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Micro Learning: Indirect Cost Rate Recovery



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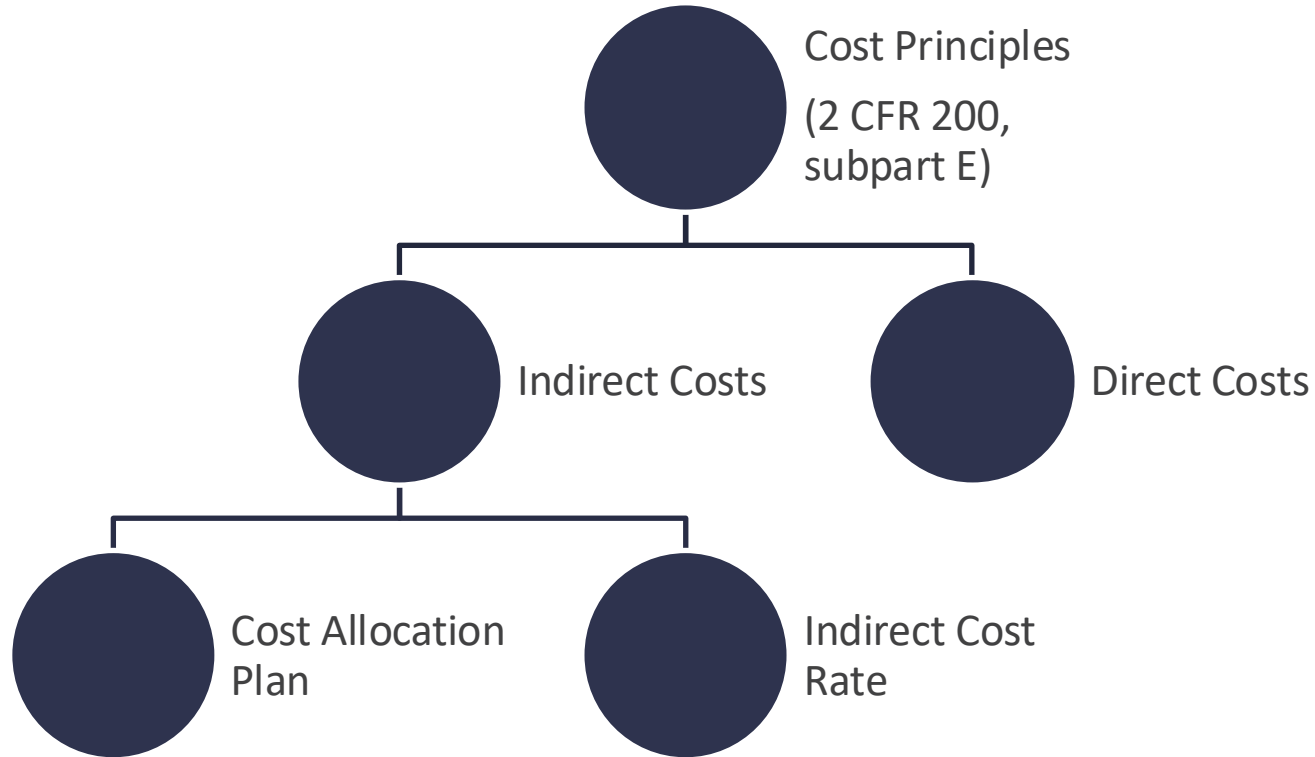
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Cost Principles

Subpart E of Uniform Guidance-
Cost Principles applies to both
direct and indirect costs of a
federal program



Hierarchy



Cost Principles

Direct Costs

- The **benefit** of the cost can be identified specifically with a particular final cost objective, (such as a Federal award)



Cost Principles

Indirect Costs (Facilities & Administration)

- The benefit of the cost can **not be identified specifically to** the cost objective (such as a Federal award)
- Costs incurred for a common or joint purpose benefitting more than one cost objective (i.e. “shared” costs, or “allocated” costs)



Indirect Costs – State and Local Governments

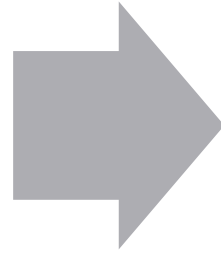
Indirect costs include

- (a) the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards **and**
- (b) the costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs.



Indirect Costs – State and Local Governments

Indirect costs are normally charged to Federal awards by the use of an indirect cost rate.



A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards.



Indirect Costs

Because of the diverse characteristics and accounting practices of governmental units,

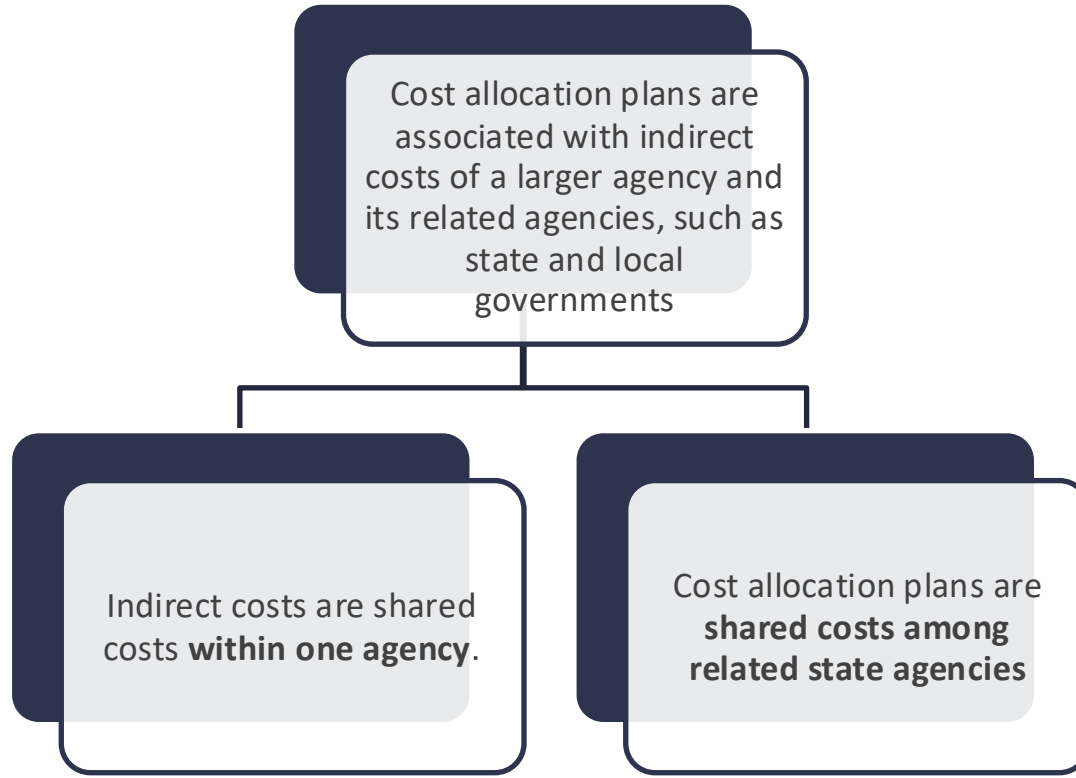
- the types of costs which may be classified as indirect costs cannot be specified in all situations.

However, typical examples of indirect costs may include:

- certain state/local-wide central service costs
- general administration of accounting and personnel services
- depreciation on buildings and equipment
- costs of operating and maintaining facilities



Cost Allocation Plans



Cost Allocation Plans

Examples of
shared
costs in a
cost
allocation
plan:

- Motor pools.
- Computer centers.
- Retirement or pension plans.
- Snow removal, grass cutting.
- Copier paper.
- Maintenance of websites



Cost Allocation Plans



Cost allocation plans provide shared services either as allocated costs (indirect) or as billed costs (direct) to related agencies.

Indirect Cost Rate

The indirect cost rate is designed to provide a method for recovering the costs that indirectly support the program



Indirect cost rate % is applied to the direct base



Budget Example

| Budget Categories | |
|---------------------------------|-----------|
| Personnel | 1,000,000 |
| Fringe Benefits (30%) | 300,000 |
| Travel | 15,000 |
| Equipment | 25,000 |
| Supplies | 33,000 |
| Contractual | 45,000 |
| Other | 52,150 |
| Total Direct | 1,470,150 |
| Indirect Costs (17.53% of MTDC) | 253,335 |
| TOTAL | 1,723,485 |



Indirect Cost Rate

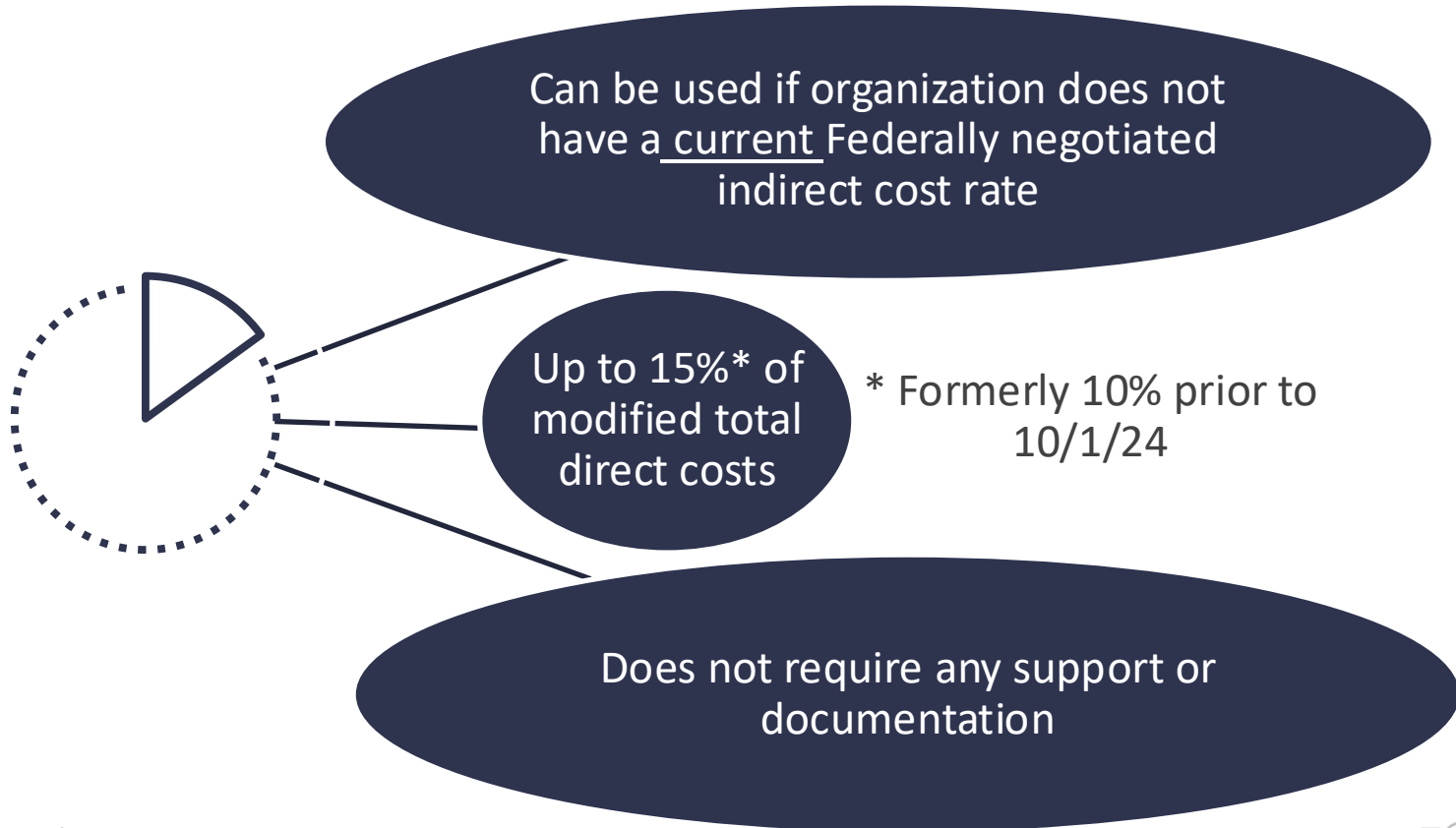
Can be: De Minimis

Federally Negotiated Rate

Other rate determined between funder and recipient



Indirect Costs: De Minimis Rate (200.414(f))



Indirect Costs: Negotiated Indirect Cost Rate (200.414(c))

Federal agencies must accept negotiated indirect cost rates, unless there is a program statute or approved agency regulation that states otherwise

Pass-through entities are required to honor an organization's negotiated indirect cost rate, negotiate a rate or allow them to use De minimis rate

Organization's that are receiving direct funding and do not have a negotiated rate may negotiate an indirect cost rate



Indirect Costs: Negotiated Indirect Cost Rate (200.414(c))

NICRA: Negotiated
Indirect Cost Rate
Agreement

Negotiated with
organization's cognizant
agency

Cognizant agency =
Federal agency with the
largest dollar value of
Federal awards **directly**
funded to an organization

Negotiated on behalf of all
Federal agencies



Indirect Cost Calculation

An indirect cost rate is calculated as a percentage by dividing:

Indirect Pool

Distribution base

Indirect Cost Rate

Example:

\$356,052

\$2,031,257

17.53%



Indirect Cost Calculation

Start with statement of functional expenses from audited financial statements:

| | Programs | Management & General | Fundraising | Total |
|---|------------------|----------------------|----------------|------------------|
| Salaries and wages | 1,121,979 | \$ 276,136 | \$ 44,065 | 1,442,180 |
| Employee Benefits & Payroll Taxes | 233,492 | 68,040 | 11,153 | 312,685 |
| Accounting | - | 10,815 | - | 10,815 |
| Professional Services | 308,306 | 6,332 | 48,100 | 362,738 |
| Office Expenses | 112,869 | 5,408 | 10,067 | 128,344 |
| Travel Expense | 106,543 | 3,524 | 9,152 | 119,219 |
| Insurance | - | 7,859 | - | 7,859 |
| Information Technology | 23,757 | 1,568 | - | 25,325 |
| Occupancy | 32,262 | 20,671 | - | 52,933 |
| Interest | - | 4,743 | - | 4,743 |
| Depreciation | - | 687 | - | 687 |
| Conference Fees | 7,153 | 54 | - | 7,207 |
| Miscellaneous | 30,726 | 12,120 | 1,104 | 43,950 |
| Total per Audited Financial Statements | 1,977,087 | 417,957 | 123,641 | 2,518,685 |



Indirect Cost Calculation

Remove unallowable costs and modify and adjust in accordance with 2 CFR 200:

Less: Unallowable Costs (See extensive list on "Unallowable Costs" spreadsheet:

| | | | | |
|--|----------------|-----------------|----------|-----------------|
| Entertainment Costs | 3,400 | | | 3,400 |
| M&G Salaries Included in PPP Forgiven Loan | - | 41,053 | | 41,053 |
| M&G Employee Benefits in PPP Forgiven Loan | | 10,731 | | 10,731 |
| Finance and Late Charges | 20 | 757 | | 777 |
| Interest Costs | - | 1,843 | | 1,843 |
| Fundraising | - | 267 | - | 267 |
| Contributions | 200 | 6,905 | | 7,105 |
| Bad Debt | - | 270 | | 270 |
| Total Unallowable Cost Adjustments | (3,620) | (61,826) | - | (65,446) |

Less: Other Modifications/Adjustments to Total Costs

| | | | | |
|--|-----------------|-------------|----------|-----------------|
| Equipment Purchases | 49,918 | 79 | | 49,997 |
| Rental Costs | 15,933 | | | 15,933 |
| Total Other Modifications/Adjustments | (65,851) | (79) | - | (65,930) |

| | | | | |
|-----------------------------|------------------|----------------|----------------|------------------|
| TOTAL ADJUSTED COSTS | 1,907,616 | 356,052 | 123,641 | 2,387,309 |
|-----------------------------|------------------|----------------|----------------|------------------|

$$\begin{array}{c}
 \swarrow \quad \quad \quad \searrow \\
 \hline
 2,031,257 \\
 = 17.53\%
 \end{array}$$



Use of Indirect Cost Calculation

Indirect Cost Rate is applied to the MTDC base:

| | |
|---------------------|-----------------|
| Salaries | \$10,000 |
| Benefits | 3,500 |
| Supplies | 2,000 |
| Equipment | 7,500 |
| Travel | <u>500</u> |
| Total Direct Costs: | \$23,500 |

| | |
|-----------------------------|--|
| Modified Total Direct Costs | $\$23,500 - \$7,500 = \$16,000$ (has to exclude equipment) |
| Indirect cost | $\$16,000 \times 17.53\% = \mathbf{2,805}$ |
| Total Reimbursement: | \$26,305 |



Fringe Benefit Rate

- Fringe benefits are shared costs relating to employees:
 - Health benefits.
 - Different kinds of leave.
 - Retirement accounts.
 - Wellness programs, gym memberships.
- Some award allow the costs to be recovered through a fringe benefit rate (vs. actual costs)
 - Some organizations choose to get a federally negotiated fringe benefit rate, others determine rate with funder



Fringe Rate Calculation Example

| COMPOSITION OF RATE BASE | | | | |
|-------------------------------------|------------------------------|--|--|--------------|
| Payroll taxes | | | | \$ 183,454 |
| Unemployment Insurance | | | | 11,344 |
| Workers Compensation Ins | | | | 21,167 |
| Other Benefits | | | | 195,000 |
| Pension Benefit | | | | 72,152 |
| | | | | \$ 483,117 |
| COMPOSITION OF SALARIES AND WAGE | | | | |
| Programs: | | | | \$ 493,888 |
| Management and General | | | | 796,209 |
| Fundraising | | | | 320,214 |
| | | | | \$ 1,610,311 |
| COMPUTATION OF FRINGE BENEFIT RATE: | | | | |
| <u>Numerator:</u> | | | | |
| | Total Fringe Benefits | | | \$ 483,117 |
| <u>Denominator:</u> | | | | |
| | Total Salaries and Wages | | | \$ 1,610,311 |
| | Computed fringe benefit rate | | | 30.00% |



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Rebecca Field

Rebecca is a Principal at CliftonLarsonAllen and leads the Grant Services group. She has over 20 years of public accounting experience and working exclusively with nonprofit organizations. She specializes in grant compliance, including single audits, and has extensive knowledge in related regulations and requirements. Rebecca also serves as a firm wide assurance resource where she oversees compliance with professional standards, provides technical assistance, and assists with training curriculum.



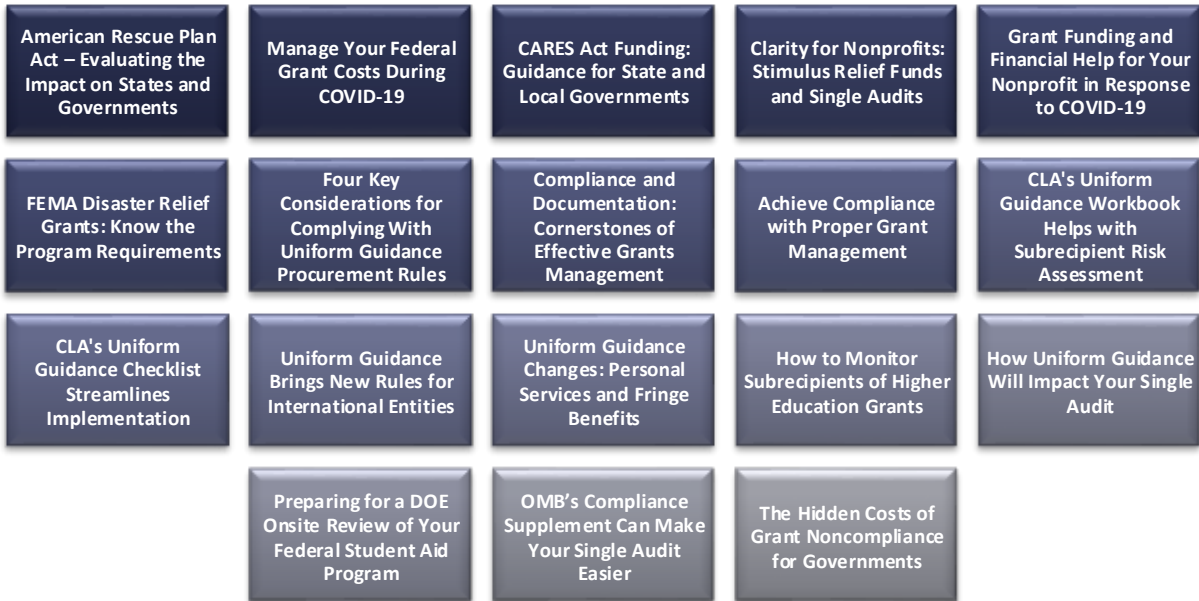
Appendices to 2 CFR 200

- NP Indirect Cost Rate Proposals – Appendix IV to Part 200 Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations
- SLG Indirect Cost Rate Proposals- Appendix VII to Part 200 States and Local Government and Indian Tribe Indirect Cost Proposals
- Central Services Cost Allocation Plans -Appendix V to Part 200 State/Local Governmentwide Central Service Cost Allocation Plans



CLA Grant Compliance Resource Center

<http://www.claconnect.com/resources/tools/resources-to-ease-the-burden-of-grant-compliance>





Create Opportunities

CLA exists to
create opportunities —
for our clients, our people,
and our communities.

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