

December 11, 2018

Webinar

Expense Allocations & Indirect Rates – Changes in Trends & Implementation for New ASU 2016-14

Presenters

[Jennifer Arminger, CPA](#) | Nonprofit Audit Partner

[Andreas A. Alexandrou, CPA](#) | Nonprofit Audit Partner

1. In your view, what would be the best approach to explain our Board the difference between indirect costs (overhead) vs. supporting services?

The terms “indirect”, “overhead”, “supporting services” (and others) are often used interchangeably within the industry to describe the costs that are not directly identifiable to one project, program, and/or cost objective. Indirect costs and overhead costs are not one in the same. Overhead and G&A are considered indirect costs. Indirect costs are costs that cannot be attributed to a specific activity; those costs have a multitude of cost objectives. G&A costs are costs that benefit the organization taken as a whole. Overhead costs are a function of a direct activity, i.e. labor. Supporting services are defined as the combination of G&A expenses, fundraising and development costs (which should be treated as administrative/indirect expenses).

2. Do you have opinion on whether an expense can be both direct and indirect like rent -my board views rent as indirect but based on FTE I can trace it back to program and shared activities like HR.

Yes, an expense category could have a portion that could be considered direct and maybe a portion that is considered indirect. In your example, you may be able to directly charge a portion of the rent and the remaining gets put in the indirect pool. But it should not be included in both places. A documented methodology (including definitions) for handling such costs should be included in the organization’s accounting policies manual.

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3. Would wages be a good pool? How do you adjust for EDs and Highly paid fund raising staff who might through the balance off?

Wages could be another pool. Like all employees, especially highly paid employees, they should also track their time on programs versus other support to the organization. Be sure to truly define if some of these individual's time should really be reflected as programmatic in nature, instead of supporting/indirect services. If certain highly-compensated employees are influencing the percentage of cost allocated between function, you could consider using hours (instead of salaries) as a measure for cost allocation.

4. I understand that costs associated with creating budgets, even program budgets needs to now be considered an administrative, rather than a program cost. What are the parameters around what constitutes the budgeting activity?

An organization should define how they will treat budgeting costs, especially with respect to grant proposals and budgets. There are no definitive rules on what constitutes a budgeting activity, but we would be happy to advise on specific questions for your organization.

5. How many NP organizations are currently reporting their functional expenses?

Majority of non-profits have included it already as best practice. Now, moving forward, a 100% of non-profits will be required to include their functional expense statement and allocation methodologies.

6. If a grants budget allows for rent to be allocated, then cant rent be a direct cost?

Yes, if rent is being charged as a direct cost, then in the organizational indirect rate calculation, that cost (if included in indirects) should be reclassified from indirects to direct, the theory being that you should not include that in the indirect pool as it already has been reimbursed 100%.

Still have questions?

If you have any further questions about functional expenses and indirect rates, please feel free to reach out.

Jennifer Arminger, CPA – jarminger@grfcpa.com

Andreas A. Alexandrou, CPA – aalexandrou@grfcpa.com