



Indirect Cost Rate Guidance
FREQUENCY ASKED QUESTIONS
Updated: December 20, 2024

Q: How does bi3 define indirect costs?

- A: **Direct costs** are the activities or items directly attributable to the grant-funded project or program. This may include project materials, program staff salaries, stipends for consultants, technology costs and other fees that pertain *only* to the program. These may also include clear percentages of shared costs that directly relate to the project, such as rent or technology. **These are expenses that would not be incurred if the project or program did not exist.**
- **Indirect costs** include items that are associated with running and managing of the organization that support the ultimate delivery of programmatic services, like executive and administrative staff salaries, rent, utilities, office supplies, etc. that are difficult to attribute to a specific project. Your entire organization uses these items both for administrative purposes and for other programs. Though not incurred only due to the project or program, they are necessary for the organization to successfully execute it.

Q: Can indirect costs be included in a grant budget?

A: As of July 1, 2024, for its project grants, the bi3 fund has adopted the following applied indirect cost rates based on organizational budget size:

Organizational Annual Budget	Applied Indirect Cost Rate
Under \$2 Million	30%
\$2-\$4 Million	25%
Over \$4 Million	20%

Q: How does your indirect cost rate guidance affect how I build my project budget for my proposal?

A: Based on the size of your organizational budget, bi3 expects program and project budgets to include the full direct costs of the program or project included in the proposal as well as an applied indirect cost rate in line with the size of your organizational budget. So, if you were applying for a program that had \$100K of direct costs, and your organizational annual budget was under \$2 million, you would include an additional \$30K of indirect costs in the budget to cover indirect organizational expenses. A project budget is also expected to include the expected revenues for the project and what share of revenues and expenses are expected to come from the bi3 funds requested.

Q: Why did bi3 change its indirect cost rate guidance?

A: In alignment with the research on the [nonprofit starvation cycle](#) and the ways in which organizational budget size has an [inverse relationship with indirect cost rates](#), bi3 fund has established applied indirect cost rates of 20-30% of project costs depending on organizational budget size. We've developed this guidance in recognition that:

- Nonprofit organizations incur costs that are not directly attributable to projects or activities funded by bi3 grants, and these costs drive key organizational infrastructure necessary to support grant-funded projects or activities.
- The ratio of indirect costs to direct costs tends to be higher for smaller organizations than it is for larger budget organizations.

In adopting this guidance, bi3 fund aims to be explicit and transparent in its grantmaking. As we continue to learn, there may be opportunities to improve this guidance over time. Our goals for this guidance include:

- Supporting grantees with the resources necessary to accomplish the purposes of the project

- Structuring awards according to financial need and costs associated with a project, reflecting a fair share of associated indirect costs
- Promoting the financial health and sustainability of grantee partner organizations
- Acting with consistency and equity across grantees

Q: How do I know what my indirect cost rate is? How would I calculate it?

A: bi3 does not ask you to calculate your organization's indirect cost rate. Instead, using research in the field, we offer three tiers of indirect cost rates depending on the size of the organizational budget. For more information about how to think about the indirect cost rate, a guide for how a nonprofit might calculate its overall indirect cost rate, and a template for that calculation please see [BDO's provided resources](#).

Q: What if my indirect cost rate is higher than bi3's applied rate?

A: If you have calculated your organization's indirect cost rate and it is higher than bi3's applied rate, please reach out for a conversation with bi3 staff.

Q: Are we required to report on how we applied indirect cost funds?

A: No, bi3 fund does not require organizations to report on how they utilized the indirect cost portion of their grant.

Q: Can indirect costs push project budgets above the top of the range for a funding opportunity such as an RFP?

A: No. The expectation is that proposed project budgets, inclusive of organizational indirect costs, either fall within the range of the funding opportunity, or identify additional revenue sources to support the larger scale of the project.

Q: Does this guidance apply to all bi3 grant requests?

A: This guidance applies to bi3's community program grants to reflect the indirect costs that grantees take on in addition to program/project direct costs. The following grant arrangements/organizations are not covered by these applied rates, and any indirect cost rates would be reviewed on a case-by-case basis:

- Funder collaborative structures/partnerships
- University sponsored projects
- Fiscal sponsorships

Other bi3 fund grant types, including TriHealth partnership grants, sponsorships, and general operating grants are also not covered as part of this guidance given their alternate funding structures.