DIRECT & INDIRECT COSTS: YOUR NONPROFIT'S GUIDE

(*Friendly reminder: * This guide simplifies complex financial concepts. Let's embark on this journey of understanding your costs better!)

DIRECT COSTS: The Specifics

What are they?
Direct costs can be attributed directly to a specific project, program, or activity of your nonprofit. They're like the ingredients in a specific dish - you know exactly where they're used.

Examples of Direct Costs:

1. Salaries & Wages: Pay for employees who work exclusively on a particular project.

2. Materials & Supplies: Items purchased solely for the completion of a specific project.

3. Equipment: Machines, tools, or technology bought or rented specifically for a project.

4. Travel: Expenses incurred for the direct work on a specific project or program.

5. Contract Services: Fees paid to consultants or specialists for that particular project.

INDIRECT COSTS: The Overheads

What are they?
Indirect costs are more general expenses that support your nonprofit's overall operations but can't be pinpointed to just one project. Think of them as the spices in a kitchen - used in many dishes, but not specific to any single one.

Examples of Indirect Costs:

1. Utilities: Electricity, water, and other services for your entire operation.

2. General Office Supplies: Pens, paper, and other supplies used across various projects.

3. Rent: The cost of your office space or facilities unless it's specific to a single project.

4. Administrative Salaries: Wages for staff who work across multiple projects or support the organization as a whole.

5. Depreciation: Reduction in the value of assets like equipment and buildings used for multiple projects or the entire organization.

6. General Insurance: Protection that covers the entire operation or multiple projects.

Tip: Always consult with your accountant or financial advisor to ensure you're categorizing your costs correctly. It's essential for maintaining transparency, especially during audits or when reporting to stakeholders.