

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
6. Attachment 2 – Examples of Required Certifications and Statement of Assurances

1. Important Information

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 may 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 200 **Uniform Administrative Requirements, Cost Principles,** **and Audit Requirements for Federal Awards**

The grantee should be familiar with the Subpart E, Cost Principles, as well as Appendix IV, Indirect Costs Identification and Assignment and Rate Determination for Nonprofit Organizations. See: http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl. Sections particularly important for the purposes of preparing your indirect rate proposal are shown below.

- **2 CFR Part 200, Appendix IV, paragraph B (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 B.2.) is appropriate when an organization’s major functions benefit from its indirect costs to approximately the same degree as directs.
 - **The Multiple Allocation Method** (paragraphs B.3.) is required when an organization’s indirect costs benefit its major functions in varying degrees. The

- required distribution base is Modified Total Direct Costs (MTDC), defined in 2 CFR Part 200 Subpart A – Acronyms and Definitions, paragraph 200.68.
 - **Direct Allocation Method** (paragraph B.4.) is appropriate in some instances
- Acceptable distribution bases for the Simplified and Direct Allocation methods may be total direct costs (excluding capital expenditures, participant support costs and other distorting items, such as subawards for \$25,000 or more), direct salaries and wages, or other base which results in an equitable distribution. Paragraph B.5 addresses circumstances where a special indirect cost rate may be necessary (an uncommon situation for small non-profit organizations).
- **2 CFR Part 200, Subpart E, paragraphs 200.413 (Direct Costs) and 200.414 (Indirect Costs)** provides definitions and guidance regarding the classification of costs as direct or indirect.
- **2 CFR Part 200, Appendix IV, paragraph C.2 (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.
- **2 CFR Part 200, Subpart E, paragraphs 200.420-475** provides information regarding allowability for selected items of costs.

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

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.) and how such costs are charged on Federal awards and other cost objectives.
- 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 single audit. If a single audit was not performed, please indicate the reason(s). If a single 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:

FOR ALL PROPOSALS: Please provide schedules in excel and pdf formats.

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 (include Government Participation in Fringe Benefits Pools, if applicable)

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:

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

- Certificate of Indirect (F&A) Costs, 2 CFR Part 200 Appendix IV, Paragraph D. See Attachment 2.
- Certification regarding your organization's compliance with the requirements of 2 CFR Part 200, Subpart E, paragraph 200.450(c)(2)(vi) regarding Lobbying costs. See Attachment 3
- Statement regarding the compliance with the requirement for physical inventories in support of use allowances or depreciation charges (see 2 CFR Part 200, Subpart E, paragraph 200.436(e). See Attachment 3
- Statement regarding compliance with any applicable limitations on salaries (i.e. NIH salary limitations; limitations of executive compensation, etc.) in accordance with 2 CFR Part 200, paragraph 200.430(g). See Attachment 3
- Organizations with federal cost reimbursable contracts or subcontracts: Certificate of Final Indirect Costs per FAR 52.242-4. See Attachment 4

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

	Column A + Column B = Column C			
Element of Costs	FYXX Actual ¹	Proposed Adjustments	FY XY Proposed	Notes ³
Salaries and Wages	250,000	5,000	255,000	1 ³
Fringe Benefits	62,500	1,250	63,750	2 ³
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	A 486,300		492,550	
Distribution Base ² :	B 750,000	45,000	795,000	3 ³
Calculated Rate	A/B 64.8%		62.0%	

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

² 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.)

³ Describe each adjustment to base year. Supporting documentation may be required

Attachment 1 – Required Schedule

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
Total	2,064,000			274,900	212,500	139,500	340,300	90,500	1,057,700	486,300

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				
	Column A	Column B	Column C	
	FY 20XX	Proposed	FY 20XY	
<u>Element of Costs</u>	<u>Actual*</u>	<u>Adj's**</u>	<u>Proposed</u>	
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	A 250,000		260,740	
Allocation Base:	B 1,000,000	100,000	1,100,000	
Calculated Rate	A/B 25.0%		23.7%	

EXAMPLE (b)			
Schedule C - Statement of Fringe Benefit Costs			
	Column A	Column B	Column C
	FY 20XX	Proposed	FY 20XY
<u>Element of Costs</u>	<u>Actual*</u>	<u>Adj's**</u>	<u>Proposed</u>
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 @ CFR 200.430 Compensation – personal services.

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

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

<u>Award Type</u>	Direct <u>Labor</u>	Fringes <u>Benefits</u>	other direct <u>(identify)</u>	other direct <u>(identify)</u>	Subtotal <u>Direct</u>	Equipment <u>(Cap Exp)</u>	<u>Subawards</u>	Total <u>Direct</u>	Indirect <u>Cost</u>	Total Award <u>Cost</u>	<u>Comments</u>
Grant									<i>Note 1</i>		

Award A

Award B

Total Grants

CPFF:

Award C

Award D

Total CPFF

Note 2

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		
Award Type	Allocation Base Amount	% of Base
Federal Awards		
Grants	These amounts will be broken out	
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.

Attachment 2

(Non-profit Name)

For all non-profits for fiscal years beginning after 12/26/14

2 CFR 200 Appendix IV, Paragraph D Certificate of Indirect (F&A) Costs

This is to certify that to the best of my knowledge and belief:

- (1) I have reviewed the indirect (F&A) cost proposal submitted herewith;
- (2) All costs included in this proposal **[identify date]** to establish billing or final indirect (F&A) costs rate for **[identify period covered by rate]** are allowable in accordance with the requirements of the Federal awards to which they apply and with Subpart E—Cost Principles of Part 200.
- (3) This proposal does not include any costs which are unallowable under Subpart E—Cost Principles of Part 200 such as (without limitation): public relations costs, contributions and donations, entertainment costs, fines and penalties, lobbying costs, and defense of fraud proceedings; and
- (4) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the Federal awards to which they are allocated in accordance with applicable requirements.

I declare that the foregoing is true and correct.

Nonprofit Organization: _____

Signature: _____

Name of Official: _____

Title: _____

Date of Execution: _____

Attachment 3

(Nonprofit Name)

Additional Certifications and Statements of Assurance

This is to certify that I have reviewed the (insert Organization name) Indirect Cost Rate Proposal dated (insert date of proposal) to establish indirect cost rate(s) for the period insert month/day/year through (insert month/day/year) and attest to the following:

Certificate of Lobbying (2 CFR 200, Subpart E, paragraph 200.450(c)(2)(vi)). To the best of my knowledge and belief, the subject proposal complies with the requirements and standards of 2 CFR Part 200, Subpart E, paragraph 200.450 Lobbying.

Statement of Assurance re: Charges for Depreciation (2 CFR 200, Subpart E, paragraph 200.436(e)). To the best of my knowledge and belief, the depreciation included in the subject proposal complies with the requirements of 2 CFR 200.436, including but not limited to: the charges for depreciation are supported by adequate property records and physical inventories taken at least once every two years to ensure that the assets exist and are usable, used, and needed; and no depreciation is claimed for assets acquired with federal funds.

Statement of Assurance re: Compensation Limitations: To the best of my knowledge and belief, the organization is in compliance with any applicable compensation limitations, including but not limited to agency-specific salary limitations (e.g. NIH) and executive compensation limitations (see 2 CFR 200.430(d)(2)).

Nonprofit Organization: _____

Name of Official: _____

Title: _____

Signature: _____

Date of Execution: _____

Attachment 4

(Nonprofit Name)

For nonprofits which have cost-type FAR contracts, the below additional certificate is required:

Certificate of Final Indirect Costs (in accordance with FAR 52.242-4)

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in this proposal **(identify proposal and date)** to establish final indirect cost rates for **(identify period covered by rate)** are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: _____

Signature: _____

Name of Certifying Official: _____

Title: _____

Date of Execution: _____