



John D. And Catherine T. MacArthur Foundation

Indirect Cost Policy

December 16, 2019

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I. Policy Statement

Preamble

The Foundation supports organizations whose work advances the Foundation's mission and the goals of the organization. The Foundation adopts this Indirect Cost Policy in recognition that nonprofit organizations have indirect costs that are not directly attributable to projects or activities being funded by Foundation grants but are necessary to support grant-funded projects or activities.

The policy is based on a research study that the Foundation commissioned using IRS Form 990 data from over 130,000 US-based nonprofit organizations. The study sought to establish a benchmark for the Foundation's grantmaking by understanding the indirect cost rates of financially healthy organizations. The study found that the minimum indirect cost rate associated with financially healthy organizations in the dataset is 29 percent.

In adopting this policy, the Foundation aims to be explicit, transparent and equitable across fields and organizations. More learning and iteration will be needed to improve this policy over time, but the goals include:

- Supporting grantees to accomplish the purposes of the project
- Structuring awards according to financial need and costs associated with a project
- Paying the direct costs of grant projects plus a fair share of associated indirect costs
- Promoting effective and efficient allocation of resources
- Acting with consistency and fairness across grantees

Policy

It is the policy of the Foundation to provide an indirect cost recovery of 29 percent of project costs on all project grants.

Application

This indirect cost policy applies only to *project* grants to nonprofit organizations. Grants not eligible for indirect cost recovery include: 1) general operating support grants; 2) endowment grants; and 3) grants made to large, well-established organizations for the purposes of supporting the general operations of a separately managed center.

This policy is effective January 1, 2020.

Guidelines

The following are guidelines for grant applicants to identify project costs and seek recovery of indirect costs for project grants.

II. Grant Budgets Including Indirect Cost Recovery

Project grant requests to the MacArthur Foundation should include a project budget that sums project costs (defined below), to which MacArthur’s 29 percent indirect cost rate would then be applied.

Definitions

Project Costs – The portion of a grant intended to fund project activity costs, which include *both* the costs specific to an individual project and those shared organizational costs from which a project directly benefits.

- **Project costs (specific)** – Specific costs are those costs that are specific to a grant-funded project, such as salaries for project staff and materials required for the project. ***These costs would not be incurred if the project being funded did not exist.*** For example, any personnel time that can be unambiguously identified as having been spent on the grant-funded project would be considered a specific cost.
- **Project costs (shared)** – Shared costs are those costs that benefit multiple programs or projects and can be assigned or allocated across programs or projects in a reasonably consistent and accurate way. These costs are just as integral to the *delivery* of the grant-funded project as are the “Specific” costs. Examples of such costs include occupancy and facilities, utilities, telephone/internet access, etc. (Note that these costs are generally non-personnel costs.) An appropriate share of these costs should be allocated to the grant-funded project and specified by line item in the budget.¹

Covered
in Project
Costs

Indirect Cost Recovery- The portion of a grant intended to cover indirect costs.

- **Indirect Costs** – Indirect costs are costs for activities or services that support the organization as a whole rather than any particular program or project, including administrative and fundraising costs.² These are not costs associated with the delivery of program services; nonetheless, they are essential costs of maintaining and managing the organization through which program services are delivered. Examples of such costs include finance and accounting support, human resources, bank fees, board meetings, and fundraising. In submitting a

¹ Costs of shared resources should be allocated across activities based on an estimate of the utilization of the resources by each activity. As most service-oriented nonprofit work is primarily personnel driven, most shared costs may use a staff level of effort (measured by full-time equivalents) methodology for allocation. For occupancy-related costs (e.g., rent) and when physical space is specific to particular programs or activities, costs may be allocated based on space utilization. Other bases for allocation may be appropriate in particular circumstances to provide a better approximation of actual use of the resource. The methodology for allocating shared costs used in the preparation of organizational financial statements should generally be reflected in grant budgets.

² In this document we use “administrative costs” to refer to those costs classified as “Management and General” (M&G) in financial statements and the IRS Form 990.

project budget, grantees will not be required to quantify these indirect costs. MacArthur's indirect cost rate of 29 percent is applied to Project Costs to make up the total grant amount.

Examples of Specific, Shared and Indirect Costs

Below are some of the most common examples of specific and shared costs that could be included in Project Costs, as well as examples of the types of costs that would be covered as part of a grant's Indirect Cost Recovery. (Note that this is not an exhaustive list and some costs may be categorized differently depending on factors specific to each project and organization.)

Project Costs

Specific

- Personnel costs (wages and benefits) of staff working on grant-funded project
- Professional fees for consultants working on grant-funded project
- Travel expenses directly related to the grant-funded project
- Supplies and materials used for the grant-funded project
- Meetings and conferences associated with the grant-funded project
- Sub-grants made to other organizations to directly support work on the grant-funded project

Shared

- Rent and occupancy costs allocated to the grant-funded project
- Utilities, telephone and internet costs allocated to the grant-funded project
- Depreciation of fixed assets used in common across the organization

Indirect Cost Recovery

Indirect Costs

- Personnel costs (wages and benefits) of administrative and fundraising staff
- Professional fees for consultants working in administrative and fundraising functions
- Rent and occupancy costs for facilities (including office space) occupied by administrative and fundraising functions
- Utilities, telephone and internet costs utilized by administrative and fundraising functions
- Corporate insurance costs, bank fees, credit card fees and interest expenses

A more detailed summary of common costs and their typical categorization is included as Attachment 1. As noted in the attachment, certain costs may be budgeted as either Project Costs or Indirect Costs depending on the nature of the activity and of the expense.

Attachment 1: Categorization of Typical Costs

The table below notes categorizations of some of the most common areas of costs for nonprofit organizations. Please note that this list is representative but not comprehensive or exhaustive, and exceptions will apply in particular circumstances.

Example of Cost	Generally in Project Costs		Generally in Indirect Cost Recovery	Could be in Project or Indirect	Notes
	Specific	Shared			
Personnel costs (salary, benefits, employer taxes) of staff working directly on grant-funded project	X				In cases of personnel who work across areas, staff can charge the project for time being spent on that project. In some organizations this may include senior staff (e.g., Executive Director, Program Director) who are spending time working directly on grant funded projects.
Personnel costs (salary, benefits, taxes, bonus) of: <ul style="list-style-type: none"> • Management and administrative staff (e.g., ED/CEO; CFO; accounting, human resources, IT staff) • Fundraising staff (Development Director, grant writer) 			X		Staff time involved in organizational administration and fundraising would be considered an indirect cost and covered as part of indirect cost recovery.
Professional fees of consultants working directly on grant-funded project	X				Professional fees are classified based on the function for which the professional services are being engaged. Professional / consultant services for project-specific activities may be included in project costs.

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Example of Cost	Generally in Project Costs		Generally in Indirect Cost Recovery	Could be in Project or Indirect	Notes
	Specific	Shared			
Professional fees of management consultants (legal, accounting/audit, human resources, IT, fundraising, etc.)			X		Professional fees are classified based on the function for which the professional services are being engaged. Professional / consultant services for administrative (e.g., finance, legal, HR) or fundraising activities would be considered indirect costs and covered as part of indirect cost recovery.
Sub-grants and awards	X				Sub-grants and awards to organizations supporting the work of the project-funded grant may be included in project costs.
Project rent, occupancy, and maintenance costs	X	X			Occupancy is normally reflected as a shared cost and is allocated to grants based on the amount of space used by a grant-funded project (including space used by project staff). If a grantee rents space specifically for that project, it may be a specific (rather than shared) cost but would still be included in project costs. Note that occupancy costs are often shared across administrative and fundraising functions as well as programs and projects; the portion of these costs allocated to administrative and fundraising functions would be part of indirect cost recovery.

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Example of Cost	Generally in Project Costs		Generally in Indirect Cost Recovery	Could be in Project or Indirect	Notes
	Specific	Shared			
Project utilities, telephone, internet	X	X			Normally reflected as shared costs and usually allocated to a grant based on the number of staff associated with a grant-funded project. If a project incurs utilities, telephone and/or internet costs specifically for that project, these may be specific (rather than shared) costs but would still be included in project costs. As with occupancy costs, these costs are often shared across administrative and fundraising functions as well as programs and projects; the portion of these costs allocated to administrative and fundraising functions would be part of indirect cost recovery.
Project supplies and materials	X	X			Supplies and materials specifically used for a grant-funded project may be charged to the project. If all organizational supplies and materials are used in common, an appropriately allocated portion of costs associated with the grant-funded project's supplies and materials may be charged to the project.
Insurance, bank fees, credit card fees, interest				X	Insurance, banking and financing charges are generally covered as part of indirect cost recovery. (If a project requires its own insurance coverage,

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Example of Cost	Generally in Project Costs		Generally in Indirect Cost Recovery	Could be in Project or Indirect	Notes
	Specific	Shared			
					those costs may be charged to the project.)
Staff training and professional development costs				X	Staff training and professional development costs are generally indirect costs and are covered via indirect cost recovery. (If project staff members require project-specific training, those costs may be charged to the project.)
Advertising and marketing				X	Advertising and marketing costs normally benefit all areas and are usually considered indirect. In some cases, advertising related to outreach or marketing of a specific project may be charged to the project.
Travel, meetings and conferences				X	Travel, meetings and conferences associated with a particular grant-funded project can be included in project costs. Travel, meetings and conferences for administrative or fundraising activities, including board meetings, is generally an indirect cost and covered via indirect cost recovery.

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Example of Cost	Generally in Project Costs		Generally in Indirect Cost Recovery	Could be in Project or Indirect	Notes
	Specific	Shared			
Equipment purchases				X	Purchase of equipment necessary to the delivery of a grant-funded project can be included in project costs. Equipment-related costs associated with organizational support activities are generally indirect and covered via indirect cost recovery.
Fiscal sponsor fees			X		Grant-funded projects that are fiscally sponsored would cover fiscal sponsor fees from the indirect cost recovery portion of the grant.

Attachment 2: Project Budget Example

A program manager spends 50 percent of her time on a grant-funded project and two program associates each spend 100 percent of their time on the project. In addition, the Executive Director spends 10 percent of her time in direct management/supervision of the project. The project also includes consultant costs, project supplies and travel.

The project staff uses space in the organization's headquarters as well as sharing in the organization's utilities and telephone/internet services. The organization allocates a share of these costs to the project based on the number of staff who work on the project as a percentage of total staff in the facility.

The organization applies the standard 29 percent indirect cost rate to the project costs, resulting in an indirect cost recovery amount. This amount is added to the project costs to make up the total grant request.

Project Costs:

Specific

Personnel:

Executive Director (10%)	\$10,000
Program Manager (50%)	40,000
Program Associates (2 x 100%)	<u>100,000</u>

Total Salaries	150,000
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Taxes and Benefits	30,000
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Total Personnel	180,000
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Consultants	20,000
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Program Supplies	7,000
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Travel	4,000
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Shared

Rent	\$16,000
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Utilities	8,000
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Telephone/Internet	5,000
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Total Project Costs:	\$240,000
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Indirect Cost Recovery:

29% x \$240,000	\$69,600
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Total Budget:	\$309,600
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