

Escambia Children's Trust (ECT)

Policy: Indirect Costs

Policy Number: [Assign Number]

Effective Date: [Insert Date]

Approved By: Escambia Children's Trust Board of Directors

Responsible Department: Finance and Grants Management

I. Purpose

The purpose of this policy is to define indirect costs, establish allowable limits for their inclusion in ECT-funded program budgets, and ensure transparency and consistency across funded providers.

Indirect costs are a necessary part of operating a sustainable organization and may be included in program budgets to support effective administration and program delivery.

II. Definition

Indirect Costs are expenses that are necessary for the general operation of an organization and the conduct of its activities but **cannot be readily identified with a specific project, program, or activity**.

These costs represent the organization's shared administrative and operational support functions that enable programs to run efficiently.

Examples of **indirect costs** include, but are not limited to:

- Executive leadership and administrative support (e.g., Executive Director, Finance Director, HR staff)
- Accounting, payroll, and audit services
- General liability and property insurance
- Office rent, utilities, and equipment shared across programs
- Technology infrastructure, IT support, and software licenses used organization-wide
- General office supplies and postage not specific to one program
- Organization-wide staff development or compliance activities

Indirect costs are distinct from **direct costs**, which can be clearly linked to a particular program, service, or client.

III. Purpose of Allowing Indirect Costs

ECT allows providers to include indirect costs in budgets to:

- Promote organizational sustainability and administrative stability,
- Support efficient fiscal, human resources, and operational systems,
- Ensure accurate financial management and compliance, and
- Reduce the administrative burden of disaggregating shared organizational expenses.

IV. Allowable Limit

- Providers may include **up to fifteen percent (15%)** of the **total direct program costs** as indirect costs in their ECT budget.
- The indirect cost rate must be clearly shown as a **separate budget line item** labeled "*Indirect*" or "*Administrative/Indirect*."
- Indirect costs cannot be used to circumvent funding restrictions or to duplicate costs charged directly to the program.

V. Provider Requirements

1. Detailed Justification:

Each provider must submit a description of what their indirect rate covers in their budget narrative. This should outline the key functions or expenses included (e.g., administrative salaries, rent, insurance).

2. Consistency:

Providers must apply their indirect rate consistently across all funding sources and programs.

3. Documentation:

Providers must maintain supporting documentation for all indirect cost calculations and allocations for audit purposes.

4. Restrictions:

Indirect costs may not include unallowable expenses such as entertainment, fundraising, bad debt, fines, or penalties.

VI. Review and Approval

- ECT staff will review proposed indirect costs during budget review to ensure compliance with this policy.
- ECT may request adjustments from provider if costs appear inconsistent, duplicative, or not aligned with the provider's stated methodology.

- Indirect rates above 15% are not allowable under any ECT-funded agreement unless expressly approved by the Board of Directors.

VII. Monitoring and Compliance

Indirect cost allocations are subject to review during fiscal monitoring and audit. Providers may be required to submit additional documentation to verify that indirect costs are being applied appropriately and consistently.

VIII. Review and Updates

This policy shall be reviewed by the Director of Finance and Executive Director and updated as necessary to maintain alignment with nonprofit fiscal management best practices and ECT's funding principles.

Escambia Children's Trust (ECT)

Provider Guidance: Indirect Costs

Purpose:

ECT recognizes that providers incur general operating costs that support the delivery of all programs. These shared costs—called *indirect costs*—are necessary for the success and sustainability of each funded program. ECT allows providers to include a limited portion of these expenses in their program budgets.

What Are Indirect Costs?

Indirect costs are expenses that support your organization as a whole but **cannot be tied directly to one specific program or activity**.

They are different from *direct costs*, which directly serve clients or fund specific program activities.

Examples of indirect costs include:

- Salaries or wages for administrative staff (e.g., Executive Director, Finance Director, HR)
- Accounting, payroll, or audit services
- General liability and property insurance
- Shared office rent, utilities, or internet
- Technology infrastructure and shared software systems
- General office supplies used across programs
- Organization-wide training or compliance costs

Maximum Allowable Rate

- Providers may include **up to 15%** of total direct program costs as indirect costs.
- Indirect costs must appear as a **separate budget line item** labeled “*Indirect*” or “*Administrative/Indirect*.”
- Indirect costs cannot be used to double-charge items already billed directly to the program.

What Providers Must Submit

Each provider must include in their budget narrative a brief explanation describing:

- What the indirect rate covers (e.g., “administrative support, rent, insurance, and accounting services”), and
- How the rate was calculated (if using a consistent organizational rate).

ECT reviews this information to confirm the rate is applied fairly and within the 15% limit.

What Indirect Cannot Cover

Indirect costs **cannot** include:

- Fundraising or development expenses
- Fines, penalties, or unallowable entertainment
- Costs already charged as direct program expenses
- Personal or unrelated organizational expenses

Documentation and Monitoring

Providers must maintain clear documentation showing how indirect costs were calculated and applied. These may be reviewed during fiscal monitoring or audit.
