<u>Non-Profit Organizations</u>

Question # 1: Is the cost of <u>accrued</u> annual leave allowable under OMB Circular A-122?

Answer: Yes. The Financial Accounting Standards Board issued Financial Accounting Standard Number 43, <u>Accounting for Compensated Absences</u>, to establish uniformity in the accounting for annual leave pay. This standard requires employers to accrue during each accounting period the liability for compensated absences earned by employees during that period provided that all of the following conditions are met:

1. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employee's services already rendered;

2. The obligation relates to rights that vest or accumulate;

3. Payment of compensation is probable; and

4. The amount can be reasonably estimated.

The accrual of annual leave does not result in increased costs, but allows recognizing the cost in the proper accounting period to improve actual cost determination. In general, compensated absences are to be accrued in the period in which they are earned rather than when they are paid. For accrued leave to be an allowable cost, the personnel policies of the organization must comply with Financial Accounting Standard Number 43.

Question # 2: What is the difference between bid and proposal costs and fund raising costs? How should a grantee/contractor treat such costs in its indirect cost proposal?

Answer: Bid and proposal costs represent the salaries and wages and related expenses associated with an organization's preparation of bids, proposals and applications to perform specific tasks for remuneration under potential Federal and non-Federal grants, contracts or other agreements. An organization should treat bid and proposal expenses as allowable indirect costs subject to limitations imposed by the Cognizant Federal Agency.

Fund raising costs represent the salaries and wages and related expenses associated with an organization's activity to solicit gifts and donations from non sponsored sources such as private citizens' philanthropic organizations. Fund raising costs are unallowable for Federal reimbursement purposes. They should be treated as direct cost activity and allocated a proportional share of indirect costs.

Question # 3: Is prior Federal approval needed to directly charge the grant with the cost of equipment under $5,000 if a grantee has a policy to capitalize equipment over the $5,000 threshold specified in OMB Circular A-122?

Answer: No. The grantee is allowed to directly charge the Federal grant with the cost of equipment under the $5,000 capitalization threshold without obtaining prior Federal approval. This direct cost is usually classified as materials and supplies in the reporting of Federal grant expenditures and, if applicable, must be in compliance with any budget limitations and grant guidelines.

Question # 4: A grantee purchased a building in August, 1995 and refinanced the loan mortgage in September, 1998. Can the grantee charge Federal programs with the interest incurred on this new mortgage?

Answer: No. Interest on debt incurred to finance or re-finance assets acquired before or reacquired after September 29, 1995 is not allowable.

Question # 5: When is a grantee required to prepare a cash flow statement prior to claiming interest expense on Federal programs?

Answer: A cash flow statement is prepared on an annual basis for debt arrangements over $1 million, unless an initial equity contribution to the asset purchase equals 25% or more. A non-profit organization shall reduce claims for interest expense by an amount equal to imputed interest earnings on excess cash flow calculated in accordance with OMB Circular A-122, Paragraph 23.a.(6)(c).
