Annex 11.2. Model Cost Policy Statement

The model Cost Policy Statement in this annex is adapted from the U.S. Department of Labor *Indirect Cost Rate Determination Guide: Cost Principles and Procedures for Non-Profit Organizations.* It is provided here as an example of the kind of documentation organizations should develop in order to demonstrate to funders that they have a well-defined, reasonable, and justifiable method of allocating and recovering indirect costs. Of course, individual funders may have particular requirements for indirect costs (such as a ceiling on the amount of indirect costs that can be reimbursed or particular types of costs that cannot be reimbursed) that may be in conflict with the example provided below. Each organization must decide how to structure its indirect cost recovery to reflect its own particular funding situation.

This model Statement assumes that the example organization (EO) uses the direct allocation method of charging costs (i.e., in addition to direct costs), and that EO has in place accounting procedures that enable it to direct charge some costs that would otherwise be considered indirect costs (see, for example, the description below on how the photocopy costs are charged).

# Cost Policy Statement Example Organization

**I.** **General Accounting Policies**

|  |  |  |
| --- | --- | --- |
| A | Basis of account | Accrual basis |
| B | Fiscal period | July 1 through June 30 |
| C | Allocation basis | Direct allocation basis |
| D | Indirect cost rate allocation base | Direct salaries and wages including applicable fringe benefits |

E. Example Organization (EO) Fringe Benefit Base-Direct Salaries.

F. EO maintains adequate internal controls to insure that no cost is charged both directly and indirectly to contracts or grants.

G. EO accumulates all indirect costs and revenues in accounts titled “Indirect Cost-Expense” and “Indirect Cost-Revenue,” respectively.

**II.** **Description of Cost Allocation Methodology**

A. Salaries and Wages

1. Direct Costs—The majority of EO’s personnel direct-charge their salary costs since their work is specifically identifiable to specific grants, contracts, or other activities of the organization. The charges are supported by auditable labor distribution reports that reflect the actual activities of employees.

2. Indirect Costs—The following personnel charge 100 percent of their salary costs indirectly:

Financial Manager

Administrative Assistant

3. Mixed Charges—The following personnel may charge their salary costs to both direct and indirect activities:

Executive Director

Technical Staff

The distinction between direct and indirect is primarily based on the functions performed. For example, when the positions shown are performing functions that are necessary and beneficial to all programs they are indirect. When functions are specific to one or more programs they are direct because they do not benefit all programs.

Auditable labor distribution records that reflect the actual activities of employees are maintained to support the mix of direct/indirect charges. The time records are certified by the executive director.

B. Fringe Benefits

Leave time costs (vacation leave earned, sick leave used, and holiday pay) are considered fringe benefit costs. EO’s accounting system records leave time as a fringe benefit cost in the same manner that salary costs are recorded. Vacation leave earned but not used during each fiscal period is recorded as a cost in the period earned.

EO contributes to the following fringe benefits for its personnel: social/health insurance (including unemployment insurance and worker’s compensation) and matching contributions to retirement fund.

C. Travel

Travel costs may be charged as either direct or indirect costs depending on the purpose of the trip. For example, the executive director travels to a regional office to give employees a quarterly update. This trip is indirect in nature and should be charged as an indirect cost. However, if the executive director travels to a regional office to perform a specific task for a contract, the trip would be considered a direct cost.

D. Board Expenses

Board expenses charged on an indirect basis are for travel to/from board meetings and an annual fee of $250 paid to each board member. Other board expenses are absorbed by EO and are not charged either directly or indirectly to contracts or grants.

E. Supplies and Material

To the maximum extent possible, office supplies and materials are direct-charged to the contract/grant that uses the supplies or materials. Supplies and materials used by personnel engaged in indirect activities will be charged on an indirect basis.

F. Facility Expenses

EO occupies space it leases from Lessor Corporation. The lease provides for equal monthly payments during the term of the lease. All rent is charged as an indirect cost.

EO’s lease includes the cost of all utilities except electricity. The cost of electricity is charged as an indirect cost.

G. Communications

1. A log is maintained of all fax transmissions. The cost of fax services is charged either directly or indirectly based upon whether a direct or indirect activity benefits from the transmission.

2. Long distance telephone calls are charged either directly or indirectly based upon whether a direct or indirect activity benefits from the transmission.

3. Local telephone service costs are treated as indirect charges.

4. EO uses a meter system for postage charges. The postage meter has been programmed to identify the specific project or activity to charge costs against. Express mail costs are also specifically identified to the project or activity incurring the cost.

H. Photocopying and Printing

EO maintains a photocopy activity log. From this log, EO is able to prorate its photocopy expenses to each project based on the specific volume of copies made for each program. Administrative personnel will record copies made to the benefiting project to the maximum extent practical. In situations where the photocopies being made by administrative personnel cannot be identified to a specific project and the matter being copied relates to the activities of EO in general, the cost of such copies will be charged to the “Indirect Cost-Expense” account.

 Printing expenses are charged to the benefiting activity.

I. Outside Services

EO incurs outside services costs for its annual audit, legal fees, and for staff development specialists.

1. The cost of the annual audit is charged indirectly.

2. In general, legal fees are charged directly to the benefiting project or activity.

3. Legal fees not identifiable to specific direct projects are charged indirectly.

J. Capital Items

Capital expenditures are charged directly to projects only in cases where a contract or grant specifically authorizes such charges. No capital item is charged indirectly. The cost of capital items purchased with non-contract/grant funds is recovered through depreciation charges. EO’s capitalization threshold is $500.

K. Depreciation

The cost of capital items purchased with non-contract/grant funds used in a manner that benefits projects is recovered through depreciation charges. EO recovers the cost of capital items using straight line depreciation methods in accordance with generally accepted accounting principles. Depreciation is charged indirectly.

L. Unallowable Costs

EO recognizes that the costs listed below are unallowable charges to contracts/grants and has internal controls in place to insure that such costs are not charged to contracts/grants:

* Advertising and public relations
* Entertainment/alcoholic beverages
* Capital expenditures
* Bad debts
* Interest
* Lobbying and fund-raising

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| (Signature)  | (Date) |

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(Title)

Example Organization

(Address)