

REDWOOD REGION RISE IN-PERSON CONVENING
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GRANT APPLICATION SKILLS FOR NEW AND GROWING ORGANIZATIONS
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Budget Handout 2: Direct, Indirect and Administrative Costs

EXCERPTED FROM

Grant Implementation:

Administrative, Indirect, and Direct Costs

Witt Obrien's Covid-19 Support Kings County

<https://lci.ca.gov/sch/docs/20230331->

ARPA_Grant_Implementation_Administrative_Indirect_and_DirectCosts.pdf

WHAT ARE DIRECT COSTS?

An expense whose benefit can be specifically identified with a particular funding source and/or program

- For example: If an organization provides one service to the community and is funded by one grant award, all expenses benefit that one service. All expenses would be charged as direct costs.
- A direct cost may be charged 100% to one program, or it may be charged to multiple programs, in which case the cost must be pro-rated based on the amount dedicated to each program
- When another program and/or funding source is added, a determination needs to be made on which costs are direct, and which costs are indirect as well as how to charge each of the programs and funding sources for expenses that occur
- Costs funded as direct must be subtracted from any indirect cost base to prevent duplication of reimbursement of costs across all programs

WHAT ARE INDIRECT COSTS?

A shared cost whose benefit is not readily identifiable with a specific program or programs but is necessary to the general operation of the organization

- Some typical indirect costs include some percentage of the salaries of the executive director and accounting staff, the annual audit and other accounting fees, depreciation on buildings and equipment, costs of operating and maintaining facilities, general administration and expenses, liability and directors' and officers' insurance and board travel expenses
- Indirect costs can be allocated individually by line item (e.g., "board expense" or "audit") or accumulated in a single indirect pool and expensed as one line item ("indirect expense") using some type of indirect rate

- Contractors are generally not permitted to seek reimbursement for indirect costs, though they may use administrative costs for overhead expenses. The administrative cost percentage or amount is negotiated with the pass-through entity.

CATEGORIZING COSTS

1. When another program and/or funding source is added, the best practice is to determine which costs are direct, and which costs are indirect as well as how to charge each of the programs and funding sources for expenses
2. Organizations are encouraged to charge costs directly as much as possible, however, there may be circumstances when costs are shared and must be allocated across more than one project.
3. Shared costs may include office supplies, rent, audit, telephone, printing and copying, utilities and salaries as well as all the indirect costs for the organization
4. Having a fair and equitable allocation of costs is important for an accurate accounting of program and/or funding source expenses

EXAMPLE SCENARIO

Assume you are the executive director of a small nonprofit organization that has recently received funding to add translation services for public health precautions. This funding is in addition to in-language services that you already provide. You dedicate a part-time staff person to translate documents and hire a consultant to teach personal safety classes.

An approach to categorizing costs related to the example new programs is:

- Direct costs – Purchase of materials and supplies for the class would be charged as 100 percent direct costs to the program. Also, salary and fringe and consulting fees for staff hired to only run the program would be 100 percent direct costs.
- Indirect cost – The organization's accountant does not teach or provide in-language services and yet, without this service as well as the corporate insurance, the organization could not operate.
- Administrative cost – Includes the allocation of the accountant salary and fringe benefits, the program manager salary and fringe benefits, office rent and utilities, corporate insurance, cell phones, and postage.
- Overhead cost – Shared operating direct costs considered overhead such as: rent, utilities, phones, and postage, benefit all programs and could be allocated directly or included in an indirect pool. Other overhead costs include those associated with soliciting contributions and fundraising events.

Note: Administrative costs can be direct or indirect – It is the responsibility of the awarded agency to carefully review their administrative cost and appropriately outline as direct or indirect.