

Developing Cost Allocation Plans

Vocational Rehabilitation Services
Nonprofits Assistance Fund

October 28, 2014



Welcome to the Webinar

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Welcome to the Webinar



Terry Donovan
Senior Project Consultant
Vocational Rehabilitation
Services, DEED

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Goals for Today's Webinar

- Review federal regulations re: cost allocation
- Learn what expenses can be direct billed and what can be allocated
- Understand acceptable methods for cost allocation
- Learn how to calculate indirect expenses to determine true program costs

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Today's Presenter



Curtis Klotz, CPA
Finance Director
Nonprofits Assistance Fund

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Nonprofits Assistance Fund

- Nonprofits Assistance Fund invests capital and expertise in nonprofits.
- Trainings include free webinars, a variety of half-day workshops around the state, and an annual conference.

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What Are True Program Costs?

The total expenses of operating one program.

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True Program Costs

Comprehensive

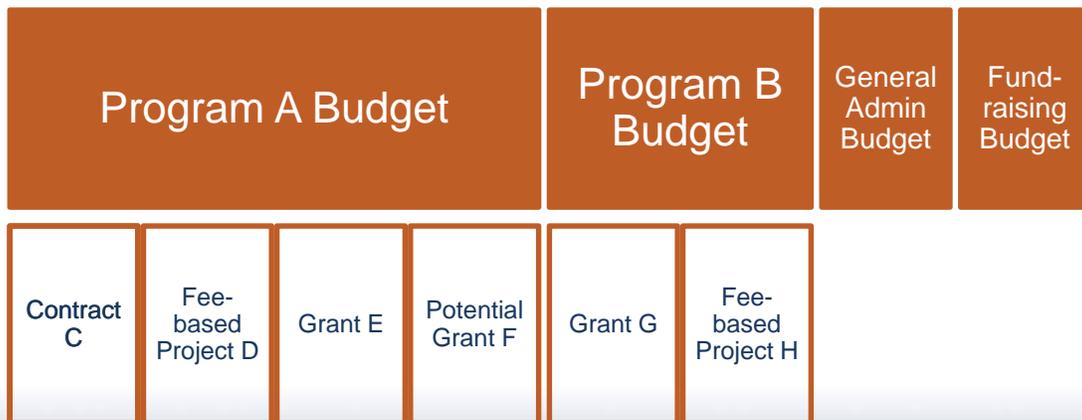
Consistent

Accurate

Informative

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Organizational Budget



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Why Understand True Program Costs?

Ensure program and organizational costs are covered

Develop accurate assumptions for program and organizational budgets

Adjust program assumptions when programs are not self-supporting or able to contribute financially to the organization

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Why Understand True Program Costs?

Ensure that the appropriate amount of development work is being performed

Communicate the organization's financial needs

Comply with required reporting

Financial Recordkeeping

Choose an accounting system based on:

- Complexity of information
- Number of programs or categories
- Integration with other types of organizational data (development, programs)

Use the simplest system that meets your needs

Creating Your Chart of Accounts

Your chart of accounts should include line items that:

- Reflect your areas of activity
- You need to know to make management decisions
- You have to report to someone else

Income

Assign income to programs:

		DEED	Federal	State	FR	Admin	Total
Income:							
	Support						
1	Individual Contributions	\$ 0	0	0	23,961	23,961	47,922
2	County Support	0	492,493	0	0	0	492,493
	Revenue						
3	Government Contracts	350,000	500,000	680,000	0	0	1,530,000
4	Contract Income	0	0	411,475	0	0	411,475
5	Sales	646,000	100,000	900,000	0	0	1,646,000
6	Interest Income	0	0	0	46,222	46,222	92,444
7	Miscellaneous Income	0	0	0	13,848	13,848	27,696
8	Total Income	\$ 996,000	1,092,493	1,991,475	84,031	84,031	4,248,030

Expenses

- Expenses must reflect decisions made regarding program activities
 - Contractual and mandatory expenses
 - Fixed expenses
 - Variable expenses

Professional Fees

Mental health counselor and attorney for the State program
Fundraising consultant

Office Expenses

2 new copiers this year

Dues & Subscriptions

Minnesota Council of Nonprofits, Disability Services Association

Publications

Printed resource packet for each client
Annual evaluation packet for each client

Transportation

Staff travel to client job sites
New IRS rate

Write down your assumptions!

Direct vs. Indirect Expenses

Direct Expenses

- Expenses that are required to carry out a program
- Might be exclusively for the program
- Frequently shared with other program areas

Indirect Expenses

- Expenses that benefit all areas and programs and cannot be specifically assigned but are essential for the health and functioning of the organization
- Often called General and Administrative expenses or “overhead”
- Can be allocated to each program area

Costs	Direct	Indirect (General & Admin)
Executive Director Salary and Benefits		
Program Director Salary and Benefits		
Development Staff Salary and Benefits		
Benefits, Taxes, Insurance		
Consultants and Contractors		
Professional Fees - Audit		
Professional Fees - Legal		
Rent and Utilities		
Office Supplies		
Telephone		
Internet and Website		
Insurance		
Equipment Leases		
Marketing and Communications		
Board Meeting Expenses		
Staff Training and Development		
Depreciation Expense		

Direct Billed vs. Direct Allocated

- Expenses should be direct billed to your grant whenever possible
- Expenses may be allocated amongst program areas if you have a good rationale

Other

- Expenses should be included in the “other” category as a last resort
- “Other” items must be explained in the budget narrative

Direct Billing (Simple Assignment)

This method is used when the type of expense has a relationship to a program that can be identified and quantified.

	DEED	Federal	State	FR	Admin	Total
Rental Equipment	\$	\$	\$	\$	\$	\$ 9,768
Professional Fees	\$	\$	\$	\$	\$	\$ 75,206

Direct Billing (Simple Assignment)

This method is used when the type of expense has a relationship to a program that can be identified and quantified.

	DEED	Federal	State	FR	Admin	Total
Rental Equipment	\$	\$	\$ 9,768	\$	\$	\$ 9,768
Professional Fees	\$	\$ 70,206	\$	\$ 5,000	\$	\$ 75,206

Allocating Direct Expenses

- Create a calculation that can be supported with data
- Use the same calculation method over time

Choosing Allocation Methods

For each expense, choose a method that is:

- Reasonably related to the use of the expense
- Supportable with documentation or strong rationale
- As simple as possible
- Not overly burdensome to administer

Commonly Used Allocation Methods

Method	When to Use
1. Formula based on use of staff time	Preferred method for all salaries and benefits
2. Formula based on use of resources	When resource use is different for program areas and can be measured
3. Formula based on FTE equivalents	Expenses that “follow the people”

Unacceptable Allocation Methodologies

- Revenue %
- Invoicing 1/12th of budget each month

Northern Industries Annual Budget INDIVIDUAL PROGRAM BUDGET with ADMINISTRATIVE and FUNDRAISING COSTS January thru December 2014						
	DEED	Federal	State	FR	Admin	Total
Income:						
Support						
1 Individual Contributions	\$					47,922
2 County Support						492,493
Revenue						
3 Government Contracts						1,530,000
4 Contract Income						411,475
5 Sales						1,646,000
6 Interest Income						92,444
7 Miscellaneous Income						27,696
8 Total Income	\$	0	0	0	0	4,248,030
Expense:						
9 Staff Wages	\$					1,834,371
10 Staff Benefits						140,330
11 Staff Payroll Taxes						299,003
12 Client Wages						933,819
13 Client Payroll Taxes						120,076
14 Client Transportation						108,484
15 Temporary Salaries						18,572
16 Program Supplies						213,393
17 Insurance						24,188
18 Repair & Maintenance						51,707
19 Outside Service						21,903
20 Rental Equipment						9,768
21 Postage & Freight						10,094
22 Utilities						106,160
23 Professional Fees						75,206
24 Office Expenses						7,817
25 Dues & Subscriptions						21,647
26 Publications						11,073
27 Transportation						26,359
28 Miscellaneous						5,420
29 Equipment Replacement						9,704
30 Depreciation						166,511
31 Interest						18,490
32 Total Direct Expense	\$					4,234,095
33 Excess Income over Expense	\$	0	0	0	0	13,935
Surplus (or Deficit)						

1: Formula Based on Use of Staff Time

This method is used by most organizations since staff usually make up the largest percentage of the budget and can be directly related to functional areas.

From timesheets, find the number of hours staff spend on each program:

	DEED	Federal	State	FR	Admin	Total
Exec. Director	0	4	0	12	24	40 hours
Dir. of Training	12	12	12	0	4	40 hours

1: Formula Based on Use of Staff Time

	DEED	Federal	State	FR	Admin	Total
Exec. Director	0	4	0	12	24	40 hours
Dir. of Training	12	12	12	0	4	40 hours

Exec. Director	%	%	%	%	%	100%
Dir. of Training	%	%	%	%	%	100%

Exec. Director Salary	\$	\$	\$	\$	\$	\$ 85,000
Dir. of Training Salary	\$	\$	\$	\$	\$	\$ 65,000

1: Formula Based on Use of Staff Time

	DEED	Federal	State	FR	Admin	Total
Exec. Director	0	4	0	12	24	40 hours
Dir. of Training	12	12	12	0	4	40 hours

Exec. Director	0%	10%	0%	30%	60%	100%
Dir. of Training	30%	30%	30%	0%	10%	100%

Exec. Director Salary	\$	\$	\$	\$	\$	\$ 85,000
Dir. of Training Salary	\$	\$	\$	\$	\$	\$ 65,000

1: Formula Based on Use of Staff Time

	DEED	Federal	State	FR	Admin	Total
Exec. Director	0	4	0	12	24	40 hours
Dir. of Training	12	12	12	0	4	40 hours

Exec. Director	0%	10%	0%	30%	60%	100%
Dir. of Training	30%	30%	30%	0%	10%	100%

Exec. Director Salary	\$	\$ 8,500	\$	\$ 25,500	\$ 51,000	\$ 85,000
Dir. of Training Salary	\$ 19,500	\$ 19,500	\$ 19,500	\$	\$ 6,500	\$ 65,000

2: Formula Based on Use of Resources

This method is used when the type of expense has a relationship to a program that can be measured in a general way.

	DEED	Federal	State	FR	Admin	Total
# of Clients Served	200	200	550	0	0	950

# of Clients Served	%	%	%	%	%	100%
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Publications	\$	\$	\$	\$	\$	\$ 11,073
Transportation	\$	\$	\$	\$	\$	\$ 26,360

2: Formula Based on Use of Resources

This method is used when the type of expense has a relationship to a program that can be measured in a general way.

	DEED	Federal	State	FR	Admin	Total
# of Clients Served	200	200	550	0	0	950

# of Clients Served	21%	21%	58%	0%	0%	100%
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Publications	\$	\$	\$	\$	\$	\$ 11,073
Transportation	\$	\$	\$	\$	\$	\$ 26,360

2: Formula Based on Use of Resources

This method is used when the type of expense has a relationship to a program that can be measured in a general way.

	DEED	Federal	State	FR	Admin	Total
# of Clients Served	200	200	550	0	0	950

# of Clients Served	21%	21%	58%	0%	0%	100%
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Publications	\$ 2,331	\$ 2,331	\$ 6,411	\$	\$	\$ 11,073
Transportation	\$ 5,549	\$ 5,549	\$ 15,261	\$	\$	\$ 26,360

3: Formula Based on FTE Equivalents

This method is used by many organizations since staff usually makes up the largest percentage of the budget and other expenses often have some relationship to staff size.

	DEED	Federal	State	FR	Admin	Total
Hours	332	376	552	192	148	1,600

FTE Equivalent						40 FTEs
% of Total FTEs	%	%	%	%	%	100%

Office Expenses	\$	\$	\$	\$	\$	\$ 7,818
Dues & Subscrip	\$	\$	\$	\$	\$	\$21,647

3: Formula Based on FTE Equivalents

This method is used by many organizations since staff usually makes up the largest percentage of the budget and other expenses often have some relationship to staff size.

	DEED	Federal	State	FR	Admin	Total
Hours	332	376	552	192	148	1,600

FTE Equivalent	8.3	9.4	13.8	4.8	3.7	40 FTEs
% of Total FTEs	20.75%	23.5%	34.5%	12%	9.25%	100%

Office Expenses	\$	\$	\$	\$	\$	\$ 7,818
Dues & Subscrip	\$	\$	\$	\$	\$	\$21,647

3: Formula Based on FTE Equivalents

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	DEED	Federal	State	FR	Admin	Total
Hours	332	376	552	192	148	1,600

FTE Equivalent	8.3	9.4	13.8	4.8	3.7	40 FTEs
% of Total FTEs	20.75%	23.5%	34.5%	12%	9.25%	100%

Office Expenses	\$ 1,622	\$ 1,837	\$ 2,697	\$ 938	\$ 723	\$ 7,818
Dues & Subscrip	\$ 4,492	\$ 5,087	\$ 7,468	\$ 2,598	\$ 2,002	\$21,647

Expense:								
9	Staff Wages	Staff Time	\$ 464,343	247,237	940,491	90,000	92,300	1,834,371
10	Staff Benefits	Staff Time	35,522	18,914	71,948	6,885	7,061	140,330
11	Staff Payroll Taxes	Staff Time	75,688	40,300	153,300	14,670	15,045	299,003
12	Client Wages	# of Clients	196,597	196,579	540,643	0	0	933,819
13	Client Payroll Taxes	# of Clients	25,279	25,279	69,518	0	0	120,076
14	Client Transportation	# of Clients	22,839	22,839	62,806	0	0	108,484
15	Temporary Salaries	Simple	18,572	0	0	0	0	18,572
16	Program Supplies	# of Clients	44,925	44,925	123,543	0	0	213,393
17	Insurance	Sq Ft	4,838	6,047	9,675	1,209	2,419	24,188
18	Repair & Maintenance	Sq Ft	10,341	12,927	20,683	2,585	5,171	51,707
19	Outside Service	Simple	0	0	21,903	0	0	21,903
20	Rental Equipment	Simple	0	0	9,768	0	0	9,768
21	Postage & Freight	# of Clients	2,125	2,125	5,844	0	0	10,094
22	Utilities	Sq Ft	21,232	26,540	42,464	5,308	10,616	106,160
23	Professional Fees	Simple	0	70,206	0	5,000	0	75,206
24	Office Expenses	FTEs	1,622	1,837	2,697	938	723	7,817
25	Dues & Subscriptions	FTEs	4,492	5,087	7,468	2,598	2,002	21,647
26	Publications	# of Clients	2,331	2,331	6,411	0	0	11,073
27	Transportation	# of Clients	5,549	5,549	15,261	0	0	26,359
28	Miscellaneous	FTEs	1,125	1,274	1,870	650	501	5,420
29	Equipment Replacement	Simple	0	0	9,704	0	0	9,704
30	Depreciation	Sq Ft	33,302	41,628	66,604	8,326	16,651	166,511
31	Interest	FTEs	3,837	4,345	6,379	2,219	1,710	18,490
32	Total Direct Expense		\$ 974,559	775,969	2,188,980	140,388	154,199	4,234,095
33	Excess Income over Expense		\$ 21,441	316,524	(197,505)	(56,357)	(70,168)	13,935
	Surplus (or Deficit)							

Adding Direct and Indirect Costs

Direct program costs



Indirect allocation

Indirect Allocation

- Why should indirect allocations be made?
- What methods do your organizations use to allocate indirect costs?
- What are the common objections to allocating overhead costs?

Method: Based on % of Overall Budget

Percentage of overall expense budget is a simple method to use for allocating indirect costs.

	DEED	Federal	State	FR	Total Direct	Admin. (Indirect)	Total
Total Direct Expense	\$ 974,559	\$ 775,969	\$2,188,980	\$ 140,388	\$4,079,896	\$ 154,199	\$4,234,095
% of Total Direct Budget	%	%	%	%	100%		

Allocation of Indirect Costs	\$	\$	\$	\$		(\$154,199)	
Total Direct + Indirect Costs	\$	\$	\$	\$			\$4,234,095

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Method: Based on % of Overall Budget

Percentage of overall expense budget is a simple method to use for allocating indirect costs.

	DEED	Federal	State	FR	Total Direct	Admin. (Indirect)	Total
Total Direct Expense	\$ 974,559	\$ 775,969	\$2,188,980	\$ 140,388	\$4,079,896	\$ 154,199	\$4,234,095
% of Total Direct Budget	24%	19%	54%	3%	100%		

Allocation of Indirect Costs	\$	\$	\$	\$		(\$154,199)	
Total Direct + Indirect Costs	\$	\$	\$	\$			\$4,234,095

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Method: Based on % of Overall Budget

Percentage of overall expense budget is a simple method to use for allocating indirect costs.

	DEED	Federal	State	FR	Total Direct	Admin. (Indirect)	Total
Total Direct Expense	\$ 974,559	\$ 775,969	\$2,188,980	\$ 140,388	\$4,079,896	\$ 154,199	\$4,234,095
% of Total Direct Budget	24%	19%	54%	3%	100%		

Allocation of Indirect Costs	\$ 36,833	\$ 29,328	\$ 82,732	\$ 5,306		(\$154,199)	
Total Direct + Indirect Costs	\$	\$	\$	\$			\$4,234,095

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Method: Based on % of Overall Budget

Percentage of overall expense budget is a simple method to use for allocating indirect costs.

	DEED	Federal	State	FR	Total Direct	Admin. (Indirect)	Total
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% of Total Direct Budget	24%	19%	54%	3%	100%		

Allocation of Indirect Costs	\$ 36,833	\$ 29,328	\$ 82,732	\$ 5,306		(\$154,199)	
Total Direct + Indirect Costs	\$1,011,392	\$ 805,297	\$2,271,712	\$ 145,694			\$4,234,095

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Northern Industries Annual Budget INDIVIDUAL PROGRAM BUDGET with ADMINISTRATIVE and FUNDRAISING COSTS January thru December 2014						
	DEED	Federal	State	FR	Admin	Total
Income:						
Support						
1 Individual Contributions	\$ 0	0	0	23,961	23,961	47,922
2 County Support	0	492,493	0	0	0	492,493
Revenue						
3 Government Contracts	350,000	500,000	680,000	0	0	1,530,000
4 Contract Income	0	0	411,475	0	0	411,475
5 Sales	646,000	100,000	900,000	0	0	1,646,000
6 Interest Income	0	0	0	46,222	-46,222	92,444
7 Miscellaneous Income	0	0	0	13,848	13,848	27,696
8 Total Income	\$ 996,000	1,092,493	1,991,475	84,031	84,031	4,248,030
Expense:						
9 Staff Wages	\$ 464,343	247,237	940,491	90,000	92,300	1,834,371
10 Staff Benefits	35,522	18,914	71,948	6,885	7,061	140,330
11 Staff Payroll Taxes	75,688	40,300	163,300	14,670	15,045	299,003

30 Depreciation		38,332	41,020	38,804	0,020	16,931	108,911
31 Interest		3,837	4,345	6,379	2,219	1,710	18,490
32 Total Direct Expense	\$	974,559	775,969	2,188,980	140,388	154,199	4,234,095
33 Allocation of Indirect (Admin) Cost		36,833	29,328	82,732	5,306	(154,199)	0
34 Total Cost with Indirect Allocation		1,011,392	805,297	2,271,712	145,694	0	4,234,095
35 Excess Income over Expense	\$	(15,392)	287,196	(280,237)	(61,663)	84,031	13,935
Surplus (or Deficit)							

27 Transportation		5,549	5,549	15,261	0	0	26,359
28 Miscellaneous		1,125	1,274	1,870	650	501	5,420
29 Equipment Replacement		0	0	9,704	0	0	9,704
30 Depreciation		38,332	41,020	38,804	0,020	16,931	108,911
31 Interest		3,837	4,345	6,379	2,219	1,710	18,490
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Surplus (or Deficit)							

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Review

- What are the advantages and disadvantages of calculating true program costs?
- How will you use this information?
- What will your program people think?

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Northern Industries								
Annual Budget								
INDIVIDUAL PROGRAM BUDGET with ADMINISTRATIVE and FUNDRAISING COSTS								
January thru December 2014								
			DEED	Federal	State	FR	Admin	Total
Income:								
	Support							
1	Individual Contributions	\$	0	0	0	23,961	23,961	47,922
2	County Support		0	492,493	0	0	0	492,493
	Revenue							
3	Government Contracts		350,000	500,000	680,000	0	0	1,530,000
4	Contract Income		0	0	411,475	0	0	411,475
5	Sales		646,000	100,000	900,000	0	0	1,646,000
6	Interest Income		0	0	0	46,222	46,222	92,444
7	Miscellaneous Income		0	0	0	13,848	13,848	27,696
8	Total Income	\$	996,000	1,092,493	1,991,475	84,031	84,031	4,248,030
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12	Client Wages		196,597	196,579	540,643	0	0	933,819
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14	Client Transportation		22,839	22,839	62,806	0	0	108,484
15	Temporary Salaries		18,572	0	0	0	0	18,572
16	Program Supplies		44,925	44,925	123,543	0	0	213,393
17	Insurance		4,838	6,047	9,675	1,209	2,419	24,188
18	Repair & Maintenance		10,341	12,927	20,683	2,585	5,171	51,707
19	Outside Service		0	0	21,903	0	0	21,903
20	Rental Equipment		0	0	9,768	0	0	9,768
21	Postage & Freight		2,125	2,125	5,844	0	0	10,094
22	Utilities		21,232	26,540	42,464	5,308	10,616	106,160
23	Professional Fees		0	70,206	0	5,000	0	75,206
24	Office Expenses		1,622	1,837	2,697	938	723	7,817
25	Dues & Subscriptions		4,492	5,087	7,468	2,598	2,002	21,647
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27	Transportation		5,549	5,549	15,261	0	0	26,359
28	Miscellaneous		1,125	1,274	1,870	650	501	5,420
29	Equipment Replacement		0	0	9,704	0	0	9,704
30	Depreciation		33,302	41,628	66,604	8,326	16,651	166,511
31	Interest		3,837	4,345	6,379	2,219	1,710	18,490
32	Total Direct Expense	\$	974,559	775,969	2,188,980	140,388	154,199	4,234,095
33	Allocation of Indirect (Admin) Cost		36,833	29,328	82,732	5,306	(154,199)	0
34	Total Cost with Indirect Allocation		1,011,392	805,297	2,271,712	145,694	0	4,234,095
35	Excess Income over Expense	\$	(15,392)	287,196	(280,237)	(61,663)	84,031	13,935
	Surplus (or Deficit)							

NAF Budget and Allocation Tool

The screenshot shows a spreadsheet interface for the "Nonprofits Assistance Fund Budget and Allocation Tool". The spreadsheet includes the following sections:

- Header:** "Nonprofits Assistance Fund" with contact information: "www.nonprofitsassistancefund.org" and "612-278-7180".
- Instructions:** "Complete only the green-shaded boxes" and "Do not add or delete rows or columns".
- Your Organization's Name:** A green-shaded input field labeled "Enter your organization's name here".
- Define Your Fiscal Year:** A green-shaded input field labeled "Enter your fiscal year end date as MM/DD/YY" and "Your Fiscal Year Equals FY1900".
- Define Your Programs:** A section with a yellow background containing a "TIP" and a table for program names.

TIP: The programs, departments, projects, or cost centers a nonprofit chooses to track and report in its accounting system should closely match the distinct areas of work that the organization engages in to meet its mission. A best practice is to limit programs, departments, projects, or cost centers to only those that reflect the organization's mission, strategic plan, and the regular areas of work undertaken by the nonprofit. Avoid creating a program, department, project, or cost center for each individual grant or grantor unless that donor requires a highly specific or unique report that demands its own tracking. Instead build proposal budgets to potential funders around your existing programs, departments, projects, or cost centers.

Name Your Programs Here	
Enter your first program =	
Enter your next program =	
Enter your next program =	
Enter your next program =	
Enter your next program =	
Enter your next program =	
Enter your next program =	
Enter your next program =	
Enter your next program =	
Required	Management and General (Admin)
Required	Fundraising

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Questions?

- Call Nonprofits Assistance Fund for help analyzing your financial information and calculating true program costs (612.278.7180)
- Call Terry Donovan at Vocational Rehab Services for help with your grant budgets (terry.donovan@state.mn.us or 651.259.7374)

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