



**Mayor's Office of Housing  
& Community Development  
(MOHCD)**

**London N. Breed**  
Mayor

**Kate Hartley**  
Director

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**TO: Nonprofit Grantees of MOHCD**

**SUBJECT: Direct and Indirect Cost Guidance**

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Per recommendations of the FY 2016-17 Mayor's Nonprofit Working Group, and in close consultation with the Mayor's Budget Office, City departments and nonprofits in San Francisco, the Controller's Office has developed guidance on the treatment and allowability of direct and indirect costs in City grants and contracts with nonprofit service providers.

See Appendix A for the draft summary matrix created by the Controller's Office. The matrix represents general guidance on the treatment of direct and indirect costs, but it is not possible to specify the treatment of costs in every situation. Further, the matrix documents which cost categories are allowable in City contracts and grants generally. Allowability may vary due to specific funding source restrictions. Even if cost is allowable per the matrix, departments may make choices about the budget items they prioritize for funding and may employ additional approval mechanisms or caps on certain cost categories. See Appendix B for supplemental guidance about the treatment of costs, including capital expenditures, mortgage costs, and depreciation.

The matrix is a starting point, but requires training for City staff and nonprofits alike to have a shared understanding of the policy and its application. The Controller's Office offers training to nonprofits and City staff annually on issues of budget development and cost allocation procedures through the [Citywide Nonprofit Monitoring and Capacity Building Program](#).

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### **MOHCD-Specific Cost Guidance**

1. For Contractual Services where the subcontractor provides direct services to clients, the grantee must fulfill the following compliance requirements:
  - a. Retain documentation that procurement procedures in the grantee's fiscal policies and procedures were followed;
  - b. Ensure legally binding agreements between the grantee and subcontractors are valid and current, and include a scope of work and deliverables; and
  - c. Retain documentation that the grantee regularly monitors the fiscal and programmatic performance of the subcontractors (including monitoring of invoices).
  
2. Capital improvement costs for real property are funded through MOHCD's Capital Projects Program and typically would not be funded through a Public Services grant award.

Please contact Mike King, Manager of Program Evaluation and Operations, at [michael.king@sfgov.org](mailto:michael.king@sfgov.org) and (415) 701-4228 if you have any questions about the City's or MOHCD's cost guidance.

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## APPENDIX A: PROPOSED COST CATEGORIZATION MATRIX

Category	Expense Type	Expense Description	Allowable	Unallowable	Notes
<i>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 have complete discretion in funding decisions and may choose to prioritize funding for certain costs over others. 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.</i>					
<b>Direct Personnel Expenses</b>	<b>Salaries</b>	Salaries of all program staff, supervisory staff, and support/clerical staff that work directly on programs.	x		
		Bonuses paid to staff.		x	
		Severance payments to former staff.		x	
	<b>Fringe Benefits</b>	Fringe Benefits such as FICA, SUI, health and medical benefits, retirement benefits, and payout for unused staff vacation or compensation time.	x		
		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.		x	
		Lump sum payout of unused vacation or compensatory time		x	
<b>Stipends</b>	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.	x		CDBG funds may not be used for stipends (not allowable). Stipends over threshold amount may be considered salaries.	
<b>Direct Contract Expenses</b>	<b>Contractual Services</b>	Contractual Services provided to program participants or agency by consultants, independent contractors, or other entities that are non-staff individuals. Professionals provide highly technical or specialized services to the agency or program.	x		Contractual Services may require a supplemental approval process prior to placing costs into the grant budget.
		Contractual services done by the subcontractor's subcontractor.		x	

Category	Expense Type	Expense Description	Allowable	Unallowable	Notes
Direct Non-Personnel Expenses	Materials and Supplies	Materials and supplies used in the operation of the program and consistent with the type of services provided by the program. Includes project supplies, office supplies, postage.	x		
	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.	x		
		Facilities or occupancy costs such as property taxes, loans against own property, security deposits, and acquisitions or leases of real property.		x	
	Utilities	Percentage allocation of utilities, such as gas, electric, and water bill, used by each program.	x		
	Equipment	Equipment purchase, lease, and maintenance costs that directly benefit program participants. Includes computers, IT systems, furniture, ongoing or one-time lease, printers, and photocopying equipment. Includes direct costs or percentage allocation of shared equipment used by each program.	x		
		Depreciation on purchased equipment.			Certain federal funding sources may restrict use of funding on these costs. Costs must be approved by the awarding department. See Supplemental Guidance for details.
	Transportation/ Travel	Transportation and travel costs used for the program. Includes local transportation, out-of-town travel for program purposes, and	x		Out-of-area travel may require a supplemental approval process prior to

Category	Expense Type	Expense Description	Allowable	Unallowable	Notes
		field work. Includes mileage, vehicle rental, tolls, gas, parking fees, air travel, and ground transportation if staff are required to travel to perform scope of funded services.			placing costs into the grant budget.
		Vehicle purchase (and related costs) as required to perform scope of funded services	x		Most departments require a pre-approval process prior to placing vehicle purchase into the grant budget.
		Parking/moving violations.		x	
	<b>Training</b>	Staff development costs used to pay registration or attendance fees for staff to attend workshops or trainings aimed to build capacity for the program. Staff development costs such as out-of-town conference transportation, lodging, food or per diem for staff.	x		Training costs and travel associated with staff development may require a supplemental approval process prior to placing costs into the grant budget.
	<b>Events and Food</b>	Events and field trip costs related to the program. Includes vehicle rentals for participants, transportation for participants, food/meals for participants, and costs of permits needed for events.	x		CDBG funds may not be used for food or entertainment for participants (not allowable).
		Events and field trip costs for events that only benefit staff members, such as staff recognitions/celebrations, events attended by staff only, food for staff, staff meals at restaurants, alcoholic beverages, and tips/gratuity.		x	
	<b>Incentives</b>	Incentives for program participants. Includes gift cards, honoraria, and award for participants, speakers, and volunteers.	x		CDBG funds may not be used for incentives (not allowable).
	<b>Insurance</b>	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	x		

Category	Expense Type	Expense Description	Allowable	Unallowable	Notes
		policies or percentage allocation of applicable agency-wide insurance costs.			
	<b>Tele-communications</b>	Telecommunications costs used for the program. Includes telephone, fax, and internet and cell phones used for programmatic purposes.	x		
	<b>Capital and Mortgage</b>	Capital costs for real property necessary for the delivery of programs.	x		Certain federal funding sources may restrict use of funding on these costs. See Supplemental Guidance for details.
		Mortgage Principal.		x	See Supplemental Guidance for details.
		Mortgage interest fees on real property used in the delivery of programs.	x		Certain federal funding sources may restrict use of funding on these costs. See Supplemental Guidance for details.
		Mortgage interest attributable to fully depreciated assets.		x	
	<b>Miscellaneous</b>	Professional licenses for staff, if required for program.	x		
Job posting and finger-printing of staff, if required for program.		x			
<p><i>At departmental discretion, indirect costs may be capped at 15% for General Fund grants, and at least 10% for federally-funded grants. If an agency has a federally-approved indirect cost rate, departments will use this rate for federally-funded grants, but may not use that rate in General Fund grants. Departments may require itemization of indirect costs in the grant budget, but do not generally require itemization of indirect costs in subsequent invoices.</i></p>					
<b>Administrative/ Indirect Expenses</b>	<b>Salaries/ Fringe Benefits</b>	Direct or percentage allocation of Executive Director salary and benefits for time spent in administrative activities excluding fundraising (e.g., per functional time sheet or time survey).	x		
		Chief financial officer salary and benefits.	x		
		Other administrative staff salaries.	x		
		Accounting services and bookkeeping.	x		
		Payroll fees and other HR expenses.	x		

Category	Expense Type	Expense Description	Allowable	Unallowable	Notes
		Information technology staff salaries.	x		
	<b>Contractual Services</b>	Audit fee.	x		
		Fiscal agent fee.	x		Departments may have caps on the maximum amount of fiscal agent fees that can be included in the budget.
		Administrative IT system costs (e.g., QuickBooks).	x		
		Website design, maintenance or hosting services.	x		
	<b>Materials and Supplies</b>	Office supplies or percentage allocation of office supplies used by administrative staff.	x		
		Materials and supplies associated with board meetings.	x		
	<b>Facilities/Utilities</b>	Percentage allocation of rent and utilities used by administrative staff.	x		
		Depreciation on real property	x		See Supplemental Guidance for details.
	<b>Equipment</b>	Percentage allocation of equipment used by administrative staff; depreciation on purchased equipment.	x		
	<b>Transportation/Travel</b>	Transportation expenses incurred by administrative staff.	x		
	<b>Insurance</b>	Percentage allocation of insurance fees for required insurance policy maintenance costs such as commercial general liability, auto, workers compensation, and event insurance.	x		
		Directors and Officers insurance fees.	x		
	<b>Training</b>	Staff development costs used to pay registration or attendance fees for staff to attend workshops or trainings aimed to build capacity for the agency overall (e.g., attended by finance or HR staff).	x		
	<b>Events</b>	Agency-wide events without specific program benefit (e.g., open house).	x		

Category	Expense Type	Expense Description	Allowable	Unallowable	Notes
	<b>Tele-communications</b>	Percentage allocation of telecommunications costs for administrative staff.	x		
	<b>Miscellaneous</b>	Nominal bank charges such as those required for maintaining a checking account.	x		
		Bank fees such as interest, late/penalty fees, non-sufficient service fee/overdraft fees, cash advance fee, foreign exchange fees, credit card fees.		x	
		Personal costs.		x	
		Religious workshops, instruction or proselytization.		x	
		Bad debts including losses and related collection and legal costs.		x	
		Political activities.		x	
<i>Fundraising expenses are never allowable in City grants or contracts.</i>					
<b>Fundraising Expenses</b>	<b>Salaries/ Fringe Benefits</b>	Development Director or other staff with fundraising as a primary job role.		x	
		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).		x	
	<b>Contractual Services</b>	Fundraising consultant fees.		x	
	<b>Materials and Supplies</b>	Office supplies (including postage) or percentage allocation of office supplies used by fundraising staff.		x	
	<b>Facilities/Utilities</b>	Percentage allocation of rent and utilities used by fundraising staff.		x	
		Space rental for fundraising events.		x	
	<b>Equipment</b>	Percentage allocation of equipment used by fundraising staff.		x	
	<b>Transportation/Travel</b>	Transportation expenses incurred by fundraising staff.		x	
<b>Insurance</b>	Percentage allocation of insurance fees for required insurance policy maintenance costs		x		

Category	Expense Type	Expense Description	Allowable	Unallowable	Notes
		such as commercial general liability, auto, workers compensation, and event insurance.			
	<b>Training</b>	Staff development costs used to pay registration or attendance fees for staff to attend workshops or trainings aimed to build capacity for fundraising.		x	
	<b>Events</b>	Fundraising event costs.		x	
	<b>Tele-communications</b>	Percentage allocation of telecommunications costs for fundraising staff.		x	

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## APPENDIX B: SUPPLEMENTAL GUIDANCE ABOUT THE TREATMENT OF COSTS

For full text of the Office of Management and Budget (OMB) Uniform Guidance, visit: <https://www.ecfr.gov/cgi-bin/text-idx?SID=0d3c684a605f5b420152ed1a47e415da&mc=true&node=pt2.1.200&rgn=div5>

### 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. The Department of Children, Youth and Their Families includes all associated costs, including mortgage interest costs and depreciation, in this prohibition.

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 pre-approval by the department. Departments 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. Departments may make choices about the budget items they prioritize 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) costing 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 costs in connection with acquisitions of capital assets that occurred prior to September 29, 1995.

*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 always 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.

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

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