

Understanding Indirect Costs and Rate Calculation

Budgeting and Financial Planning

Learning Objectives

- Define indirect costs and distinguish them from direct costs
- Identify common categories of indirect expenses
- Calculate an indirect cost rate using recognized methods
- Present indirect costs effectively in grant proposals

What Are Indirect Costs?

- Expenses not directly tied to a single project but necessary for overall operations
- Examples:
 - Rent, utilities, administrative staff, accounting services
- Other Terms:
 - Overhead, administrative costs, facility costs
- Essential for long-term organizational sustainability

Direct vs. Indirect Costs

- Direct Costs
 - Directly attributable to a specific grant or project
 - Project staff salaries, supplies
- Indirect Costs
 - Shared administrative costs benefiting multiple projects
 - Executive director, financial compliance, office rent
- Why the Distinction Matters
 - Funding restrictions, audit requirements, transparency



Methods for Calculating Indirect Cost Rates

- Simplified Approach
 - Divide total indirect costs by direct project costs
- Negotiated Indirect Cost Rate Agreement (NICRA)
 - Formal rate set with a federal agency
- De Minimis Rate (10-15%)
 - Option for organizations without a negotiated rate (if allowable)
- Activity-Based Costing
 - More complex method allocating costs by cost drivers

Reflection Exercise #1

Consider your organization's operational expenses

- Which expenses do you typically categorize as indirect, and how confident are you in those designations? Explain why

Steps to Determine Your Indirect Cost Rate

- Identify total indirect expenses
 - *Admin salaries, rent, etc...*
- Identify direct costs
 - *Program staff salaries, direct materials*
- Select the calculation method
 - *Simplified, NICRA, de minimis*
- Perform calculations and review for accuracy
- Document methodology and maintain records for audits



Presenting Indirect Costs to Funders

- Follow the funder's guidelines
 - Some may limit indirect cost percentages
- Provide transparent breakdowns
 - Show how you arrived at the final rate
- Use consistent terminology
 - Indirect costs, overhead, or administrative rate
- Emphasize necessity
 - Highlight why these costs are crucial for operations

Common Pitfalls & Best Practices

- Pitfalls
 - Double-counting certain costs as both direct and indirect
 - Using outdated rates from previous grant cycles
 - Not using the rate specified in the RFP (if applicable)
- Best Practices
 - Keep documentation for each indirect cost category
 - Regularly review and adjust rates for changes in organizational structure



Putting It All Together

- Identify your indirect cost pool
- Choose the right method for your funding context
- Calculate rate and document thoroughly
- Communicate clearly with funders in your proposals

Key Takeaways & Next Steps

- Indirect costs: shared operational expenses necessary for program success
- Accurate rate calculation and clear communication bolster funder trust
- Assess your current indirect cost categorization and methodology
- We'll explore budget narratives, multi-year financial planning, and more