

**APPENDIX III to Part 200
Section D**

**SIMPLIFIED METHOD for SMALL INSTITUTIONS
SAMPLE INDIRECT (F&A) COST PROPOSAL FORMAT**

This Section illustrates the development of an indirect cost rate under the Simplified Method described in Section D. of Appendix III to Part 200 of 2 CFR. The illustration includes three schedules. Schedule 1 shows the expenditures in the institution's financial statements and the reclassifications commonly required to recast the data in the financial statements into the classifications needed to compute an indirect cost rate under the Simplified Method. There are two Schedule 2 illustrations. One Schedule 2 illustration utilizes a Salaries and Wages base, and the other Schedule 2 illustration utilizes a Modified Total Direct Cost base. Schedule 2 shows a number of additional adjustments to the data in the financial statements, the classification of the adjusted costs as direct or indirect, and the computation of the indirect cost rate. The reclassifications and adjustments shown in the schedules are explained in notes to the schedules.

ADDITIONAL OPTIONS:

- 2 CFR part 200.414 (f) states that any non-Federal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. 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.
- 2 CFR part 200.414 (g) states that any non-Federal entity that has a federally negotiated indirect cost rate may apply for a one-time extension of their current negotiated indirect cost rates for a period of up to four years. This extension will be 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 re-apply to negotiate a rate.

* The following information is requested for an extension of the current indirect cost rates:

A copy of your last audited financial statement and last A-133 audit report.

SAMPLE INDIRECT COST PROPOSAL FORMAT - SIMPLIFIED METHOD

Schedule 1

RECLASSIFICATION OF EXPENDITURES SHOWN IN FINANCIAL STATEMENTS

Expenditure Classifications (Note A)	Expenditures Per Fin. Stmts.			Reclassifications (Note B)			Reclassified Expenditures		
	Salaries & Wages	Other	Total	Salaries & Wages	Other	Total	Salaries & Wages	Other	Total
Instruction	\$ 7,300,000	\$ 1,600,000	\$ 8,900,000	\$ (180,000)	\$ (45,000)	\$ (225,000) (1)	\$ 7,120,000	\$ 1,555,000	\$ 8,675,000
Research	1,300,000	700,000	2,000,000				1,300,000	700,000	\$ 2,000,000
Public Service	300,000	200,000	500,000				300,000	200,000	\$ 500,000
Academic Support	800,000	300,000	1,100,000	(800,000)	(300,000)	(1,100,000) (2)			
Institutional Support	1,870,000	730,000	2,600,000	(1,870,000)	(730,000)	(2,600,000) (3)			
Student Services	1,300,000	750,000	2,050,000				1,300,000	750,000	\$ 2,050,000
Operation & Maintenance	600,000	2,000,000	2,600,000				600,000	2,000,000	\$ 2,600,000
Scholarships and Fellowships		1,200,000	1,200,000					1,200,000	\$ 1,200,000
Auxiliary Enterprises	1,800,000	2,250,000	4,050,000				1,800,000	2,250,000	\$ 4,050,000
General Admin. And General Services				270,000	110,000	380,000 (2)	270,000	110,000	\$ 380,000
				1,600,000	460,000	2,060,000 (3)	1,600,000	460,000	\$ 2,060,000
Library				250,000	100,000	350,000 (2)	250,000	100,000	\$ 350,000
Departmental Administration				180,000	45,000	225,000 (1)	180,000	45,000	\$ 225,000
				30,000	5,000	35,000 (2)	30,000	5,000	\$ 35,000
Computer Center				204,000	171,000	375,000 (3)	204,000	171,000	\$ 375,000
Other Direct Costs				250,000	85,000	335,000 (2)	250,000	85,000	\$ 335,000
				66,000	49,000	115,000 (3)	66,000	49,000	\$ 115,000
					50,000	50,000 (3)		50,000	\$ 50,000
Totals	\$ 15,270,000	\$ 9,730,000	\$ 25,000,000	\$ -	\$ -	\$ -	\$ 15,270,000	\$ 9,730,000	\$ 25,000,000

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SAMPLE INDIRECT COST PROPOSAL FORMAT – SIMPLIFIED METHOD

NOTES TO SCHEDULE 1

- A. The expenditure classifications shown in the financial statements conform to the classifications recommended in “College and University Business Administration” published by the National Association of College and University Business Officers and incorporated into the audit guide “Audits of Colleges and Universities” published by the American Institute of Certified Public Accountants.
- B. To compute an indirect cost rate under the simplified method in 2 CFR Part 200, a number of reclassifications are usually needed to recast the data in the financial statement into the classifications required by the Cost Principles. The reclassifications commonly required are shown in Schedule 1 and described more fully below.

1. Reclassification of Costs Classified As Instruction in Financial Statements

Cost Item	Cost Principles Classification	Cost Principles	Amount
-20% of the salaries and expenses of department heads	Departmental Administration	Appendix III, D.	\$ 225,000
Total Transfer from Instruction			\$ 225,000

2. Reclassification of Academic Support Costs

Cost Item	Cost Principles Classification	Cost Principles	Amount
-20% of the salaries and expenses of deans	Departmental Administration	Appendix III, D.	\$ 35,000
-Library expenses	Library	Appendix III, D.	\$ 350,000
-General Admin. in Academic Support	General Admin. And General Expenses	Appendix III, D.	\$ 380,000
-Other Academic Support Costs *	Direct Costs	**	\$ 335,000

SAMPLE INDIRECT COST PROPOSAL FORMAT – SIMPLIFIED METHOD

Total Transfers from Academic Support	\$1,100,000
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* These costs would include any Academic Support Costs which do not qualify as allowable indirect costs (e.g., museums and galleries, course and curriculum development, demonstration schools, audio-visual services, computer assisted instruction, etc.)

** The simplified method in Section D of Appendix III identifies the specific costs which are allowable as indirect costs and requires that all other costs be treated as direct costs. Therefore, any cost which does not qualify as an allowable indirect cost must be classified as a direct cost. In the interest of simplicity, all of these costs may be classified as “Other Direct Costs”.

3. Reclassification of Institutional Support Costs

Cost Item	Cost Principles Classification	Cost Principles	Amount
-Unallowable Activities*	Direct Costs		\$ 115,000
-Catalogs, commencements and convocations	Direct Costs		\$ 50,000
-Computer Center**	Computer Center	Part 200.468	\$ 375,000
-Other Institutional Support costs	General Admin. And General Expenses	Appendix III, D.	\$2,060,000
Total Transfers from Institutional Support			\$2,600,000

* “Unallowable activities” are activities whose costs are unallowable under 2 CFR Part 200.420 - Considerations for selected items of cost. Examples of these activities include fund raising, investment management, alumni activities, and public relations. The treatment of “unallowable activities” differs from the treatment of other unallowable costs (e.g. bad debt expense) in that the former includes the salaries of personnel and related costs

SAMPLE INDIRECT COST PROPOSAL FORMAT – SIMPLIFIED METHOD

which must be included in the salary and wage and MTDC distribution bases in the computation of the indirect cost rate, while the latter are excluded from the rate computation entirely. The elimination of unallowable costs is shown in Schedule 2.

** Computer centers are considered “specialized service facilities”. These facilities provide services to an institution’s activities. The costs of the center should be charged to direct or indirect cost activities based on the actual usage of the services.

In this illustration, the institution’s computer center cost exceeded the charges and are included in Institutional Support Costs. In order to properly establish the costs in Schedule 1, the computer center revenue is applied proportionately to the “salaries and wages” and “other costs” of the center. Based on the actual usage of the computer center, the actual cost is distributed between direct and indirect costs. The amounts shown in Schedule 1 were computed as follows:

	Salaries and Wages	Other Costs	Total
Gross Costs of Computer Center	\$ 434,000	\$ 364,000	\$ 798,000
Less Revenues (charges to institution activities; 65% was charged to Direct Activities and 35% to Indirect Activities)	(\$ 230,000)	(\$ 193,000)	(\$ 423,000)
Net Costs	\$ 204,000	\$ 171,000	\$ 375,000
Indirect Activities (such as GA and Library) Usage is 35% (based on charges)	\$ 71,000	\$ 60,000	\$ 131,000
Direct Activities (such as Instruction, Research and Student Services) Usage is 65%	\$ 133,000	\$ 111,000	\$ 244,000

**SAMPLE INDIRECT COST PROPOSAL FORMAT - SIMPLIFIED METHOD
ADJUSTMENTS AND RATE COMPUTATION
(Salary and Wage Base)**

Schedule 2

Expenditure Classifications	Reclassified Expenditures (From Schedule 1)			Adjustments		Direct Costs		Adjusted Costs			
	Salaries & Wages	Other	Total	Salaries & Wages	Other	Salaries & Wages	Other	Indirect Costs		Total Indirect Costs	Percentage %
								Salaries & Wages	Other		
Instruction	\$ 7,120,000	\$ 1,555,000	\$ 8,675,000	\$ (100,000) (A)	\$ (75,000) (B)	\$ 7,020,000	\$ 1,480,000				
Research	1,300,000	700,000	2,000,000	(16,000) (A)	(23,000) (B)	1,284,000	677,000				
Public Service	300,000	200,000	500,000	-	(60,000) (B)	300,000	140,000				
Student Services	1,300,000	750,000	2,050,000	-	(65,000) (B)	1,300,000	685,000				
Operation & Maintenance	600,000	2,000,000	2,600,000	-	(50,000) (B)			600,000	1,666,000	2,266,000	18.8%
				-	(8,000) (C)					-	
				-	(85,000) (D)					-	
				-	(191,000) (E)					-	
Scholarships and Fellowships	-	1,200,000	1,200,000	-	(1,200,000) (B)	-	-			-	
Auxiliary Enterprises	1,800,000	2,250,000	4,050,000	(125,000) (A)	(1,131,000) (E)	1,675,000	1,310,000			-	
					191,000 (E)						
General Admin. And General Services	1,870,000	570,000	2,440,000	(40,000) (A)	(45,000) (B)			1,830,000	511,000	2,341,000	19.5%
				-	(14,000) (C)					-	
Library	250,000	100,000	350,000	-	(16,000) (B)			250,000	51,000	301,000	2.5%
					(3,000) (C)					-	
					(30,000) (F)					-	
Departmental Administration	210,000	50,000	260,000	-	-			210,000	50,000	260,000	2.2%
Computer Center	204,000	171,000	375,000	-	-	133,000	111,000	71,000	60,000	131,000	1.1%
Other Direct Costs	316,000	184,000	500,000	-	(55,000) (B)	316,000	83,000			-	
				-	(46,000) (C)					-	
Interest Cost	-	-	-	-	165,000 (G)				165,000	165,000	1.4%
Bldg. & Improvements	-	-	-	-	790,000 (G)			-	790,000	790,000	6.6%
Equipment	-	-	-	-	185,000 (G)			-	185,000	185,000	1.5%
Totals	\$ 15,270,000	\$ 9,730,000	\$ 25,000,000	\$ (281,000)	\$ (1,766,000)	\$ 12,028,000	\$ 4,486,000	\$ 2,961,000	\$ 3,478,000	6,439,000	53.5%

INDIRECT COST RATE COMPUTATION

Indirect Costs		
Salaries & Wages	\$ 2,961,000	
Other	<u>3,478,000</u>	
Total Indirect Costs	<u>\$ 6,439,000</u>	
		Indirect Cost Rate: <u>\$ 6,439,000</u>
		<u>\$ 12,028,000</u>
Direct Salaries & Wages	<u>\$ 12,028,000 (H)</u>	<u>53.5%</u>

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SAMPLE INDIRECT COST PROPOSAL FORMAT - SIMPLIFIED METHOD
 ADJUSTMENTS AND RATE COMPUTATION
 (MTDC Base)

Expenditure Classifications	Reclassified Expenditures (From Schedule 1)			Adjustments		Direct Costs		Adjusted Costs			
	Salaries & Wages	Other	Total	Salaries & Wages	Other	Salaries & Wages	Other	Salaries & Wages	Other	Total Indirect Costs	Percentage %
Instruction	\$ 7,120,000	\$ 1,555,000	\$ 8,675,000	\$ (100,000) (A)	\$ (75,000) (B)	\$ 7,020,000	\$ 1,480,000				
Research	1,300,000	700,000	2,000,000	(16,000) (A)	(23,000) (B)	1,284,000	677,000				
Public Service	300,000	200,000	500,000	-	(60,000) (B)	300,000	140,000				
Student Services	1,300,000	750,000	2,050,000	-	(65,000) (B)	1,300,000	685,000				
Operation & Maintenance	600,000	2,000,000	2,600,000	-	(50,000) (B)			600,000	1,666,000	2,266,000	13.7%
				-	(8,000) (C)						
				-	(85,000) (D)						
				-	(191,000) (E)						
Scholarships and Fellowships	-	1,200,000	1,200,000	-	(1,200,000) (B)	-	-				
Auxiliary Enterprises	1,800,000	2,250,000	4,050,000	(125,000) (A)	(1,131,000) (E)	1,675,000	1,310,000				
					191,000 (E)						
General Admin. And General Services	1,870,000	570,000	2,440,000	(40,000) (A)	(45,000) (B)			1,830,000	511,000	2,341,000	14.2%
				-	(14,000) (C)						
Library	250,000	100,000	350,000	-	(16,000) (B)			250,000	51,000	301,000	1.8%
					(3,000) (C)						
					(30,000) (F)						
Departmental Administration	210,000	50,000	260,000	-	-			210,000	50,000	260,000	1.6%
Computer Center	204,000	171,000	375,000		-	133,000	111,000	71,000	60,000	131,000	0.8%
Other Direct Costs	316,000	184,000	500,000	-	(55,000) (B)	316,000	83,000				
				-	(46,000) (C)						
Interest Cost	-	-	-	-	165,000 (G)				165,000	165,000	1.0%
Bldg. & Improvements	-	-	-	-	790,000 (G)			-	790,000	790,000	4.8%
Equipment	-	-	-	-	185,000 (G)			-	185,000	185,000	1.1%
Totals	\$ 15,270,000	\$ 9,730,000	\$ 25,000,000	\$ (281,000)	\$ (1,766,000)	\$ 12,028,000	\$ 4,486,000	\$ 2,961,000	\$ 3,478,000	6,439,000	39.0%

INDIRECT COST RATE COMPUTATION

Indirect Costs:		
Salaries & Wages	\$ 2,961,000	
Other	3,478,000	
Total Indirect Costs	<u>\$ 6,439,000</u>	
Direct Costs:		
Salaries & Wages	\$ 12,028,000	
Other	4,486,000	
MTDC	<u>\$ 16,514,000 (H)</u>	
		Indirect Cost Rate: <u>\$ 6,439,000</u> <u>\$ 16,514,000</u>
		39.0%

SAMPLE INDIRECT COST PROPOSAL FORMAT – SIMPLIFIED METHOD

NOTES TO SCHEDULE 2

A. Under the College Work Study Program, students may work in a number of activities at an institution. The wages paid to these students are usually included in the costs of the activities in which the students work. These wages should be treated in the following manner for purposes of computing indirect cost rates:

1. The Federal share of the wages (80%) should be eliminated from the computation.
2. The institution's share of the wages (20%) should be treated as follows:
 - If the work was performed in an indirect cost activity, the wages should be included in the appropriate indirect cost category.
 - If the work was performed on a sponsored agreement and the wages charged to the agreement, the wages should be included in the direct salary and wage base.
 - If the work was performed in a non-sponsored direct cost activity, the wages may be eliminated from the computation.

In the illustration, the students worked in instruction, research, auxiliary enterprises, and general administration (e.g. accounting office, personnel office, etc.) The exclusions shown in Schedule 2 for these wages are detailed below:

Activity	Federal Share	Institution's Share	Amount	Exclusions
Instruction (non-sponsored)	\$ 80,000	\$ 20,000	\$ 100,000	\$ 100,000
Research (sponsored)	\$ 16,000	\$ 4,000	\$ 20,000	\$ 16,000
Auxiliary Enterprises	\$ 100,000	\$ 25,000	\$ 125,000	\$ 125,000
General Admin.	\$ 40,000	\$ 10,000	\$ 50,000	\$ 40,000
TOTAL	\$ 236,000	\$ 59,000	\$ 295,000	\$ 281,000

SAMPLE INDIRECT COST PROPOSAL FORMAT – SIMPLIFIED METHOD

- B. These adjustments eliminate capital expenditures and other unallowable costs identified in 2 CFR Part 200.420 – “Considerations for selected items of cost” from the direct cost base and indirect cost pools. Capital expenditures include expenditures for land, buildings, equipment, and improvements which materially increase the value or useful life of land, buildings, and equipment (regardless of whether the improvements were made by outside contractors or the institution’s staff.) Examples of other unallowable costs include scholarships, interest expense (except interest expense associated with building construction and renovations and purchases of equipment), entertainment expense, bad debts and allowances for doubtful accounts, fines and penalties, losses on the disposition of capital assets, and losses on sponsored agreements.
- C. These adjustments reduce the costs reflected in the financial statements for “applicable credits” (e.g., purchase discounts, rebates and allowances, adjustments for overpayments or erroneous charges, etc.) as required by 2 CFR Part 200.406. “Applicable credits” also include income generated by employee morale, health and welfare services (e.g., health services, parking services, etc.) unless the income is irrevocably sent over to employee welfare organizations.
- D. In this illustration, the institution charged certain types of O&M expenses directly to sponsored agreements, but not to non-sponsored activities which received the same services. 2 CFR 200.413(a) requires that costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs. To meet this requirement and avoid an over-allocation of O&M expenses to sponsored agreements, an adjustment has been made to reduce O&M expenses by the approximate amount of expenses attributable to non-sponsored activities which are equivalent to those charged directly to sponsored agreements.
- E. Paragraphs 2.b.(2) and 3.b.(2) of Appendix III to Part 200 section D. require an adjustment to eliminate Operation and Maintenance (O&M) expenses attributable to “other institutional activities”. This adjustment should be based on a cost analysis study, a gross square footage ratio, or some other reasonable method.

In some cases, an allocation of O&M expenses to “other institutional activities” may be reflected in the institution’s financial statements. If this has been done, and if the amount allocated is a reasonable approximation of the actual O&M expenses attributable to the activities, an additional adjustment to the O&M indirect cost pool is not necessary.

If an allocation of O&M expenses to “other institutional activities” is not reflected in the financial statements, or if the amount allocated is not a reasonable approximation of the actual O&M expenses attributable to the activities, the following adjustments are necessary:

SAMPLE INDIRECT COST PROPOSAL FORMAT – SIMPLIFIED METHOD

- The proper amount of O&M expenses attributable to the activities should be computed and this amount should be removed from the pool.

In this illustration, it has been assumed that the O&M expenses allocated to “other institutional activities (OIA)” in the financial statements are not a reasonable approximation of the actual O&M expenses attributable to the activities. Therefore, the following adjustments have been made:

- The proper amount of O&M expenses attributable to the activities has been computed and an additional \$191,000 has been removed from the O&M pool.

	Total Campus	OIA / Auxiliary	Percent
Allowable O&M per proposal	\$ 2,457,000	-	-
O&M included in OIA or Auxiliary Enterprises	-	\$ 940,000	27.7%
Total Allocable O&M	\$ 3,397,000		-
Square Footage	1,500,000 sq.	500,000 sq.	33.3%
Allocate to OIA / Auxiliary	-	\$ 1,131,000	33.3%
Difference that gets allocated to OIA / Auxiliary	\$ (191,000)	\$ 191,000	

- F. This adjustment removes rare (museum-type) books and costs paid by a Federal library assistance grant from library expenses. Rare book purchases must be excluded from allowable library expenses under Section B.8.a. of Appendix III of Part 200. The adjustment for costs paid by the library assistance grant is necessary to preclude duplicative reimbursement of the costs.

SAMPLE INDIRECT COST PROPOSAL FORMAT – SIMPLIFIED METHOD

G. Under paragraphs 2.b.(2) and 3.b.(2) of Appendix III to Part 200 section D., depreciation on buildings, equipment and capital improvements may be included in indirect costs. In Part 200.449, interest costs are allowable to the extent that the expense is associated with building construction and renovations and purchases of equipment. These costs, however, must be adjusted to eliminate depreciation and interest on assets used by “other institutional activities”. In many cases, the assets used by these activities can be readily identified and, in these cases, the adjustment should be made on that basis. If the assets cannot be readily identified, the adjustment should be based on a cost analysis study, a square footage ratio, or some other reasonable method. For purposes of this illustration, the allowable amount of depreciation and interest has been computed as follows:

	Acquisition Costs – Buildings	Acquisition Costs – Equipment	Acquisition Costs – Interest Expense
Acquisition Costs Per Financial Statements	\$ 59,290,000	\$ 3,830,000	\$ 300,000
Less Adjustments For:			
Other Institutional Activities			
Dormitories	\$ 3,700,000	\$ 200,000	\$ 50,000
Cafeteria	\$ 1,035,000	\$ 290,000	\$ 15,000
Bookstore	\$ 60,000	\$ 14,000	
Museum	\$ 1,200,000	\$ 164,000	
Other	\$ 2,991,000	\$ 320,000	\$ 25,000
Buildings Under Construction	\$ 5,344,000		\$ 45,000
Federally Financed Assets	\$ 3,960,000	\$ 890,000	
Unused Equipment		\$ 102,000	
Unused Buildings	\$ 1,500,000		
Amount of Allowable Interest			\$ 165,000
Amount Subject to Depreciation	\$ 39,500,000	\$ 1,850,000	
Straight Line Depreciation – Average Useful Life	50 years	10 years	
Total Depreciation/Interest Expense	\$ 790,000	\$ 185,000	\$ 165,000

SAMPLE INDIRECT COST PROPOSAL FORMAT – SIMPLIFIED METHOD

- H. The direct salary and wage base example excludes fringe benefits. If fringe benefits are treated as direct costs, they may be included in the direct salary and wage base. The type of base used must be reflected in the negotiated rate agreement.
- I. The rate of 53.5% on a salary and wage basis developed in the sample format is applicable to all direct salaries and wages of the institution. The rate of 39.0% on an MTDC basis developed in the sample format is applicable to all programs of the institution on an MTDC basis. Although either rate basis may be proposed, it is recommended that once a negotiated rate agreement is established then the same rate basis be used in subsequent rate proposals unless a change to the rate basis is approved in advance by the cognizant agency for indirect costs.

Generally, off-campus rates should be negotiated with institutions that use the simplified method. The rate should be developed in a manner similar to the development of a “regular” rate, except that it should exclude depreciation, interest, O&M expenses and libraries expenses.

COMPUTATION OF OFF-CAMPUS RATE

Indirect Costs Per Schedule 2				\$ 6,439,000
	S&W	Other	Total	
Less:				
Depreciation	\$ -0-	\$ 975,000	\$ 975,000	
Interest Expense	\$ -0-	\$ 165,000	\$ 165,000	
O&M Expenses	\$ 600,000	\$ 1,666,000	\$ 2,266,000	
Library Expenses	\$ 250,000	\$ 51,000	\$ 301,000	
Subtotal	\$ 850,000	\$ 2,857,000	\$ 3,707,000	(\$ 3,707,000)
Indirect Cost Applicable to Off-Campus Projects				\$ 2,732,000 (a)
Direct Salaries and Wages Basis				\$ 12,028,000 (b)
Off-Campus Rate on S&W Basis (a) / (b)				22.7%
Indirect Cost Applicable to Off-Campus Projects				\$ 2,732,000 (a)
MTDC Basis				\$ 16,514,000 (b)
Off-Campus Rate on MTDC Basis (a) / (b)				16.5%