

## **ONR Guidance for Indirect Cost Rate Proposals for Non-Profits with less than \$10M Federal Funding of Direct Costs in a Fiscal Year**

A non-profit organization will submit an indirect cost rate proposal primarily for two reasons: (1) to establish a final indirect cost rate for a past fiscal year, and (2) to establish a current or future year rate to bill current year indirect costs or estimate future indirect costs on award applications. This guide is intended to assist the organization in the preparation of proposals for both purposes and consists of five sections:

1. Important information
2. General Information (to include with your proposal)
3. Required Schedules for proposals
4. Required Certifications and Statements of Assurances
5. Attachment 1 – Examples of Required Schedules

### **1. Important Information**

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**Timing of Proposal Submissions:** Proposals for final indirect rates are due within six months after the close of your fiscal year. Proposals for “forward pricing” indirect rates (for current or future years) should be submitted six months before the beginning of your fiscal year, in order to assure timely negotiations in advance of your fiscal year. Use this guide as your proposal checklist to insure an adequate proposal is submitted.

**ONR’s Review Process:** Upon receipt of the grantee’s proposal, the ONR negotiator will determine whether it is adequate. Once it is determined to be adequate, the negotiator will request an audit of the proposal by the Defense Contract Audit Agency (DCAA). After ONR receives the audit, fact-finding and negotiations will be conducted. When negotiations have concluded, ONR will prepare a rate agreement to be signed by the grantee and ONR.

### **2 CFR Part 230 (formerly OMB Circular A-122)**

The grantee should be familiar with the Cost Principles for Non-Profit Organizations (formerly OMB Circular A-122, now 2 CFR Part 230). Because the move of these regulations to the Code of Federal Regulations (CFR) is recent and many online resources have not yet been updated, this guide will refer to these principles as A-122. (See: [http://www.whitehouse.gov/omb/circulars/a122/a122\\_2004.html](http://www.whitehouse.gov/omb/circulars/a122/a122_2004.html).) Sections particularly important for the purposes of preparing your indirect rate proposal are shown below.

- **A-122, Attachment A, paragraph D (Allocation of Indirect Costs and Determination of Indirect Cost Rates)** for information regarding the methods of allocating indirect costs and appropriate distribution bases. The three basic methods of allocating indirect costs are:
  - **Simplified Allocation Method** (paragraph D.2.) is appropriate for many small non-profits.
  - **Direct Allocation Method** (paragraph D.4.) is appropriate in some instances
  - **The Multiple Allocation Method** (paragraphs D.3 and D.2.e.) is required for larger non-profits--more than \$10M in Federal funding of direct costs, or where the major activities of the organization do not benefit from the indirect costs in the same proportion. The required distribution base is Modified Total Direct Costs (MTDC), defined in paragraph D.3.f.

Acceptable distribution bases for the Simplified and Direct Allocation methods include total direct costs (excluding capital expenditures and other distorting items such as major subcontracts/subgrants); direct salaries and wages; or other base which results in an equitable distribution of costs. Paragraph D.5. addresses circumstances where a special indirect cost rate may be necessary (an uncommon situation for small non-profit organizations).

- **A-122, Attachment A, paragraphs B (Direct Costs) and C (Indirect Costs)** provides definitions and guidance regarding the classification of costs as direct or indirect.
- **A-122, Attachment A, paragraph E (Negotiation and Approval of Indirect Cost Rates)** provides information regarding the requirement for submitting indirect cost proposals (no later than three months after the effective date of an award for new grantees who have not had a previous negotiated rate, and within six months after the close of each fiscal year for non-profits that have a previously established indirect cost rate). It also provides other important information, including the types of indirect rates (e.g. predetermined, fixed, provisional and final) and when it's appropriate to use each type.
- **A-122 Attachment B** provides information regarding allowability for selected items of costs.

## **2. General Information – The proposal shall include the following:**

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**A. Cover letter**, which clearly states the period(s) covered by the rate and the type of rate requested. **Note:** If the rate you are requesting is different than the rate calculated in “Schedule A” (see below), please provide an explanation for this difference.

**B. Statement of Major Activities** (for example, Research grants/contracts, fundraising, member services, lobbying, etc.)

**C. General Accounting Policies**, to include the basis of accounting (accrual or cash basis); fiscal year end; and method of allocating indirect costs and allocation base for the indirect cost rate. In addition, include a statement indicating whether any changes have been made to the accounting practices and policies since your last proposal.

**D. Statement of Accounting Practices and Policies** - The primary purpose of this statement is to establish an understanding between a grantee and the Federal Government as to what costs will be charged directly and what costs will be charged indirectly. It also provides grantee personnel with such information in the event of personnel changes. **Include in this statement the following information:**

- 1) For each account/cost element (e.g., labor, fringe benefits, travel, supplies, etc.) indicate whether this cost is direct or indirect. For those accounts/cost elements related to activities that are sometimes charged direct and sometimes charged indirect, indicate the circumstances under which the determination is made.
- 2) For each account/cost element which is charged to more than one activity, describe the method used to allocate the costs (such as actual usage, square feet, etc).
- 3) Description regarding the treatment of unallowable costs – What methods/controls does the organization have in place to assure unallowable costs are not charged to Federal awards.

- 4) Statement of the treatment of compensated leave costs (vacation, holiday, sick leave, etc).
- 5) Statement of how fringe benefits are charged (e.g. actual basis by employee, via a fringe benefit rate, etc.). Please indicate if you are requesting a negotiated fringe benefit rate in addition to the proposed indirect rate(s). If fringe benefits are charged via a rate and you are not requesting a negotiated fringe benefit rate, please indicate the organization's method for accounting for the difference in what fringe rate was used during the year, and the actual fringe benefit costs.
- 6) Identify any accounting practices which have changed since the last indirect cost proposal, if applicable. If none, please so indicate.

E. **Identification/description of unusual factors** which affect the proposed rates (such as anticipated increase/decrease in business, non-recurring costs, etc.), or any memoranda of understanding or advance agreements which affect the proposed rate(s).

F. **Identification of the federal agencies** that provide more than 10% of your annual Federal funding.

G. **Copies of the most recent audited financial statements and OMB Circular A-133 audit.** If no A-133 audit was performed, please indicate the reasons. If an A-133 audit is not submitted, include with the financial statements a schedule of federal expenditures by award/agency covering the period of the financial statements.

### 3. Required Schedules:

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#### FOR ALL PROPOSALS:

**Schedule A** – Statement(s) of Indirect Costs and Calculation of Indirect Rate(s) for each rate proposed.

**Schedule B** - Reconciliation of Total Costs to Financial Statements

**Schedule C** – Statement of Fringe Benefits - (a) or (b) below

(a) if you are requesting a negotiated fringe benefit rate, provide a Statement of Fringe Benefit Costs and Calculation of Fringe Benefit Rate, **OR**

(b) if you are not requesting a negotiated fringe benefit rate, provide a Statement of Fringe Benefit costs

**Schedule D** - Allocation of Salaries and Wages

**Schedule E** – Schedule of Federal Awards

#### ADDITIONAL SCHEDULES FOR PROPOSALS TO ESTABLISH FINAL RATES:

**Schedule F** - Schedule of Direct Costs by Award and applied indirect expenses

**Schedule G** - Government Participation in Indirect Cost Pools

**Schedule H** - Reconciliation of Total Payroll per accounting records to IRS form 941

Additional schedules are required if you have Time & Material (T&M) or labor hour contracts. Please contact our office for additional information.

Examples of the required schedules follow in Attachment 1. Please note the attached schedules are examples only. Your accounting system and/or indirect rate structure may warrant different formats. If this is the case, be sure that your schedules include all of the required information.

#### **4. Required Certifications and Statements of Assurances:**

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A proposal is not considered adequate unless it includes **all** of the following required certifications and assurances.

1. Certification regarding your organization's compliance with the requirements of A-122, 25.c.(2) regarding Lobbying costs.
2. Statement regarding the compliance with the requirement for physical inventories in support of use allowances or depreciation charges (see A-122, Att B, para. 11.h).
3. Statement regarding compliance with any applicable limitations on salaries (i.e. NIH salary limitations; limitations of executive compensation, etc.).
4. Organizations with federal cost reimbursable contracts or subcontracts: Certificate of Final Indirect Costs per FAR 52.242-4.

For examples of these certifications and statements of assurances, go to the following link:  
<http://www.onr.navy.mil/Contracts-Grants/manage-grant/indirect-cost-proposal.aspx>

**Attachment 1 – Required Schedules**

**Schedule A - Statement of Indirect Costs and Calculation of Indirect Rate(s)** - This document should contain all line items of costs included in the entities' chart of accounts for indirect costs (broken down by type if more than one category), the total allocation base, and the calculation of the indirect rate, as shown in the below example. If your proposal is for final rates, only Column A will be included. If your proposal is for a current or future fiscal year (i.e. a “forward-pricing” rates), additional columns may be used to project from the Base Year to the proposed year. If you do not anticipate any changes in your rates from the Base Year, please indicate this and provide comments on the subject. Please note that Column A should be the same as the Indirect Cost Column from Schedule B.

Note – If you have more than one indirect cost pool, a separate schedule is required for each one.

**Schedule A: Statement of Indirect Costs and Calculation of Indirect Rate – Simplified Method Example**

Element of Costs	Column A + Column B = Column C			Notes <sup>3</sup>
	FYXX Actual <sup>1</sup>	Proposed Adjustments	FY XY Proposed	
Salaries and Wages	250,000	5,000	255,000	1 <sup>3</sup>
Fringe Benefits	62,500	1,250	63,750	2 <sup>3</sup>
Subtotal-Labor	312,500		318,750	
Bad debt expense	-		-	
Depreciation	8,000		8,000	
Entertainment	-		-	
Equipment	-		-	
Equipment rental	1,000		1,000	
Insurance	15,000		15,000	
Office supplies	6,500		6,500	
Postage and delivery	2,300		2,300	
Printing	6,000		6,000	
Professional services	30,000		30,000	
Rent	70,000		70,000	
Subcontracts	-		-	
Telephone	15,000		15,000	
Travel	20,000		20,000	
Subtotal-Non Labor	173,800		173,800	
Total Indirect Expenses	<b>A</b> 486,300		492,550	
Distribution Base <sup>2</sup> :	<b>B</b> 750,000	45,000	795,000	3 <sup>3</sup>
Calculated Rate	<b>A/B</b> 64.8%		62.0%	

<sup>1</sup> For a "forward pricing" proposal, this column is the "Base Year", or the starting point for projections. This column must reconcile with Schedule B.

<sup>2</sup> This example assumes a Salaries and Wage Base. Other distribution base options are available, as noted elsewhere in this document. Proposal must identify distribution base (e.g. salaries and wages, modified total direct costs, etc.)

<sup>3</sup> Describe each adjustment to base year. Supporting documentation may be required

**Attachment 1 – Required Schedules**

**Schedule B - Reconciliation of Total Costs to Financial Statements** - This document should contain total expenditures by account/cost element, beginning with the amounts per financial statements (most recently completed fiscal year), and including required adjustments (with explanations provided and documentation available), breakdown by direct costs (total and breakdown by major activity) and indirect costs. As noted previously, the indirect cost column should be the same as Column A of Schedule A. As with example Schedule A, the Simplified Allocation Method is used.

**Schedule B: Reconciliation of Total Costs to Financial Statements - Example**

Element of Costs	Financial Statement	Adjustments	Notes	Direct Programs and Activities					Total Direct Costs	Indirect Costs
				Research		Fund-Raising	Member Services	Other Direct Activity		
				Federal Awards	Non-Federal Awards					
Salaries and Wages	1,000,000			200,000	150,000	100,000	250,000	50,000	750,000	250,000
Fringe Benefits	<u>250,000</u>			<u>50,000</u>	<u>37,500</u>	<u>25,000</u>	<u>62,500</u>	<u>12,500</u>	<u>187,500</u>	<u>62,500</u>
Subtotal-Labor	1,250,000			250,000	187,500	125,000	312,500	62,500	937,500	312,500
Bad debt expense	5,000	5,000	a						0	
Depreciation	8,000								0	8,000
Entertainment	5,000	5,000	a						0	
Equipment	10,000	10,000	b						0	
Equipment rental	1,000								0	1,000
Insurance	15,000								0	15,000
Office supplies	30,000			2,000	1,500	5,000	10,000	5,000	23,500	6,500
Postage and delivery	5,000			400	500	500	800	500	2,700	2,300
Printing	15,000			1,500	2,500	2,500	1,500	1,000	9,000	6,000
Professional services	50,000			5,000	5,000	1,000	4,000	5,000	20,000	30,000
Rent	70,000								0	70,000
Subcontracts	500,000	500,000	c						0	
Telephone	20,000			1,000	500	500	1,500	1,500	5,000	15,000
Travel	<u>80,000</u>			<u>15,000</u>	<u>15,000</u>	<u>5,000</u>	<u>10,000</u>	<u>15,000</u>	<u>60,000</u>	<u>20,000</u>
Subtotal-Non Labor	814,000	520,000		24,900	25,000	14,500	27,800	28,000	120,200	173,800
<b>Total</b>	<b>2,064,000</b>			<b>274,900</b>	<b>212,500</b>	<b>139,500</b>	<b>340,300</b>	<b>90,500</b>	<b>1,057,700</b>	<b>486,300</b>

Notes:

- a. Unallowable costs
- b. Excluded from total cost base/unallowable as indirect cost
- c. Excluded from total cost base

**Attachment 1 – Required Schedules**

**Schedule C - Statement of Fringe Benefits**

This schedule shows the actual costs (and estimated costs for forward pricing) of your applicable employee fringe benefit expenses (such as vacation, sick and holiday pay, payroll taxes, employee health insurance, retirement, etc). Fringe benefits should follow the salary of the individual and are a consideration in the determination of the reasonableness of the compensation. Use example (a) if you are requesting a negotiated fringe benefit rate. Otherwise, use example (b). As with Schedule A, if your proposal is for final rates, only Column A will be included. If your proposal is for a current or future fiscal year (i.e. a “forward-pricing” rates), additional columns may be used to project from the Base Year to the proposed year. If you do not anticipate any change in your rate from the Base Year, please indicate this and provide comments on the subject.

**EXAMPLE (a)**

Schedule C - Statement of Fringe Benefit Costs and Calculation of Rate

Element of Costs	Column A	Column B	Column C
	FY 20XX Actual*	Proposed Adj's**	FY 20XY Proposed
Retirement	72,000	1,440	73,440
Health Insurance	60,000	1,800	61,800
Payroll Taxes	75,000	7,500	82,500
Other (identify)	15,000		15,000
Other (identify)	9,000		9,000
Other (identify)	9,000		9,000
Other (identify)	8,000		8,000
Other (identify)	2,000		2,000
Total Fringe Benefits	<b>A</b> 250,000		260,740
Allocation Base:	<b>B</b> 1,000,000	100,000	1,100,000
Calculated Rate	<b>A/B</b> 25.0%		23.7%

**EXAMPLE (b)**

Schedule C - Statement of Fringe Benefit Costs

Element of Costs	Column A	Column B	Column C
	FY 20XX Actual*	Proposed Adj's**	FY 20XY Proposed
Retirement	72,000	1,440	73,440
Health Insurance	60,000	1,800	61,800
Payroll Taxes	75,000	7,500	82,500
Other (identify)	15,000		15,000
Other (identify)	9,000		9,000
Other (identify)	9,000		9,000
Other (identify)	8,000		8,000
Other (identify)	2,000		2,000
Total Fringe Benefits	250,000		260,740

\*For a "forward pricing" indirect rate proposal, this column is the "Base Year", which is used as the starting point for projections.

\*\*Provide basis for change from base year for each line item. Supporting documentation should be available for government review.

**Attachment 1 – Required Schedules**

**Schedule D - Allocation of Salaries and Wages** - Prepare a schedule which breaks down your salaries and wages by position, and for each show the total salary/wage, and a breakdown by percentages of how the salary is allocated to the various major activities (programs, fundraising, indirect, etc). See example below. Also provide an example of your time-charging document. Information regarding required documentation for personnel costs can be found in OMB Circular A-122, Attachment B, paragraph 8.m. (1) through (4).

**Schedule D: Allocation of Salaries and Wages – Example**

Period Covered:

Position	Salary	Total Indirect	Direct					total
			Federal Awards	Non-Federal Awards	Fund-Raising	Member Services	Other Direct Activity	
Director	\$80,000	80%			20%			100%
Controller	\$40,000	100%						100%
Project Coordinator	\$60,000	10%	50%	40%				100%

continue schedule with additional positions applicable in your organization

**Schedule E – Schedule of Federal Awards** – Prepare a listing of all Federal awards by agency (direct and pass-through), total dollar amount, period of performance, and the indirect cost limitations (if any) applicable to each, such as, ceiling rates or amounts restricted by administrative or statutory regulations.

**Schedule E – Schedule of Federal Awards – Example**

<u>Award Number</u>	<u>Federal Agency</u>	<u>Award Type</u>	<u>Amount</u>	<u>Period of Performance</u>	<u>Indirect Cost Limitation?</u>	<u>Comments</u>	
<u>Direct Awards</u>							
DOD Awards:							
N00014-xx-C-xxxx	ONR	CPFF	\$500,000	10/1/09 - 9/30/11	No		
NASA Awards:							
NNGxxxxxG	NASA	Grant	\$100,000	7/1/10-6/30/11	No		
Continue with awards (by federal agency)							
<u>Pass-Thru Awards</u>	<u>Federal Agency</u>	<u>Federal Award Number</u>	<u>Award Type</u>	<u>Amount</u>	<u>Period of Performance</u>	<u>Indirect Cost Limitation?</u>	<u>Comments</u>
XYZ Award #12345	Army		Grant	\$40,000	4/1/10-9/30/10	Yes	IDC limit 20%
Continue with awards (by federal agency)							

**The preceding schedules are required for all proposals. The following schedules are required only for final rate proposals.**



**Attachment 1 – Required Schedules**

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**Schedule F - Schedule of Direct Costs by Award and Applied Indirect Expenses for FY ended xx/xx/xx Example:**

Award Type	<u>Direct Labor</u>	<u>Fringes Benefits</u>	other direct (identify)	other direct (identify)	Subtotal Direct	Equipment (Cap Exp)	Subawards	Total Direct	Indirect Cost	Total Award Cost	<u>Comments</u>
Grant											
Total Grants											
CPFF:											
Total CPFF											
 <i>Note 2</i>											
Firm-fixed-price awards*											
Non-government awards*											
Internal Activities*											
 Total											

\*A combined amount for each of these categories is sufficient

Note 1: Use proposed final rate, unless there are indirect rate limitations. Then notate in the comments column.

Note 2: For other types of federal awards not identified above or below, list awards and total by type

**Attachment 1 – Required Schedules**

**Schedule G - Government Participation in Indirect Cost Pools – Example:**

Government Participation in Indirect Expense Pool(s)		
FY Ended xx/xx/xx		
	Allocation	
	Base	% of
Award Type	Amount	Base
Federal Awards		
Grants		
Cooperative Agreements		
Cost Type Contracts		
Other Type Contracts-FFP, T&M		
etc. (specify)		
Total Federal Awards	200,000	26.7%
Non-Federal awards	150,000	20.0%
Internal Activities	400,000	53.3%
Total Base (Assumes S&W Base)	750,000	100.0%

**Schedule H - Reconciliation of Total Payroll per accounting records to IRS form 941 – Example:**

Direct Salaries and Wages	750,000
Indirect Salaries and Wages	250,000
	<u>1,000,000</u>
941 Reporting:	
Quarter 1	xxx,xxx
Quarter 2	xxx,xxx
Quarter 3	xxx,xxx
Quarter 4	xxx,xxx
Total per Form 941	<u>xxx,xxx</u>
Adjustments to Reconcile	
Adj 1 (explain)	xxx
Adj 2 (explain)	xxx
Etc.	
	<u>1,000,000</u>

**NOTE: Additional schedules are required if you have Time & Material (T&M) or labor hour contracts. Please contact our office for additional information.**