Cost Allocations for Nonprofits

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Overview

- Identifying direct, shared direct and indirect costs.
- Methods for allocating costs.
- Common mistakes.
- Joint allocations.
- Applying for a negotiated indirect rate.
What is a Direct Cost?

- A direct cost can be traced to a specific grant or can be assigned to one specific service or project.

- These can be specified in grant budget line items.

- Examples include:
  - Labor
  - Direct materials.

- **Shared Direct Costs** are costs that can be specifically identified with two or more programs.
What is an Indirect Cost?

- An indirect cost is a shared cost whose benefit is not readily identifiable with a specific program or activity, but is necessary to the general operation of the organization.

- Indirect costs can include:
  - Accounting and audit
  - Human resources
  - Insurance
  - Executive costs
  - Utilities
  - Office supplies
  - Administrative and overhead
Difficulties with Indirect Costs

- Limitations on indirect cost recovery from donors/foundations, shrinking federal/state awards, and increasing costs of program oversight.

- Donors review allocations and may question allocations if it seems the organization is not running efficiently.

- Nonprofits struggle with percentage of overhead costs while for-profits do not have the same issue (990).

- There is no specific list of costs that are required to be indirect. Every organization is unique. No universal rule.

- There is no set way in allocating costs as every organization has different structures, programs, etc.

- GAAP does not specify the methods that may be used to allocate expenses, instead leaving the selection of allocation methods to the judgment of management.

- Pressure to raise unrestricted contributions to support overhead.
The Cruel Cycle of Indirect Costs

1. Unrealistic expectations regarding indirect costs
2. Pressure to conform to unrealistic expectations
3. Under-investment in infrastructure
4. Declining capacity to achieve program outcomes
The Importance of Allocating Costs

- To understand the **true cost** of running different programs.

- Nonprofits that have **accurate information** about the cost of each program area, are better able to plan and manage budgets and make the case for support and for contract terms that cover the full cost of services.

- Some programs may be financially self-sustaining or even generate a surplus while other activities may require periodic or ongoing subsidy from fundraising or other program areas. Deciding whether and how to support these services is a central strategic decision for nonprofits.
Example of Different Types of Costs

- Assume that you are a small nonprofit that has recently received funding to add an after-school activity program for troubled teens to the services that you already provide.

- You hire a part-time staff person to coach a weekly volleyball clinic and a consultant to teach a weekly course on arts and crafts. You rent the high school gym for two hours a week.

- The gym contains a small room located next to the court that you can use for the crafts activities.
Example of Different Types of Costs

- Direct costs:
  - Volleyballs and craft supplies for the new program.
  - Salary for staff and consultant fees for those who were hired to only run that program.

- Shared direct costs:
  - The cost of the gym rental would be a direct cost that is shared among the two new programs.
Example of Different Types of Costs

- Indirect cost:
  - The organization’s accountant does not teach volleyball and is not very good when it comes to arts and crafts, but without this service the organization could not operate.
Do We Need a Cost Allocation Plan?

- If your organization **has more than one funding source**, Federal or non-Federal, and allowable **direct or indirect costs that benefit multiple cost objectives**, you need a CAP (direct/indirect) or indirect cost rate (indirect costs).

- **Uniform Guidance - 2 CFR Subpart E – Cost Principles:**
  - The cost principles section goes into great detail on the requirements of costs.
Methods of allocation should be:

- Reasonable
- Allowable
- Allocable
Allocation Approach and Methods

- Reasonable:
  - Ordinary and necessary.
  - Supports the organization’s operation and mission.
  - Justifiable - First class airfare would not be reasonable.
  - Consistently applied.
  - A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.
Allocation Approach and Methods

- Allowable:
  - Per the grant or contract.
  - In accordance with Federal, State, and Local guidelines, as applicable.
Allocation Approach and Methods

- Allocable:
  - Tied to cost objective, contract, grant or service.
  - Proportional to benefits provided.

- The best allocation methods are reasonable and justifiable while also being simple enough to calculate and maintain over time.
Understand Your Cost Components

- Indirect Cost Pool:
  - The indirect cost pool is the **accumulated costs that jointly benefit two or more programs or other cost objectives**. Indirect cost pool expenditures typically include:
    - Administrative salaries and fringe benefits associated with overall financial and organizational administration.
    - Operation and maintenance costs for facilities and equipment.
    - Payroll and procurement services.
Understand Your Cost Components

- **Direct Cost Base:**
  - The term “**Base**” refers to the accumulated direct costs which may be the following:
    - Total direct salaries and wages with or without fringe benefits
    - Total direct costs exclusive of any extraordinary or distorting expenditures used to distribute indirect costs to individual programs or awards.
  
- The direct cost base selected should result in each program or award bearing a **fair share** of the indirect costs in a reasonable relation to the benefits received from those costs.
Calculating Your Rate

- Indirect Cost Pool/Direct Cost Base = Indirect Cost Rate

- If your indirect rate is 12%, then for every direct dollar spent on a program, the entity is incurring 12 cents of indirect cost.

- Difficult part is determining what goes in the indirect cost pool and which cost base to use.

- Your IT Group cannot service the entire entity, but only be charged to two grants that make up 25% of your business.
For example:

- If you have one program that has no salaries or fringe benefits charged to it but benefits from the organizational costs charged to the indirect pool, you should not use salaries and fringes as the base.

- It **would not result in an equitable allocation** because the program that has no salaries and fringe charged to it would receive no share of the indirect costs.
Cost bases should consider the following guidelines:

- The cost base must be reasonable and consistently applied.
- Don’t just guess or use budgeted amounts (1/12).
- You can't allocate to a funding source just because it has more available funds than other grants or contracts.
- Choose each cost base using accurate and current data to determine its reasonableness.
- All of your cost bases should be re-evaluated periodically to ensure that they result in a fair and equitable distribution of shared costs (update written policy).
- Should be in your general ledger. Avoid creating multiple spreadsheets with calculations outside of your system.
## Cost Bases for Allocation

<table>
<thead>
<tr>
<th>Allocated Cost (e.g.)</th>
<th>Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>Time sheets showing actual time charged to programs</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>Salaries</td>
</tr>
<tr>
<td>Occupancy</td>
<td>Square footage by program</td>
</tr>
<tr>
<td>Supplies</td>
<td>Square footage or number of clients</td>
</tr>
<tr>
<td>IT Services</td>
<td>Number of computers per program or personnel serviced</td>
</tr>
<tr>
<td>Maintenance</td>
<td>Square footage by program or actual cost</td>
</tr>
</tbody>
</table>
## Exhibit B
Example - Allocation of Personnel Worksheet

Fill in: Final or Provisional & Organization's Fiscal year

<table>
<thead>
<tr>
<th>Position</th>
<th>Annual Salary</th>
<th>Indirect Costs</th>
<th>Direct Costs (a+b)</th>
<th>Federal Programs</th>
<th>Non-Federal Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>$60,000</td>
<td>$54,000</td>
<td>$6,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Assistant</td>
<td>22,000</td>
<td>22,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controller</td>
<td>45,000</td>
<td>45,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accountant</td>
<td>90,000</td>
<td>90,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Planner (4)</td>
<td>120,000</td>
<td>12,000</td>
<td>108,000</td>
<td>$72,000</td>
<td>$12,000</td>
</tr>
<tr>
<td>% of Distribution</td>
<td>100%</td>
<td>10%</td>
<td>90%</td>
<td>60%</td>
<td>10%</td>
</tr>
<tr>
<td>Field Operations Director</td>
<td>35,000</td>
<td>5,250</td>
<td>29,750</td>
<td>8,750</td>
<td>5,250</td>
</tr>
<tr>
<td>% of Distribution</td>
<td>100%</td>
<td>15%</td>
<td>85%</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>Area Coordinator *</td>
<td>15,000</td>
<td>15,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Specialist</td>
<td>25,000</td>
<td>25,000</td>
<td>20,000</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>% of Distribution</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Personnel Director</td>
<td>40,000</td>
<td>40,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel Clerk (3)</td>
<td>60,000</td>
<td>60,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MIS Director</td>
<td>45,000</td>
<td>45,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Head Start Director</td>
<td>45,000</td>
<td>45,000</td>
<td>9,000</td>
<td>36,000</td>
<td></td>
</tr>
<tr>
<td>% of Distribution</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>Data Entry Clerk *</td>
<td>12,000</td>
<td>12,000</td>
<td>9,000</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>All Other Positions **</td>
<td>700,000</td>
<td>700,000</td>
<td>280,000</td>
<td>105,000</td>
<td>175,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$1,314,000</td>
<td>$373,250</td>
<td>$940,750</td>
<td>$398,750</td>
<td>$163,250</td>
</tr>
</tbody>
</table>

* This represents an employee who will work less than a twelve month period.

** These positions have been consolidated for illustrative purposes only. All personnel positions that require time to be charged to more than one cost objective must be identified separately in this worksheet.

Note: The salaries included in this exhibit are for illustrative purposes only.
Allowable vs Unallowable

- Your G/L should identify allowable and unallowable.
- See CFR 200.420-475 for examples.
- Typically, reasonable normal functions of office are allowable.

<table>
<thead>
<tr>
<th>Allocated Cost (e.g.)</th>
<th>Allowable or Unallowable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcoholic beverages</td>
<td>Unallowable</td>
</tr>
<tr>
<td>Bad debt write-offs</td>
<td>Unallowable</td>
</tr>
<tr>
<td>Fines and penalties</td>
<td>Unallowable</td>
</tr>
<tr>
<td>Goods for personal use</td>
<td>Unallowable</td>
</tr>
<tr>
<td>Professional services</td>
<td>Allowable with limitations</td>
</tr>
<tr>
<td>Training costs</td>
<td>Allowable with limitations</td>
</tr>
<tr>
<td>Travel costs</td>
<td>Allowable with limitations</td>
</tr>
</tbody>
</table>
Types of Allocations

- **Direct Allocation Method**
  - When programs are charged for all costs directly.

- **Simple Method**
  - Single-rate – used when indirect costs benefit major functions to the same degree.

- **Multiple Allocation Base Method**
  - Two-rate (separate rates for fringe and overhead).
  - Three-rate (fringe, overhead, and G&A) – used when indirect costs benefit major functions to varying degrees.
Direct Allocation Method

Costs are charged directly to programs. Note that the only rent expense allocated to the indirect pool is the indirect portion of rent expense as a whole.
Simplified Allocation Method

- This method is used whenever the major functions of an organization benefit from its indirect costs to approximately the same degree.
  - Classify total costs as either direct or indirect in the general ledger.
  - Divide the total indirect costs by an equitable distribution base.
  - The result is an indirect cost rate which is used to distribute indirect costs to individual programs.
Under the Simplified Method, for example, rent expense would be entirely classified as indirect costs and distributed to benefiting activities.
# Calculate Simple Indirect Rate

<table>
<thead>
<tr>
<th>Expense</th>
<th>Direct Expense: All Programs</th>
<th>Indirect Pool</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary &amp; Fringe</td>
<td>$2,000,000</td>
<td>$500,000</td>
<td>35% – Method 1</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>$1,500,000</td>
<td>$200,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$3,500,000</td>
<td>$700,000</td>
<td>20% – Method 2</td>
</tr>
</tbody>
</table>

- Method 1: \(\frac{\text{total indirect} \, $700,000}{\text{salary and fringe} \, $2,000,000} = 35\%\)
- Method 2: \(\frac{\text{total indirect} \, $700,000}{\text{total direct} \, $3,500,000} = 20\%\)
- Method 2 has a lower rate, but gets applied to a larger base.
## Calculate Simple Indirect Rate

<table>
<thead>
<tr>
<th>Expense</th>
<th>Program A</th>
<th>Method 1</th>
<th>Method 2</th>
<th>Calculated Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary &amp; Fringe</td>
<td>$500,000</td>
<td>35%*$500,000</td>
<td></td>
<td>$175,000</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>$500,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$1,000,000</td>
<td>20%*$1,000,000</td>
<td></td>
<td>$200,000</td>
</tr>
</tbody>
</table>

- Must be equitable.
- Method 1 must be applied to salary and fringe.
- Method 2 applies to larger base of all program costs and is able to recoup more.
- Cannot use Method 1 and apply it to Method 2 base (Consistent).
- Negotiated Indirect Cost Rate Agreement (NICRA) or grant may determine the method; always seek advice from your granting agency.
Multiple Allocation Base Methods

- This method can be used when an organization’s major functions benefit from its indirect costs in varying degrees.
  - Indirect costs are **grouped based on the benefits provided to the major function**.
  - Each group is then **allocated** individually using the basis most appropriate for the grouping being allocated.

- Many organizations break out cost groupings into fringe and overhead or possibly overhead and G&A. Fringe benefits are then allocated based on salary and wages and overhead gets allocated on Modified Total Direct Costs (MTDC). Example - occupancy pools are allocated based on square footage.
Incorrect Classification of Management and General:

- In the past, there was significant diversity in practice, with many nonprofits **over-allocating these costs to program services**.
- Examples of these costs can include accounting, human resources, payroll and others as well.
- The standard (ASU 2016-14) does describe specific cases in which costs of activities that constitute direct conduct or supervision of program or support functions would be allocated to the program or support functions that receive a benefit.
Expense Allocation Errors

- Not Allocating Enough Costs to Programs:
  - Conversely to the point above, there are often scenarios where organizations are not allocating enough expenses to program services.
  - **Job duties may change** or employees may spend time on activities outside of their job descriptions.
  - Taking the time to **understand how your staff spend their time** will promote more precise allocation of costs and ultimately, a more relevant depiction of how the organization uses its resources.
Lack of Fundraising Salaries Expense Allocation:

- If your organization has contributions, there likely are salaries associated with generating those contributions, yet so many times the **salaries expense allocated to fundraising is inadequate** or unreasonable.

- If your organization fits this profile, **consider revisiting your allocation methodology**. If your employees have to speak with and/or spend time courting potential donors—even if they are existing donors—then there likely should be salaries allocated to this supporting service.
**Expense Allocation Errors**

- **Lack of Timesheet Documentation:**
  - Timesheets only reflect the number of hours each employee worked, and not the allocation of those hours across various funding sources.
  - Time sheets serve as the base for allocating salaries and wages and must reflect the distribution of labor costs among multiple funding/program sources.
  - Hours charged to funding sources on **timesheets must match** the way in which those hours were charged to the organization’s funding sources or those expenses can be disallowed.
Expense Allocation Errors

- Other Allocation Issues:
  - Organizations including unallowable items in the cost pools that were allocated across all funding sources including federal grants.
    - For example - Board meeting snacks and lunches recorded as indirect costs and included in the indirect pool. These costs will be disallowed and probably repaid to the grantor.
  - **Double dipping** – Charging both direct and indirect costs.
  - Not having a written policy.
Another common allocation mistake many organizations make is the way they treat credits received on overpaid bills.

- If you receive a refund from an overpayment of an expense and the expense was originally expensed at least in part to a federal grant, the federal government expects that it will receive its fair share of the refund.

- Many organizations make the mistake of recording this refund as revenue but it should instead be used to reduce the current year’s expense.
Expense Allocation Errors

- Review Your Cost Allocation Policies:
  - There is no time like the present to re-examine your organization’s cost allocation policies.
  - Don’t make the mistake of using unrestricted funds or general funds for allowable costs that should really be borne by the grants that fund your operations.
  - Make sure that all of your sources of funds and programs are paying their fair share of the costs that are necessary to continue to serve your clients.
What Auditors Look For

- The organization has allocation methodology documented.
- Auditors will compare methodology used in current year and compare to prior year for consistency.
- A responsible member of management reviews costs charged to direct and indirect cost centers in accordance with applicable grant agreements and cost principles.
- Indirect cost allocation plan is prepared in accordance with the provisions of OMB’s Uniform Guidance.
- Program managers are involved in the process.
- Invoicing with proper coding and enough description to determine if cost is direct or indirect and which cost center. Example: travel expense, was it program related or not.
Possible Grantor Agency Comments

- Distinguishing grant versus non-grant expenditures.
- Identifying costs by budget period.
- Identifying costs by budget category.
- Differentiating between direct and indirect costs (administrative costs).
- Maintaining federal and required non-federal share separately.

- Questioned Costs $$$$$$
Getting Started

- Before you jump into numbers and spreadsheets:
  - **Communicate** with senior leaders, financial staff, and program managers what you want to accomplish.
  - Many times, we see finance departments that are not communicating with program and vice-versa.
  - In the end, you have a finance department budgeting for a program and really not understanding the program.
  - On the flip side, you have program managers that have never looked at the profit and loss of their program. When they finally do, they usually find errors regarding items that are not included or items that should be included.
Gather the Data

- List of income and expense categories.
- Detailed budgets.
- List of staff with the following information:
  - Their compensation.
  - Records or estimates of their activities.
- Information about major expense items:
  - Facility and program for example.
- Get a thorough understanding of your grant and award agreements.
Start the Process

Define your programs:

- For budgeting and allocations, we suggest that you **separate your activities into distinct programs** that will provide meaningful insight into the financial model.

- At the same time, avoid making it overly detailed or complicated.

- As an example, an afterschool program may operate in two locations or be funded by three grants. If the program operates with similar goals, measures, costs, and staff, we’d suggest that these be grouped as a single program.
Start the Process

- Accounting format and structure:
  - Once implemented, it will still require ongoing maintenance.
  - Make sure that the program and cost definitions match the setup of your accounting system.
  - **Make use of “cost centers”** for the programs you defined and for management & general (administration) and for fundraising.
  - These cost centers are important components of understanding the **true costs** of your organization.
Start the Process

- **Identify direct and indirect costs:**
  - You have to **examine all expense line items in the general ledger** and determine if they are direct or indirect.
  - We recommend having direct and indirect line items for all expenses and it should be noted on the description.
  - For example: Indirect rent or direct rent expense.
Start the Process

Select your allocation methods:

- It must be reasonable, but try your best to keep it simple.
- One method is to follow the people. Allocate the supplies based on the number of people using them in a program.
- You can also use square footage, number of clients or units of service.
- To keep it manageable, try to keep it to just a few allocation choices.
Allocating staff salaries and benefits:

- These are typically an organization’s largest expense, so the correct allocation is critical to understanding the true costs of programs.
- Salary expense cannot be allocated based on job title.
- Salary allocations should be based on a regular and reliable tracking of time.
- The expenses are too significant to just guess.
- Many times the executive director is working directly in programs, make sure their time is allocated to them.
Start the Process

- Your allocation methods and processes should be documented with a written policy.

- The policy should be reviewed on a regular basis because **new grants may require different methods**.

- **To get a true understanding of the costs, you must allocate all costs.** Even if they are unallowable or not allocable to the grant or award.

- The cost of the program and the amount that is invoiced for reimbursement are **two different things**.
Process

- Allocation of shared costs (direct and indirect) to appropriate funding sources is a **multiple-step process:**
  
  - Those costs that can be 100 percent charged to any programs/funding sources and those that will be allocated 100 percent to the indirect pool (to be spread across funding sources in a later step) **should be coded directly to those funds/cost centers.**

  - Those costs that are incurred for common or joint purposes may be accumulated monthly in a pool or department in the accounting system.
Process

- For example, throughout the month, all office supply invoices that reflect purchases for general use would be charged to the line item “office supplies” and to a generic department (perhaps “allocated costs”) rather than specific funding sources.

- At the end of each month, each of the line items in this generic department must be distributed as an expense to all appropriate funding sources, including the indirect cost pool if you have one, using an approved cost base.
Process

- The organization’s indirect costs may then be spread across all appropriate funding sources.

- If you are using an indirect pool, these costs would be allocated using the cost base you have chosen for this pool and the expense will appear in the indirect expense line item for each funding source.

- If you are allocating each indirect cost directly by individual line item, you will use the cost base you have chosen for each indirect line item (i.e., a portion of the audit expense will show on the line item called audit expense for each appropriate funding source).
Joint Costs

- Costs that have components that include both program and fundraising.

- The costs related to these joint activities are appropriately allocated in part to program expenses and in part to fundraising or management and general expenses.

- The allocation can be somewhat subjective and has come under increased scrutiny.
Joint Costs

- When these joint costs are incurred, three criteria must be met in order to allocate any of the joint cost somewhere other than fundraising.
  - Purpose criteria – **Call to action.** Asking for donations is not a call to action. How they can help volunteer their time by teaching, serving meals or cleaning the beach.
  - Audience criteria – The **audience’s need and ability to follow through on the action called for.**
  - Content criteria – The **activity supports the program functions.** Information explaining the need/benefits of the call to action are provided.
Indirect Cost Rate

- A nonprofit establishes an ICR through negotiations with its **cognizant federal agency** by submitting an ICR Proposal and other supporting documentation, which is subject to review and/or audit.

- An indirect rate ensures that **each Federal agency providing funding picks up its fair share** of indirect costs.
Cognizant Agency

- The federal agency responsible for negotiating and approving indirect cost rates for a nonprofit organizations on behalf of all federal agencies.
- Generally defaults to the largest grantor of an organization.
- It will be on your data collection form if you have a single audit.
- Your cognizant agency will help you determine the type of rate you will use.
10% De Minimis Rate

- No calculation – a simple 10 percent of Modified Total Direct Costs (MTDC).
- Non-federal entities which have never held a negotiated rate are eligible.
- No annual proposal.
- Written policy or certification.
  - To define costs as designated direct or indirect.
  - To demonstrate consistent application of costs.
  - To provide “reasonable assurance” (internal controls §200.303) that costs would not be double-charged as both direct and indirect.
Sample – Excerpt Policy

The below is from the Department of Labor website:

- **Salaries and Wages:**
  - 1. **Direct Costs** - The majority of ABC's employees direct charge their salary costs since their work is specifically identifiable to specific grants, contracts, or other activities of the organization such as lobbying, fund raising or providing services to members. The charges are supported by auditable labor distribution reports which reflect the actual activities of employees.
  - 2. **Indirect Costs** - The following staff charge 100% of their salary costs indirectly: - Office Business Manager - Secretary/Receptionist
  - 3. **Mixed Charges** - The following employees may charge their salary costs to both direct and indirect activities: - Executive Director - Administrative Assistant
The below is from the Department of Labor website:

- **Salaries and Wages**
  - The distinction between direct and indirect is primarily based on functions performed. For example, when the positions shown are performing functions that are necessary and beneficial to all programs they are indirect. When functions are specific to one or more programs they are direct because they do not benefit all programs.
  - Auditable labor distribution records which reflect the actual activities of employees are maintained to support the mix of direct/indirect charges. The time records are certified by the Executive Director or designee.
Sample – Excerpt Policy

The below is from the Department of Labor website:

- Occupancy Expenses Rent - ABC occupies space it leases from Lessor Corporation. The lease provides for equal monthly payments during the term of the lease. Monthly lease costs are allocated, based on: square footage, directly and indirectly as follows:
  - 1. Direct Costs - The cost of space occupied by staff whose salaries are directly charged is charged directly.
  - 2. Indirect Costs - The cost of space occupied by staff whose salaries are indirectly charged is charged indirectly. The cost of space for staff whose salaries are charged on a mixed basis will be allocated on a mixed basis in the same ratio as their salaries are allocated.
  - The cost of space required for common areas (hallways, restrooms, and ABC's conference room) will be accounted for as an indirect cost.
  - ABC has developed a floor plan which identifies what areas are designated as direct and indirect charge space (based on square footage).
### EXHIBIT D - Example - Statement of Total Costs - All Funds - and Distribution of Indirect Costs to the Cost Centers using two Sample Methods of Allocation (6) (3 STEPS) Simplified Allocation Method

Fill in: Final or Provisional & Organization's Fiscal Year

#### STEP 1 - Do Statement...

<table>
<thead>
<tr>
<th>Budget Category</th>
<th>Total Costs</th>
<th>Less: Indirect (F&amp;A) Unallowable Costs</th>
<th>Indirect Costs (3)</th>
<th>Total Direct Costs</th>
<th>Federal Programs</th>
<th>Non-Federal Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A = B+C+D</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Salaries</strong></td>
<td>$1,314,000</td>
<td>$273,260</td>
<td>$940,740</td>
<td>$766,750</td>
<td>$515,000</td>
<td>$251,750</td>
</tr>
<tr>
<td>Fringe Benefits (30.73%)</td>
<td>403,746</td>
<td>114,886</td>
<td>288,860</td>
<td>235,596</td>
<td>183,242</td>
<td>77,354</td>
</tr>
<tr>
<td><strong>Total Personnel Costs</strong></td>
<td>$1,717,745</td>
<td>$388,146</td>
<td>$1239,590</td>
<td>$1,002,346</td>
<td>$698,242</td>
<td>$329,104</td>
</tr>
<tr>
<td>Consultant Services</td>
<td>26,600</td>
<td>14,000</td>
<td>12,600</td>
<td>10,300</td>
<td>10,300</td>
<td>6,000</td>
</tr>
<tr>
<td>Staff Travel</td>
<td>94,600</td>
<td>29,000</td>
<td>65,600</td>
<td>67,300</td>
<td>43,600</td>
<td>23,700</td>
</tr>
<tr>
<td>Bed Meals</td>
<td>10,000</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Rent</td>
<td>170,000</td>
<td>170,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumable Supplies</td>
<td>165,000</td>
<td>11,000</td>
<td>150,000</td>
<td>22,500</td>
<td>13,000</td>
<td>5,500</td>
</tr>
<tr>
<td>Subawards/Subcontracts</td>
<td>165,800</td>
<td>165,800</td>
<td></td>
<td>108,000</td>
<td>53,000</td>
<td>55,000</td>
</tr>
<tr>
<td>Purchase, Lease of Equipment</td>
<td>92,000</td>
<td>92,000</td>
<td></td>
<td>22,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td>109,400</td>
<td>56,000</td>
<td>53,400</td>
<td>9,200</td>
<td>6,200</td>
<td>2,000</td>
</tr>
<tr>
<td>Entertainment</td>
<td>1,800</td>
<td>1,800</td>
<td></td>
<td>1,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printing and Reproduction</td>
<td>48,600</td>
<td>48,600</td>
<td></td>
<td>37,000</td>
<td>5,500</td>
<td>3,500</td>
</tr>
<tr>
<td>Insurance and Bonding</td>
<td>42,000</td>
<td>42,000</td>
<td></td>
<td>42,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postage and Delivery</td>
<td>34,000</td>
<td>34,000</td>
<td></td>
<td>28,900</td>
<td>4,300</td>
<td>2,200</td>
</tr>
<tr>
<td>Depreciation</td>
<td>8,800</td>
<td>8,800</td>
<td></td>
<td>8,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency Assistance</td>
<td>54,000</td>
<td>54,000</td>
<td></td>
<td>54,000</td>
<td>54,000</td>
<td></td>
</tr>
<tr>
<td>Training Materials</td>
<td>52,000</td>
<td>52,000</td>
<td></td>
<td>52,000</td>
<td>12,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Participant Support Costs</td>
<td>184,000</td>
<td>184,000</td>
<td></td>
<td>184,000</td>
<td>184,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total Non-Personnel Costs</strong></td>
<td>$1,272,000</td>
<td>$11,000</td>
<td>$1064,200</td>
<td>$379,000</td>
<td>$197,300</td>
<td>$278,500</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$2,990,546</td>
<td>$15,000</td>
<td>$204,740</td>
<td>$1,478,746</td>
<td>$671,142</td>
<td>$607,504</td>
</tr>
</tbody>
</table>

**MTDC Allocation Base:** Direct Cost Exclusions (2)

| Subawards/Subcontracts in excess of $25,000 | (60,800) | ($60,800) | ($28,000) | ($30,000) | ($32,800) |
| Purchase, Lease of Equipment | (22,100) | (22,100) | (22,100) | (22,100) | (22,100) |
| Emergency Assistance | (54,000) | (54,000) | (54,000) | (54,000) | (54,000) |
| Participant Support Costs | (184,000) | (184,000) | (184,000) | (184,000) | (184,000) |
| **Total Direct Exclusions** | ($350,800) | ($350,800) | ($122,000) | ($122,000) | ($122,000) |
| **Total MTDC Allocation Base** | $1,740,736 | $1,740,736 | $234,199 | $234,199 | $234,199 |

#### STEP 2 - Rate Calculation...

**Indirect Costs:** $854,736

**Method A (6):** Allocation Base

<table>
<thead>
<tr>
<th>Indirect Costs</th>
<th>1,062,746</th>
<th>673,242</th>
<th>329,104</th>
<th>227,464</th>
<th>1,229,810</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indirect Rate</strong></td>
<td>71.94%</td>
<td>71.94%</td>
<td>71.94%</td>
<td>71.94%</td>
<td>71.94%</td>
</tr>
<tr>
<td>Equals Allocable Share of ICs</td>
<td>$271,096</td>
<td>$184,326</td>
<td>$326,760</td>
<td>$136,640</td>
<td>$854,736</td>
</tr>
</tbody>
</table>

**Method B (6):** Allocation Base

<table>
<thead>
<tr>
<th>Indirect Costs</th>
<th>1,162,746</th>
<th>789,142</th>
<th>393,404</th>
<th>560,346</th>
<th>1,743,110</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indirect Rate</strong></td>
<td>59.75%</td>
<td>59.75%</td>
<td>59.75%</td>
<td>59.75%</td>
<td>59.75%</td>
</tr>
<tr>
<td>Equals Allocable Share of ICs</td>
<td>$660,317</td>
<td>$400,538</td>
<td>$199,778</td>
<td>$284,419</td>
<td>$854,736</td>
</tr>
</tbody>
</table>

#### STEP 3 - Distribution to Cost Centers (9)

**Indirect Costs:** $854,736

**Method A (6):** Allocation Base

<table>
<thead>
<tr>
<th>Indirect Rate</th>
<th>71.94%</th>
<th>71.94%</th>
<th>71.94%</th>
<th>71.94%</th>
<th>71.94%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equals Allocable Share of ICs</td>
<td>$271,096</td>
<td>$184,326</td>
<td>$326,760</td>
<td>$136,640</td>
<td>$854,736</td>
</tr>
</tbody>
</table>

**Difference between A & B (A-B):**

|$120,790 | $83,790 | $36,982 | ($120,790) |

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1. (1) and (2) - Refer to notes of Exhibit E for explanations.
2. (3) This column must be split to show multiple rate structures (G&A, on-site, etc.).
3. (4) Must reconcile to the Financial Statements.
4. (5) Is the result of multiplying the indirect rate times the allocation base for each cost center.
5. (6) For example purposes only. Other allocation methods may be proposed as long as it provides an equitable and rational distribution of indirect costs. Consult OCG for more details.
6. (7) Present two methods only for full year of negotiations. Propose selected method for consideration. After approval, subsequent proposals should only present approved method. See page 16 for details.
Questions
Resources

- OMB Uniform Guidance

- USAID - Indirect Cost Rate Guide For Non-profit Organizations

- Department of Labor – Guide for Indirect Cost Determination
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  - 954-771-0896

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  - 954-771-0896