

INDIRECT COST RATE

The total cost of a program may consist of allowable direct costs resulting from services and activities related to the program plus the allowable portion of indirect costs. There is no universal rule for classifying certain expenses as either direct or indirect costs within every organization.

Direct Costs are those expenses that can be identified with a particular program or specific activity of an organization. Typical direct costs chargeable to a program are:

1. Compensation, benefits, travel, and training for those employees who devote either 100% or a documented portion of their time to program performance.
2. Supplies or materials acquired, consumed, or expended in the course of conducting program activities.
3. Equipment and other approved capital expenditures used specifically in the delivery of program services/activities.
4. Contract agreements which are for the purpose of providing services to the program or benefits to eligible clients.

Indirect costs represent those expenses that are for the benefit of common or joint objectives and cannot be readily identified with a particular program. Examples of indirect costs would include:

1. Compensation, benefits, travel, and training of management and administrative staff.
2. Supplies or materials acquired, consumed, or expended for the benefit of the over-all organization rather than specific programs.
3. Equipment and other capital expenditures incurred for the benefit of the over-all organization rather than specific programs.
4. Expenses incurred in the course of operating the organization such as:
 - Operation and maintenance of facilities (utilities, janitorial, telephone, insurance, security, etc.)
 - Postage and printing
 - Dues, subscriptions, and publications
 - Board of Directors meetings
 - Accounting services
 - Auditing services if allowed as defined in Cost Principles Section B.4(b)

An **Indirect Cost Rate** is the rate between total indirect expenses of the organization and some direct cost base, commonly either direct salaries and wages or the total direct costs exclusive of capital expenditures and “pass-through” monies (grants, awards, subsidies, etc.).

A simplified method to calculate an indirect cost rate is called the **Direct Cost Base Method**. Direct costs of all programs including Smart Start projects are totaled and reduced by “pass-through” monies to arrive at net direct costs. Total indirect costs to be incurred for the benefit of various projects/programs are calculated and a rate is arrived at based on the following ratio:

$$\frac{\text{Total Indirect Costs}}{\text{Total Net Direct Costs}} = \text{Indirect Cost Rate}$$

This rate developed above would be applied to your Smart Start direct program expenses, if applicable, with a limit of 8% of Smart Start funded direct costs.