



# Indirect Cost Rate Agreement and Rate Proposal Guidance

## What are Indirect Costs and the Indirect Cost Rate?

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Indirect costs are costs that are incurred for common or joint objectives and cannot be readily identified with a particular final cost objective, without requiring excessive administrative burden. They are costs or expenses that cannot be identified or tracked to a single activity, project, job, or contract or costs that apply to more than one project. To the extent that indirect costs are reasonable, allowable, and allocable, they are a legitimate cost of doing business payable under a Federal award. Examples of common indirect costs include office space rental, utilities, and clerical and managerial staff salaries.

The indirect cost rate results from dividing the allowable indirect cost pool dollars by the selected direct base dollars. When expressing an indirect cost rate, it is always important to express both the percentage and the base to which it applies (e.g., 28.44% of Total Direct Costs).

## What is a Negotiated Indirect Cost Rate Agreement?

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Indirect costs are not charged directly to Federal awards but are allocated equitably to the organization's activities, typically through the development and application of an Indirect Cost Rate Agreement. The organization will negotiate an Indirect Cost Rate Agreement, commonly called a Negotiated Indirect Cost Rate Agreement (NICRA) with its cognizant Federal agency. This agreement describes what proportion of indirect cost each program should bear in a fair and convenient manner within the boundaries of sound administrative principles. The indirect cost rate is designed to provide a method for cost recovery, and it is an equitable, logical, and consistent process for allocating costs not directly associated with a single grant, project, or cost objective.

## Who needs a Negotiated Indirect Cost Rate Agreement?

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Any organization that requests indirect costs on cost reimbursable grants and cooperative agreements or has more than one source of funding (including direct Federal funding), may require a negotiated indirect cost rate agreement. If an organization has only one Federal award, the Department of Energy (DOE) Office of Clean Energy Demonstrations (OCED) may decide NOT to negotiate an Indirect Cost Rate Agreement but agree on an award specific rate.

## Which Federal agency issues a Negotiated Indirect Cost Rate Agreement?

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A recipient's Federal cognizant agency is responsible for negotiating a NICRA with them. Unless specifically assigned by the Office of Management and Budget, the Federal agency which provides the most in direct funding is normally the organization's cognizant agency. If it appears that DOE will be the organization's cognizant agency, please contact the cognizant OCED Grants and Agreements Officer for further information and guidance.

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*This guidance document does not supersede Federal laws and regulations. This OCED guidance document is for informational purposes only and is not a requirements document. If there are inconsistencies between this OCED guidance document and any specific program or project document, the specific OCED program or project document should be relied upon as it is the controlling document.*

Because indirect cost recovery can be limited on OCED awards and could require post-award adjustments, applicants and award recipients should ensure they understand the limitations relating to indirect cost recovery. These limitations will be specified in the award letter, other award document, or the NICRA.

## What are the different types of Indirect Cost Rates?

**Provisional:** A provisional, or billing rate, is a temporary indirect cost rate applicable to a specified period and is used for interim billings, pending the establishment of a final rate for the period.

**Final:** A final indirect cost rate is applicable to a specified past period based on the actual costs of the period. A final indirect cost rate is not subject to adjustment. Note that a final indirect cost rate is established after an organization's actual costs are known, typically a fiscal year. Once established, a final indirect cost rate is used to adjust the claimed indirect costs.

**Predetermined:** A predetermined indirect cost rate is applicable to a specified current or future period, usually the organization's fiscal year. The rate is based on an estimate of the costs to be incurred during the period. A predetermined rate is not subject to adjustment. A predetermined rate may be negotiated for use on Federal awards when there is reasonable assurance, based on past experience and reliable projection of the organization's costs, that the rate is not likely to exceed a rate based on the organization's actual costs.

**Fixed:** A fixed rate is an indirect cost rate with the same characteristics as a predetermined rate, except that the difference between the estimated and actual costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

**De minimis – up to 15%:** [2 CFR § 200.414\(f\)](#) specifies that recipients or subrecipients that do not have a current Federal negotiated indirect cost rate (including provisional), may elect to charge a de minimis rate of up to 15% of modified total direct costs (MTDC). The recipient or subrecipient is authorized to determine the appropriate rate up to this limit. No documentation is required to justify the de minimis indirect cost rate and the rate may be used indefinitely. Costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both. If chosen, this methodology must be used consistently for all Federal awards until such time as a recipient or subrecipient chooses to negotiate for a rate, which the recipient or subrecipient may apply to do at any time. For this purpose, terms recipient and subrecipient are defined in [2 CFR § 200.1](#). A recipient or subrecipient is a non-Federal entity, such as a state, local government, Indian Tribe, institution of higher education (IHE), or nonprofit organization, which carries out a Federal award. The definition of a non-Federal entity also includes for-profit organizations, as stated in [2 CFR § 910.122\(a\)](#).

## What are the Federal requirements for Indirect Cost Proposals?

Indirect cost proposals must follow the applicable cost principles appropriate to the organization type.

States, local governments, Indian tribes, Institutions of Higher Education, and nonprofit organizations are subject to [2 CFR Part 200](#), including the indirect costs regulation at [2 CFR § 200.414](#). For entities other than for-profits, [2 CFR § 200.414\(e\)](#) specifies the requirements for the development and submission of indirect cost rate proposals. The relevant sections to OCED awards are:

- Institutions of Higher Education must follow [2 CFR Part 200, Appendix III](#)
- Non-profit Organizations must follow [2 CFR Part 200, Appendix IV](#)
- States, local governments, and Indian Tribes must follow [2 CFR Part 200, Appendix VII](#), but states and local governments can submit a Cost Allocation Plan with or in lieu of an Indirect Cost proposal consistent with [2 CFR Part 200, Appendix V](#).
- For-Profit Organizations must follow the [Federal Acquisition Regulation Part 31 Subpart 31.2](#) and prepare indirect cost rates consistent with [FAR 31.203](#).

## Sample Indirect Cost Rate Proposals

The following is an example of Indirect Cost Rate Proposal methodologies using the Single Rate Method and Two Rate Method. These examples are meant as a resource for OCED selectees and recipients when preparing Indirect Cost Rate Proposals.

### Indirect Rate Proposal – Single Rate Method

The following is a sample Indirect Rate Proposal using the Single Rate Method, which is the simplified method for allocating indirect costs. This method is typically applicable to a small business with less than \$10 million or less than 25 employees. This method groups all allowable indirect costs, including fringe, into a single pool.

The following is a step-by-step process of how to use the information from the organization's General Ledger to develop an indirect rate.

#### Step 1: Develop List of Accounts

Start the process by compiling a list of all accounts in the General Ledger, along with the Account Number, Account Name, and the dollars that equate to the most recent fiscal year of incurred costs/expenses. If the business is new and no costs/expenses have been incurred, use best judgment to estimate the cost of budgeted amounts for the accounts in the General Ledger.

#### Step 2: Segregate Direct Costs from Indirect Costs

The second step is to determine which accounts/costs in the General Ledger can be considered direct costs to a single project or indirect costs to two or more projects. Evaluate each expense in the General Ledger to determine if the expense should be divided into separate direct and indirect accounts.

For example, salaries and wages can be charged as a direct cost in some situations and as an indirect cost in other situations. Therefore, salaries and wages would be separated into two distinct account numbers in the General Ledger to separate direct salaries from indirect salaries. Other cost/expenses that may be identified as direct or indirect depending on the circumstance are travel, supplies, equipment, and subcontracts.

Costs identified as direct in the General Ledger must track in corresponding subsidiary ledgers with unique account numbers to each project or job. For example, direct salaries/labor can be accumulated into one direct account number in the General Ledger, but in subsidiary ledgers, the direct salaries must be identified to individual projects using unique account numbers. To be considered compliant, the government requires a job order cost accounting system.

#### Step 3: Segregate Unallowable Costs

Once the costs in the General Ledger are separated into direct and indirect accounts, costs that may be considered unallowable for Federal awards must be identified and removed from the total indirect cost pool. Unallowable costs are identified in the cost principles for each type of organization. It is essential to read the appropriate Cost Principles to identify the types of costs that are considered unallowable. The sample General Ledger below identifies some unallowable costs (outlined in red). The sample is not a complete list.

#### Step 4: Consider Adjustments to Historical Expenses

Selectees must consider the impact the pending award will have on their financial status. In some cases, the historical cost accumulated as part of Step 1 above may need to be adjusted to better reflect the financial situation after receipt of the award.

As an example, if all expenses in the General Ledger will increase in the same proportion, there would be no impact on the resulting indirect rate result calculation in Step 7 below. However, if direct labor goes up significantly but other indirect expenses do not increase in proportion, the result would be a decrease to the indirect rate calculated in Step 7 below.

Therefore, the selectee preparing the Indirect Rate Proposal should perform a cursory review of the nature and magnitude of the accumulated historical expenses and make appropriate adjustments to ensure that the resulting indirect rate is the best representation of your business during the period of performance of the award. If historical costs are adjusted, please provide the original historical cost, the adjusted costs, and a written descriptive summary of the business assumptions used in determining the adjusted costs when submitting the Indirect Rate Proposal.

#### **Step 5: Sum the Total of the Indirect Cost Pool (numerator)**

Add the total of all allowable indirect costs that are segregated in Step 3 above. This will be the “pool” or top number (numerator) when dividing to compute the indirect rate. Please ensure that there are no unallowable costs included.

#### **Step 6: Select the Base – Federal and non-Federal (denominator)**

The base used to allocate the indirect costs is usually Total Direct Labor or Total Direct Costs of all projects/programs/activities. In the example below, Total Direct Labor Costs is used as a base.

The direct labor costs (both Federal and non-Federal projects) segregated in Step 2 above will be the “base” of allocation or the bottom number (denominator) for calculating the indirect rate. Normally there are no unallowable direct costs, but if there are, they need to be left in the base so indirect costs are allocated equitably.

#### **Step 7: Calculate the Indirect Rate (Pool/Base)**

Divide the pool amount in Step 5 above by the base amount in Step 6. This will be the indirect rate as a percentage of the base selected.

**SAMPLE GENERAL LEDGER:** Please note that the General Ledger (below is only a sample). The selectee should use their own account names and numbers when developing their indirect rate proposal.

ACCT #	ACCOUNT NAME	GENERAL LEDGER	DIRECT COST	INDIRECT COST	UNALLOW	INDIRECT-CLAIMED
6110	Salaries and Wages	\$ 1,924,494	\$ 1,924,494	\$ -	\$ -	\$ -
8110	Salaries and Wages	\$ 123,067	\$ -	\$ 123,067	\$ -	\$ 123,067
8210	Holiday	\$ 22,502	\$ -	\$ 22,502	\$ -	\$ 22,502
8211	Vacation	\$ 31,252	\$ -	\$ 31,252	\$ -	\$ 31,252
8212	Sick Leave	\$ 15,318	\$ -	\$ 15,318	\$ -	\$ 15,318
8213	Severance Pay	\$ 32,419	\$ -	\$ 32,419	\$ -	\$ 32,419
8214	FICA Employer Portion	\$ 27,427	\$ -	\$ 27,427	\$ -	\$ 27,427
8215	Federal Unemployment Insurance	\$ 1,393	\$ -	\$ 1,393	\$ -	\$ 1,393
8216	State Unemployment Insurance	\$ 6,722	\$ -	\$ 6,722	\$ -	\$ 6,722
8217	Workers' Compensation	\$ 3,826	\$ -	\$ 3,826	\$ -	\$ 3,826
8218	Health Insurance	\$ 40,009	\$ -	\$ 40,009	\$ -	\$ 40,009
8219	Life Insurance	\$ 7,920	\$ -	\$ 7,920	\$ -	\$ 7,920
8220	Pension Plan	\$ 60,638	\$ -	\$ 60,638	\$ -	\$ 60,638
8221	Recruitment	\$ 285	\$ -	\$ 285	\$ -	\$ 285
8222	Relocation	\$ 1,216	\$ -	\$ 1,216	\$ -	\$ 1,216
8223	Personal Absence	\$ 1,082	\$ -	\$ 1,082	\$ -	\$ 1,082
6310	Travel	\$ 35,173	\$ 35,173	\$ -	\$ -	\$ -
8310	Travel	\$ 12,987	\$ -	\$ 12,987	\$ 2,500	\$ 10,487
6320	Material	\$ 843,192	\$ 843,192	\$ -	\$ -	\$ -
6330	Other Direct Cost	\$ 187,493	\$ 187,493	\$ -	\$ -	\$ -
6340	Subcontracts-contractual	\$ 944,841	\$ 944,841	\$ -	\$ -	\$ -
6350	Supplies	\$ 25,000	\$ 25,000	\$ -	\$ -	\$ -
8350	Supplies	\$ 15,014	\$ -	\$ 15,014	\$ -	\$ 15,014
6360	Equipment Rental	\$ 15,000	\$ 15,000	\$ -	\$ -	\$ -
8360	Equipment Rental	\$ 12,150	\$ -	\$ 12,150	\$ -	\$ 12,150
8410	Legal Fees	\$ 1,744	\$ -	\$ 1,744	\$ -	\$ 1,744
8420	Audit Fees	\$ 12,361	\$ -	\$ 12,361	\$ -	\$ 12,361
8430	Miscellaneous	\$ 3,969	\$ -	\$ 3,969	\$ -	\$ 3,969
8503	Entertainment	\$ 484	\$ -	\$ 484	\$ 484	\$ -
8505	Advertising & Promotion	\$ 354	\$ -	\$ 354	\$ -	\$ 354
8520	Periodicals	\$ 6,435	\$ -	\$ 6,435	\$ -	\$ 6,435
8522	Bad Debts	\$ 3,018	\$ -	\$ 3,018	\$ 3,018	\$ -
8523	Business Meals	\$ 2,702	\$ -	\$ 2,702	\$ -	\$ 2,702
8524	Depreciation/Amortization	\$ 2,824	\$ -	\$ 2,824	\$ -	\$ 2,824
8525	Dues/Memberships	\$ 2,112	\$ -	\$ 2,112	\$ -	\$ 2,112
8526	Conventions/Seminars	\$ 7,936	\$ -	\$ 7,936	\$ 2,000	\$ 5,936
8527	Interest Expense	\$ 1,001	\$ -	\$ 1,001	\$ 1,001	\$ -
8531	Insurance	\$ 738	\$ -	\$ 738	\$ -	\$ 738
8535	Repairs/Maintenance	\$ 1,681	\$ -	\$ 1,681	\$ -	\$ 1,681
8537	Telecopier	\$ 2,434	\$ -	\$ 2,434	\$ -	\$ 2,434
8539	Telephone	\$ 45,552	\$ -	\$ 45,552	\$ -	\$ 45,552
8539	Temp Help/Contract Labor	\$ 1,816	\$ -	\$ 1,816	\$ -	\$ 1,816
8540	Small Equipment	\$ 878	\$ -	\$ 878	\$ -	\$ 878
8542	Postage & Handling	\$ 6,235	\$ -	\$ 6,235	\$ -	\$ 6,235
8553	Office Supplies	\$ 6,461	\$ -	\$ 6,461	\$ -	\$ 6,461
8554	Other Outside Services	\$ 30,281	\$ -	\$ 30,281	\$ -	\$ 30,281
	<b>TOTAL</b>		\$ 3,975,193	\$ 556,243	\$ 9,003	\$ 547,240
			Base-Direct Labor			Pool
	INDIRECT COST POOL	\$ 547,240				
	BASE = (DIRECT LABOR)	\$ 1,924,494				
	<b>INDIRECT RATE</b>	<b>28.44%</b>				

## Indirect Rate Proposal – Two Rate Method (Fringe Rate and Indirect Rate)

The following is a sample Indirect Rate Proposal using the two rate method. While the Single Rate Method discussed above is more simplified, the Two Rate Method is the more common approach and includes separating out fringe costs from indirect costs.

### Step 1: Develop List of Accounts

Start the process by compiling a list of all accounts in the General Ledger, along with the Account Number, Account Name, and the dollars that equate to the most recent fiscal year of incurred costs/expenses. If the business is new and no costs/expenses have been incurred, best judgment is needed in estimating the cost of budgeted amounts for the accounts in the General Ledger.

## Step 2: Segregate Direct Costs, Fringe Costs, and Indirect Costs

The second step is to separate accounts/costs in the General Ledger into three categories, direct costs, fringe costs, or indirect costs. First, separate out employee benefits or fringe costs. Next, determine which costs are direct or indirect after the fringe is separated.

## Step 3: Segregate Unallowable Costs

Once the costs in the General Ledger are separated into direct and indirect accounts, identify any cost that may be considered unallowable for Federal awards and remove them from the total indirect cost pool. Unallowable costs are identified in the cost principles for each type of organization. It is essential to read the appropriate Cost Principles to identify the types of costs that are considered unallowable. The sample General Ledger below identifies some unallowable costs (outlined in red). The sample is not a complete list.

## Step 4: Consider Adjustments to Historical Expenses

Selectees must consider the impact the pending award will have on their financial status. In some cases, the historical cost accumulated as part of Step 1 above may need to be adjusted to better reflect the financial situation after receipt of the award.

As an example, if all expenses in the General Ledger will increase in the same proportion, there would be no impact on the resulting Indirect Rate result calculation in Step 7 below. However, if direct labor goes up significantly but other indirect expenses do not increase in proportion, the result would be a decrease to the Indirect Rate calculated in Step 7 below.

Therefore, the selectee preparing the Indirect Rate Proposal should perform a cursory review of the nature and magnitude of the accumulated historical expenses and make appropriate adjustments to ensure that the resulting indirect rate is the best representation of your business during the period of performance of the award. If historical costs are adjusted, please provide the original historical cost, the adjusted costs, and a written descriptive summary of the business assumptions used in determining the adjusted costs when submitting the Indirect Rate Proposal.

## Step 5: Identify the Fringe Pool (numerator)

As described in Step 2 above, the General Ledger cost elements must be separated into three cost groupings/pools. As seen in the sample General Ledger below, the first grouping of costs could be the fringe pool, which will include the expenses incurred by the business for the employees (i.e., Federal Unemployment Insurance Tax (FUTA), State Unemployment Insurance Tax (SUTA), employer share of social security taxes, health insurance/medical, etc.). Add up the total of these costs to determine the Fringe Pool.

## Step 6: Identify the Fringe Base (denominator)

The base for allocating fringe will be the total of direct and indirect salary and wages.

## Step 7: Compute the Fringe Rate

Divide the total from Step 5 above by the total from Step 6. This will be the Fringe Rate, which will be applied to both direct and indirect salaries and wages (total labor cost).

## Step 8: Distribute the Fringe Expense to Direct and Indirect Columns

The Fringe Rate calculated in Step 7 above can now be used to distribute or allocate the fringe expense to the Direct and Indirect Expense Columns. Use the calculated Fringe Rate from Step 7 and multiply the amount of total direct labor dollars. Manually enter the amount in the Direct Expense column of the General Ledger.

This fringe amount will now be considered part of the Total Direct Costs. In preparing a Budget (SF-424A), the computed Fringe Rate will be multiplied by the amount of direct labor in Block 6a and the amount entered in Block 6b.

Similarly, multiply the Fringe Rate computed in Step 7 above by the indirect labor dollars. Manually enter the amount in the Indirect Expense column in the General Ledger. The Fringe in the Indirect Expense column will now become part of the "indirect pool" described in Step 9 below.

### Step 9: Sum the Indirect Pool (numerator)

Add the total of all allowable indirect costs that are segregated in Step 3 above. This will be the "pool" or top number (numerator) when dividing the indirect rate. Please ensure that there are no unallowable costs included or any costs in the indirect cost pool that are also claimed in the base in Step 5 above. Also note that the Indirect Pool includes the fringe computed on indirect labor in Step 8 above.

### Step 10: Identify the indirect cost base (denominator)

The base (or denominator) for computing the indirect rate is commonly Direct Labor which was used in the example below. Other bases such as Total Direct Costs can also be used if appropriate.

**SAMPLE GENERAL LEDGER:** Please note that the General Ledger below is only a sample. The selectee should use their own account names and numbers when developing their indirect cost rate proposal.

ACCOUNT #	ACCOUNT NAME	ANNUAL TOTAL	DIRECT	FRINGE	INDIRECT	UNALLOWABLE	INDIRECT-CLAIMED
8210	Holiday	\$ 22,502			22502		
8211	Vacation	\$ 31,252			31252		
8212	Sick Leave	\$ 15,318			15318		
8213	Severance Pay	\$ 32,419			32419		
8214	FICA-Employer Portion	\$ 27,427			27427		
8215	Federal Unemployment Insurance	\$ 1,393			1393		
8216	State Unemployment Insurance	\$ 6,722			6722		
8217	Workders' Compensation	\$ 3,826			3826		
8217	Health Insurance	\$ 40,009			40009		
8219	Life Insurance	\$ 7,920			7920		
8220	Pension Plan	\$ 60,638			60638		
<b>TOTAL FRINGE POOL</b>				<b>\$ 249,426</b>			
6110	Salaries & Wages	\$ 656,824	\$ 656,824				
8110	Salaries & Wages	\$ 123,067			123067		\$ 123,067
<b>FRINGE ALLOCATED TO DIRECT &amp; INDIRECT LABOR</b>			<b>\$ 210,184</b>	32%	<b>\$ 39,381</b>		<b>\$ 39,381</b>
8221	Recruitment	\$ 285			\$ 285		\$ 285
8222	Relocation	\$ 1,216			\$ 1,216		\$ 1,216
8223	Personal Absence	\$ 1,082			\$ 1,082		\$ 1,082
8310	Travel	\$ 35,173	\$ 35,173				
8310	Travel	\$ 12,987			\$ 12,987	\$ 2,500	\$ 10,487
6320	Material	\$ 843,192	\$ 843,192				
6330	Other Direct Cost	\$ 187,493	\$ 187,493				
6340	Subcontracts-contractual	\$ 944,841	\$ 944,841				
6350	Supplies	\$ 25,000			\$ 15,014		\$ 15,014
8350	Supplies	\$ 15,014	\$ 15,000				
6360	Equipment Rental	\$ 15,000			\$ 12,150		\$ 12,150
8360	Equipment Rental	\$ 12,150			\$ 1,744		\$ 1,744
8410	Legal Fees	\$ 1,744			\$ 32,361		\$ 32,361
8420	Audit Fees	\$ 32,361			\$ 3,969		\$ 3,969
8430	Miscellaneous	\$ 3,969			\$ 484	\$ 484	\$ 0
8503	Entertainment	\$ 484			\$ 354		\$ 354
8505	Advertising & Promotion	\$ 354			\$ 6,435		\$ 6,435
8520	Periodicals	\$ 6,435			\$ 9,018	\$ 3,018	\$ 6
8522	Bad Debts	\$ 3,018			\$ 2,702		\$ 2,702
8523	Business Meals	\$ 2,702			\$ 2,824		\$ 2,824
8524	Depreciation/Amortization	\$ 2,824			\$ 2,112	\$ 2,000	\$ 2,112
8525	Dues/Memberships	\$ 2,112			\$ 7,936	\$ 1,001	\$ 5,936
8526	Conventions/Seminars	\$ 7,936			\$ 1,001		\$ 0
8527	Interest Expense	\$ 1,001			\$ 738		\$ 738
8531	Insurance	\$ 738			\$ 1,681		\$ 1,681
8535	Repairs/Maintenance	\$ 1,681			\$ 2,434		\$ 2,434
8537	Telecopier	\$ 2,434			\$ 45,552		\$ 45,552
8538	Telephone	\$ 45,552			\$ 1,816		\$ 1,816
8539	Temp Help/contract labor	\$ 1,816			\$ 878		\$ 878
8540	Small Equipment	\$ 878			\$ 6,235		\$ 6,235
8542	Postage & Handling	\$ 6,235			\$ 6,461		\$ 6,461
<b>TOTAL INDIRECT COST POOL</b>							<b>\$ 357,195</b>
TOTALS	Office Supplies	\$ 6,461	\$ 2,917,707		\$ 368,198	\$ 9,003	\$ 357,195
8554	Other Outside Services	\$ 30,281					
<b>FRINGE COST POOL</b>		<b>\$249,426</b>	<b>(BASE)</b>				<b>(POOL)</b>
<b>INDIRECT COST POOL</b>						<b>\$357,195</b>	
<b>BASE (DIRECT &amp; INDIRECT LABOR)</b>		<b>\$779,891</b>	<b>BASE=(TOTAL DIRECT COSTS)</b>			<b>\$ 2,917,707</b>	
<b>FRINGE RATE</b>		<b>32.0%</b>	<b>INDIRECT RATE</b>			<b>12.2%</b>	

## Definitions and References

### Direct Costs

Direct Costs are those costs that can be identified and traced to a single project, activity, function, program, job, or contract. Examples of costs that are easily traced to a specific project are labor, equipment, subcontracting, and supplies. For accounting purposes, the General Ledger would accumulate all direct costs into summary accounts such as Direct Labor, Direct Material, etc., but the subsidiary ledgers would have unique account identifiers to track the costs to the specific projects. See [2 CFR § 200.413](#) for more information about direct costs.

### Allocate

Allocate means to set apart or assign. Direct costs are assigned or allocated to individual projects based on an equitable base such as direct labor. Indirect costs are set apart or allocated to two or more projects.

### Base (denominator)

Indirect costs are assigned or allocated to individual projects by using an Indirect Rate. The indirect rate percentage is the number which will be applied to the appropriate "base" when calculating indirect costs. If an indirect rate is going to be applied to a project, then the "base" has to be directly identified to the project (such as direct labor hours, direct labor dollars, material, supplies etc.). One concern becomes how to know what "base" to use when computing an indirect rate. To make the determination, two things should be considered: who or what causes the indirect cost and secondly, and who or what benefits from the indirect cost? For example, the paying of salaries and wages causes a business to have to incur fringe costs so the most logical base to use for computing a fringe rate is salary and wages. Other indirect costs such as utilities are not caused by any single person or event but everything in the business benefits from paying the utilities so the base could be all direct labor costs or total direct costs since they all benefit.

### Indirect Cost Pool (numerator)

Indirect costs cannot be identified to specific projects, so, all the indirect costs are grouped or added together into an indirect cost pool. By combining the costs into one pool, the costs can be allocated to projects by computing an indirect rate after a base is selected. Examples of indirect cost that can be combined into one group are fringe costs that are grouped into a "fringe pool".

### Unallowable Costs

Federal regulations prohibit the Federal Government from reimbursing certain types of costs that are called unallowable. Allowable and unallowable costs are listed in the corresponding cost principles for each type of organization (see references below for more information on cost principles).

### Regulations

Financial assistance regulations are contained in [2 CFR Part 200](#) (Uniform Administrative Requirements, Cost Principles, and Audit Requirements) and [2 CFR Part 910](#) (the DOE Financial Assistance Regulations).

- [2 CFR Part 200 Subpart D – Post-Federal Award Requirements](#) and [2 CFR Part 910 Subpart D – Post Award Federal Requirements for For-Profit Entities](#)
- For information associated with Cost Principles that, among other topics, define allowable and unallowable costs for different types of organizations, refer to the following:
  - For-profit Entities: [Federal Acquisition Regulation Part 31](#).
  - » All Other Entities: [2 CFR Part 200 Subpart E - Cost Principles](#)
- For audit requirements for states, local governments, and non-profit organizations including Institutions of Higher Education, refer to [2 CFR Part 200 Subpart F - Audit Requirements](#). Audit requirements for for-profit entities, refer to [2 CFR Part 910 Subpart F - Audit Requirements for For-Profit Entities](#).