

# Indirect Cost Rates – A Non-Profit Perspective

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# Agenda

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- ❑ “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
- ❑ 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



# Formal Survey

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- Survey
  - How many auditors?
  - How many NPO's?
  - Any Colleges and Universities?
  - Government personnel?
  - Who has a federally approved rate?

# What Were “Old School” Rules?

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## **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)

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## 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

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- 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

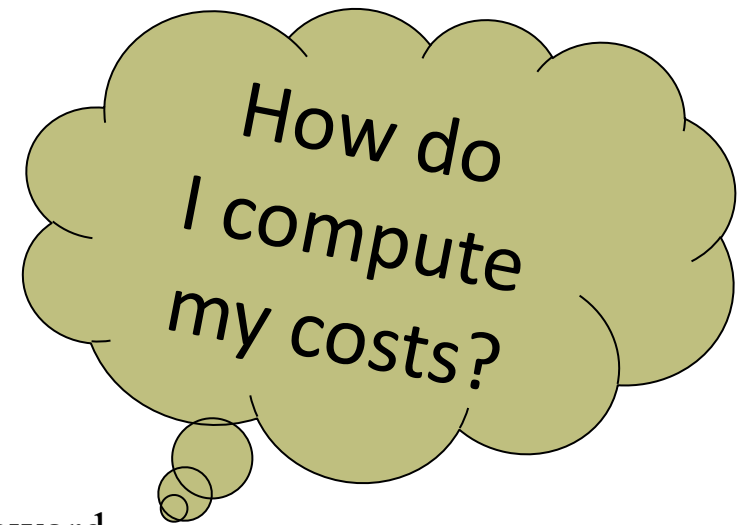
- Operational structure different
  - Appendix III – Higher Ed
    - Instruction function, research, other Institutional activities (dorms, sports)
    - Generally much larger operational budget
    - Multiple rates (instruction; Research; etc.)
  - Appendix IV – NFP Organization
    - Generally smaller 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



# Cost Principles-Basic Considerations

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- ❑ 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

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## Non-Allowable Costs:

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



# Cost Principles 200.412

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



# Splitting Direct & Indirect Costs (200.414b)



the  
GRAY  
AREA

- 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)

# Cost Principles: Direct Costs 200.413

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



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

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- *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.

# Translation

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English definition: Indirect Costs (n) IN-der-EK-t/CAH-st

- Synonymous with Facilities and Administrative cost (F&A)
- Benefits different activities and cannot be easily identified to benefit any one activity.



# Cost Principles: Indirect Costs 200.414

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Normally those costs that are not direct

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

# Simple Indirect Rate Computation

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Indirect Cost



Direct Cost



Indirect Cost Rate



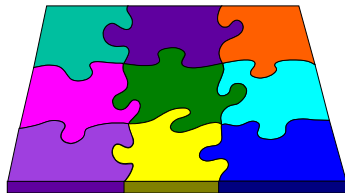
# INDIRECT COST RATE CALCULATION EXAMPLE

## F & A Costs

### Overhead costs incurred to support Research activities:

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

**\$58,000**



## Direct Costs

### Costs incurred in performing sponsored project activities/protocols:

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

**\$100,000**

F & A Costs  
Direct Costs

**F & A Cost Rate = 58%**

# MTDC Example

Desc. (From Statement of Functional Expenses)	Total Program Services		Total Management and General	Total Expenses
Personnel	\$ 1,631,282	<span style="color: red;">A</span>	\$ 225,649	\$ 1,856,931
Travel and meeting expenses (entertainment \$5,467)	101,034		21,836	122,870
Professional fees & services	51,688		7,522	59,210
Subcontracts less than \$25k IDC applied	945,715		67,456	1,013,171
Subcontracts Greater than \$25K No IDC	1,899,644		-	1,899,644
In-Kind	728,000		50,000	778,000
Publications, printing and postage	25,620		21,413	47,033
Occupancy costs	-		151,030	151,030
Supplies and equipment	21,616		675	22,291
Telecommunications and internet	34,280		1,770	36,050
Insurance, dues and other	10,963		4,056	15,019
Building depreciation	-		54,572	54,572
Participant Support Costs	57,381			
<b>Total Expenses</b>	<b>\$ 5,507,223</b>		<b>\$ 605,979</b>	<b>\$ 6,055,821</b>
<i>Adjustments:</i>				
Exclude Participant Support Costs	\$ 57,381		\$ -	
Exclude subcontracts > \$25,000	1,899,644		-	
Exclude in-kind donated services	728,000		50,000	
Unallowable Entertainment			5,467	
Equipment purchased grant funds	12,780		-	
<b>Subtotal Adjustments</b>	<b>\$ 2,697,805</b>		<b>\$ 55,467</b>	
<b>Net Adjusted Expenses</b>	<b>\$ 2,809,418</b>	<span style="color: red;">B</span>	<b>\$ 550,512</b>	<span style="color: red;">C</span>
Facilities and Administrative Cost Rate - MTDC			<b>19.60%</b>	(C/B)
Facilities and Administrative Cost Rate - Salaries and Wages			<b>33.75%</b>	(C/A)

# “Never Had A Rate” Rule (200.414f)

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- ❑ (f) any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-federal entities described in Appendix VII to part 200 – State and Local governments Indian Tribe Indirect Cost Proposals, 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.
  - ❑ 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.



# Indirect Cost Acceptance Rule (200.414c)

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- 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.

# Getting an Approved Rate

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- ❑ 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

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- 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

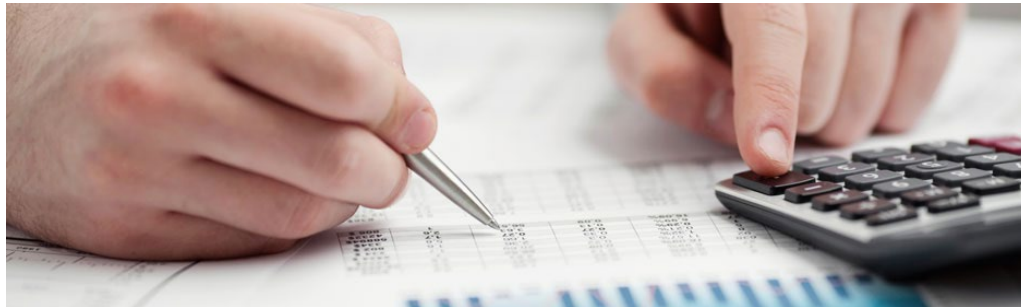


# Modified Total Direct Costs (MTDC)

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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)

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- ❑ *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 Example

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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)

# 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.

# Extension Rule (200.414g)

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■ 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.



Sounds kinda like  
my tax return...

# Participant Support Costs (200.75)

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- ❑ *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)

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- ❑ 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.



# Types of Indirect Rates

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- 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
  - For research and development contracts





# Provisional Rate

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*“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

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<b>Provisional</b> negotiated rate - 2018	<b>19%</b>
MTDC base – 2018	\$1,000,000
Actual indirect costs recovery	\$ 190,000
Indirect costs - 2018	\$ 170,000
<b>Final rate</b> - 2018	<b>17%</b>
<b>Liability - Overbilling</b>	<b>\$ 20,000</b>

# Higher Ed Gets Special Treatment:

## *Fixed Rate for Life Rule*

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### 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

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- ***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)

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*“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

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## **Carry-forward provision – Part I**

Negotiated Fixed Rate - 2019	40%
Direct Cost Base – 2019	\$10,000,000
Actual indirect costs - 2019	\$ 4,200,000
Indirect Cost Recovery - 2019	\$ 4,000,000
Actual rate - 2019	42%
Under-recovery	\$ 200,000*

\*Carry-forward is 2 years forward (2021 in this scenario).

# Carry-Forward Example

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## **Carry-forward provision – Part II**

Actual indirect costs - 2021	\$4,500,000
Carry-forward from - 2019	<u>\$ 200,000</u>
Indirect costs - 2021	\$4,700,000
Direct Cost Base - 2021	\$10,000,000
Rate with Carry-forward	47%
Rate without Carry-forward	45%

# DANCE BREAK!

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# Frequently Asked Questions

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**Question:** Pass through entities are expected to honor a subrecipient's negotiated F&A rate agreement, or use a 10% MTDC de minimis rate, or negotiate an F&A rate with the subrecipient.

**Is it acceptable to require a subrecipient to accept a rate lower than 10% MTDC via negotiation, or in lieu of their negotiated F&A rate?**

**If the subrecipient requests to establish a rate via negotiation, does the pass through entity have to establish the rate via negotiation?**

**Answer:** If the subrecipient already has a negotiated F&A rate with the federal government, the negotiated rate must be used. It 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

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**Question:** Our organization previously had a negotiated indirect cost rate. However, all federal awards expired causing a break in our relationship with the federal government. During the break in the relationship our negotiated indirect cost rate expired. Our organization has now received a new federal award.

**Are we eligible to receive the 10 percent de minimis rate?**

**Answer:** No, Organizations that experience a break in federal relationships are not eligible to receive the 10 percent de minimis rate up on receipt of a new award. The availability of the de minimis rate is specifically limited to non-federal entity that has never received a negotiated indirect cost rate (200.414 (F)). It is expected that organizations that have experience developing and negotiating rates have adequate resources to develop a new indirect cost rate.



# Frequently Asked Questions

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**Question:** Can a non-federal entity conducting a single function, which is predominately funded by federal awards elect to charge the 10% de minimis rate if they currently charge all costs as direct costs to federal programs?

**Answer:** No, the 10% de minimis rate must only be used to pay for overhead costs that are not directly charged to federal awards. If all costs are charged directly to the federal award (e.g. space costs, utility and administrative costs) then the recipient should not also charge the 10% de minimis rate. As described in 2 CFR section 200.403 costs must be consistently charged as either indirect or direct, but may not be double charged or inconsistently charged as both.



# Frequently Asked Questions

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**Question:** 200.331 makes reference to indirect cost rates as a requirement for recipients and subrecipients. Not all entities charge indirect cost rates.

**Will they now be forced to establish such rates?**

**Answer:** No, Non-federal entities that are able to allocate and charge 100% of their costs directly may continue to do so. Claiming reimbursement for indirect costs is never mandatory; a non-federal entity may conclude that the amount it would recover thereby would be immaterial and not worth the effort needed to obtain it.

# Frequently Asked Questions

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**Question:** In the definition of Modified Total Direct Costs (MTDC) base, does the “regardless of the period of performance of subawards under the award” mean that if the subaward(s) to the subrecipient is made up of several separately executed funding agreements, in the course of the period of performance does each separate subaward agreement require including up to \$25k in the MTDC base for the award segment even if the scope of the subaward(s) remain the same.

**Answer:** Yes, if the subaward needs to be separately negotiated or renegotiated over the period of performance, this would support including an additional \$25K in MTDC for each subaward negotiation. The allowance of the \$25k is for the life of the award, or for each period of performance. Renewals of subawards may be considered, for determining the \$25k inclusion in MTDC, if they need to be formally renegotiated within the period of performance of the grant.



# Frequently Asked Questions

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**Question:** Is there a limit on the number of layers of subrecipients at which the requirement to pay indirect costs is no longer applicable? For example, a state may pass-through federal grant funds to a local government, the local government may pass all or some of the funds through to a local non-profit, which then utilizes the services of other non-profit providers as subrecipients.

**Answer:** No. There is no limit under Uniform Guidance, but the federal award may have a limit.

**Reason:** This is why under MTDC you can only charge indirect costs on first \$25,000 of Subaward costs.

# Questions

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# Contact Information

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