

**University of New Hampshire  
Office of Sponsored Research**

**Procedures for Estimating Costs for  
and  
Developing and Reviewing Sponsored Programs  
Proposal Budgets**

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## **I. INTRODUCTION**

These Procedures are intended to be one resource for the development of detailed budgets and related documents, and should be supplemented by the specific budget and financial instruction information provided by the sponsor to whom the proposal will be submitted. Many informational resources, printed or electronic, are available to assist in the preparation of a particular budget. These resources are referenced throughout this document.

Detailed proposal budget material usually includes a definitive budget for each period (usually a year) of a proposed project, a cumulative budget for all periods (usually years), and a budget narrative providing justification for key cost elements. The budget should reflect the Project Director's best estimate of the actual cost of conducting the scope of the work outlined in other sections of the proposal. Thus, it is important for the individual developing the budget to review, at minimum, a draft of the proposal narrative.

In addition to following the budgeting requirements of the prospective sponsor, budgets for Federally-sponsored programs should be prepared in accordance with Office of Management and Budget (OMB) Circular A-21 (Cost Principles for Educational Institutions). Non-Federal sponsors normally have their own requirements specified in their published guidelines and/or their Requests for Proposals (RFPs) or other solicitation notices. Whether the prospective sponsor is Federal or non-Federal, University of New Hampshire (UNH) and University System of New Hampshire (USNH) financial policies and guidelines must be followed as well.

Budgets generally include both direct and indirect costs. Indirect costs are referred to by Federal sponsors as Facilities & Administrative (F&A) costs. Both direct and F&A costs are real costs. Direct costs plus F&A costs equal total project costs.

## **II. DEFINITIONS**

### **1. Direct Costs**

Direct costs, as defined in OMB Circular A-21, are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, and that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A costs. Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all activities of the institution. Direct costs have the following characteristics:

- Reasonable – costs a “prudent” person would have incurred in the course of conducting the project
- Allocable – costs directly benefit the project to which they are charged and are in proportion to the benefit received by the project
- Allowable – costs are allocable, reasonable and not specifically excluded by A-21. (See A-21 section J for allowable and unallowable costs.)

### **2. Facilities and Administrative (F&A) Costs**

F&A costs are those costs incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, instructional activity, or any other institutional activity. In other words, F&A costs are not easily assignable to individual projects due to the nature of these costs: library use, student services, building operations and maintenance, building and equipment depreciation, departmental

secretarial assistance, general office supplies, and administration. “Administration” includes processing orders and payments for equipment, supplies, and travel; hiring, appointing and paying employees, processing proposals, administering award funds, billing and collecting from sponsors; monitoring compliance and auditing. Since it is cumbersome to allocate F&A costs to individual projects, these costs are pooled and charged to projects on a percentage basis.

### **3. Budget Periods**

#### **A. Fiscal Year (FY)**

For purposes of this Procedures document, fiscal year refers to the UNH fiscal period that begins on July 1 and ends the following June 30. (The Federal fiscal year begins on October 1 and ends the following September 30.)

#### **B. Academic Year (AY)**

Academic Year refers to the 39 weeks for which AY faculty members are appointed, as defined by the University calendar.

#### **C. Summer**

Summer refers to the 13 weeks outside of the AY. (Every 6-7 years, there is an extra summer work week.)

## **III. BUDGETING FOR DIRECT COSTS**

All anticipated project expenses must be identified in the budget. It is not appropriate to “pad” the budget to allow for unanticipated expenses, nor is it appropriate to budget to realize a “profit.” The costing and pricing process for UNH sponsored programs must adhere strictly to sponsor and overarching Federal regulations, and follow the published OSR Rate Schedule. (See OSR’s Web site for official rates and inflation factors.)

A budget narrative/ justification explaining individual budget elements is an integral component of the proposal. For future-period (year) projections, inflation factors can be used. Reference to the OSR Rate Schedule in the budget narrative/ justification is appropriate and lends credence to the practice of accurate proposal costing and pricing. Allowable direct costs include personnel and non-personnel items, usually classified in the following categories:

- Personnel (Salaries and Wages of UNH employees and UNH students)
- Employee fringe benefits
- Independent contractors (not UNH employees or students)
  - Consultants
  - Service providers
- Equipment
- Sponsored program supplies
- Travel
- Sub-agreements
- Other (Items need to be identified separately or by group)

## **1. Personnel-Related Direct Costs**

### **A. General**

Personnel classifications include various types of faculty appointments; Professional, Administrative, Technical (PAT); Operating Staff (OS); hourly labor; and various types of trainees (post-doctoral appointees, graduate students, and research associates). (See the USNH Online Policy Manual for definitions of personnel classifications.) Project personnel costs reflect the salary (or wage basis for OS and hourly labor) of each UNH individual to be employed on the project. Salaries for personnel are generally expressed as a percent of effort or in person months, whereas wages are expressed with hourly rates and number of hours to be devoted to the project. This percent of effort, person months, or hourly rate/hours is then converted to and displayed in the budget as a dollar figure. In some cases, a sponsor may request that personnel costs for salaried employees be proposed only in dollars rather than percent of effort. Because the percent-of-effort method is espoused by A-21, the user should endeavor to persuade all sponsors to use the percent-of-effort method for salaried employees.

Various sponsor guidelines may limit the percent of effort allowed to be charged to a sponsored program, time period (such as only summer but not academic year), place ceilings on the maximum salary base used to calculate a fraction of salary requested, or place other constraints on the types of personnel supported under a particular program. Federal sponsors limit the allowability of direct cost reimbursement for administrative or clerical staff, considering such costs normally to be F&A costs. But, such costs could be allowable if direct, substantial benefit to the specific project can be demonstrated. (The budget justification narrative must include the rationale.) Charging these items as direct costs when they are not project-specific will result in the University's non-compliance with A-21, section J.F.6 (B) and with the Cost Accounting Standards appendices to A-21. Note that OSR Grant/Contract Administrator (GCA) approval is a necessary step before such costs can be included in the proposal budget. (See OSR's Web site for UNH policy and procedures on Salaries, Wages, and Fringe Benefits Charged to Federally-Sponsored Agreements.)

### **B. Specific**

Salaries (faculty, PATs, graduate students, postdocs) and wages (OS and hourly labor) for occupied positions should be calculated starting with current, official figures obtained from the rates contained in Banner HR (the Human Resources component of the current USNH financial accounting system). For faculty being appointed, obtain a copy of the dean's offer letter, which specifies the salary. For to-be-named staff, contact the Human Resources office or review wage schedules on their web site. (Salaries and hourly rates for new employees normally do not exceed the first quartile.) If an individual's appointment is (to be) for less than 100% of a full-time-equivalent position, the individual's salary must be pro-rated. Salaries and wages must reflect the anticipated level of effort to be committed to the project. Be sure to use the employee's official appointment title in the budget pages and narratives.

#### **i. Academic Year Appointments (most faculty)**

When budgeting for an AY appointment, base the calculation for each month's effort on 1/9 of the AY salary expected to be in effect for the periods (years, normally) of the funded project. The same formula is used to calculate summer (SU) salary (not to be confused with the more rare "supplemental" salary.) One month of summer salary should be based on 1/9 of the prior AY salary. One week of summer salary is 1/13<sup>th</sup> of what the full summer salary would be (or 1/14<sup>th</sup> for those years in which the summer calendar is declared by Academic Affairs to be 14 weeks long.)

Start with the individual's current, official Banner HR salary. Then augment the salary by inflation factors for all future project years. [To arrive at a current salary during years when there is a pending American Association of University Professors (AAUP) contract, first inflate the Banner HR salary for UNH faculty subject to collective bargaining (presently, just tenured and tenure-track faculty) by the published OSR inflation factors for each unresolved contract year.] When using the electronic Proposal Budget Tool, note that the first-year salary will be inflated automatically for you, based on any inflation factor you identified in the set up in the Tool macro. (Refer to OSR's Web site for inflation factors)

NOTE: National Science Foundation (NSF) policy limits faculty salary support to a maximum of two months for all NSF projects the faculty member works on during each UNH fiscal accounting period (7/1 – 6/30). Proposed exceptions to this policy must be justified in the budget narrative.

## **ii. Fiscal Year Appointments**

When budgeting for an FY appointment, base the calculation on the employee's full 12 month salary rate. (FY appointees are commonly PAT or OS staff, but may include some faculty.) For projects beginning in the current UNH FY, calculate the current salary for FY AAUP faculty (see a. above) or use a current salary (PAT or Postdoc) or hourly rate or converted salary (OS or student labor.) Then, inflate the salary for each future year of the project, using OSR's published inflation rates as appropriate by employee category.

For projects beginning in a subsequent FY, augment the current salary by an inflation factor for all future years. When using the electronic Proposal Budget Tool, note that the first-year salary will be inflated automatically based on any inflation factor you identified in the set up in the Tool macro. (Refer to OSR's Web site for inflation factors.)

## **iii. Graduate Students**

When budgeting for Graduate Students, the user should note the following:

- Graduate student appointments are AY appointments.
- The UNH Graduate School's published rates for AY Assistantship stipends are minimum rates. (See OSR's Web site for Rate Schedule, including stipend rates.) The UNH academic department or the Project Director can opt to use a higher stipend rate. If the appointment or the project effort is less than 100%, prorate the stipend.
- Graduate student full time summer rates are based on 2/3 of the prior AY Assistantship stipend rate. If the student will work for less than the full summer, the amount to budget for the proposal should be prorated accordingly for the number of weeks to be worked. The summer period is normally 13 weeks long; 14 every 6<sup>th</sup> or 7<sup>th</sup> year.
- The "partial" fringe rate is used for graduate student summer salary. (See "Employee Fringe Benefits", below.)
- For graduate students, the budget must include non-personnel costs for tuition and health insurance. (See "Tuition" below.) Prorate these costs to coincide with project % effort as necessary.

## **iv. Supplemental Pay**

Applicable only to AY faculty, this form of pay is rarely used due to Federal regulations. However, upon approval of the faculty member's dean and the OSR GCA, supplemental pay may be approved for up to

20% of the faculty member's time on average within the AY or above 100% time in the summer. (See the section on Supplemental Pay in UNH's Additional Pay policy, found on OSR's Web site for further information.) While internal UNH approval is necessary, it is not sufficient for supplemental pay. In addition, the proposal must contain full justification for the request and the proposal must be approved by the sponsor prior to the work commencing.

## **C. Employee Fringe Benefits**

### **i. Employee Fringe Benefits Rates**

Employee fringe benefit rates are negotiated with and approved annually by UNH's "cognizant" agency, the U.S. Department of Health and Human Services. (See OSR's Web site.) The rates are based on actual costs and cannot be waived. There are three fringe benefit rate categories:

- Full fringe rate – applies to salaries and wages for permanent, benefited employees except for graduate student, and faculty summer and supplemental salaries
- Partial fringe rate – applies to non-student hourly wages, faculty summer and supplemental salaries, other exceptions to faculty and staff contract pay, and FICA- eligible graduate student pay. To be eligible for the student FICA exemption, the graduate student must be enrolled at least half time and attending classes.
- Post-doc teaching/research associate rate – applies to post-docs receiving salary through UNH.

College work study students are not considered to be employees, hence fringe benefits are not applicable.

Fringe benefits are calculated as budgeted salary multiplied by the applicable fringe rate.

In the rare instance where a sponsor won't reimburse UNH for employee fringe benefits, the project director's responsibility center must pay for the unallowable benefits, treating this as cost sharing. (See below for "Cost Sharing.")

### **ii. Composite Fringe Benefits Rates**

Composite fringe benefits rates are used when budgeting across fiscal years and the rates approved by UNH's cognizant agency are different from one fiscal year to the next. In these cases straight line spending is assumed. The OSR Proposal Budgeting Tool automatically calculates composite rates based upon the start date of the project. If not using this tool, the user needs to build a formula which blends the rates across the fiscal years. For example, if proposing a start date of January 1, 2010 and developing a one year budget, the user would need to calculate a composite rate for fringe benefits since the rate for FY10 is 42.2% and the rate for FY11 is 42.9%. The composite rate would yield 42.5% in this instance  $[(42.2\% \times 6/12) + (42.9\% \times 6/12)]$ .

Note that composite rates are tools, derived from but not Federally-approved rates. Though such rates are used to apply approved rates in different budget periods, the composite percentages should not be included per se in the proposal. The proposal budget narrative must explain the rationale behind the rates being used in the proposal and the relevant periods. For example, the budget narrative might state that the amount for fringe benefits is the sum of 4 months at "x" approved Federal rate and 8 months at "y" approved Federal rate.

## **2. Non-Personnel Direct Costs**

### **A. Independent Contractor** (a non-UNH individual or firm)

Although UNH does not distinguish between the two primary types of independent contractors (Consultants and Service Providers), some sponsors do require a distinction and different treatment for budgeting and expensing. (Nevertheless, UNH uses the single Independent Contractor Agreement form for both.)

#### **i. Consultant**

A consultant is an individual (or firm), not considered an employee of UNH, hired for a fee to give professional evaluation, advice, or services purely advisory in nature. The consultant provides these services independently, without supervision by the UNH individual engaging these services. The need for the consultant's services commonly does not extend beyond a limited period of time.

Some sponsors may not allow any compensation for consultants or may impose a cap on the amount of compensation to be paid to a consultant. Typically, if consultant costs are allowable by the sponsor, the consultant is paid a per diem amount, otherwise, an appropriate fee for a limited term of service commensurate with the market or specialty. If the consultant will be considered "key personnel", the consultant's CV and rate quote are required elements of the proposal budget justification. Consultants are not subject to the Federal compliance requirements of proposed Federally-funded projects.

#### **ii. Service Provider**

A service provider is an individual (or firm), not considered an employee of UNH, providing professional services. The task is performed with clear direction by, and a finished product is "delivered" to the UNH individual engaging the service provider. Service providers include artisans, craftspersons, speakers, presenters, and professionals other than employees. Service providers normally provide goods and/or services within their normal business operations. The following characteristics apply to the service provider:

- Provides similar goods and/or services to many different purchasers
- Operates in a competitive environment
- Provides goods or services that are ancillary to the operation of the proposed project
- Is not subject to the Federal compliance requirements of proposed Federally-funded projects.

### **B. Equipment**

UNH has adopted the Federal government's definition of equipment as an article of non-expendable, tangible personal property having a useful life of more than one year and an acquisition cost of \$5000 or more. Equipment is categorized into three types:

#### **i. Special Purpose Equipment**

Special purpose equipment is equipment used only for research, medical, scientific, or other technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical equipment, and spectrometers. Expenditures for special purpose equipment are generally allowable as direct costs provided that the acquisition of an item with a unit cost of \$5,000 or more is:

- Necessary for the research or activity supported by the sponsored program,
- Not otherwise reasonably available and accessible,
- Of the type normally charged as a direct cost to a sponsored agreement, and
- Acquired in accordance with UNH policy and practice.

## **ii. General Purpose Equipment**

General purpose equipment is equipment not limited to research, medical, scientific, or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles. Capital expenditures for general purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5000 or more have the prior approval of the awarding sponsor. (Prior approval is occasionally waived by the sponsor.)

## **iii. Fabricated Equipment**

Fabricated equipment is equipment which is built or assembled from individual parts or “off the shelf” components by project personnel, a UNH shop, or a commercial fabricator. When a completed item of fabricated equipment has an aggregate cost of \$5,000 or more and when that item will be recorded as capital equipment in UNH’s asset management system, the individual component costs associated with the fabrication (regardless of the individual amounts) will not be assessed the F&A rate otherwise used for the project budget.

## **iv. Computer Software**

When the total purchase price of software bundled with a computer purchase on the same purchase order is \$5,000 or more, the software is considered to be equipment. Otherwise, software is considered a supply, regardless of its purchase price.

## **C. Supplies**

Supplies are defined as expendable property with an acquisition cost of less than \$5000 per unit and/or a life expectancy of less than one year. In the budgeting process, supply items should be grouped by specific categories of cost, such as laboratory supplies or project supplies.

General office supplies (paper, e.g.) normally are considered as F&A costs, thus should not be requested in the proposal narrative, budget, or budget justification. If the proposed project calls for supply items normally considered to be general office supplies, the project director must explain in the proposal narrative how the supplies are project-specific and will benefit the project for the specific project period. The budget justification must mirror this. (See OSR’s Web site for UNH policy and procedures, and OSR’s A-21 guidelines on Supplies Charged to Federally Sponsored Agreements.) Note that OSR GCA approval is necessary for office supplies to be included in the proposal budget.

## **D. Travel**

Travel costs are the expenses for transportation, lodging, and subsistence to be incurred by employees who will travel on official project business. On occasion, travel for non-UNH personnel (excluding federal and state

personnel) involved in the project may be budgeted. Cost details should be itemized on a per trip basis including air and ground transportation, hotel and per diem costs. Costs may be budgeted on an anticipated actual cost basis, a per diem or mileage basis in lieu of actual costs incurred, or a combination of the two provided the method used is applied to an entire trip and not to selected days of the trip; and the method results in charges consistent with those normally allowed in like circumstances by USNH travel policies and procedures. (Refer to USNH Travel policy.)

Note that the Fly America Act requires those performing Federally-funded foreign air travel to travel by U.S. flag air carriers unless the traveler can adequately document that:

- Travel by a foreign air carrier is a matter of necessity, or
- U.S. flag carrier service is unavailable.

Foreign travel may require sponsor approval. Identify in the proposal budget and narrative justification any anticipated foreign travel.

Refer to <http://www.tvlon.com/resources/FlyAct.html> for details on the Act.

## **E. Tuition and Health Insurance Fee for Graduate Students**

### **i. Tuition**

Sponsored project budgets including graduate student assistantship stipends must also include the cost of tuition for each AY semester for which the student will receive a stipend. The tuition amount may need to be pro-rated in the same proportion as the stipend if the graduate student will work on more than one project, such that each project will receive its proportional benefit. (Refer to OSR's Web site for tuition rates and inflation factors for future years.) There is no tuition associated with the graduate student summer stipend. In accordance with UNH's Federal Rate Agreement, tuition is exempt from F&A charges.

### **ii. Health Insurance Fee**

There is a mandatory health insurance fee for graduate students. When budgeting, add the prevailing amount to the tuition amount, and apply appropriate inflation factors. (See OSR's Web site for current rates and inflation factors.) The health insurance fee should be pro-rated in the same proportion as the stipend and tuition if the student will work on more than one project, such that each project will receive its proportional benefit. As with tuition itself, the fee is exempt from F&A charges.

## **F. Sub-recipient**

OMB Circular A-110 (Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations) defines a sub-award as an award of financial assistance in the form of money, or property in lieu of money, made under an award by a recipient to an eligible sub-recipient or by a sub-recipient to a lower tier sub-recipient. The term includes financial assistance when provided by any legal agreement, even if the agreement is called a contract, but does not include procurement of goods and services nor does it include any form of assistance which is excluded from the definition of award. A sub-recipient is defined as the legal entity to which a sub-award is made and which is accountable to the recipient for the use of the funds provided. (Foreign organizations may be sub-recipients at the discretion of the sponsor.)

While the relationship between UNH and an independent contractor is that of purchaser-vendor, a sub-recipient normally performs a significant portion of the intellectual portion of the project scope of work. Sub-recipients are frequently other academic institutions or industrial partners.

When a portion of the project is to be performed by a sub-recipient, the sub-recipient's detailed budget and justification must be included with the UNH proposal. This information needs to be provided from the proposed sub-recipient's authorized representative (e.g., Sponsored Research Office) in order to ensure that the costs proposed are supported by and represent an official offer of the sub-recipient's home organization.

Total sub-recipient costs (direct costs and F&A costs) are considered a direct charge to the UNH project. According to UNH's Federal Rate Agreement, UNH is permitted to charge F&A on total sub-recipient project costs up to the first \$25,000 of those costs. (See Budgeting for F&A below.)

Note: Contact the OSR GCA for sub-recipient budget specifics when budgeting proposals intended for the National Institutes of Health.

### **G. Other Costs**

Other costs could include items such as animal care, long distance telephone charges, duplicating costs, leases/rentals, etc. Communication line charges (local telephone, ethernet lines, and wireless connections) and postage are normally considered part of the F&A rate, thus should not be included in the proposal as direct costs unless the proposed costs meet the conditions as outlined in the OSR guidance on these types of charges. (See Budgeting for F&A Costs below, and A-21 guidance on OSR's Web site.) Because cell phone costs can not be accurately identified with the projects they might benefit, these costs normally are not allowable as direct costs on UNH sponsored projects. Costs for UNH service centers or recharge centers can be included according to the fee schedule established by the center and approved by the Office of the UNH Vice President for Finance and Administration.

## **IV. BUDGETING FOR COST SHARING**

Cost sharing is that portion of allowable externally-sponsored program costs not borne by the sponsor. Mandated cost sharing is that which is prerequisite to an award by the sponsor while voluntary cost sharing is not prerequisite to an award. "Matching funds" is a form of cost sharing characterized by a required ratio (e.g., 1:1) of cost sharing to sponsor supported costs. "Off-set" funds are a form of non-Federal cost sharing associated with United States Department of Agriculture (USDA) land grant appropriations.

UNH encourages charging the sponsor for all allowable costs associated with a sponsored program including direct costs and the associated facilities and administrative (F&A) costs necessary to complete the objectives of the sponsored program. Normally, UNH will agree to share project costs only when mandated by the sponsor. Prior to submitting a proposal to a prospective sponsor, UNH formally reviews each offer of cost sharing and determines whether or not to approve the offer. To be included as cost sharing, proposed costs must be (1) necessary and reasonable for proper and efficient accomplishment of program objectives, (2) allowable under the applicable cost principles, and (3) included in the proposal approved by the sponsor.

In accordance with A-21 and A-110, possible UNH cost sharing sources are as follows:

- Expenses funded from UNH general and education accounts, which are not included as cost sharing for any other Federally-sponsored program at UNH;
- Expenses funded from non-Federal sponsored accounts, which are not included as cost sharing for any other Federally sponsored program at UNH;
- Program income related to the particular sponsored program when approved in advance by the sponsor;
- Difference between the appropriate Federally-negotiated F&A rate and the sponsor-allowed F&A rate (also called “unrecovered F&A”), when the sponsor will allow;
- Waived F&A amounts, subject to approval by the UNH VPR;
- Federally-sponsored awards where authorized by Federal statute; and
- Cash and in-kind contributions from sources external to UNH including volunteer services by professional and technical personnel, consultants, and other skilled and unskilled labor; and donated supplies and equipment. These contributions may not be included as contributions for any other federally sponsored program at UNH. Values for contributions of services and property must be established according to the sponsor's applicable cost principles and administrative requirements.

Cost sharing budgeting follows the same rules as those for direct costs: reasonable, allocable and allowable. Prior to OSR agreeing to include cost sharing in a proposed budget, a cost sharing form needs to be completed and signed by the Dean authorizing any internal commitments. (See OSR’s Web site for policy and procedures on Cost Sharing on Externally-Sponsored Programs.)

## **V. BUDGETING FOR PROGRAM INCOME**

Program Income is defined as revenue generated as a result of a sponsored activity. Program income activities require prior approval from the sponsoring agency. The program income budget is identified as a companion to the sponsored agreement to which it is associated and is charged the same F&A rate as the prime award.

Only revenue generated as a result of the activity for which the award is made by the sponsor may be deposited into the program income account fund. Revenue generated as a result of any other activity may not be deposited into the program income account fund. Expenses posted to program income account funds must be in compliance with terms and conditions of the designated parent sponsored agreement.

Treatment of program income can vary by sponsor and award purpose. For some sponsors/awards, program income is treated as additional funding for the awarded sponsored project. Other sponsors require a reduction in the award equal to the amount of program income generated. Another possible treatment is for program income to be considered as cost sharing. Refer to award document and sponsor regulations for details.

It is imperative that at the time of proposal, anticipated program income is included in the budget with a narrative specification for the UNH preference for award treatment as either additive, deductive, or cost sharing. The preferred treatment should be additive wherever possible.

Note that program income does not apply when the award mechanism will be a contract. It is unnecessary and problematic to include program income in such cases.

## VI. UNALLOWABLE DIRECT COSTS

The following costs are unallowable under any circumstances as charges to sponsored programs:

- Alcoholic beverages
- Bad debts
- Commencement or convocation costs
- Contingency provisions
- Contributions, donations, remembrances
- Entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs such as tickets to shows or sports events, meals, lodging, rentals, transportation and gratuities
- Student activity costs associated with the cost of publications, clubs, and similar discretionary student activities.

In addition, some sponsors specifically disallow other types of expenses normally allowable. Refer to sponsor guidelines and OSR GCA guidance.

## VII. BUDGETING FOR F&A COSTS

F&A costs are calculated for a project by using an appropriate rate for the type of project and the appropriate basis or total of direct costs allowed to be considered in the basis by Federal and/or sponsor regulations. (Rate x Base = Cost.) F&A rates are negotiated for a set number of years with UNH's "cognizant" agency, currently the U.S. Department of Health and Human Services (DHHS).

### 1. Rate Categories

There are three major rate categories applicable to sponsored programs:

- **Sponsored Research**

Investigator-driven studies with results that contribute to generalizable knowledge; includes the training of individuals in research techniques.

- **Instruction**

UNH's teaching and training activities, except for research training (see Sponsored Research, above), whether offered for credit toward a degree or certificate or on a non-credit basis, and whether offered through regular academic departments or separate divisions, such as summer school or extension.

- **Other Sponsored Activities**

Programs and projects other than sponsored research or instruction, such as health service projects, community service programs, and the Upward Bound program that provides academic support services to first generation college students. The proposal budgeter will need to determine the type of project -- sponsored research, instruction, or other activity -- based on the scope of work expressed by the project director in the proposal, and then refer to the section on On-Campus and Off-Campus Rates below.

## **2. On-Campus and Off-Campus Rates**

UNH's Federal Rate Agreement further delineates rates by on-campus and off-campus for each of sponsored research, instruction, and other sponsored activities. The off-campus rates include only the costs for administration, as items such as campus buildings are not used for off-campus projects. When an institution's calculated administrative costs exceed 26%, the Federal cognizant agency "caps" the off-campus rates for each rate category at 26%. UNH's off-campus rates for sponsored research, instruction, and other sponsored activities are all 26%.

The proposal budgeter will need to determine whether the majority of the project expense will occur in facilities owned by UNH or off-campus and then select the pertinent rate for sponsored research, instruction, or other sponsored activities. The current Federal Rate Agreement with UNH's approved rates can be found on OSR's Web site.

## **3. Capped Rates for Federal Sponsors and Rates for Non-Federal Sponsors**

Some Federal programs or even entire agencies may limit by statute the F&A rates or chargeable amounts universities may use. In such cases, there is no choice but to conform. (The project director's responsibility center unit head may decide to refrain from endorsing the proposal, thus the proposal will not be submitted for sponsor consideration.) Non-Federal sponsors, such as foundations, may have published guidelines precluding reimbursement at UNH's Federal rate levels. Again, there is no choice but to conform or not submit the proposal. Most funds awarded to UNH from NH state agencies are Federally-sourced; in such cases, the proposal budget should include the pertinent UNH Federal rate or a rate limited by the Federal sponsor's mandate. One of the responsibilities of the OSR GCA is to try to negotiate the appropriate rate.

## **4. Waivers of F&A Costs**

Occasionally, a project director will request that some or all F&A costs be waived for a particular project. Refer to OSR's Web site for the policy on Facilities and Administrative Costs Waivers on Externally Sponsored Programs. The OSR GCA is expected to work with the project director to try to find a way to incorporate all project costs, including F&A, such that a waiver request is a last resort.

## **5. F&A Rate Bases**

F&A costs generally are budgeted and charged to Federally-sponsored agreements on the basis of modified total direct costs (MTDC). This is the default basis used in the Proposal Budgeting Tool. MTDC includes:

- All personnel costs (salaries, wages, graduate student stipends)
- Employee Fringe benefits
- Supplies
- Services (including independent contractor services)
- Travel
- The first \$25,000 of each sub-recipient agreement budget

MTDC excludes:

- Equipment (as defined in Equipment section above)
- Capital expenditures
- Charges for patient care
- Graduate tuition and health insurance fees
- Long-term rental costs of off-site facilities
- Scholarships and fellowships
- The portion of each sub-recipient agreement budget in excess of \$25,000.

Certain Federal and other sponsors may also require the exclusion of selected cost categories (e.g., Participant Support) from the MTDC basis. In the case of Participant Support exclusion, use the MTDCN base.

Another common basis is Total Direct Costs (TDC). This basis is self-explanatory. However, one must carefully review sponsor regulations and solicitation guidelines to determine whether there are some exclusions. There may be other cost bases that would apply depending on sponsor regulations/requirements. In all cases where there is a deviation from the standard MTDC, MTDCN, or TDC basis, the proposal budgeter must manually enter figures in the Proposal Budgeting Tool.

## **6. Composite F&A Rates Across Fiscal Years**

When a proposal period crosses fiscal years with different F&A rates, budgets must reflect the change in rates from one fiscal year to the next. The OSR Proposal Budgeting Tool automatically calculates a composite F&A rate based upon the start date of the project, and assumes expenditures will be equal from month to month. If not using this tool, the user needs to build a formula which blends the rates across the fiscal years, much as is done with composite fringe benefits rates. Composite rates are not approved by UNH's cognizant agency and, although used to apply approved rates in different periods, composite rates should not be stated as percentages per se in the proposal budget. The proposal budget narrative should explain how the budgeted amount was derived. For example, the narrative could specify that the approved rate of x% should be applied for February through June of the upcoming fiscal year and the hypothetically approved rate of y% should be applied for the following fiscal years.

## **7. Projects Combining On- and Off-Campus F&A Rates**

In some instances, the sponsored activity may have a mix of on- and off-campus activities. In these cases, the activity should be reviewed to determine what the appropriate rate should be based on where the vast majority of the activity occurs. As a general rule, if the proposed sponsored activity takes place off UNH premises and at a facility not owned by UNH, the off-campus rate should be used. In some cases, it may be possible to have both an on- and off-campus component. If the ability exists to distinguish how to apportion the sponsored activity, then the proposal should include the two rates, applied to the appropriate bases. The proposal budget narrative should clearly explain how the costs are derived. (Because the budget tool allows for only an on- or an off-campus F&A rate, the user would need to develop separate budgets.)

## **8. Projects Combining Disparate Award Purposes**

As in projects that combine on- and off-campus components, proposals that mix activities, such as a research project with a conference component, should budget those different activities separately if they would ordinarily

require the application of different F&A rates. The proposal budget narrative should explain what part of the activity goes with which rate.