



# Allocation of Functional Expenses and Overhead/Indirect Rates

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# Allocation of Functional Expenses & Overhead/Indirect Rates

## Gelman, Rosenberg & Freedman CPAs

**Robert Albrecht, CPA** is an Audit Partner with Gelman, Rosenberg and Freedman CPAs, and specializes in auditing and consulting for nonprofit organizations that receive funding from agencies of the US Government. Recognized as the firm's leader with respect to international non-governmental organizations, Mr. Albrecht has traveled to over 100 countries on behalf of the firm's international clients.

**Jennifer Arminger, CPA** is an Audit Partner with Gelman, Rosenberg and Freedman, CPAs and specializes in auditing and accounting services for tax-exempt organizations, both locally and nationwide. Additionally, she has extensive expertise in compliance audits in accordance with Uniform Guidance (formerly A-133), and helps manage the employee benefit plan audit practice at the firm.

## Functional Allocation for Non-Profits

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

## Functional Allocation: Determining what to allocate

- Direct cost vs. shared/indirect cost
- Determine what costs to allocate

## Functional Allocation Methods

- Above the line vs. below the line

## Basis of Allocation

- Most Common: Salaries
- Other Basis:
  - Rent & Square Footage
  - Participants served per program
  - Actual Usage
  - Number of employees
- Estimates vs. Actual

# 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	-	-	-
<b>TOTAL</b>	<b>\$ 757,098</b>	<b>\$ 506,205</b>	<b>\$ 1,263,303</b>

# 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)	-
<b>TOTAL</b>	<b>\$ 4,364,227</b>	<b>\$ 855,996</b>	<b>\$ 414,114</b>	<b>\$ 316,781</b>	<b>\$ 5,951,118</b>

## Importance of Allocation of Expenses & Indirect Rates

- Ability of management to identify all program costs including allocation of administrative costs
- Management makes more informed decisions
- Presentation of ratios for donors and outside readers



## Why Have an Indirect Rate?

- Present full costs of all programs administered by nonprofit entity
- Recover donor funds for administrative costs
- Allocate costs equitably to all programs

## What is the Proper Rate for Your Organization?

- Public Perception vs. Reality
- Is the rate too low?
- Is the rate too high?

## Federal vs. Non-federal Funders

## Overhead/Indirect for Non-Federal Donors

- Foundations, Foreign Governments
- Actual organizational overhead rate
- Capped rates?
- More costs as direct?

## Preparation of Indirect Rates in Accordance with US Govt 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?

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

- Allowability
- Reasonableness
- Consistency
- Allocability

## Establishment and Approval of Rates by US Government

- NICRA (provisional and final) – chicken and egg syndrome?
- Predetermined
- Fixed
- De Minimis 10% (Section 200.414)

## Structuring of Indirect Rates in Accordance with Uniform Guidance

- Simplified method
- Multiple allocation base method
- Direct allocation method

## Defining Elements of Costs

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



## Preparation of Indirect Rate in Accordance with Uniform Guidance

- 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

## Preparation of Indirect Rate in Accordance with Uniform Guidance

- 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

## Preparation of Indirect Rate in Accordance with Uniform Guidance

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

## Sample Rate Calculation

- Total direct costs
  1. Total program service expense
  2. Total fundraising expense
  3. Adjustments
    - a. Unallowable expenses
    - b. Grants and contracts in excess of \$25,000
    - c. Reallocation of administrative costs
    - d. Equipment and capital expenditures
  
- Total allowable direct costs

## Sample Rate Calculation

- Total indirect costs
  1. Total management and general expenses
  2. Adjustments
    - a. Unallowable costs
    - b. Lobbying expenditures
    - c. Reallocation of administrative costs
  
- Total allowable indirect costs

# Allocation of Functional Expenses & Overhead/Indirect Rates

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

<b>Indirect Rate Calculation:</b>	
Total Allowable Indirect Expenses	7,800,000
Total Allowable Direct Expenses	49,050,000

## Future Seminars

**SEPT**



Financial Policies and Procedures (Best Practices)\*

**OCT**



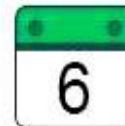
IRS Form 990 Reporting Issues\*

**NOV**



Common Management Letter Findings for Nonprofit Organizations & Audit Preparation\*

**JAN**



Open Forum: Ask the CPA (Nonprofits)\*

\*Location to be determined

# Allocation of Functional Expenses & Overhead/Indirect Rates

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## GRF Expertise

- GRF CPAs works with 500+ nonprofit organizations locally, nationally and internationally, travels to over 60 countries on behalf of our clients
- GRF CPAs annually conducts 100+ Single Audits for nonprofits, which receive federal funding and need to comply with Uniform Guidance
- Our CPAs host seminars, workshops and presentations to keep clients current with industry regulations
- GRF CPAs is an industry-recognized, award-winning firm with 35 years of experience working with nonprofits
- GRF CPAs is committed to technical excellence, personal attention, ongoing communication, staff continuity, community service and diversity
- GRF CPAs MOTTO- “Personal attention will never become obsolete”