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To
Museum, Research Centers and Office Directors
Chief Financial Officer Contacts

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Under Secretary for Finance and Administration
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Under Secretary for Science
Director of External Affairs
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From
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Subject
Recovering Costs Associated with Design, Fabrication and Installation of Permanent SI Museum Exhibits – Policy Guidance

This CFO Bulletin provides policy guidance on the recovery of costs associated with exhibitions funded by government and non-government grants and contracts. Please ensure that it is distributed to those in your unit responsible for implementing this policy.

Background
To comply with generally accepted accounting standards for non-profit organizations, the Institution has implemented new accounting procedures in FY 2010 related to how costs associated with the planning, design, fabrication, installation and assembly of stationary permanent exhibits are recorded in the financial system. Non-profit accounting rules require that all services and materials that are integral (or embedded) parts of the exhibit be capitalized, not expensed. The Institution’s threshold for capitalizing exhibit “construction” costs, as defined in the policy, is $100,000.

The Institution’s indirect cost policy requires that the trust-funded costs of central administrative and service units be recovered through a fair and consistent system of assessing the government and non-government programs that its units serve (please refer to Smithsonian Directive 304, Guidelines for Administering Indirect Cost (Overhead) Rates and Charges). The indirect cost rates are applied on government grants and contracts (Fund 803) and non-government grants and contracts (Fund 802). The Institution’s policy links non-
government indirect cost rates to those established for government grants and contracts.

Government grant and contract regulations do not allow indirect rates to be applied to capitalized costs. Because the Institution has changed its accounting procedures and now requires that all exhibit “construction” costs (with cumulative costs in excess of $100,000) be capitalized, indirect costs on these capital costs can no longer be budgeted or recovered on government grants and contracts.

There is no such restriction for charging indirect rates on non-government grants that fund permanent exhibit costs. Therefore, the Institution has the flexibility to require that the appropriate government grant and contract rates continue to be applied to non-government grants and contracts, unless individual waivers from this policy are requested and approved by the CFO.

Interim Policy

To achieve the Institution’s objective of achieving full cost recovery on externally funded work efforts, when appropriate and applicable, this Bulletin makes two changes. These changes are applicable only for capitalized exhibit “construction” costs that are funded by government or non-government grants or contracts:

1. Authorizes the use of management fees on government grants and contracts (Fund 803), retroactive to July 1, 2009. OSP is responsible for the identification of such awards and will work to negotiate management fees with sponsors.

2. Authorizes the application of indirect cost rates on non-government grant and contract capitalized costs. Sets the government grant and contract indirect rate as the base indirect rate for non-government grants and contracts (Fund 802) and authorizes application of these indirect cost rates on all Fund 802 costs, including both operating expenses and capitalized costs.

Management Fees. The Federal Acquisition Regulation (FAR) authorizes Federal agencies to use a structured approach for determining the fees it will pay, in addition to direct and indirect costs, to achieve its acquisition goals. Agencies are authorized to pay management fees to organizations (including non-profits) from which they receive goods and services to compensate the service provider for investments already made, investments to be made in the future to remain competitive, for the use of its intellectual capital, and for the risk it assumes in performing the requested work. Management fees are authorized, but not required, to be assessed on all government grants and contracts. Not all agencies agree to utilize these fees. These fees tend to range between 1-5%, though the average seems to be around 2-3%.
Interim SI Policy: When the Institution submits proposals for government grants and contracts (Fund 803) that will fund capitalized costs for the design, fabrication, installation and assembly of permanent stationary exhibits, the proposal shall include a fixed management fee equal to the amount of indirect costs that would otherwise have been recoverable by applying the Institution’s indirect cost rates on the capitalized portion of exhibit costs. When the grant/contract award includes a management fee, the Institution will record these fees as Central Trust budget recoveries, for subsequent allocation to Smithsonian units. This policy acknowledges that not all Federal sponsors will agree to utilize this type of management fee. When the Director, OSP (or his designee) confirms that the Federal agency’s policy does not authorize payment of management fees on a government grant/contract, the Unit will request CFO approval for a waiver from the management fee policy for the designated grant or contract.

Application of Indirect Cost Rates on Capitalized Costs on Non-Government Grants and Contracts. Overhead recovered on non-government grants and contracts (Fund 802) is referred to as Administrative Support /Project Oversight (AS/PO). AS/PO recoveries are shared equally with the Unit performing the work and the Central Trust budget. The 50% of AS/PO recovered and provided to the Units is called the AS/PO rebate. Because there are no regulations or rules that prohibit the application of AS/PO rates on capitalized costs for non-government grants and contracts, the Institution can apply the current AS/PO indirect rates to both operating and capitalized costs.

Interim SI Policy: The Institution will continue to use the government grant and contract indirect cost rate structure for non-government grants and contracts (Fund 802). However, the Institution shall also apply these indirect cost rates to all exhibit costs that are capitalized for existing and new non-government grant and contract awards. There is no change to how the AS/PO rebate is distributed – 50% of the amounts recovered will continue to be distributed to Units.

This CFO Bulletin is effective retroactively to October 1, 2009.