

Best Practices for Indirect Cost Reimbursement July 2025



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Before We Begin - Accessibility

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What You Will Learn

- The most efficient and effective way to be reimbursed for your indirect costs.
- Options for requesting indirect cost reimbursement
- How to submit and update an indirect cost rate proposal.
- How to elect the de minimis indirect cost rate and how that will affect you.
- How to simplify your accounting system to facilitate indirect cost rate reporting and vouchering

Direct Costs

- **Direct costs** are costs for a specific program or project and that can be identified with a final cost objective, relatively easily and with a high degree of accuracy.
- When you are providing the same services to the same population, that is a single cost objective even if you have multiple funding sources for those services.
- When the services or the population being served is different, that is a separate cost objective.
- Fundraising is a separate cost objective



Indirect and Unallowable Costs

- **Indirect Costs** include general administrative and general expenses and include costs such as receptionist, accounting, rent and utilities for your business office and similar items that benefit all programs.
- **Unallowable costs** cannot be reimbursed either as direct or indirect costs, and include items such as alcoholic beverages, bad debts, certain advertising, public relations contributions, certain entertainment, fines and penalties, fundraising and lobbying. (2 CFR 200.420-476)
- Costs must be allowable, reasonable, and allocable.



How Indirect Costs are Reimbursed

- CILs and SILCs can apply to HHS for an indirect cost rate. Contact information can be found at <https://www.hhs.gov/about/agencies/asa/psc/indirect-cost-negotiations/contact-us/index.html>
- An example follows, but the nature of your organization, especially the funding it receives, and the base you select to apply indirect cost to, will affect the format.
- When approved, you will receive a provisional rate for the coming year based on your expected costs. Your formula is what gets approved.

How Indirect Costs are Reimbursed cont'd

- Example: Your indirect cost rate (IDCR) **proposal expects** a total of \$500,000 (direct) and \$120,000 (indirect). Your **actual expenses** turn out to be \$550,000 (direct) and \$125,000 (indirect).
 - Expected (Provisional) Rate: 24% (based on \$500,000 direct and \$120,000 indirect)
 - Actual IDCR Rate: 22.7% (based on \$550,000 direct and \$125,000 indirect)
- This gets adjusted each year after you have your final financial numbers.
- It is allowable for your IDCR to be less – but never more than – the negotiated rate.
- Once your IDCR is approved for that grant year, the grantee may apply to the agency for a one-time extension of that rate for up to four years.

How Indirect Costs are Reimbursed cont'd 2

- If you don't currently have an approved indirect cost rate in the past you can elect a 15% de minimus indirect cost reimbursement.
- Unlike the approved indirect cost rate, the 15% de minimis indirect cost rate only gets applied to modified total direct costs which are defined as direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$50,000 of each subaward. MTDC excludes equipment, capital expenditures, rental costs, participant support costs.

Simplifying the Process

- The level of detail in your Indirect Cost Rate Proposal should be similar to the level of detail in your statement of functional expenses or to your Form 990 if you issue a full form 990 rather than a Form 990 EZ.
- Simplify your record-keeping and your vouchering by using fewer categories and putting more items into indirect.
- Rule of thumb — if an expense category didn't total \$1,000 last year try combining it with something else.
- If you have more than 15 expense categories you are adding complexity without much benefit.

Simplifying the Process cont'd

- Rather than breaking each cost down separately, calculate the percentage of total program costs each funder is responsible for. Use these percentages to allocate expenses between funders for reporting or billing purposes.



Components of an Indirect Cost Rate Proposal

Your indirect cost rate proposal to HHS will include– (An Example Follows)

- An introduction to your organization with background information.
- An explanation of how you allocate costs.
- A schedule of federal funding you receive.
- A schedule of Payroll and Related Costs.
- A schedule of Direct and Indirect Costs with a calculation of the indirect cost rate % (see example).
- A reconciliation to your financial statements or 990
- A Certification of accuracy of information in the proposal.
- A Lobbying Cost Certificate.

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One Size Doesn't Fit All

- The following example is for a relatively simple CIL, we call PENN CIL, with a limited number of cost objectives and a limited number of funding sources.
- The example uses a “simplified allocation method,” which is appropriate where your cost objectives benefit from indirect costs to approximately the same degree.
- It also follows the “direct allocation method” which treats all costs as direct except general and administrative expenses.
- This procedure will work for most CILs.



Introduction

There is no set format for the introduction, but it should describe your organization information such as:

- Your legal and any DBA or known name.
- Your business office location and any other locations.
- The population you serve.
- The services you provide.
- The primary funding sources you receive.
- Your legal structure and governance (nonprofit corporation governed by an independent board).
- The approximate FTE staff size of your organization.
- Whether you own or lease your facility and an approximate size of the facility.



Description of How Costs are Allocated

The following information summarizes the procedures used by PENN CIL, Inc. beginning October 1, 2025.

- You must accurately describe how you allocate costs. The following format is typical.

EXAMPLE

PENN CIL follows US generally accepted accounting principles and uses the accrual basis of accounting.

The general approach of PENN CIL in allocating costs to particular grants and contracts is as follows:

- All allowable direct costs are charged directly to the cost objectives, program grants, activities, etc.

Description of How Costs are Allocated cont'd

- If an allowable direct cost benefits one or more cost objective(s), it is assigned directly to the cost objectives that it benefits based on the level of benefit they receive.
- All other allowable indirect costs (costs that benefit all cost objectives and cannot be identified to a specific cost objective) are pooled(combined) and allocated based on the procedures described below.

Description of How Costs are Allocated cont'd 2

Revise the following information to reflect your actual procedures

Payroll and Related Costs (taxes and benefits) are assigned to cost objectives based on timesheets which document actual work done. Payroll and related costs are charged directly to the cost objective for which services have been performed. Payroll and related costs that benefit all cost objectives are pooled and included with indirect costs.

Description of How Costs are Allocated cont'd 3

- Payroll taxes and fringe benefits (FICA, Unemployment Compensation, retirement, Worker's Compensation, health/dental/life insurances, disability, and other fringe benefits) are assigned in the same manner as salaries and wages.
- Vacation, holiday, and sick pay are assigned in the same manner as salaries and wages.

Description of How Costs are Allocated cont'd 4

- Rent and Utilities—
 - Occupancy costs that benefit **individual cost objectives** are allocated based on square footage used by each cost objective.
 - Occupancy costs that benefit **all cost objectives** are included with indirect and allocated as described below.
- Alternatively, allocate rent based on direct labor.
- Other—Allowable costs that benefit single or multiple cost objectives are assigned directly to those cost objectives. Costs benefiting all cost objectives are included with indirect.

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Questions



Schedule of Federal Funding

PENN CIL Schedule of Federal Award Spending (example)

Grantor	Pass thru	Assistance#	2024 Total \$	Expenditures	Period of Perf.
HHS VIIB		84.132A	\$400,000	\$400,000	10/1/25 - 9/30/26
HHS VIIC		96.008	\$90,000	\$390,000	7/1/25 – 6/30/26
Department of Labor	NY State	96.630	\$150,000	\$150,000	7/1/25 – 6/30/26

PENN CIL Attachment E – Scheduled of Payroll & Related Costs (example) Projected Payroll, Payroll Overhead and Indirect Allocation

Name	Position	Total	VIIB	VIIC	Local Prog	Fundraising	G&A
Richard	cost objective Director	71,000	17,750	39,050	10,650		3,550
Jane	Executive Director	74,000	7,400	22,200	7,400	11,100	25,900
Sally	Development Director	32,000				27,200	4,800
Brenda	Systems Manager	15,500					15,500
Stephanie	Deaf Services Coordinator	48,000		48,000			
Multiple	Counselor/Advocate (4)	185,000		185,000			
Multiple	Case Manager (3)	135,000		135,000			
Daniel	Accountant	42,000					42,000
Patti	Receptionist	31,000					31,000
	Totals	\$633,500	25,150	429,250	18,050	38,300	122,750
Payroll Overhead							
FICA		48,463					
SUTA		9,503					
Disability/Compensation		15,838					
Health/life		25,200					
	Totals	\$99,003					
	Payroll OH%	15.63%	3,930	67,083	2,821	5,985	19,183

Illustration of an Indirect Rate Calculation (example)

Indirect Costs

Payroll	122,750
Payroll OH	19,183
Outside Services	5,900
Rent	5,100
Utilities	1,270
Maintenance	2,600
Travel and Training	800
Depreciation	4,648
Telephone	7,572
Insurance	6,586
Dues and Subscriptions	3,500
Advertising	3,660
Office Supplies & Exp.	1,974
Other Exp.	<u>3,057</u>
TOTAL	\$188,600

Direct Costs

Payroll	510,750
Payroll OH	79,820
Outside Services	42,587
Rent	102,757
Utilities	11,597
Maintenance	37,580
Travel and Training	46,892
Program Supplies	<u>27,652</u>
TOTAL	\$859,635

Indirect Cost Rate

$$188,600 / 859,635 = 21.9\%$$

This is your proposed rate. The formula will determine the actual rate

Attachment G – Reconciliation to Financial Statements (example)

Explain any differences from your financials or 990

Total Direct Costs	859,635
Total Indirect Costs	188,600
Total Costs	1,048,235
Total expenses on financial	1,087,235
Difference	39,000

Explanation: Depreciation of equipment purchased with federal monies is excluded (-\$2,000)

The organization is adding an assistant Executive Director for the current year (+\$41,000)

Lobbying Cost Certificate

- I hereby certify that PENN CIL has complied with the requirements and standards on lobbying cost in 2 CFR 200 Subpart E, Section 200.450 for the fiscal year ended September 30, 2025
- Signature
- Name
- Title
- Date

(Signed by the official having the authority to negotiate indirect cost rates for the organization or by a higher-level official)

Certification

Certificate of Indirect (F&A) Costs

This is to certify that to the best of my knowledge and belief:

- (1) I have reviewed the indirect (F&A) cost proposal submitted herewith;
- (2) All costs included in this proposal [dated **August 31, 2025**] to establish billing or final indirect (F&A) costs rate for [the fiscal year **October 1, 2025 through September 30, 2026**] are allowable in accordance with the requirements of the Federal awards to which they apply and with Subpart E—Cost Principles of Part 200.
- (3) This proposal does not include any costs which are unallowable under Subpart E—Cost Principles of Part 200 such as (without limitation): public relations advertising, contributions and donations, entertainment costs, fines and penalties, lobbying costs, and defense of fraud proceedings;

Certification cont'd

- (4) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the Federal awards to which they are allocated in accordance with applicable requirements.

I declare that the foregoing is true and correct.

Nonprofit Organization:

Signature:

Name of Official:

Title:

Date of Execution:

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Questions



Final Thoughts

- You will need to do this calculation each year, so set up and save an Excel template or some other format that documents your process. You will use it in the future. Also save a record of your provisional rate history and final rate approvals.
- Any overcharges based on adjustments to actual may need to be paid back or adjusted into the subsequent year's rate.
- Any under billings will not be able to be recovered other than by a possible adjustment to a subsequent rate.



Final Thoughts cont'd

- Uniform Administrative Requirements §75.413(d) says that “any direct cost of a minor amount may be treated as indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all federal and non federal cost objectives”.
- Remember it is your method of determining your indirect cost rate that is approved. Your actual rate will probably vary each year.
- §75.414(c) states that the negotiated rates must be accepted by all Federal awarding agencies. Limited exceptions follow.

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Resources

- The IL T&TA Center is available to answer questions, provide guidance, and review proposals. Your Program Officer is also available to provide additional guidance.
- **Guide for Indirect Cost Rate Determination**
 - <https://www.dol.gov/sites/dolgov/files/OASAM/legacy/files/DCD-2-CFR-Guide-vvh-508.pdf>
(No HHS guidance was found at the time of this writing).
- **Classification of Costs, Direct Costs, Indirect Costs, Required Certifications**
 - 2 CFR 200.412 – 415 <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E/subject-group-ECFRd93f2a98b1f6455/section-200.412>
- **Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations**
 - Appendix IV to Part 200 - <https://www.ecfr.gov/current/title-2/part-200/appendix-Appendix%20IV%20to%20Part%20200>

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CIL Financial Management Resources

- IL-NET Financial Management for CILs
<http://www.ilru.org/topics/cil-financial-management>
- If you do not find the material at this link, you can locate documents on ILRU.org by either using the link “CIL Financial Management” on the Browse by Topic navigation bar or by searching for “financial management.”



Evaluation

Thank you for participating in today's training.

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Contact Information

Independent Living Training & Technical Assistance Center

Rural Institute for Inclusive Communities at the University of Montana

 (406) 243-5300

 ilttacenter@mso.umt.edu

 www.ILTTACenter.org

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The Independent Living Training & Technical Assistance Center is on assignment with the U.S. Department of Health and Human Services, Administration for Community Living.

Independent Living Training and Technical Assistance Center

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The IL T&TA Center provides **expert training and technical assistance** to Centers for Independent Living (CILs), State Independent Living Councils (SILCs), and Designated State Entities (DSEs).

The Center is operated by the University of Montana's **Rural Institute for Inclusive Communities**.

