



San Francisco Department of Early Childhood (DEC) Cost Categorization Guidelines for Nonprofits

SUMMARY

The Controller's Office updated the Guidelines for Cost Categorization in Nonprofit Contracts and Grants in accordance with the federal Office of Management and Budget's October 2024 revisions to the Uniform Guidance. The updated guidance also provides clarification on direct and indirect costs, fringe benefits, de minimis rates, approved vs. allowable costs, and other relevant information.

BACKGROUND

In 2010, the Controller's Office issued a memo in response to City department and nonprofit inquiries concerning nonprofit indirect cost rates. After analysis of federal guidelines, best practices, and discussions with City departments, the Controller's Office issued a memo including, among others, the finding that no single list can encompass the full extent of charges that may fall under an indirect cost category.

In subsequent years, there have been advancements in standardizing policies and procedures, most notably the federal Office of Management and Budget (OMB) Uniform Guidance published in 2014.

The OMB revised the Uniform Guidance – a component of the Guidance for Federal Financial Assistance, formerly the Guidance for Grants and Agreements – in October 2024. The updates incorporate statutory requirements and administration priorities, reduce agency and recipient burden, clarify sections that recipients or agencies interpreted in different ways, and rewrite applicable sections in plain language to improve flow and address inconsistent use of terms.

"There is no universal rule for classifying certain costs as direct or indirect costs. A cost may be direct for some specific service or function but indirect for the Federal award or other final cost objective. Therefore, each cost incurred for the same purpose in like circumstances must be treated consistently either as a direct or an indirect cost to avoid possible double-charging of Federal awards."

*OMB Uniform Guidance Part 200 Sec. 200.412
Classification of Costs.*

The Controller's Office created this document in alignment with the Guidance for Federal Financial Assistance to assist City departments in determining allowable and unallowable contract costs, as well as distinctions between direct and indirect costs in nonprofit contracts. The Department of Early Childhood has adopted this document and added specific language to support both our grantees and staff to better understand and budget appropriately.

This update supersedes the Controller's Office original version issued in January of 2019. The Controller's Office may make periodic updates to these guidelines as needed, which will be incorporated into DEC's guidelines and redistributed to grantees.



GUIDELINES

The Controller's Office developed a consolidated set of budget guidelines to foster common understanding and transparency on the treatment and allowability of direct and indirect costs in nonprofit grants and contracts.

DEC has adopted the appended guidelines as standard Citywide guidance for the general treatment of costs in nonprofit contracts and grants. See the Cost Categorization Guidance section for the budget table and additional cost guidance associated with specific line items.

This document provides guidance that addresses the most common costs, though it is **not inclusive of all possible costs or their treatment**. Some discretion may be necessary as departments and nonprofit contractors budget based on programmatic needs. The guidelines serve as a starting point as City staff and nonprofits collaborate to ensure all parties have a shared understanding of budgeting principles, allowability of costs, and the application of these guidelines. Further guidance on nonprofit financial management practices can be found in the Controller's Office Finance Guide for Nonprofits.

Key Principles for Cost Allowability

In accordance with federal standards per the OMB, these guidelines indicate which direct and indirect costs are allowable to include within City and DEC contracts and grants, whether they may be explicitly allowable as a direct or indirect expense, and which types of costs are explicitly unallowable across all City contracts.

During the contracting process and annually for multi-year grant budget negotiations, DEC will determine which allowable costs align to the objectives of the contract, and these are considered **approved costs** (also called "**eligible costs**"). DEC may prioritize certain expenditures over others during contract negotiations and may not approve some "allowable" costs in each contract.

- DEC will clearly state which cost categories are approved or not approved within each contract (e.g., within G100 Appendix A: Eligible Costs), and the contract budget should align.
- **DEC will only approve costs in contracts that align to the terms of the funding source.** These guidelines provide general principles for allowability. However, federal or state grants may have specific terms that differ from these guidelines. For example, a federal grant may only allow funding for salaries, or may not allow funding for rent costs, etc. Departments must always follow the specific allowability of a funding source when it differs from these guidelines.
 - When a funding source deems certain costs unallowable (e.g., if a federal grant does not allow funds to be used on stipends, food, etc.), **DEC includes a list of such expenses as ineligible within the contract** (e.g., within G100 Appendix A: Eligible Costs).
- DEC requires a **supplemental approval process** for specific expenses prior to considering these eligible within the contract or grant budget, e.g., for travel and training costs, capital or equipment, and/or subcontractors, among others. When supplemental approval is needed, DEC will inform contractors of the process during contract negotiations and should confirm in writing when any such supplemental approvals have been granted.
- All expenditures must be **reasonable, necessary, and directly aligned** with the stated purpose of the contract or grant. Any costs deemed excessive, inconsistent with the contract's objectives, or not representing a prudent use of public funds will be considered ineligible.



- **Shared costs must be allocated appropriately to be deemed allowable.** Shared costs are those that are necessary to all program operations, but not specific to a single program. This may include rent (when a facility is used for more than a single program), equipment shared across programs, IT and materials shared across programs, etc. Shared costs must be allocated proportionally across program and administrative cost centers using a consistent and reasonable methodology.
- **Contractors must maintain accurate financial books and accounting records** relating to eligible expenses incurred and funds received and expended under each City agreement. This includes invoices, receipts, payroll records, time records, canceled checks or bank records showing proof of payment and/or other financial records for costs funded in whole or in part by the City.

As a best practice, DEC has established clear contract related budgeting policies to specify any costs that will be unapproved or ineligible across all contracts or specific types of contracts, as well as any supplemental approvals that may be needed for certain costs to be included and approved within a contract in the notes section of the Cost Categorization Guidance on the following page.

CHANGES FROM PRIOR VERSION

The Controller's Office will periodically update this document as departments and nonprofits raise new questions about the guidance. Version 2.0 replaces Version 1.2 published in 2019. This section outlines changes incorporated based on department inquiries and/or updates to OMB Uniform Guidance.

Cost Categorization Updates

See the Cost Categorization Guidance section of this document for more details on the following changes:

- Worker's compensation was added as allowable Fringe Benefits.
- Legal holidays were added as allowable Fringe Benefits.
- Salary and Fringe costs for administrative staff, like an Executive Director, added as allowable when these staff work on direct program activities/services and costs have been appropriately allocated.
- Paid Sabbaticals added as unallowable costs.
- Clarifications for when and how accrued time and/or vacation payouts may be allowable.
- Staff incentives that are not for direct programmatic purposes added as unallowable costs.
- Credit card fees added as unallowable costs.

Supplemental Guidance Updates

See the Supplemental Guidance section of this document for more details on the following changes:

- Salaries/Fringe Benefits: Both gross or net wages are allowable, though departments must define net wages if used.
- De Minimis Rate: OMB raised the de minimis rate from 10% to 15%.
- Subcontractor Costs: OMB raised the threshold of how much of a subcontractor's cost can be calculated towards the prime contractors de minimis indirect rate from \$25,000 to \$50,000.
- Allowable versus approved costs: The Controller's Office updated the guidelines to clarify the distinction between allowable and approved costs.



Cost Categorization Guidance

Direct Costs

Direct program expenses must be approved by the funding department and documented in the grant or contract budget. While costs may be allowable, it does not guarantee funding in a particular cost category. Departments and nonprofits have discretion to negotiate funding for cost items appropriate to the delivery of desired programming. Departments may require additional documentation prior to approving certain costs and may set a cap on the amount of funding available for certain costs based on funding priorities.

Expense Category	Expense Type	Expense Description	Allowable (Y/N)	Notes
Direct Personnel Expenses	Salaries	Salaries of all program staff, supervisory staff, and support/clerical staff that work directly on programs.	Y	Staff invoiced to more than one funding source must have a time-study or functional timesheet. Administrative staff working on direct program activities/services may allocate the corresponding percentage of time as a direct expense.
		Paid leave, including legal holidays, administrative leave, and sick time	Y	Paid leave costs may appear in an organization budget as either fringe benefits or salaries.
		Bonuses paid to staff.	N	Bonuses are any one-time or limited time payments made in addition to an employee's regular earnings.
		Severance payments to former staff.	N	
	Fringe Benefits	Fringe Benefits such as FICA, SUI, health and medical benefits, retirement benefits- including legal holidays, administrative leave, and sick leave.	Y	Mandatory fringe benefits (e.g., health, SUI/FICA, Workers' Compensation) are allowed based on FTEs in the program budget. Non-mandatory benefits require prior approval, which depends on current, Board-approved written policies that define 'other' benefits and are applied consistently across the agency, employees, and funding sources.
		Prior fiscal year Fringe Benefits such as vacation, sick, or overtime/compensation time, and taxes or other withholdings related to periods before and after the grant agreement.	Y/N	If a nonprofit uses a cash basis, the cost of leave is recognized in the period that the leave is taken and paid for, even if earned in the prior year, and this item becomes allowable. Unallowable when a nonprofit uses an accrual basis for accounting (recommended).
		Lump sum payout of unused accrued vacation time. Other forms of compensatory time beyond vacation must be communicated at the time of budget negotiations and will be subject to prior authorization.	N	When a nonprofit uses accrual-based accounting, the City has already covered the cost of fringe, which then becomes a line in the nonprofit's liability account. If a nonprofit uses a cash basis, payments of unused leave may be allowable as an indirect cost in the year of payment.



Expense Category	Expense Type	Expense Description	Allowable (Y/N)	Notes
Direct Personnel or Direct Non-Personnel Expense	Stipends	Stipends, including small amounts paid to someone (often a program participant) for engaging in limited periods of work in support of a funded agency or organization. May include AmeriCorps fees.	Y	Stipends are only allowable for program participants and not for agency staff. Stipends will be categorized based on the intended use and/or recipient.
Direct Contract Expense	Contractual Services	Contractual Services provided to program participants or nonprofit by consultants, independent contractors, or other non-staff individuals/entities.	Y	DEC requires prior budget approval for Contractual Services, Consultants, and Temporary Staff prior to placing costs in the grant budget. Grantee must comply with City standards for subcontract oversight and monitoring.
		Subcontractors providing a direct service towards the objectives outlined in the delivery of services/scope of work are subject to OMB \$50k towards fringe.	Y	DEC requires prior budget approval for subcontracts. The grantee must comply with City standards for subcontract oversight and monitoring.
		Contractual services provided by the subcontractor's subcontractor.	N	
Direct Non-Personnel Expense	Materials & Supplies	Materials and supplies used in the operation of the program and consistent with the types of services provided by the program. Includes project supplies, office supplies and postage.	Y	Please consult with the assigned DEC Program Officer to ensure proper treatment of these costs and any grant limitations or restrictions.
	Facilities/ Occupancy	Facilities or occupancy costs associated with building space, rental/lease of space used to run the program, rent for main space and auxiliary space, and costs associated with facility upkeep and maintenance, including janitorial services.	Y	DEC funds may not be used to pay for expenses not incurred as part of the scope of work and deliverables of the grant/contract (staff and organizational events requiring additional security and/or janitorial services). City mandated capital upgrades that may require relocation and result in additional rental costs may be approved at DEC's discretion.
		Facilities or occupancy costs such as property taxes, loans against own property, and security deposits.	N	
	Utilities	Percentage allocation of utilities, such as gas, electric, and water bill, used by each program.	Y	DEC requires a consistent methodology and documentation related to shared costs for utilities.
Equipment/ Furniture	Equipment purchase, lease, and maintenance costs that directly benefit program participants. Including computers, IT systems, furniture, ongoing or one-time leases, printers, and photocopying equipment. Includes direct or percentage allocation of shared equipment by each program.	Y	DEC requires that cost associated with shared equipment, leases, IT systems, copiers, and printers provide a cost benefit to the contract to be considered an allowable shared cost. Purchases from this category requires supplemental approval process for items exceeding \$1,000.	



Expense Category	Expense Type	Expense Description	Allowable (Y/N)	Notes
Direct Non-Personnel Expense	Equipment/ Furniture (cont.)	Depreciation of purchased equipment	Y	Certain federal funding sources may restrict use of funding on these costs. Cost must be approved by DEC, see supplemental guidance for additional details.
	Transportation/ Travel	Transportation and travel costs used for direct staff. Includes local transportation, out- of-town travel for programmatic purposes, and field work. Expenses may include mileage, vehicle rental, tolls, gas, parking fees, air travel, and ground transportation if staff are required to travel to perform scope of funded services.	Y	DEC requires a supplemental approval process for out-of-area travel prior to placing costs into the grant budget and may cap the amount based on funding priorities. See FRC supplemental guidance for additional details. Travel costs cannot exceed GSA per diem rates without prior approval from DEC.
		Vehicle purchase and related costs as required to perform scope of funded services	Y	DEC requires supplemental approval and prior authorization before incurring this expense.
		Parking/moving violations	N	
	Training	Staff development costs used to pay for registration or attendance for direct staff attending workshops and/or trainings aimed at building skills or capacity for the delivery of funded services. Staff development costs outside of the Bay Area for conferences, transportation, lodging, food, and per diem incidentals that may include tips/gratuity.	Y	DEC requires supplemental approval process prior to placing training costs and associated travel with staff development into the grant budget.
	Events and Food	Events and field trip costs related to the program. Expenses include vehicle rentals for participants, transportation for participants, food/meals for participants, security, and required permits.	Y	DEC funds are unallowable for events, food, and entertainment costs for staff and administrators.
		Alcoholic beverages, sugar-sweetened beverages, bottled water, and tips/gratuity.	N	
	Incentives	Incentives for program participants. Includes gift cards, honoraria, and award for participants, speakers, and volunteers.	Y	All incentives must follow DEC and City guidelines and require a supplemental approval process. Incentives may not be used for incentives for staff/admin.
	Insurance	Insurance fees for required insurance policy maintenance costs such as commercial general liability, auto, workers compensation, and event insurance. Includes direct allocation of program-specific policies or percentage allocation of applicable agency-wide insurance costs.	Y	DEC requires justification and documentation for direct or percentage allocation of insurance costs.



Expense Category	Expense Type	Expense Description	Allowable (Y/N)	Notes
Direct Non-Personnel Expenses	Tele-communications	Telecommunications costs used for the program. Includes but not limited to telephone, fax, internet, and cell phones used for programmatic purposes.	Y	DEC funds may not be used as a shared cost for non-program staff (IT/Admin/HR).
	Capital and Mortgage	Capital costs for real property that are necessary for the delivery of programs.	Y	Certain federal funding sources may restrict use of funding on these costs. See Supplemental Guidance for details.
		Mortgage Principal.	N	See Supplemental Guidance for details.
		Mortgage interest fees on real property used in the delivery of programs.	Y	Certain federal funding sources may restrict the use of funding on these costs. See Supplemental Guidance for details.
		Mortgage interest attributable to fully depreciated assets.	N	
	Professional Licenses, Recruitment, and Background Checks	Professional licenses for staff, if required for program.	Y	
		Job posting and fingerprinting of staff, if required for program.	Y	
	Basic Needs	Items with nominal retail value purchased to support participants in meeting their basic needs. Items may include diapers and wipes; formula; clothing; basic hygiene items such as soap, shampoo deodorant; potty training equipment; breastfeeding supplies.	Y	Basic needs items are for participants (including parent volunteers) only. Staff may not be provided with basic needs items purchased with DEC/FRC funds.
	Barrier Removal	Includes gift cards for purposes of basic needs purchases when direct provision is not feasible or available; emergency payment of participant back rent, utility bills, medical bills; employment-related costs such as uniforms; and childcare and camp costs. Limited distribution of electronic equipment to be used for barrier removal for employment or school related needs.	Y	Barrier removal is for participants (including parent volunteers) only. Staff may not be provided with barrier removal services purchased with DEC/FRC funds. Other payment sources for barrier removal must be exhausted before utilizing DEC/FRC funds. See also: Guidelines for Gift cards, Incentives, Barrier Removal, and Stipends. FRC: See also guidance on HSA funds.
	Other/Miscellaneous	Miscellaneous expenses not identified by expense types above which are unique, but necessary expenses for the deliverables of the services being funded.	Y	DEC requires that all miscellaneous expenses have a supplemental approval process prior to including costs in the grant/contract budget.



Indirect Costs

Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Simply stated, they are organizational costs that cannot be isolated to an individual program or contract. At departmental discretion, indirect/shared costs may be capped. If an agency has a federally-approved indirect cost rate, departments must use this rate for federally-funded contracts or grants but are not required to use that rate in General Fund contracts or grants.

Expense Category	Expense Type	Expense Description	Allowable (Y/N)	Notes
Indirect Personnel Expenses	Salaries	Direct or percentage allocation of Executive Director/Finance/ salary and benefits for time spent in administrative activities (e.g., per functional time sheet or time study).	Y	DEC requires a functional time sheet or time study if a direct or percentage of time is allocated to a grant/contract. If administrative staff are being allocated as a direct expense this portion must be prorated from the percentage applied to indirect costs
		Chief financial officer salary and benefits.	Y	DEC requires a functional time sheet or time study if a direct or percentage allocation of time is charged to a grant/contract.
		Contract administration and compliance staff salaries and benefits.	Y	DEC requires a functional time sheet or time study if a direct or percentage allocation of time is charged to a grant/contract.
		Other administrative staff salaries.	Y	DEC requires a functional time sheet or time study if a direct or percentage allocation of time is charged to a grant/contract.
		Accounting services and bookkeeping.	Y	DEC requires a functional time sheet or time study if a direct or percentage allocation of time is charged to a grant/contract.
		Payroll fees and other HR expenses.	Y	DEC requires a functional time sheet or time study if a direct or percentage allocation of time is charged to a grant/contract.
		Information technology staff salaries.	Y	DEC requires a functional time sheet or time study if a direct or percentage allocation of time is charged to a grant/contract.
		Staff time spent preparing proposals for federal or non-federal grants and contracts.	Y	DEC requires a functional time sheet or time study if a direct or percentage allocation of time is charged to a grant/contract.
	Fringe Benefits	Fringe Benefits such as FICA, SUI, health and medical benefits, retirement benefits, worker's compensation, and paid leave - including legal holidays, administrative leave, and sick time – for administrative staff previously in the above Indirect Personnel Expenses – Salaries section.	Y	Mandatory fringe benefits (e.g., health, SUI/FICA, Workers' Compensation) are allowed based on FTEs in the program budget. Non-mandatory benefits require prior approval, which depends on current, Board-approved written policies that define 'other' benefits and are applied consistently across the agency, employees, and funding sources.



Expense Category	Expense Type	Expense Description	Allowable (Y/N)	Notes
Indirect Personnel Expenses	Fringe Benefits (cont.)	Lump sum payout of unused vacation or compensatory time for direct program staff based on allocation of time.	Y/N	If a nonprofit uses a cash basis, payments of unused leave for direct program staff may be allowable as an indirect cost in the year of payment. This is an unallowable cost if the nonprofit uses an accrual basis for accounting.
		Paid Sabbatical.	N	Sabbaticals may only be used within institutes for higher education and may only be used for graduate education or research related to the grant's program. They may not be used as a retention or incentive strategy outside institutes for higher education.
Indirect Contract Expenses	Contractual Services	Audit fee	Y	Per cost allocation policy/plan
		Fiscal sponsor or fiscal agent fee	Y	Per cost allocation policy/plan
		Payroll fees and other Human Resource expenses	Y	Per cost allocation policy/plan
		Accounting services and bookkeeping	Y	Per cost allocation policy/plan
		Administrative IT system costs (e.g., QuickBooks).	Y	DEC requires a supplemental approval process for IT systems, web design, maintenance, or hosting prior to placing costs into the grant budget.
		Website design, maintenance, or hosting services.	Y	
		Legal services.	N	Any services to be provided by a law firm or attorney must be reviewed and approved in writing in advance by the City Attorney. No invoices for services provided by law firms or attorneys, including, without limitation, as subcontractors of Contractor, will be paid without approval from the City Attorney.
Indirect Non-Personnel Expenses	Materials and Supplies	Office supplies or percentage allocation of office supplies used by administrative staff.	Y	DEC operating funds may not be used for materials and supplies for administrative staff as a shared cost.
		Materials and supplies associated with board meetings.	Y	
	Facilities/Utilities	Percentage allocation of rent and utilities used by administrative staff.	Y	
		Depreciation on real property	Y	See Supplemental Guidance for details.
	Equipment	Percentage allocation of equipment used by administrative staff; depreciation on purchased equipment.	Y	



San Francisco Department of
Early Childhood

	Expense Type	Expense Description	Allowable (Y/N)	Notes
Indirect Non-Personnel Expenses	Transportation/Travel	Transportation expenses incurred by administrative staff.	Y	DEC may limit the amount of funding for administrative staff transportation/travel as a shared cost.
	Insurance	Percentage allocation of insurance fees for required insurance policy maintenance costs such as commercial general liability, auto, workers compensation, and event insurance.	Y	DEC requires justification and documentation for direct or percentage allocation of insurance costs.
		Directors and Officers insurance fees.	Y	
Indirect Non-Personnel Expenses	Training	Staff development costs to pay registration or attendance fees for staff attendance at workshops or trainings aimed at building capacity for the agency overall (e.g., attended by finance or HR staff).	Y	Requires prior approval
	Events and Food	Entertainment costs for events that only benefit staff members, such as staff recognitions, celebrations, events attended by staff only, food for staff, prizes/gifts, staff meals at restaurants, and related tips/gratuity.	N	
		Alcoholic beverages, sugar-sweetened beverages, bottled water, and tips/gratuity	N	
	Tele-communications	Percentage allocation of telecommunications costs for administrative staff.	Y	
	Miscellaneous	Nominal bank charges such as those required for maintaining a checking account.	Y	
		Bank fees such as interest, late/penalty fees, non-sufficient service fee/overdraft fees, cash advance fee, foreign exchange fees, and investment fees.	N	
		Credit card fees	N	
		Staff Incentives such as paid parking spaces, technology, or commuting stipends, and/or bonuses	N	Staff incentives that are not for direct program purposes are unallowable. DEC may use discretion in the approval of parking spots if used for direct program purposes.
		Personal costs.	N	
	Religious workshops, instruction or proselytization.	N		



	Miscellaneous (cont.)	Bad debts including losses and related collection and legal costs.	N	
		Political activities.	N	

Fundraising Costs
 Fundraising expenses are never allowable in City grants or contracts unless the program objective for the City grant is defined as fundraising and/or development capacity building. Departments may offer specific grants to support or enhance nonprofit capacity and in these cases any of the following costs may be allowable as direct program costs. When the program objective is not specific to fundraising activities, fundraising expenses are unallowable per federal and DEC guidelines.

Expense Category	Expense Type	Expense Description	Allowable (Y/N)
Fundraising Expenses	Salaries/ Fringe Benefits	Development Director or other staff with fundraising as a primary job role.	N
		Direct or percentage allocation of Executive Director salary and benefits for time spent in fundraising activities (e.g., per functional time sheet or time survey).	N
	Contractual Services	Fundraising consultant fees.	N
	Materials and Supplies	Office supplies (including postage) or percentage allocation of office supplies used by fundraising staff.	N
	Facilities/Utilities	Percentage allocation of rent and utilities used by fundraising staff.	N
		Space rental for fundraising events.	N
	Equipment	Percentage allocation of equipment used by fundraising staff.	N
	Transportation/ Travel	Transportation expenses incurred by fundraising staff.	N
	Insurance	Percentage allocation of insurance fees for required insurance policy maintenance costs such as commercial general liability, auto, workers compensation, and event insurance.	N
	Training	Staff development costs to pay registration or attendance fees for staff attending workshops or trainings aimed at building capacity for fundraising.	N
	Events	Fundraising event costs.	N
	Telecommunications	Allocation percentage of telecommunications costs for fundraising/advancement staff.	N
Miscellaneous	All expenses related to fundraising	N	

SUPPLEMENTAL GUIDANCE ABOUT THE TREATMENT OF COSTS

Click [here](#) for full text of the Office of Management and Budget (OMB) Uniform Guidance, Part 200 .

Salaries and Fringe Benefits

The current G-100 template for grant agreements provides an example of eligible costs as “net wages,” but does not define this term in the template. Per the payroll service ADP, “net wage” refers to the difference between the employee’s hourly wage minus a variety of deductions, some of which may be voluntary and others mandatory, resulting in the employee’s take home pay.²

Such deductions may include FICA, SUI, health and medical benefits, retirement benefits and/or worker’s compensation. Mandatory and voluntary deductions may be included as part of a “fringe benefits” line item.

While gross wages and certain fringe benefits are generally allowable costs in City contracts, when a contract is structured such that fringe benefits are captured as a rate that covers the cost of various mandatory and voluntary deductions, then only the portion of salaries net of these deductions may be included in the salary line item of the contract.

When negotiating contracts, DEC will need to understand how the contractor establishes a fringe benefit rate, which deductions to the salary may be included in that rate, and what other benefits may be added to that rate. DEC ensures that salary costs included in the contract are net of any deductions captured within the fringe benefit rate. As part of this review, DEC will also ensure that fringe benefits do not include other staff incentives that are deemed not allowable or not approved such as gym membership stipends, etc.

Reference: OMB Uniform Guidance Part 200 Section 200.430-200.431 Compensation – Personal Services & Fringe Benefits.

Subcontracts

Subcontracted services are allowable as direct costs when necessary to support the final cost objective of the contract. As such, these direct costs may be used in the calculation of the prime contractor’s indirect cost rate with some limitations. The prime contractor can charge indirect costs on the first \$50,000 of each subcontract at the approved indirect cost rate. Additional subcontract expenses beyond \$50,000 must be excluded from the indirect rate calculation.

Subcontractors may include³:

- Consultants: firms providing a consulting service as part of the program objective, such as an evaluator of a new initiative.

² “Gross pay vs. net pay: What’s the difference?” ADP. Accessed March 4, 2025.
<https://www.adp.com/resources/articles-and-insights/articles/g/gross-pay-vs-net-pay.aspx>.

³ This does not refer to subcontracts for goods, such as equipment purchases.



- Service Partner: other nonprofits subcontracted to provide a portion of the services in the contract, which may include providing direct client services.
- Professional Service Provider: a firm hired to perform a service for the prime contractor, such as a filmmaker hired to record a cultural event.

This federal requirement limits the amount a prime contractor may claim in its own indirect costs for services the prime contractor will not perform itself. Prime contractors should establish agreements with subcontractors that specify the terms of the subcontract agreement and payment schedule, and subcontractors may propose subcontract fees that include allocated administrative costs and shared costs for the direct services provided through the subcontract. A subcontractor's allocated costs are not impacted by the OMB's cap on the prime contractor's indirect rate associated with these costs.

Should contractors seek to hire subcontractors, they must refer to the contract to ensure allowability, and in most cases, DEC requires prior written approval to use contract funds on subcontractor costs. All subcontractor costs must be approved in the contract budget. Departments may use Appendix E of the G- 100 template or as approved by the City Attorney's Office, may use a supplemental process to document and approve subcontractors.

Reference: OMB Uniform Guidance Part 200 Section 200.1 Definitions - Modified Total Direct Cost (MTDC)

Indirect Rates and De Minimis Rates

Indirect rates and de minimis rates are cost reimbursement thresholds departments pre-set or negotiate with contractors. Typically, indirect rates pay for administrative costs necessary to execute a program. "De minimis rate" is the term the federal government uses to refer to a baseline allocation for indirect costs that does not require negotiation or cost allocation documents. Nonprofits may negotiate with the federal government to establish an indirect rate above the de minimis rate. The OMB raised the de minimis rate from 10% to 15% in the 2024 update of the Federal Financial Assistance Guide.

If a nonprofit has negotiated an indirect cost rate with the federal government, then departments must use this negotiated rate on federally-funded contracts with that nonprofit. If a nonprofit does not have a negotiated indirect cost rate with the federal government, then departments must use the de minimis rate of 15% on federally-funded contracts with that nonprofit. Departments should verify that the federal grant allows indirect costs to be charged prior to providing funding for the indirect rate within the contract.

When using federal funding, departments must abide by federal standards when setting indirect rates. General Fund contracts do not need to adhere to the de minimis rate established by the federal government. If there is no federal funding in a contract, departments have discretion to match a nonprofit's negotiated indirect rate with the federal government (if relevant) or may apply a different rate according to department policies.

The City has not established a uniform indirect rate for General Fund contracts. Departments have discretion to establish a single indirect rate used for all contracts and/or to negotiate with individual contractors to establish an indirect rate.

Reference: OMB Uniform Guidance Part 200 Subpart F Section 200.14 Indirect Costs – De Minimis Rate.



Capital Expenditures

Allowable Direct Cost.

Capital expenses, including capital improvements, are allowable unless prohibited by City Charter or a federal awarding agency.

OMB states that certain capital expenditures for general purpose land, buildings or equipment are unallowable except when approved in advance by the awarding agency. In such cases where federal funds are awarded to nonprofit service providers and the awarding agency has not explicitly allowed the use of these funds for general purpose capital expenditures, these costs are unallowable. City Charter prohibits the use of Children's Fund for capital expenditures.

For General Fund contracts and grants, and federally funded contracts and grants where such costs have been explicitly allowed by the awarding agency, the costs are only allowable with prior approval by the department. DEC may set funding caps and may require justification and other documentation prior to confirming costs in the grant or contract budget. Allowability does not guarantee funding for capital expenditures. DEC may make choices about the budget items prioritized for funding.

Capital expenditures must always be considered direct costs. If the building is used by multiple programs, the costs should be allocated using a reasonable methodology.

Reference: OMB Uniform Guidance Part 200 Subpart E Section 200.439 Equipment and Other Capital Expenditures.

Mortgage Principal

Not Allowable.

Principal mortgage costs are not allowable in City contracts or grants. Instead, the cost of the principal can be recovered through depreciation (see below).

Reference: OMB Uniform Guidance Part 200 Subpart E Section 200.436 Depreciation.

Mortgage Interest Fees

Allowable Direct Cost.

With certain restrictions, mortgage interest fees are allowable in City contracts and grants with nonprofits. To be considered allowable, the contract and/or grant must explicitly state this type of expense will be included in the budget and is allowable.

The cost of mortgage interest fees must also be reasonable, meaning they are ordinary, necessary, and in line with fair market value for comparable space. To be considered reasonable, grantees and contractors must demonstrate that the expense being charged to the City aligns with fair market value by providing quotes or similar cost-per-square-foot estimates for three comparable spaces.

Departments should verify fair market value prior to budget approval and may re-verify annually. If the mortgage interest expense exceeds fair market value, departments must cap allowable payments at fair market value to conform to the reasonable standard.



Mortgage interest fees are always direct program costs. If the building is used by multiple programs, the costs should be proportionally allocated to programs, administrative and fundraising cost centers according to actual usage by each cost center. Departments may request additional documentation necessary to verify the proportional share of space used for funded programs, or to verify fair market value of space.

For facilities acquisitions (excluding renovations and alterations) costs over \$10 million where the Federal government's reimbursement is expected to equal or exceed 40% of an asset's cost, the nonprofit organization must prepare, prior to the acquisition or replacement of the capital asset(s), a justification that demonstrates the need for the facility in the conduct of federally sponsored activities. Upon request, the needs justification must be provided to the Federal agency with cost cognizance authority as a prerequisite to the continued allowability of interest on debt and depreciation related to the facility.

Mortgage interest fees are unallowable in the following circumstances:

- Interest associated with subsequent loans against property for uses other than occupancy (i.e., a second mortgage) is unallowable.
- Interest attributable to a fully depreciated asset is unallowable.
- Interest in connection with acquisitions of capital assets that occurred prior to September 29, 1995 is unallowable.

Reference: OMB Uniform Guidance Part 200 Subpart E Section 200.449 Interest.

Depreciation

Allowable Indirect Cost.

Depreciation, both for real property and for equipment of over \$5,000 per unit, is an allowable cost. Depreciation is an indirect expense, which may be allocated to programs using a consistent and reasonable methodology.

To approve inclusion of depreciation in a nonprofit contract or grant budget, City departments should review a depreciation schedule provided by the nonprofit. Charges for depreciation must be supported by adequate property records, and physical inventories must be taken at least once every two years to ensure that the assets exist and are usable, used, and needed. In addition, adequate depreciation records showing the amount of depreciation taken each period must also be maintained.

Any portion of the property purchased using either federal or City General Fund dollars must be excluded from depreciation schedule. For example, if the City provides \$500,000 in capital investment for a \$1,000,000 building, the depreciation schedule should exclude the \$500,000 in City-funded capital. Nonprofits must note when City or federal sources funded any portion of capital costs for property.



Per Federal guidelines, a cost may not be treated as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated as an indirect cost.

However, there may be circumstances where indirect costs like depreciation may be allowable as direct costs.

Such special circumstances must be evaluated on a case-by-case basis. Items generally designated as indirect costs may be treated as direct costs if incurred for different purpose or in unlike circumstances. These costs may be charged directly when:

- The cost can be accurately identified with the specific cost objective;
- The cost is required by the scope of the project;
- The specific type and nature of the cost is significantly greater than ordinarily required by a sponsored project; and
- The cost is clearly disclosed and fully justified in the proposal budget and approved by the City in the grant or contract.

Reference: OMB Uniform Guidance Part 200 Subpart E Section 200.436 Depreciation.