

Indirect-Cost Guidelines

For Applicant Organizations

Background

Indirect costs are overhead expenses incurred by the applicant organization as a result of the project but that are not easily identified with the specific project. Generally, indirect costs are defined as administrative or other expenses that are not directly allocable to a particular activity or project; rather they are related to overall general operations and are shared among projects and/or functions. (Indirect costs are sometimes referred to as “overhead costs” and more recently by the government as “facilities and administrative costs.”) Examples include executive oversight, accounting, grants management, legal expenses, utilities, technology support, and facility maintenance.

The foundation’s position is that, whenever possible, specifically allocable costs of an applicant organization’s project should be requested and justified in the proposal as direct costs, including those for dedicated ongoing project management, facilities, and support (further definitions are provided below). Please note that our categorization differs from the U.S. Office of Management and Budget circular instructions familiar to many U.S.-based institutions, in which some of these expenses can only be treated as indirect costs.

While the definition of direct and indirect costs is subject to some interpretation, the foundation has established basic definitions for the use of our applicants and prospective applicants, which are included in Attachment A.

It is important to note that the foundation is a charitable entity and is not committed to matching the indirect-cost rates that the federal government may pay to its applicants and contractors. We recognize that this means that our applicants may need to engage in cost-sharing between projects, tap into unrestricted funds, or conduct other fundraising to cover operations costs.

It is also important to note that we don’t always pay indirect costs at the same relative amount for small and large grants. Actual administrative and maintenance costs do not ordinarily increase in direct proportion to grant amount and in many cases may not increase at all. Therefore, we have found that larger grants often require us to pay a considerably lower amount of indirect costs than we typically pay for small grants.

In an effort to simplify our procedures for handling requests for funding of indirect costs, we have developed guidelines to share with all applicants. In order to meet our desire to put in place guidelines that are clear, consistent, and fair, we held numerous study meetings, canvassed stakeholders from all the foundation’s programs, and also consulted with external advisors. We believe the guidelines below embody the input we received. We make every effort to ensure that they are consistently and regularly applied by foundation personnel.

Rates

To the extent that indirect costs are applicable to a foundation grant, such costs are subject to the following limitations:

- 0% for governmental agencies, other private foundations and for-profit organizations
- up to 10% for U.S. universities
- up to 15% for all other non-governmental organizations (NGOs), international organizations and non-U.S. universities

- indirect cost rates (and the limitations) apply *both* to the primary applicant organization *and any sub-grantees and/or sub-contractors* that are part of the proposal (please see the special rules for sub-grantees and sub-contractors, below).

These rates are the *maximum* we allow under the Foundation's policy. If an applicant has an indirect- cost rate lower than the maximum provided above, the applicant should *not* increase the funding request to the maximum.

Special Rules for Sub-Grants, Subcontracts, Equipment, and Endowments

Sub-grants and subcontracts

As indicated in Attachment A, direct costs include those related to sub-grants and subcontracts. Because the direct-cost payments the foundation makes are essentially passed by the applicant directly to a third party and generally do not involve material indirect costs, we limit the indirect costs we pay on sub-grants and subcontracts.

The foundation only allows the indirect-cost rates (10% and 15%, as outlined above) to be applied to the first \$100,000 of each sub-grant and subcontract. This indirect-cost allowance may be applied annually by the applicant organization for only as long as each sub-grant or subcontract exists. (For an example of this annual limitation, please see Attachment B.)

For purposes of this policy, we treat all sub-grants and subcontracts to a single entity as one eligible occurrence. (For an example of this entity limitation, please see Attachment B.)

Finally, sub-grantees and subcontractors may not charge the applicant for indirect costs at rates that are in excess of the limitations provided above.

Equipment

When a foundation grant includes purchases of equipment, the applicant cannot recover "depreciation" and other indirect costs related to that equipment because the foundation, rather than the applicant, is paying for the equipment. Therefore, we do not apply the indirect-cost rates to equipment purchases.

Endowments

Similarly, when the foundation makes a grant to help fund an endowment, the endowment portion of the grant generally will not attract indirect costs. This is because the endowment grant is invested and not used to run the applicant's operations. Therefore, we do not apply indirect cost rates to endowment grants.

Other Issues

In the grant proposal, prospective grantees must specifically speak to their indirect-cost assumptions. This detailed discussion should be included in the applicant's budget narrative. Indirect-cost assumptions must also be provided for sub-grants or subcontracts in situations in which the sub-grant or subcontract award exceeds the greater of (a) 25% of the total grant award or (b) \$100,000.

We recognize that we have reimbursed indirect costs for some foundation grantees at higher levels than those outlined in these guidelines. In some instances, the foundation and the grantee have developed a symbiotic relationship that has resulted in the grantee being dependent on foundation funding, particularly for indirect costs. We will give our existing grantees that have indirect-cost rates in excess of the limits additional time to comply with the guidelines. All other grantees must conform to these guidelines immediately.

Finally, we note that some applicants have argued that indirect costs funded by the foundation must match the Negotiated Indirect Cost Rate Agreement, or NICRA, rates paid by the U.S. government to applicants. In order to address the objections raised around NICRA rates, we have provided some discussion points in Attachment C.

Attachment A

Direct and Indirect Cost Definitions

Direct Costs	Indirect Costs
<ul style="list-style-type: none">⇒ Salaries of employees directly attributable to the execution of the project<ul style="list-style-type: none">○ Includes Project Management○ Includes administrative support solely dedicated to the project⇒ Fringe benefits of employees directly attributable to the execution of the project<ul style="list-style-type: none">○ Includes Project Management○ Includes administrative support solely dedicated to the project⇒ Travel for employees directly attributable to the execution of the project⇒ Consultants whose work is directly attributable to the execution of the project⇒ Supplies directly attributable to the execution of the project⇒ Sub-awards directly attributable to the execution of the project⇒ Sub-contracts directly attributable to the execution of the project⇒ Equipment acquired for and directly attributable to the execution of the project⇒ Facilities newly acquired and specifically used for the grant project (excludes existing facilities). Examples include:<ul style="list-style-type: none">○ A new field clinic○ New testing laboratories○ Project implementation unit office⇒ Utilities for facilities acquired for and directly attributable to the execution of the project⇒ Information technology acquired for and directly attributable to the execution of the project⇒ Internal legal and or accounting staff and/or external legal counsel or accountants directly attributable to the project	<ul style="list-style-type: none">⇒ Facilities not acquired specifically and exclusively for the project (e.g. Foundation, Institute, or University headquarters)⇒ Utilities for facilities not acquired for and not directly attributable to the project⇒ Information technology equipment and support not directly attributable to the project⇒ General administrative support not directly attributable to the project. Examples are as follows:<ul style="list-style-type: none">○ Executive administrators○ General ledger accounting○ Grants accounting○ General financial management○ Internal audit function○ IT support personnel○ Facilities support personnel○ Scientific support personnel (not attributable to the project)○ Environment health and safety personnel○ Human resources○ Library & information support○ Shared procurement resources○ General logistics support○ Materiel management○ Executive management (CEO, COO, CFO, etc.)○ Other shared resources not directly attributable to the project○ Institutional legal support○ Research management costs⇒ Depreciation on equipment⇒ Insurance not directly attributable to a given project

Attachment B

Classification of Sub-grant and Sub-contract Activities

General

Indirect costs are allowed only on the first \$100,000 per annum for sub-contractors and sub-grantees. Indirect Costs are not allowed on sub-contractors providing normal business services that are not directly related to the project.

1. Indirect costs rates may not be applied to the following types of sub-contracted services:

Business supply services, administrative support services, audiovisual services, architect and engineer services, construction, or equipment maintenance.

Examples

As noted above, indirect costs are allowed only on the first \$100,000 of sub-contracts and sub-grants per annum. To illustrate this limitation, assume the Foundation makes a \$1.5 million dollar grant to a U.S. university. The grant will be paid to the grantee in three equal, annual installments of \$500,000. Furthermore, the grantee has one sub-grantee and will pay the sub-grantee \$200,000 per year for 3 years for research and development. The calculation of indirect costs is as follows:

Description	Year 1	Year 2	Year 3	Total
Direct Grantee Costs*	300,000	300,000	300,000	900,000
Indirect Cost Rate	10%	10%	10%	
Allowable Indirect Costs - Direct Grantee Costs	30,000	30,000	30,000	90,000
Sub-grantee Costs**	200,000	200,000	200,000	600,000
Allowable Sub-grantee Costs	100,000	100,000	100,000	300,000
Indirect Cost Rate	10%	10%	10%	
Allowable Indirect Costs - Sub-grants	10,000	10,000	10,000	30,000
Total Allowable Indirect Costs	40,000	40,000	40,000	120,000

*Excludes Sub-grants, Sub-contracts, and Equipment

**Includes Sub-grants and Sub-contracts

In the above example, indirect costs applied to the payments to the sub-grantee are limited to \$100,000 per annum under the Foundation's policy. Because the arrangement between the grantee and the sub-grantee will last for three years, the grantee may claim indirect costs on \$100,000 per year for each of three years. (Alternatively, if the arrangement with the sub-grantee lasted only two years, in the third year the grantee would not claim any indirect costs for payments to the sub-grantee.)

Also as noted above, all sub-grants and sub-contracts to a single entity will be treated as one eligible occurrence. For example, assume the Foundation makes a \$500,000 grant to a hospital. The hospital has entered into 3 separate sub-contracts with a single company. For purposes of the indirect cost

calculation the 3 sub-contracts will be treated as one set of tasks in the aggregate (i.e., one sub-contract) subject to the \$100,000 limitation. The calculation of indirect costs is as follows:

Description	Year 1	Year 2	Total
Direct Grantee Costs*	180,000	60,000	240,000
Indirect Cost Rate	15%	15%	
Allowable Indirect Costs - Direct Grantee Costs	27,000	9,000	36,000
Company A Sub-contract #1	50,000	50,000	100,000
Company A Sub-contract #2	40,000	30,000	70,000
Company A Sub-contract #3	30,000	60,000	90,000
Total Company A Sub-contract Costs	120,000	140,000	260,000
Allowable Company A Sub-contract Costs	100,000	100,000	200,000
Indirect Cost Rate	15%	15%	
Allowable Indirect Costs - Sub-contracts	15,000	15,000	30,000
Total Allowable Indirect Costs	42,000	24,000	66,000

*Excludes Sub-grants, Sub-contracts, and Equipment

In this example, because all the contracts were to Company A, the contracts are aggregated. Furthermore, because the amount of the contracts exceeded \$100,000 per year, the grantee could not claim indirect costs on the excess amounts.

Attachment C

NICRA Rate Requests

Many applicants request the Foundation to support indirect costs that match the applicant's Negotiated Indirect Cost Rate Agreement (NICRA) rates that the applicant receives from the U.S. government and certain funding organizations. The following paragraphs provide some basic information about NICRA rates:

1. An organization that has a NICRA rate of say, 45%, says it is required to charge the Foundation the same rate. True or False?

False. An organization can charge less than the Federal negotiated rate for any project. Many foundations and even some government entities have a flat or maximum rate of 8, 10, 15, 20, or 25% and that is the maximum that a applicant institution can charge. For example, the Department of Education has an 8% capped rate and the Department of the Interior has a 15-25% capped rate; however, some of the Foundation's applicants may have actual higher NICRA rates.

2. An organization that has a NICRA rate of say, 40%, says its NICRA rate would be cut or be negatively impacted if it accepted a lower rate from the Foundation. True or False?

False. When the institution is calculating its indirect cost or F&A (Facilities and Administrative) rate, the modified total direct charges from the projects taken at the reduced rate will be included in the denominator of the rate even though the institute did not collect full overhead or indirect costs on the project. The calculation of the rate is a simple ratio, the numerator is comprised of the actual indirect costs (not the amount received from granting organizations) and the denominator is comprised of the direct costs. If the institute's base or denominator increases faster than their indirect costs then the rate will decrease. Receiving a grant from a foundation with less than full indirect costs will not impact the rate calculation differently than accepting an award with the full overhead. Clearly, it may impact on actual cash flow since the full overhead cost recovery, effectively, is reimbursing the institute for all the applicable indirect costs, while the Foundation is reimbursing for some (but not all) overhead costs. Organizations that receive multiple grants with a full NICRA rate will have a greater capacity to absorb a lower rate from the Foundation as more of the organization's overheads are being paid by other parties; but a grant with a lower indirect cost rate does not lower the NICRA rate.

3. An organization that has a NICRA rate of say, 40%, says its accounting system cannot handle any other rate amount. True or False?

Answer: Generally all applicant institutions have accounting systems that can accommodate multiple overhead rates (whether those systems are manual or automated).