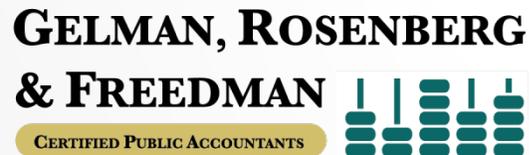


Handling Functional Expenses and Developing Indirect Rates:

Best Practices for Effective Nonprofit Financial Operations



Robert W. Albrecht, CPA
Nonprofit Audit Partner

Jennifer Armingier, CPA
Nonprofit Audit Partner

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Webinar Objectives

<p>Learning Objective <i>To provide attendees with a better understanding of functional expenses and indirect rates.</i></p>	<p>Instructional Delivery Methods <i>Group Live; Internet-based</i></p>
<p>Recommended CPE <i>3.0 CPE</i></p>	<p>Recommended Fields of Study <i>Auditing</i></p>
<p>Prerequisites <i>None required</i></p>	<p>Advance Preparation <i>None</i></p>
<p>Program Level <i>Basic</i></p>	<p>Course Registration Requirements <i>None</i></p>
<p>Refund Policy <i>No fee is required to participate in this session.</i></p>	<p>Cancellation Policy <i>In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.</i></p>
<p>Complaint Resolution Policy <i>Gelman, Rosenberg & Freedman is committed to our seminar participants' 100% satisfaction and will make every reasonable effort to resolve complaints as quickly as possible. Please contact kdavis@grfcpa.com with any concerns.</i></p>	

Our Team

Meet your instructors



Robert W. Albrecht, CPA

Nonprofit Audit Partner



Jennifer Arminger, CPA

Nonprofit Audit Partner

Agenda

1 | Functional Expense Allocation

2 | Indirect Rates: General

3 | Indirect Rates: Non-federal

4 | Indirect Rates: Federal

5 | Sample Rate Calculation

Allocation of Functional Expenses & Overhead/Indirect Rates

Functional Expense Allocation

- Unique to tax-exempt organizations
- Presents costs on a programmatic and natural expense basis
- Spread costs to programs & donors
- Ratio to program efficiency
- Required for Form 990



The image shows a hand pointing at a digital screen displaying a financial statement table. The table is a balance sheet with columns for three periods. The rows are categorized into Assets and Liabilities & Equity. The data is as follows:

	2018	2017	2016
Cash	5,044,100	2,855,857	3,268,919
Accounts Receivable	267,487	217,407	334,834
Other Current Assets	83,062	115,183	81,647
Total Current Assets	5,394,649	3,188,447	3,685,399
Fixed Assets - Gross	194,872	271,009	782,300
Less: Depreciation	(400,352)	(330,730)	(388,616)
Fixed Assets - Net	154,520	140,279	393,684
Other Assets	144,950	303,135	316,329
Intangible Asset	261,458	44,839	134,303
Total Assets	6,357,577	3,676,700	4,529,705
Accounts Payable	552,381	438,458	180,189
Other Current Liabilities	288,810	403,219	334,970
Total Current Liabilities	841,191	841,677	515,159
Total Liabilities & Equity	5,516,386	2,835,023	4,014,546
Net Assets	841,191	841,677	515,159
Net Assets - Endowment	841,191	841,677	515,159
Net Assets - Other	-	-	-
Total Equity	841,191	841,677	515,159
Total Liabilities & Equity	6,357,577	3,676,700	4,529,705

Allocation of Functional Expenses & Overhead/Indirect Rates

Functional Expense Allocation

What to Allocate:

Your organization should clearly define which expense accounts (from chart of accounts) are defined as **Direct Costs: Specific to a particular program or objective** versus **Indirect Costs: costs used by multiple activities**. Once the natural expense categories are defined, the organization should identify those indirect costs that should be allocated.

Presentation:

The two most common presentation methods for allocating expenses are either shown ***above the line*** by natural expense category, or alternatively, the allocation can be done in one lump sum ***below the line***, as shown in the examples to follow.

Allocation of Functional Expenses & Overhead/Indirect Rates

Functional Expense Allocation



Salaries

Most common basis for allocation is the after-the-fact determination of actual time spent working on programs.



Other Bases

Other bases for allocation can include rent & square footage, participants served by program, usage, employees, and more.



Actual vs. Estimates

For those organizations that do not receive federal funding, the basis for allocation may be an estimated amount.

Allocation of Functional Expenses & Overhead/Indirect Rates

Statement of Functional Expenses

	2016		
	Program Services	Management and General	Total Expenses
Wages and salaries	\$ 263,338	\$ 176,072	\$ 439,410
Benefits	101,733	68,020	169,753
Professional fees	28,911	19,330	48,241
Travel and entertainment	11,339	7,581	18,920
Meetings and conventions	135,786	90,788	226,574
Occupancy	144,530	96,635	241,165
Postage and delivery	383	256	639
Equipment, repairs and maintenance	3,691	2,468	6,159
Office supplies	3,283	2,195	5,478
Telecommunications	6,815	4,557	11,372
Dues and subscriptions	1,312	877	2,189
Training and education	1,291	863	2,154
Printing and reproduction	567	379	946
Internet and web	7,609	5,087	12,696
Insurance	3,949	2,640	6,589
Taxes and fees	948	634	1,582
Bank fees	1,963	1,312	3,275
Marketing	4,696	3,140	7,836
Depreciation and amortization	34,720	23,215	57,935
Seminars	234	156	390
Miscellaneous	-	-	-
TOTAL	\$ 757,098	\$ 506,205	\$ 1,263,303

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Allocation of Functional Expenses & Overhead/Indirect Rates

Statement of Functional Expenses

	Grants and Health Care	Transformation Center	Research and Education	General and Administrative	Total Expenses
Salaries and employee benefits (Note 6)	\$ 2,111,944	\$ 557,189	\$ 331,853	\$ 627,967	\$ 3,628,953
Equipment	6,541	16,440	-	15,499	38,480
Office supplies and services	37,791	33,841	19,397	127,404	218,433
Rent (Note 8)	237,270	-	-	78,819	316,089
Printing	975	1,216	-	6,673	8,864
Travel and meetings	190,084	118,408	20,251	27,181	355,924
Depreciation and amortization	81,329	-	-	36,206	117,535
Donations and sponsorships	-	1,500	-	-	1,500
Consultants and sub-contracted services	998,502	61,785	42,613	105,318	1,208,218
IT and computer	-	-	-	32,556	32,556
Miscellaneous	-	-	-	24,566	24,566
Sub-total	3,664,436	790,379	414,114	1,082,189	5,951,118
Allocation of overhead	699,791	65,617	-	(765,408)	-
TOTAL	\$ 4,364,227	\$ 855,996	\$ 414,114	\$ 316,781	\$ 5,951,118

Allocation of Functional Expenses & Overhead/Indirect Rates

Indirect Rates: General

Importance of Allocations & Indirect Rates:

- Ability of management to identify all program costs including allocation of administrative costs; presents the full costs of all programs administered by the nonprofit entity
- Management makes more informed decisions
- Presentation of ratios for donors and outside readers
- Recover donor funds for administrative costs
- Allocate costs equally to all programs



Allocation of Functional Expenses & Overhead/Indirect Rates

Indirect Rates: General

What is the “proper” rate for your organization?

- Public perception vs. reality
- Is the rate too low?
- Is the rate too high?



Allocation of Functional Expenses & Overhead/Indirect Rates

Indirect Rates: Non-federal



Foundations



Foreign Governments



Capped Rates



Actual Organizational Rate



More costs as direct costs?

Allocation of Functional Expenses & Overhead/Indirect Rates

Indirect Rates: Federal

Preparation of Indirect Rates in Accordance with U.S. Government Standards

- Title 2 CFR 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)

Applicability of Uniform Guidance

- Who is covered?
- What USG awards are covered?



Allocation of Functional Expenses & Overhead/Indirect Rates

Indirect Rates: Federal

Appendix IV – Indirect Costs Identification and Assignment, and Rate Determination for Nonprofits

Allowability

Determining allowability of costs in both the direct base and indirect cost pool

Reasonableness

As with all federal activities, evaluating the reasonableness of costs, methodology and application

Consistency

Consistency is both the treatment of costs as well as the application of the indirect rate

Allocability

Evaluating the ability and accuracy of costs to be allocated, and the respective basis for allocation

Allocation of Functional Expenses & Overhead/Indirect Rates

Indirect Rates: Federal

Types of Rates

NICRA (Provisional final) – Chicken and egg syndrome?	De Minimis 10% (Section 200.414)
Predetermined	Fixed

Allocation of Functional Expenses & Overhead/Indirect Rates

Indirect Rates: Federal

Simplified Method

Where an organization's major functions benefit from its indirect costs to approximately the same degree and where an organization has only one major function encompassing a number of individual projects and federal is a small amount. Indirect costs are spread over an equitable distribution base.

Multiple Allocation Base

Where an organization's major functions benefit from its indirect costs to varying degrees. Indirect costs are accumulated into separate cost groupings and each grouping is allocated individually to programs by means of a base that best measures the relative benefits.

Direct Allocation Method

Some organizations treat all costs as direct costs except general administration and general expenses. Joint costs, such as depreciation, rental costs, operation and facilities are prorated individually as direct costs to each category and to each federal award using a base most appropriate to the cost being prorated.

Allocation of Functional Expenses & Overhead/Indirect Rates

Indirect Rates: Federal



Defining Elements of Cost

- Total costs per financial statements (audit report)
- Defining total direct costs
- Defining total indirect costs

Selected items of cost

1. Salaries and related benefits
2. Occupancy costs
3. Sub-grants and sub-awards
4. Equipment and other capital expenditures
5. Travel costs

Allocation of Functional Expenses & Overhead/Indirect Rates

Indirect Rates: Federal

Selected items of cost (typical unallowable costs)

1. Advertising
2. Bad debt expense
3. Contingencies/provisions
4. Donations and contributions
5. Entertainment (alcoholic beverages)
6. Fines and penalties
7. Interest



Allocation of Functional Expenses & Overhead/Indirect Rates

Indirect Rates: Federal

- Treatment of fundraising costs
- Treatment of lobbying expenditures
- Other adjustments



Allocation of Functional Expenses & Overhead/Indirect Rates

Sample Rate Calculation

Direct Cost Base

1. Total program service expense
2. Total fundraising expense
3. Adjustments
 1. Unallowable expenses
 2. Grants and contracts in excess of \$25,000
 3. Reallocation of administrative costs
 4. Equipment and capital expenditures

Total allowable direct costs

Indirect Costs

1. Total management and general expenses
2. Adjustments
 1. Unallowable costs
 2. Lobbying expenditures
 3. Reallocation of administrative costs

Total allowable indirect costs

Allocation of Functional Expenses & Overhead/Indirect Rates

Sample Rate Calculation

Total Direct Expenses			
Total program service expenses	60,000,000		
Total Fundraising expenses	2,000,000		
	62,000,000		
Adjustments:			
Unallowable expenses	50,000		
Grants and contracts in excess of \$25,000	(12,000,000)		
Equipment and Capital Expenditures	(1,000,000)		
Total Allowable Direct Expenses	49,050,000		
Total Indirect Expenses			
Total Management and General expenses	8,000,000		
Adjustments:			
Unallowable expenses	(200,000)		
Total Allowable Indirect Expenses	7,800,000		
		Indirect Rate Calculation:	
		Total Allowable Indirect Expenses	7,800,000
		Total Allowable Direct Expenses	49,050,000
			15.90%



Questions?

We'd like to hear from you!

Get In Touch



4550 Montgomery Avenue,
Suite 650N, Bethesda, MD 20814
(301) 951-9090

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-  instagram.com/grfcpas/

Robert W. Albrecht, CPA
ralbrecht@grfcpa.com
(301) 951-9090

Jennifer Armingier, CPA
jarmingier@grfcpa.com
(301) 951-9090