

HOW TO CALCULATE YOUR ORGANIZATION'S INDIRECT EXPENSE RATIO

The calculation is easy.

1. Go to your last 990 and look for the section called Statement of Functional Expenses.

Column A is Total Expenses.

Column B is Program Service Expenses (*we call them Direct Expenses*)

Column C is Management and General Expenses (*also called Administrative Expenses*)

Column D is Fundraising Expenses.

Part IX Statement of Functional Expenses				
<i>Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).</i>				
Check if Schedule O contains a response to any question in this Part IX <input type="checkbox"/>				
<i>Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.</i>	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to governments and organizations in the United States. See Part IV, line 21				
2 Grants and other assistance to individuals in the United States. See Part IV, line 22				
3 Grants and other assistance to governments, organizations, and individuals outside the United States. See Part IV, lines 15 and 16				
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•				
•				
25 Total functional expenses. Add lines 1 through 24e	628,826.	520,266.	72,203.	36,357.
	<i>Column A</i>	<i>Column B</i>	<i>Column C</i>	<i>Column D</i>

2. Add Column C (Management and General) to Column D (Fundraising).

The sum is your total indirect expenses.

$$\begin{aligned}
 & \$72,203 \text{ (Management and General Expenses)} \\
 & + \$36,357 \text{ (Fundraising Expenses)} \\
 & \underline{\hspace{1.5cm}} \\
 & \$108,560 = \text{Total Indirect Expenses}
 \end{aligned}$$

3. Divide your total indirect expenses by column A (Total Expenses) to get your Indirect expense ratio %.

$$\begin{aligned}
 & \frac{\$108,560}{\$628,826} = 17.2\% \text{ (Indirect Expense Ratio)}
 \end{aligned}$$

In this example, the organization's indirect expense ratio is 17.2%. That means the direct expense ratio is 83.8%.

Another way to say it? This organization is spending 83.8 cents of every dollar, directly, on its programs and services.