contributions	259,587
Pension Contributions	948,358
Other	207,735
Total Payroll Taxes and Fringe Benefits	\$ 6,869,035
Total Salaries and Wages	\$ 23,501,000
Fringe Benefit Rate	29.23%

Fringe Benefit Computation



Example of an Indirect Rate Agreement

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: INDIRECT COST RATES

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

EFFECTIVE PERIOD

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>RATE (%)</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
FINAL	01/01/2016	12/31/2016	53.00	All	All Programs
PRED.	01/01/2017	12/31/2019	53.00	All	All Programs
PROV.	01/01/2020	12/31/2021	53.00	All	All Programs

*BASE

Total direct costs excluding capital expenditures (buildings, individual items of equipment in excess of \$5,000; alterations and renovations), that portion of subaward in excess of \$25,000, and patient care costs.

Another Example of an Indirect Rate Agreement

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: INDIRECT COST RATES

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

EFFECTIVE PERIOD

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>RATE (%)</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
FINAL	09/01/2015	06/30/2016	49.67		All Programs
FINAL	07/01/2016	06/30/2017	50.22		All Programs
PROV.	07/01/2017	06/30/2020			Use same rates and conditions as those cited for fiscal year ending June 30, 2017.

*BASE

Total direct costs excluding capital expenditures (buildings, individual items of equipment; alterations and renovations), that portion of each subaward in excess of \$25,000 and flow-through funds.

SECTION I: FRINGE BENEFIT RATES**

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>RATE (%)</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
PRED.	5/1/2016	4/30/2019	28.90	All	Full-Time Employees
PROV.	5/1/2019	Until amended			Use same rates and conditions as those cited for fiscal year ending April 30, 2019.

** DESCRIPTION OF FRINGE BENEFITS RATE BASE:

Salaries and wages.

Extension Rule (200.414g)

- Allows a one-time extension of Federally negotiated F&A rates for up to four years
 - Subject to the review and approval of the cognizant agency for indirect costs.
 - If an extension is granted the non-Federal entity may not request a rate review until the extension period ends.
 - At the end of the 4-year extension, the non-Federal entity must negotiate a new rate.
 - Subsequent one-time extensions (up to four years) are permitted if a renegotiation is completed between each extension request.



NONPROFIT RATE AGREEMENT

ORGANIZATION:

DATE:

FILING REF.: The preceding agreement was dated

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: INDIRECT COST RATES

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

EFFECTIVE PERIOD

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>RATE (%)</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
FINAL	07/01/2014	06/30/2016	73.00	All	All Programs
PRED.	07/01/2016	06/30/2019	78.00	All	All Programs
PROV.	07/01/2019	06/30/2022	78.00	All	All Programs

*BASE

Total direct costs excluding capital expenditures (buildings, individual items of equipment; alterations and renovations), that portion of each subaward in excess of \$25,000 and flow-through funds.

Types of Indirect Rates

- Provisional rate
 - Temporary rate for funding until final rate approved
- Fixed rate with carryforward
 - Rate that is fixed with provisions for future periods to raise or lower depending upon actual results
- Predetermined rate
 - Can not get one if you have direct Federal Contracts
- Final rate
 - An indirect cost rate applicable to a specified past period which is based on the actual costs of the period. A final rate is not subject to adjustment

Provisional Rate

*“A provisional indirect cost rate is a **temporary** rate established for a given period of time to permit funding and reporting of indirect costs pending establishment of a final rate for that period.”*



Potential Problem With Provisional Rates

Provisional negotiated rate - 2020	19%
MTDC base – 2020	\$1,000,000
Actual indirect costs recovery	\$ 190,000
Indirect costs - 2020	\$ 170,000
Final rate - 2020	17%
Liability - Overbilling	\$ 20,000

Higher Ed Gets Special Treatment: *Fixed Rate for Life Rule*

Appendix III C.7

- Except as provided in paragraph (c)(1) of § 200.414 Indirect (F&A) costs, Federal agencies must use the negotiated rates, must paragraph (b)(1) for indirect (F&A) costs in effect at the time of the initial award throughout the life of the Federal award. Award levels for Federal awards may not be adjusted in future years as a result of changes in negotiated rates. “Negotiated rates” per the rate agreement include final, fixed, and predetermined rates and exclude provisional rates. “Life” for the purpose of this subsection means each competitive segment of a project. A competitive segment is a period of years approved by the Federal awarding agency at the time of the Federal award. If negotiated rate agreements do not extend through the life of the Federal award at the time of the initial award, then the negotiated rate for the last year of the Federal award must be extended through the end of the life of the Federal award.
- b. Except as provided in § 200.414 Indirect (F&A) costs, when an educational institution does not have a negotiated rate with the Federal Government at the time of an award (because the educational institution is a new recipient or the parties cannot reach agreement on a rate), the provisional rate used at the time of the award must be adjusted once a rate is negotiated and approved by the cognizant agency for indirect costs.

Predetermined Rate

- *Predetermined indirect cost rates are **permanent** rates established for a specific future period based on an estimate of the costs for that period. Except under very unusual circumstances, this type of rate is not subject to adjustment...*
- *“Predetermined rates are established when there is **a reasonable assurance**, based on experience and a **reliable estimate** of the organizations costs, that the predetermined rate will approximate the organizations actual rate.”*



Fixed Rates (With a Carry Forward)

*“Fixed rates are indirect cost rates which have the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as an **adjustment** to the rate computation of a **subsequent period**.”*

Carry-Forward Example

Carry-forward provision – Part I

Negotiated Fixed Rate - 2021	40%
Direct Cost Base – 2021	\$10,000,000
Actual indirect costs - 2021	\$ 4,200,000
Indirect Cost Recovery - 2021	\$ 4,000,000
Actual rate - 2021	42%
Under-recovery	\$ 200,000*

*Carry-forward is 2 years forward (2023 in this scenario).

Carry-Forward Example

Carry-forward provision – Part II

Actual indirect costs - 2023	\$4,500,000
Carry-forward from - 2021	<u>\$ 200,000</u>
Indirect costs - 2023	\$4,700,000
Direct Cost Base - 2023	\$10,000,000
Rate with Carry-forward	47%
Rate without Carry-forward	45%

F&A Rate Negotiation Issues

- New research space contemplations
 - In-service dates for buildings
 - Occupancy issues for buildings
- Increases in
 - Interest
 - Depreciation
 - Utilities
 - Security
- Impact of changes on rate base
- Changes in Research base for losing an award
- Changing rate types
- Low balling of rates and getting them through the system



Finally...Understand Before you Sign

- What does my agreement mean?
- Does the agreement match my organizational goals?
- What type of rate do I have?
- When is my next submission (does that make sense)?
- Does the agreement reflect increases and decreases if changes in the organization are expected?



Questions





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