



Uniform Grant Guidance for Nonprofits: Personal Services and Fringe Benefits

Nonprofit organizations applying for and receiving federal grants and cooperative agreements are in for some significant reforms that promise to increase competition for grant funds, add new administrative processes, change long-established principles, and impact the audits of organizations receiving federal funding. The Office of Management and Budget's 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, commonly known as the Uniform Guidance (UG) and previously referred to as the Super Circular or Omni Circular, will apply to new awards and to additional funding (or funding increments) to existing awards made after December 26, 2014.

At more than 100 pages long, the new guidance includes sweeping changes to the processes of applying for, managing, and auditing federal grants and cooperative agreements.

This white paper compares the requirements under the UG to the current requirements under OMB Circular A-122, Cost Principles for Nonprofit Organizations, in the area of compensation for personal services and fringe benefits, and offers insight into what the changes will mean for nonprofit organizations.

Changes to the administrative rules for federal grants take effect December 26, 2014. It is important that nonprofit organizations review these changes to stay in compliance.

Personal services and fringe benefits

Current guidance in OMB Circular A-122 governs how compensation for personal services and fringe benefits can be treated by organizations that are charging a portion of the costs to a grant, contract, or other agreement with the federal government.

The guidance includes some significant changes in time and effort reporting, which are defined in the “Standards for documentation of personnel expenses” and “Budget estimates” sections of the comparison that follows.

Under Circular A-122, employees who work on federal programs are required to report an after-the-fact determination of their activity. Budget estimates do not qualify as support for charges to awards, and each report must account for the total activity for which employees are compensated.

Under the UG, budget estimates may be used for interim accounting purposes, as long as controls are in place and include processes to review after-the-fact interim charges made to a federal award based on those budget estimates, and appropriate adjustments are made.

Time and effort reporting

In addition, the OMB has clarified and expanded guidance in multiple areas, including professional activities outside the entity and post-retirement health plans. It is important that organizations review these changes to stay in compliance.

The new guidance also allows federal agencies to approve alternative accounting methods for salaries and wages based on the achievement of performance outcomes. This includes areas that blend funding from multiple programs to achieve a more efficient combined outcome. See “Performance plan alternatives” for a detailed description.

Compensation — Personal Services	Uniform Guidance § 200.430	Cost Circular A-122 8. Compensation for Personal Services	What it means for nonprofits
<p>Definition of compensation and allowability</p>	<p>(a) Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits.</p> <p>Costs of compensation are allowable to the extent:</p> <ul style="list-style-type: none"> (i) Is reasonable for the services rendered and conforms to the established written policy of the nonfederal entity consistently applied to both federal and nonfederal activities (ii) Follows an appointment made in accordance with a nonfederal entity's laws and/or rules or written policies and meets the requirements of federal statute, where applicable (iii) Is determined and supported as provided in paragraph (i), Standards for Documentation of Personnel Expenses, when applicable. 	<p>a. Compensation for personal services includes all compensation paid currently or accrued by the organization for services of employees rendered during the period of the award (except as otherwise provided in subparagraph h). It includes, but is not limited to, salaries, wages, director's and executive committee member's fees, incentive awards, fringe benefits, pension plan costs, allowances for off-site pay, incentive pay, location allowances, hardship pay, and cost of living differentials.</p> <p>b. Except as otherwise specifically provided in this paragraph, the costs of such compensation are allowable to the extent that:</p> <ul style="list-style-type: none"> (1) Total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both federal and nonfederal activities; and (2) Charges to awards whether treated as direct or indirect costs are determined and supported as required in this paragraph. <p>f. Premiums for overtime, extra-pay shifts, and multi-shift work are allowable only with the prior approval of the awarding agency except:</p> <ul style="list-style-type: none"> (1) When necessary to cope with emergencies, such as those resulting from accidents, natural disasters, breakdowns of equipment, or occasional operational bottlenecks of a sporadic nature. (2) When employees are performing indirect functions, such as administration, maintenance, or accounting. (3) In the performance of tests, laboratory procedures, or other similar operations which are continuous in nature and cannot reasonably be interrupted or otherwise completed. (4) When lower overall cost to the federal government will result 	<p>The new guidance removes the "director's and executive committee member's fees, incentive awards, pension plan costs, allowances for off-site pay, incentive pay, location allowances, hardship pay, and cost of living differentials" from the definition of compensation. However, this does not mean that they are unallowable and are discussed further in other sections of this guidance.</p> <p>The new guidance removes the requirement that premiums for overtime, extra-pay shifts, and multi-shift work need the prior approval of the awarding agency.</p>

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Reasonableness	<p>(b) Compensation for employees engaged in work on federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the nonfederal entity. In cases where the kinds of employees required for federal awards are not found in the other activities of the nonfederal entity, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the nonfederal entity competes for the kind of employees involved.</p> <p>(g) For compensation to members of nonprofit organizations, trustees, directors, associates, officers, or the immediate families thereof, determination should be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs. This may include director's and executive committee member's fees, incentive awards, allowances for off-site pay, incentive pay, location allowances, hardship pay, and cost-of-living differentials.</p>	<p>c. (1) When the organization is predominantly engaged in activities other than those sponsored by the federal government, compensation for employees on federally sponsored work will be considered reasonable to the extent that it is consistent with that paid for similar work in the organization's other activities.</p> <p>c. (2) When the organization is predominantly engaged in federally sponsored activities, and in cases where the kind of employees required for the federal activities are not found in the organization's other activities, compensation for employees on federally sponsored work will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.</p> <p>d. Certain conditions require special consideration and possible limitations in determining costs under federal awards where amounts or types of compensation appear unreasonable. Among such conditions are the following:</p> <p>(1) Compensation to members of nonprofit organizations, trustees, directors, associates, officers, or the immediate families thereof. Determination should be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs.</p>	<p>The new guidance states that director's and executive committee member's fees, incentive awards, allowances for off-site pay, incentive pay, location allowances, hardship pay, and cost-of-living differentials should be determined to be reasonable for the actual personal services rendered.</p>
Professional activities outside of the nonfederal entity	<p>(c) Unless an arrangement is specifically authorized by a federal awarding agency, a nonfederal entity must follow its written nonfederal, entity-wide policies and practices concerning the permissible extent of professional services that can be provided outside the nonfederal entity for nonorganizational compensation. Where such nonfederal, entity-wide written policies do not exist or do not adequately define the permissible extent of consulting or other nonorganizational activities undertaken for extra outside pay, the federal government may require that the effort of professional staff working on federal awards be allocated between:</p> <p>(1) Nonfederal entity activities, and</p> <p>(2) Nonorganizational professional activities. If the federal awarding agency considers the extent of nonorganizational professional effort excessive or inconsistent with the conflicts-of-interest terms and conditions of the federal award, appropriate arrangements governing compensation will be negotiated on a case-by-case basis.</p>	<p>Does not address professional activities outside of the nonfederal entity.</p>	<p>The old guidance did not address this issue, so this is an area that you should give attention to if your organization has employees that provide professional services outside of the entity.</p>
Unallowable costs	<p>(d) (1) Costs that are not allowed under other sections of these principles must not be allowable under this section solely on the basis that they constitute personnel compensation.</p> <p>(2) The allowable compensation for certain employees is subject to a ceiling in accordance with statute. For the amount of the ceiling for cost-reimbursement contracts, the covered compensation subject to the ceiling, the covered employees, and other relevant provisions, see 10 U.S.C. 2324(e)(1)(P), and 41 U.S.C. 1127 and 4304(a)(16). For other types of federal awards, other statutory ceilings may apply.</p>	<p>e. Costs that are not allowed under other paragraphs shall not be allowed under this paragraph solely on the basis that they constitute personal compensation.</p>	<p>The new guidance says that personnel costs for certain employees are subject to a statutory ceiling, including employees that are reimbursed under defense contracts.</p>

Compensation — Personal Services	Uniform Guidance § 200.430	Cost Circular A-122 8. Compensation for Personal Services	What it means for nonprofits
Special considerations	(e) Special consideration in determining allowability of compensation will be given to any change in a nonfederal entity's compensation policy resulting in a substantial increase in its employees' level of compensation (particularly when the change was concurrent with an increase in the ratio of federal awards to other activities) or any change in the treatment of allowability of specific types of compensation due to changes in federal policy.	d.(2) Any change in an organization's compensation policy resulting in a substantial increase in the organization's level of compensation, particularly when it was concurrent with an increase in the ratio of federal awards to other activities of the organization or any change in the treatment of allowability of specific types of compensation due to changes in federal policy.	No significant differences in the new guidance.
Incentive compensation	(f) Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the nonfederal entity and the employees before the services were rendered, or pursuant to an established plan followed by the nonfederal entity so consistently as to imply, in effect, an agreement to make such payment.	j. Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., are allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the organization and the employees before the services were rendered, or pursuant to an established plan followed by the organization so consistently as to imply, in effect, an agreement to make such payment.	No significant differences in the new guidance.

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<p>Standards for documentation of personnel expenses</p>	<p>(i)(1) Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:</p> <ul style="list-style-type: none"> (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) Be incorporated into the official records of the nonfederal entity; (iii) Reasonably reflect the total activity for which the employee is compensated by the nonfederal entity, not exceeding 100 percent of compensated activities; (iv) Encompass both federally assisted and all other activities compensated by the nonfederal entity on an integrated basis, but may include the use of subsidiary records as defined in the nonfederal entity's written policy; (v) Comply with the established accounting policies and practices of the nonfederal entity; (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and nonfederal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. <p>(ix) Because practices vary as to the activity constituting a full workload, records may reflect categories of activities expressed as a percentage distribution of total activities.</p> <p>(2) For records that meet the standards required in paragraph (i)(1) of this section, the nonfederal entity will not be required to provide additional support or documentation for the work performed.</p>	<p>m. Support of salaries and wages.</p> <p>(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports except when a substitute system has been approved in writing by the cognizant agency.</p> <p>(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part time in indirect cost activities and part time in a direct function). Reports maintained by nonprofit organizations to satisfy these requirements must meet the following standards:</p> <ul style="list-style-type: none"> (a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards. (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization. (c) The reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. (d) The reports must be prepared at least monthly and must coincide with one or more pay periods. 	<p>This is an example where the Uniform Guidance reduces administrative burden and risk of waste, fraud, and abuse by focusing on performance over compliance for accountability. It does this by streamlining reporting requirements for salaries and wages to focus on high standards for internal controls, with flexibility for nonfederal entities in how they meet the standards. Circular A-122 required employees to have after-the-fact personnel activity reports, including the total activity of the employee, prepared on an at least a monthly basis to support personnel charges. The new guidance is less prescriptive on documentation and places more emphasis on internal control.</p>

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Budget estimate	(j)(1)(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to federal awards, but may be used for interim accounting purposes, provided that: (A) The system for establishing the estimates produces reasonable approximations of the activity actually performed; (B) Significant changes in the corresponding work activity (as defined by the nonfederal entity's written policies) are identified and entered into the records in a timely manner. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and (C) The nonfederal entity's system of internal controls includes processes to review after-the-fact interim charges made to a federal award based on budget estimates. All necessary adjustment must be made such that the final amount charged to the federal award is accurate, allowable, and properly allocated.	Does not allow budget estimates.	Budget estimates may be used for interim accounting purposes as long as the organization has a good internal control system that includes reviewing after-the-fact interim charges made based on the estimates. In addition, the new guidance states that a system and process needs to be in place to show that any adjustments were made to “true up” the difference between the estimate and what should be charged to the grant based on actual time spent.
Nonexempt employees	(j)(3) In accordance with Department of Labor regulations implementing the <i>Fair Labor Standards Act</i> (FLSA) (29 CFR part 516), charges for the salaries and wages of nonexempt employees, in addition to the supporting documentation described in this section, must also be supported by records indicating the total number of hours worked each day.	(3) Charges for the salaries and wages of nonprofessional employees must also be supported by records indicating the total number of hours worked each day maintained in conformance with Department of Labor regulations implementing the <i>Fair Labor Standards Act</i> (FLSA) (29 CFR Part 516). For this purpose, the term “nonprofessional employee” shall have the same meaning as “nonexempt employee,” under FLSA.	No significant differences in the new guidance.
Cost sharing or matching	(j)(4) Salaries and wages of employees used in meeting cost-sharing or matching requirements on federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from federal awards.	(4) Salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.	No significant differences in the new guidance.
Personal performance alternatives	(i)(6) Cognizant agencies for indirect costs are encouraged to approve alternative proposals based on outcomes and milestones for program performance where these are clearly documented. Where approved by the federal cognizant agency for indirect costs, these plans are acceptable as an alternative to the requirements of paragraph (i)(1) of this section. (i)(7) For federal awards of similar purpose activity or instances of approved blended funding, a nonfederal entity may submit performance plans that incorporate funds from multiple federal awards and account for their combined use based on performance-oriented metrics, provided that such plans are approved in advance by all involved federal awarding agencies. In these instances, the nonfederal entity must submit a request for waiver of the requirements based on documentation that describes the method of charging costs, relates the charging of costs to the specific activity that is applicable to all fund sources, and is based on quantifiable measures of the activity in relation to time charged.	Does not address personal performance alternatives.	The old guidance did not include these alternatives. This is an example where the Uniform Guidance reduces administrative burden and risk of waste, fraud, and abuse by focusing on performance over compliance for accountability.

Compensation — Fringe Benefits	Uniform Guidance § 200.430	Cost Circular A-122 8. Compensation for Personal Services	What it means for nonprofits
Definition of fringe benefits and allowability	(a) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick, or military), employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable provided that the benefits are reasonable and are required by law, nonfederal entity-employee agreement, or an established policy of the nonfederal entity.	Does not define fringe benefits any further than in g. (1) and g.(2) below.	The old guidance did not define allowability of fringe benefits separately from compensation. New guidance clarifies and states that they must be reasonable.
Leave	(b) Leave. The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable if all of the following criteria are met: (1) They are provided under established written leave policies; (2) The costs are equitably allocated to all related activities, including federal awards; and, (3) The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the nonfederal entity or specified grouping of employees. (i) When a nonfederal entity uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable as indirect costs in the year of payment. (ii) The accrual basis may only be used for those types of leave for which a liability as defined by generally accepted accounting principles (GAAP) exists when the leave is earned. When a nonfederal entity uses the accrual basis of accounting, allowable leave costs are the lesser of the amount accrued or funded.	g. (1) Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave, sick leave, military leave, and the like, are allowable, provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each.	The new guidance clarifies that annual, family-related, holiday, court, and administrative leave are all allowable. It also is expanded to state that they are only allowable if they are provided under established written leave policies, and that the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed.
Other fringe benefits	(c) The cost of fringe benefits in the form of employer contributions or expenses for Social Security; employee life, health, unemployment, and worker’s compensation insurance; pension plan costs; and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, must be allocated to federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such federal awards and other activities, and charged as direct or indirect costs in accordance with the nonfederal entity’s accounting practices.	g. (2) Fringe benefits in the form of employer contributions or expenses for Social Security, employee insurance, workmen’s compensation insurance, pension plan costs (see subparagraph h), and the like, are allowable, provided such benefits are granted in accordance with established written organization policies. Such benefits, whether treated as indirect costs or as direct costs, shall be distributed to particular awards and other activities in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such awards and other activities.	New guidance expands “employee insurance, workmen’s compensation insurance” to “employee life, health, unemployment, and worker’s compensation insurance.”
Assigned-to-cost objectives	(d) Fringe benefits may be assigned to cost objectives by identifying specific benefits to specific individual employees or by allocating on the basis of entity-wide salaries and wages of the employees receiving the benefits. When the allocation method is used, separate allocations must be made to selective groupings of employees, unless the nonfederal entity demonstrates that costs in relationship to salaries and wages do not differ significantly for different groups of employees.	Does not address assigned-to-cost objectives.	The old guidance did not address how fringe benefits should be assigned to cost objectives. However, it has always been in practice. The new guidance clarifies that fringe benefits may be assigned to cost objectives by either identifying with either individual employees or allocating to groupings of individuals.

Compensation — Fringe Benefits	Uniform Guidance § 200.430	Cost Circular A-122 8. Compensation for Personal Services	What it means for nonprofits
Insurance	<p>(e) (1) Provisions for a reserve under a self-insurance program for unemployment compensation or workers' compensation are allowable to the extent that the provisions represent reasonable estimates of the liabilities for such compensation, and the types of coverage, extent of coverage, and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities which do not become payable for more than one year after the provision is made must not exceed the present value of the liability.</p> <p>(2) Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility are allowable only to the extent that the insurance represents additional compensation. The costs of such insurance when the nonfederal entity is named as beneficiary are unallowable.</p> <p>(3) Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, severance pay, and similar employee benefits (e.g., post-retirement health benefits), are allowable in the year of payment provided that the nonfederal entity follows a consistent costing policy and they are allocated as indirect costs.</p>	<p>g. (3) (a) Provisions for a reserve under a self-insurance program for unemployment compensation or workers' compensation are allowable to the extent that the provisions represent reasonable estimates of the liabilities for such compensation, and the types of coverage, extent of coverage, and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities which do not become payable for more than one year after the provision is made shall not exceed the present value of the liability.</p> <p>g. (4) Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility are allowable only to the extent that the insurance represents additional compensation. The costs of such insurance when the organization is named as beneficiary are unallowable.</p> <p>g.(3) (b) Where an organization follows a consistent policy of expensing actual payments to, or on behalf of, employees or former employees for unemployment compensation or workers' compensation, such payments are allowable in the year of payment with the prior approval of the awarding agency, provided they are allocated to all activities of the organization.</p>	No significant differences in the new guidance.
Automobiles	<p>(f) That portion of automobile costs furnished by the entity that relates to personal use by employees (including transportation to and from work) is not allowed as a fringe benefit or indirect (facilities and administration) costs regardless of whether the cost is reported as taxable income to the employees.</p>	<p>h. That portion of the cost of organization-furnished automobiles that relates to personal use by employees (including transportation to and from work) is not allowed as a fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees. These costs are allowable as direct costs to sponsored award when necessary for the performance of the sponsored award and approved by awarding agencies.</p>	The new guidance removes the statement that "these costs are allowable as direct costs to sponsored award when necessary for the performance of the sponsored award and approved by awarding agencies." See §200.474 of the UG for a description of allowable travel costs, including transportation.

Compensation — Fringe Benefits	Uniform Guidance § 200.430	Cost Circular A-122 8. Compensation for Personal Services	What it means for nonprofits
<p>Pension plan costs</p>	<p>(g) Pension plan costs that are incurred in accordance with the established policies of the nonfederal entity are allowable, provided that:</p> <p>(1) Such policies meet the test of reasonableness.</p> <p>(2) The methods of cost allocation are not discriminatory.</p> <p>(3) For entities using accrual-based accounting, the cost assigned to each fiscal year is determined in accordance with GAAP.</p> <p>(4) The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 calendar days after each quarter of the year to which such costs are assignable are unallowable. Nonfederal entity may elect to follow the “Cost Accounting Standard for Composition and Measurement of Pension Costs” (48 CFR 9904.412).</p> <p>(5) Pension plan termination insurance premiums paid pursuant to the <i>Employee Retirement Income Security Act</i> (ERISA) of 1974 (29 U.S.C. 1301-1461) are allowable. Late payment charges on such premiums are unallowable. Excise taxes on accumulated funding deficiencies and other penalties imposed under ERISA are unallowable.</p> <p>(6) Pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the nonfederal entity.</p> <p>(i) For pension plans financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.</p> <p>(ii) Pension costs calculated using an actuarial cost-based method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency for indirect costs) are allowable in the year funded. The cognizant agency for indirect costs may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the federal government and related federal reimbursement and the nonfederal entity’s contribution to the pension fund. Adjustments may be made by cash refund or other equitable procedures to compensate the federal government for the time value of federal reimbursements in excess of contributions to the pension fund.</p> <p>(iii) Amounts funded by the nonfederal entity in excess of the actuarially determined amount for a fiscal year may be used as the nonfederal entity’s contribution in future periods.</p> <p>(iv) When a nonfederal entity converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion is allowable if amortized over a period of years in accordance with GAAP.</p> <p>(v) The federal government must receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the nonfederal entity in the form of a refund, withdrawal, or other credit.</p>	<p>i. (1) Costs of the organization’s pension plan that are incurred in accordance with the established policies of the organization are allowable, provided:</p> <p>(a) Such policies meet the test of reasonableness;</p> <p>(b) The methods of cost allocation are not discriminatory;</p> <p>(c) The cost assigned to each fiscal year is determined in accordance with GAAP, as prescribed in Accounting Principles Board Opinion No. 8 issued by the American Institute of Certified Public Accountants; and</p> <p>(d) The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 days after each quarter of the year to which such costs are assignable are unallowable.</p> <p>(2) Pension plan termination insurance premiums paid pursuant to the <i>Employee Retirement Income Security Act</i> (ERISA) of 1974 (Pub. L. 93-406) are allowable. Late payment charges on such premiums are unallowable.</p> <p>(3) Excise taxes on accumulated funding deficiencies and other penalties imposed under ERISA are unallowable.</p>	<p>The new guidance says that pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the nonfederal entity. This generally only affects the government entity’s subindustry and was included in Cost Circular A-87. It is now included since the UG covers cost principles for all nonfederal entities.</p>

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Postretirement health plans	<p>(h) Postretirement health plans (PRHP) refers to costs of health insurance or health services not included in a pension plan covered by paragraph (g) of this section for retirees and their spouses, dependents, and survivors. PRHP costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the nonfederal entity.</p> <p>(1) For PRHP financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.</p> <p>(2) PRHP costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The federal cognizant agency for indirect costs may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the federal government and related federal reimbursements and the nonfederal entity's contributions to the PRHP fund. Adjustments may be made by cash refund, reduction in the current year's PRHP costs, or other equitable procedures to compensate the federal government for the time value of federal reimbursements in excess of contributions to the PRHP fund.</p> <p>(3) Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the federal government's contribution in a future period.</p> <p>(4) When a nonfederal entity converts to an acceptable actuarial cost method and funds PRHP costs in accordance with this method, the initial unfunded liability attributable to prior years is allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency for indirect costs.</p> <p>(5) To be allowable in the current year, the PRHP costs must be paid either to:</p> <ul style="list-style-type: none"> (i) An insurer or other benefit provider as current year costs or premiums, or (ii) An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries. <p>(6) The federal government must receive an equitable share of any amounts of previously allowed postretirement benefit costs (including earnings thereon) which revert or inure to the entity in the form of a refund, withdrawal, or other credit.</p>	Does not address postretirement health costs.	The old guidance did not address this issue as it generally only affects the government entity's subindustry and was included in Cost Circular A-87. It is now included since the UG covers cost principles for all nonfederal entities.

Compensation — Fringe Benefits	Uniform Guidance § 200.430	Cost Circular A-122 8. Compensation for Personal Services	What it means for nonprofits
Severance pay	<p>(i) (1) Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by nonfederal entities to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that in each case, it is required by (a) law, (b) employer-employee agreement, (c) established policy that constitutes, in effect, an implied agreement on the nonfederal entity's part, or (d) circumstances of the particular employment.</p> <p>(2) Costs of severance payments are divided into two categories:</p> <p>(i) Actual, normal turnover severance payments must be allocated to all activities; or, where the nonfederal entity provides for a reserve for normal severances, such method will be acceptable if the charge to current operations is reasonable in light of payments actually made for normal severances over a representative past period, and if amounts charged are allocated to all activities of the nonfederal entity.</p> <p>(ii) Measurement of costs of abnormal or mass severance pay by means of an accrual will not achieve equity to both parties. Thus, accruals for this purpose are not allowable. However, the federal government recognizes its obligation to participate, to the extent of its fair share, in any specific payment. Prior approval by the federal awarding agency or cognizant agency for indirect cost, as appropriate, is required.</p> <p>(3) Costs incurred in certain severance pay packages which are in an amount in excess of the normal severance pay paid by the nonfederal entity to an employee upon termination of employment and are paid to the employee contingent upon a change in management control over, or ownership of, the nonfederal entity's assets, are unallowable.</p> <p>(4) Severance payments to foreign nationals employed by the nonfederal entity outside the United States, to the extent that the amount exceeds the customary or prevailing practices for the nonfederal entity in the United States, are unallowable, unless they are necessary for the performance of federal programs and approved by the federal awarding agency.</p> <p>(5) Severance payments to foreign nationals employed by the nonfederal entity outside the United States due to the termination of the foreign national as a result of the closing of, or curtailment of activities by, the nonfederal entity in that country, are unallowable, unless they are necessary for the performance of federal programs and approved by the federal awarding agency.</p>	<p>(k) (1) Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by organizations to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that in each case, it is required by (a) law, (b) employer-employee agreement, (c) established policy that constitutes, in effect, an implied agreement on the nonfederal entity's part, or (d) circumstances of the particular employment.</p> <p>(2) Costs of severance payments are divided into two categories:</p> <p>(a) Actual normal turnover severance payments shall be allocated to all activities; or, where the organization provides for a reserve for normal severances, such method will be acceptable if the charge to current operations is reasonable in light of payments actually made for normal severances over a representative past period, and if amounts charged are allocated to all activities of the organization.</p> <p>(b) Abnormal or mass severance pay is of such a conjectural nature that measurement of costs by means of an accrual will not achieve equity to both parties. Thus, accruals for this purpose are not allowable. However, the federal government recognizes its obligation to participate, to the extent of its fair share, in any specific payment. Thus, allowability will be considered on a case-by-case basis in the event or occurrence.</p> <p>(c) Costs incurred in certain severance pay packages (commonly known as "a golden parachute" payment) which are in an amount in excess of the normal severance pay paid by the organization to an employee upon termination of employment and are paid to the employee contingent upon a change in management control over, or ownership of, the organization's assets are unallowable.</p> <p>(d) Severance payments to foreign nationals employed by the organization outside the United States, to the extent that the amount exceeds the customary or prevailing practices for the organization in the United States are unallowable, unless they are necessary for the performance of federal programs and approved by awarding agencies.</p> <p>(e) Severance payments to foreign nationals employed by the organization outside the United States due to the termination of the foreign national as a result of the closing of, or curtailment of activities by, the organization in that country, are unallowable, unless they are necessary for the performance of federal programs and approved by awarding agencies.</p>	No significant differences in the new guidance.

How we can help

CliftonLarsonAllen professionals have burrowed deep into the UG to find the issues that concern you most, and developed methods for implementing change. No matter how you are impacted, we can help you find effective solutions for your needs.

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