

MHAA INDIRECT COSTS POLICY

Adopted April 11, 2019

Background

In the 2018 legislative session, the Maryland Legislature passed SB 1045, which allows nonprofits to use 10% of the Modified Total Direct Costs for indirect costs as part of non-capital grant funds used to provide services. Alternatively, if they have a negotiated federal rate, nonprofits can use that rate. This law applies to all state grant funds awarded after October 2018, and nonprofits receiving MHAA grant funds to provide services after that date may choose to use this complex process to include indirect costs in their grant-funded budget. This only applies to a narrowly-defined subset of grant expenditures that directly relate to the provision of services.

As an alternative, with this policy MHAA allows all nonprofits awarded MHAA non-capital grant funds¹ after October 2018 to include a flat 10% line item for indirect costs under grant expenditures.

What Are Indirect Costs?

Indirect costs are those operating costs that are not readily identifiable with the specific grant project, but which are incurred for the joint benefit of the grant project and other organizational activities. Indirect costs are frequently referred to as overhead, operating, or administrative costs, and can include rent, utilities, salaries, personnel costs, and professional service fees.

How the Policy Works

All non-capital grants awarded to nonprofits beginning in FY 2020 will have the option of including a line item in their approved grant budget titled "10% Indirect Costs". Addition of this line item will not increase the grant award amount, and if a grantee chooses to add the indirect costs line item, they must still be able to complete the project as proposed.

The 10% Indirect Costs amount is based on the grant award amount, and not the total project costs. It does not include match, and matching funds cannot be indirect costs, except Grantee salaries directly relating to the project as is already allowed in current MHAA policy.

The 10% Indirect Costs amount must still be matched 1 to 1 with other allowable grant expenditures. Grantee salaries for project work that are included as match cannot also be included in the 10% indirect costs line item.

When reporting on project expenditures, the Grantee will not need to itemize or document the 10% Indirect Costs Line item but must retain records of those expenditures and make them available for audit upon request. This is also the case if the Grantee chooses to use the process set out in SB 1045, as detailed in paragraph ii. below.

¹ Note that this policy does not apply to management, marketing and project grants awarded to Certified Heritage Area Management Entities, as the management grants already include those organizations' indirect costs. It also does not apply to non-capital grants awarded to government entities, or capital grants.

If Indirect Costs were not included in the project budget at the start of the grant, and the grant expenditures come in under budget, the Grantee may choose to amend the budget, with approval from MHAA, to include indirect costs at the end of the project.

FY 2020 Grantees who submitted their project budgets prior to the approval of this policy will be given the opportunity to adjust their proposed budgets, if recommended for award, to include indirect costs, as long as it does not increase the grant amount and they can still complete the project as proposed.

Legal Language in the Grant Agreement

d. Nonprofit Grantees; Indirect Cost Allowances. A Grantee that is a nonprofit organization may use a portion of the Grant for reimbursement of indirect costs as set forth below.

- i. To the extent that the Grant is used by the Grantee for non-capital expenses in accordance with the terms and conditions of this Agreement, Grantee may elect to apply ten percent (10%) of the Grant towards the Grantee's indirect costs. Application by the Grantee of Grant funds towards the Grantee's indirect costs in accordance with this Section 4.d.i shall not increase, and will not operate to increase, the Grant. If indirect costs are not included within the Project Budget, the Grantee may, notwithstanding paragraphs 4.e., make adjustments to line items in the Project Budget within the limits of the Grant as necessary to include and account for Grantee's indirect costs. The Grantee shall maintain records in auditable format that document Grantee's indirect costs, and shall make such records available for inspection by MHAA upon request.*
- ii. To the extent that the Grant is used by the Grantee for non-capital expenses that include costs for the provision of services in accordance with the term and conditions of the Agreement, in lieu of the ten percent allowance provision set forth in Section 4.d. i. above, Grantee may elect to apply Grant funds towards the Grantee's "indirect costs" consistent with Section 2-208(b), State Finance and Procurement Article, Code of Maryland. If the Grantee uses modified total direct costs ("MTDC") to calculate the Grantee's indirect costs, as allowed under Section 2-208(b)(2) of the State Finance and Procurement Article, the Grantee shall: (aa) provide with the Grantee's Request for Disbursement financial documentation satisfactory to MHAA establishing the Grantee's MTDC; (bb) maintain records in auditable format that establish and justify that the Grantee has properly calculated MTDC in accordance with the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards adopted in 2 C.F.R. 200 by the Office of Management and Budget; and (cc) make such records available for inspection by MHAA upon request. Application by the Grantee of Grant funds towards the Grantee's indirect costs in accordance with this Section 4.d.ii shall not increase, and will not operate to increase, the Grant. If indirect costs are not included within the Project Budget, the Grantee may, notwithstanding Sections 4.e., make adjustments to line items in the Project Budget within the limits of the Grant as necessary to include and account for Grantee's indirect costs calculated pursuant to this Section 4.d.ii.*