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BLOG POST

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New BDO Resources for Understanding Indirect Costs in Nonprofits

Many nonprofit organizations struggle financially because much of their funding comes from project grants that limit coverage of overhead or indirect costs, which include costs of essential tasks like planning, accounting, IT, facilities, human resource management, and fundraising. While these functions are critical for a nonprofit to deliver its programs and services, donors too frequently overlook them in a well-meaning but often misguided effort to direct their funding only to specific programs and services. However, an organization that invests too little in overhead is less likely to be able to deliver on its mission in the most effective way.

Fortunately, more donors and grantmakers are beginning to recognize—and pay for—the operating infrastructure that enables nonprofits to carry out their important programmatic work. But even sympathetic funders don't always know the appropriate amount to ensure that a grant is covering the intended share of an organization's operating costs. Furthermore, nonprofit leaders often have a difficult time not only calculating an indirect rate, but also communicating with funders about it, since the rules for defining and categorizing cost types can be unclear.

A group of 12 major private foundations recently commissioned BDO to help nonprofits and their funders formulate a common language and approach to understand the indirect costs of delivering programs and services. We developed a set of straightforward guidelines to categorize and allocate costs, allowing nonprofits to establish an indirect cost rate—a percentage that donors can apply to grants to cover the essential infrastructure that supports key services. The resources we created also include an Excel-based tool that calculates the indirect cost rate in accordance with the guidelines, so organizations can offer full transparency to their funders into how they are interpreting and presenting their costs.

[These tools are now publicly available](#) to any nonprofit looking for an approach to present an indirect cost rate to their donors, and to any philanthropic entity looking to encourage grantees to understand and ask for the actual costs of carrying out their work.

We encourage grantmakers and their nonprofit grantees to use these tools to engage in conversations about the true costs of delivering on grant-supported projects.

Please reach out if you have questions about how to use these resources to better understand indirect costs in your—or your grantees'—nonprofit.

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