BUDGETING AND PROPOSED COST ALLOCATION
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Session Objectives

- Differentiate between direct, shared and indirect costs
- Reflecting costs in budgets & proposals
- Understand accounting for expenses and allocations
OVERVIEW
Determining Chargeable Costs

- REASONABLE
  - Ordinary and necessary
  - Support operation
  - Contribute to performance

- ALLOCABLE
  - Tied to cost objective, contract, service
  - Proportional to benefits

- ALLOWABLE
  - Allowability determined by OMB Guidelines & grant provisions

March 2006
Applying Allocation Methodologies

Indirect costs to major functions:

- **SIMPLE**
  - Used when costs benefit activities to the same degree

- **MULTIPLE**
  - Used when costs benefit activities in varying degrees

- **DIRECT**
  - Treats all costs as direct costs except general & administrative
Utilizing Simple Allocation Method

- Segregate costs
  - direct
  - indirect
  - fundraising
  - facilities
  - administration

- For $10 million + segregate indirect

Allocate costs using a method that measures relative benefits to each function administration

March 2006
Utilizing Multiple Base Method

Segregate your indirect costs into three groupings:

- Depreciation and Use Allowances
- Operation and Maintenance Expenses
- General and Administration

Allocate costs using a method that measures relative benefits to each function

March 2006
Utilizing Direct Allocation Method

Total Costs

Management & General Costs

Fundraising

All Other Costs

Indirect Rate

March 2006
Utilizing Cost Pools

Allocate costs using a method that measures relative benefits to each function

March 2006
Pooling Fringe Benefit Costs

- Apply as a percentage of salaries
- Include payroll taxes, health insurance, unemployment, and workers compensation insurance

Allocate as part of regular monthly accounting close and included in internal and external financial reporting
Pooling Facility & Office Resource Costs

- Allocate on square footage
- Allocate on percentage of salaries if staff regularly work on more than one activity

- Include: rent or depreciation, utilities, telephone, postage, copying and printing, insurance, other shared costs

Allocate as part of regular monthly accounting close and included in internal and external financial reporting

March 2006
Pooling General & Administrative Costs

• Based on total costs and sometimes allocated as a percentage of salaries

• Include governance, legal, accounting and audit fees, human resources

Allocate as part of regular monthly accounting close and included in internal and external financial reporting

March 2006
Budget Development Using the Direct Allocation Method

“The trouble with a budget is that it's hard to fill up one hole without digging another.”

- Dan Bennett

March 2006
Developing a Program Budget

- Staffing Requirements
- Fringe Allocation
- Shared Cost Allocation
- Other Direct Costs
- Indirect Allocation

March 2006
Actions Items Needed

1. Determine staffing to support program
2. Determine allocable share of fringe
3. Identify other direct costs (member or volunteer costs, travel, materials, supplies, and other program operating expenses)
4. Determine allocable share of the cost of shared resources
5. Determine allocable share of indirect

March 2006
Action Item: Determine Staffing

- Determine work required to support the program

- Budget for proportion of time to be spent on program (e.g. half salary for working half time on one project – half time on another)

- Budget based on what people will do, not how they are funded
Action Item: Allocate Fringe Costs

Calculate fringe rate:

\[
\text{Fringe Rate} = \frac{\text{Total fringe costs for the organization}}{\text{Total salaries for the organization}}
\]

Multiply fringe rate by the salaries identified in step 1 to allocate fringe costs to the program budget.
<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
<th>FTE</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Director</td>
<td>Mary Smith</td>
<td>0.5</td>
<td>$25,000</td>
</tr>
<tr>
<td>Volunteer Coordinator</td>
<td>Bill Jones</td>
<td>1.0</td>
<td>30,000</td>
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<tr>
<td><strong>Total Salaries</strong></td>
<td></td>
<td></td>
<td><strong>$55,000</strong></td>
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<tr>
<td>Fringe</td>
<td></td>
<td>20%</td>
<td>11,000</td>
</tr>
<tr>
<td><strong>Total Personnel Cost</strong></td>
<td></td>
<td></td>
<td><strong>$66,000</strong></td>
</tr>
</tbody>
</table>

March 2006
Action Item: Allocate Shared Resources

Calculate shared resources rate:

\[
\text{Total shared resource costs for the organization} \div \text{Total salaries for the organization}
\]

\[= \text{Shared Resource Rate}\]

Multiply shared resource rate by the salaries identified in step 1 to allocate shared resources costs to the program budget.

March 2006
Action Item: Identify Other Direct Costs

- Plan resources
- Identify materials needed
- Estimate travel or equipment costs if appropriate
### Other Direct Costs

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Facilities and related costs (calculated as 18% of personnel)</td>
<td>$15,238</td>
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<tr>
<td>Participant and volunteer costs</td>
<td>10,000</td>
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<tr>
<td>Program orientation materials</td>
<td>2,500</td>
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<tr>
<td>Travel and transportation</td>
<td>1,500</td>
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<tr>
<td><strong>Total Other Direct Costs</strong></td>
<td><strong>$29,238</strong></td>
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</table>
Action Item: Indirect Costs

Calculate indirect cost rate:

\[
\text{Total indirect costs for the organization} \div \text{Sum of program & fundraising costs for the organization}
\]

= Indirect Cost Rate

Multiply rate to total of all other calculated costs

March 2006
## Total Program Cost

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Total personnel cost</td>
<td>$66,000</td>
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<tr>
<td>Other direct costs</td>
<td>29,238</td>
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<tr>
<td>Total direct costs</td>
<td>$95,238</td>
</tr>
<tr>
<td>Indirect at 5% of total direct costs</td>
<td>4,762</td>
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<tr>
<td><strong>Total Program Cost</strong></td>
<td><strong>$100,000</strong></td>
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</tbody>
</table>

March 2006
## Identify Federal versus Grantee Share

<table>
<thead>
<tr>
<th>Item</th>
<th>CNCS</th>
<th>Grantee</th>
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<tr>
<td>Total personnel cost</td>
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<td>29,238</td>
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<tr>
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<td>$100,000</td>
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March 2006
Accounting for Actual Costs
### Organizing Costs

**Cost Centers**

- Collect data about like costs
- Assign individual costs to specific activities

<table>
<thead>
<tr>
<th>Cost Center</th>
<th>Description</th>
<th>Cost Center</th>
<th>Description</th>
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<tbody>
<tr>
<td>100</td>
<td>Programs</td>
<td>200</td>
<td>Support Services</td>
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<td>110</td>
<td>AmeriCorps</td>
<td>210</td>
<td>Administration</td>
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<td>After-School Program</td>
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<td>Fundraising</td>
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<td>130</td>
<td>RSVP</td>
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<tr>
<td>140</td>
<td>RSVP Match</td>
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March 2006
Overview of Accounting Structure

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<th>130</th>
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<th>220</th>
<th>Supporting Services</th>
<th>Total Cost</th>
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<td>Fringe</td>
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<td>Shared Resources</td>
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<tr>
<td>Total Program Cost</td>
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</tr>
</tbody>
</table>

- Treat costs consistently between programs
- Costs are assigned to the activities that benefit from them
Accounting for Personnel Costs

• Maintain time record reflecting activities by cost center

• Report fundraising & administration separately

• Benefits: simplifies accumulation of accounting information for reporting and compliance
Coding Invoices

- **Direct costs**
  - Must support work of program
  - Do not charge costs here simply because funding is available

- **Shared costs**
  - Charge to appropriate pool

- **Indirect costs**
  - Not identifiable to other cost objectives

March 2006
Meeting the Match

• Leverage a funded activity to support the match

• In some states, the state may provide a matching grant.

March 2006
Documenting the Match

- Support reported match with the accounting records

Matching Cost Center

- Use a separate cost center to accumulate the match
## Guiding Principles from OMB

### Circular Letters

<table>
<thead>
<tr>
<th>A-122</th>
<th>Cost Principles for Non-Profit Organizations</th>
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</thead>
<tbody>
<tr>
<td>A-21</td>
<td>Cost Principles for Educational Institutions`</td>
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<tr>
<td>A-87</td>
<td>Cost Principles for State, Local, and Indian Tribal Governments</td>
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</tbody>
</table>

*Available at [http://www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)*
“There are so many men who can figure costs, and so few who can measure values.”

- unknown, in a California newspaper