



Policy Memorandum: Indirect Cost Guidance

Effective 2/1/2017

The Young Blood Institute, a 501 (c) (3) non-profit corporation, conducts clinical trials to understand root causes of aging and age-associated disorders, and we support strong and effective partner organizations to do the same. We believe that good stewardship means maximizing our resources, including grant funding and staff time, while building strong partnerships based on trust.

We aim to structure grants in a way that makes sense from a financial perspective while also funding partners for the cost of delivering results efficiently, supported by open and honest dialogue about the resources required. As grant proposals are developed, we try to gain a complete and accurate understanding of the total cost to execute the project efficiently and effectively. However, there may be circumstances when our views of direct and indirect costs may not align with those of our partners, including other funders.

We expect that grantees' executive and board leadership are continually evaluating how to "right size" their organizations' overhead cost to operate efficiently and effectively.

We welcome partners to contact us if they have questions about this policy. Our finance team can help clarify appropriate treatment of costs under the institute's policy.

Definitions

The spirit of this policy seeks to pay for expenses that are directly attributable to project outcomes and outputs as direct costs and expenses associated with general running of the business as indirect costs. We describe each category in greater specificity below.

Direct Costs

Direct costs include expenses required to execute a grant that we directly attribute and reasonably allocate to the project. Examples include program staff salaries, travel expenses, materials, and consultants required to execute the grant; typically, costs that would not be incurred if the grant did not exist often indicate direct costs.

Indirect Costs

Indirect costs include general overhead and administration expenses that support the entire operations of a grantee and that may be shared across projects. For example, facilities expenses (e.g. rent), utilities, equipment for the grantee's headquarters, and associated information systems and support and administrative staff such as HR, general finance, accounting, IT, and legal; typically, expenses that would be incurred regardless of whether the grant is funded often indicate indirect costs. Operating an organization requires these costs, though they may not be directly attributable to a project.



Policy Memorandum: Indirect Cost Guidance

Indirect Cost Rate

Indirect Cost Rate = Budgeted Indirect costs/ Budgeted Total Direct Costs (e.g. personnel, sub-awards, supplies, equipment, etc.)

The indirect cost rate proposed in the budget should not exceed the grantee's organizational rate (when defined by the same terms.)

While the definitions above provide general guidance for all grants, the requirements and activities of each project should be considered when determining direct and indirect costs. We review budget assumptions and cost categorizations on a grant by grant basis, and treatment of specific costs in one grant should not be considered precedent-setting for other grants.

Maximum Indirect Cost Rates

Indirect cost rates for grants are subject to the following limitations:

- The rates provided below represent the *maximum* rates allowed under the institute's policy. A grantee or contractor with an actual indirect cost rate lower than the maximum rate provided above should *not* increase the funding request to the maximum allowed. The intent is to sufficiently fund actual costs, not to generate financial surpluses for grantees.
 - The indirect cost rate awarded in a grant budget may vary up to the maximum percentages depending on factors including, but not limited to, the type of project, level of administrative effort required, cost structure of the grantee, overall grant size, and extent of sub-awards or commodity purchases.
- *Example 1:* A primary grantee will receive grant funds that will be largely sub-granted to other organizations. The institute may limit indirect costs the primary grantee receives on the sub-granted funds depending on the level of effort required to manage the sub-awards. The overall effective indirect cost rate awarded to the primary grantee may therefore be less than the maximum allowable rate.
- *Example 2:* A material portion of a project budget is allocated for commodity purchases. A lower overall effective indirect cost rate may be negotiated to remove commodity cost from the indirect cost calculation.
- *Example 3:* A NGO grantee has an organizational actual indirect cost rate of 5%, i.e., for every \$1,000 in direct costs, it has \$50 in indirect costs. Rather than defaulting to the maximum rate of 6% in the grant proposal, 5% should be proposed in the grant budget.



Policy Memorandum: Indirect Cost Guidance

- Maximum Indirect Cost Rates and limitations apply to *both* the primary applicant organization and any sub-grantees. Each respective organization may receive indirect costs UPTO the rate applicable to their organization type.
- *Example:* If a U.S. university is the primary grantee and has an international nonprofit organization sub-grantee, the U.S. university is eligible to receive up to a 5% indirect cost rate, while the international organization is eligible to receive up to a 6% rate.

0% rate

Government Agencies,
Other private foundations

Up to 5% rate

U.S. Universities,
U.S. Community Colleges

Up to 6% rate

Non-governmental
organizations (NGOs),
Multilateral Organizations,
Non-U.S. universities,
For-profit organizations

- We seek consistency across funding mechanisms and thus we reserve the right to apply this philosophy and principles to contracts.
- For profit entities may propose indirect costs as a percentage from 0% up to 6% to the extent that they provide an adequate explanation of the cost.
- We reserve the right to request substantiation of any grantee's indirect cost rate.