

Nonprofit Finance Series: Cost Allocation

Webinar

with Sherrie Tinoco, Emergency Support Shelter

February 18, 2010

Washington State Coalition Against Domestic Violence

The educational materials that follow are supported by funding from the Washington State Department of Social and Health Services, Children's Administration, Division of Program and Policy. The points of view presented here are those of the author and do not necessarily represent the official position or policies of the Washington State Department of Social and Health Services.

Recording

We are recording the call for people who couldn't make it today.

Type in a question if you don't want to be on record!



CERTIFICATES

If you want WSCADV to **keep a record** of your attendance today:

Email Sandi@wscadv.org by 2/25.

In subject line, enter “attendee for Cost Allocation webinar”

If more than one person from your agency attended, you can list everyone in one email.

Agenda

- Your hot topics? Questions?
- Cost Allocation:
 - Principles, Methods, Examples
 - Examples
 - Questions
- Q&A

What do you want today?

Hot topics, frustrations, questions?

(press *7 to un-mute your phone
And *6 to mute)

What is Cost Allocation?

A method for apportioning *shared expenses* or *shared costs* (also called *common costs*, or *directly allocable costs*) across functional areas.

From www.notforprofitaccounting.net/2009/10/05/cost-allocation

Why Do We Need Cost Allocation Plans?

- Contractors and funders ask us to tell them how we decide the amount of an expense that we charge to them and how that amount relates to the total expense.
- The easiest way is to develop a cost allocation plan for the various types of expenses we incur.

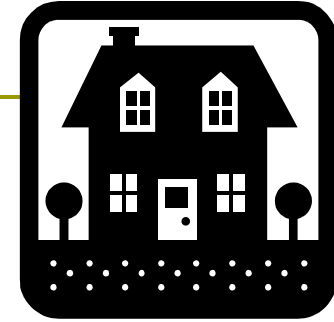
Why Bother?

- ❑ Fundamental accounting principle per GAAP (Generally Accepted Accounting Principles) & OMB Circular A-122, "Cost Principles for Non-Profit Organizations."
- ❑ Required by many funders.
- ❑ Realistic picture of running programs.
- ❑ Avoid under-estimating true cost of doing business.
- ❑ Consistently spread around costs of management, admin, fundraising, rent, etc.
- ❑ See what you need to raise \$ for.

3 Common Methods of Cost Allocation

- By **Space cost** (square footage)
- By **Actual cost**
- By **FTE or Program**

1. Space Cost Allocation



Let's Rent a House!

- ❑ Tom, John and Frank are college students looking to share a three bedroom house. Each has a different amount of resources available to them to use.
- ❑ They find a house that rents for \$1,800.
- ❑ Let's look at different ways to allocate costs.

Even split?

- Ok, there are:
 - three roommates,
 - three rooms,
 - so divide the \$1,800 by three.

Makes sense right?

Maybe not...

Equal parts per person, or program, don't always work if the amount used isn't equal.



For allocating space costs, square footage is a good tool. Common areas can be equally split.



First, we need to figure out the total space & cost per square foot.

The building is 45 feet long x 20 feet wide = 900 square feet.

(Length x Width = Area, so $45 \times 20 = 900$)

To get cost per square foot, divide the total area by the cost.

$\$1,800/900 = \underline{\$2 \text{ per square foot.}}$

Then you determine who (or what program) uses what amount of space.

Master bed/bath: $20 \text{ ft} \times 20 \text{ ft} = 400 \text{ square feet} \times \$2 = \$800$

Bedroom # 1: $10 \text{ ft} \times 8 \text{ ft} = 80 \text{ square ft} \times \$2 = \$160$

Bedroom # 2: same as bedroom # 1 = \$160

Bathroom: $4 \text{ ft} \times 10 \text{ ft} = 40 \text{ square ft} \times \$2 = \$80$

Shared living area (Living room, kitchen):

$15 \text{ ft} \times 20 \text{ ft} = 300 \text{ square ft} \times \$2 = \$600$

Master bedroom/bath	\$800	Tom
Bedroom # 1	\$160	John
Bedroom # 2	\$160	Frank
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Bathroom	\$80	John & Frank
Shared living room, kitchen	\$600	Tom, John, Frank
so \$600/3 people =	\$200/person	for shared areas

So if **Tom** has master bedroom, he pays \$800 for master bed/bath
+ \$200 shared space = \$1,000/month

John and Frank each pay \$160 for bedrooms + \$40 bath
+ \$200 shared space = \$400 a month

\$1000	Tom's share of rent
\$400	John's share
+\$400	Frank's share
<hr/>	
= \$1,800	total rent

Back to What We Do

- Our contractors feel the same way as we would as renters. Particularly for dual programs, if the DV shelter requires the majority of the facility, the cost allocation for space should reflect that.

- Other items that may work for a square footage cost allocation:
 - Utilities
 - Facility
 - Insurance
 - Carpet cleaning, etc.

2. Actual Cost Allocation

There are some expense items that make sense to allocate based on what they actually cost us.

- **Actual hours worked**
- **Program-specific materials**
- **Items used by only certain programs**

Example: \$100 snacks for support group is charged to support group expenses.



Most of these are straightforward, but wages can get complicated...

Timesheets

It helps to create a timesheet that reflects the different funding sources that each employee works under their job description.

That way the employee can document the time worked under each source during each pay period.

Time studies are estimates, while this way better represents actuals.

EMERGENCY SUPPORT SHELTER

NAME Doe, Jane POSITION SA/DV Adv WEEK ENDING _____

	DATE	SA	DV	HOURS WORKED
Sun				
Mon				
Tue				
Wed				
Thur				
Fri				
Sat				
Sun				
Mon				
Tue				
Wed				
Thur				
Fri				
Sat				
	TOTAL			

SICK				
VAC.				
HOL.				
OTHE R				
	TOTAL			

TOTAL HOURS _____

EMPLOYEE SIGNATURE

SUPERVISOR SIGNATURE

Sample: Salary/Wages by %

	DSHS	SA-OCVA	United Way	STOP	Total
Staff #1	25%	50%	25%		100%
Staff #2	50%		25%	25%	100%
Staff #3		100%			100%
Staff #4		25%	25%	50%	100%
Staff #5	100%				100%

Sample: Salary/Wages by \$

	DSHS	SA-OCVA	United Way	STOP	Total
Staff #1	8,500	17,000	8,500		34,000
Staff #2	15,000		7,500	7,500	30,000
Staff #3		28,000			28,000
Staff #4		7,500	7,500	15,000	30,000
Staff #5	29,500				29,500
Total	53,000	52,500	23,500	22,500	151,500

3. FTE (or Program) Cost Allocation

- ❑ Calculate based on the ratio of FTE to the program cost

Total Cost / Total #FTE x #FTE per program = Pro-rated cost

- ❑ Useful for expenses that are used by multiple programs, yet don't fit in the square foot model.
- ❑ Telephone, liability insurance, general supplies, benefits, Internet, etc.



How to Allocate Costs by FTE

- Calculate total # of FTE in the agency;
- Divide into the cost of the expense;
- Multiply by the number of FTE in a program.

Again,

Total Cost / Total #FTE x #FTE per program = Pro-rated cost

Example of FTE Cost Allocation

Say your telephone bill is \$350. There are 10 staff in the agency: 5 in the DV program, 2 in DV legal advocacy and 3 in the SA program.

First, $\$350/10 = \35 per FTE

DV	$\$35 \times 5 \text{ FTE} = \175
DVLA	$\$35 \times 2 \text{ FTE} = \70
SA	$\$35 \times 3 \text{ FTE} = \105
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Total	\$350



Allocating Indirect Costs

Calculate the total management and fundraising costs that cannot be directly allocated to a program; for example, audit, accounting, admin staff.

Determine an equitable method for spreading this total across all programs.

Tools to Help with Cost Allocation

Budget: A budget that lists out the expenses and the funding sources that can contribute can be helpful, not only with cost allocation, but to **see which programs are self-sufficient** and **which ones need additional funding streams.**

This also helps avoid the temptation to apply money “where it’s needed” and put it where it belongs.

“Gap Fillers”

Unrestricted dollars are critical to non-profit budgeting.

- * Fundraising (as long as it is not project-specific)
- * Private donations
- * Unrestricted or outright grants

When filling out the budget, **first use the contract amounts**, using the cost allocation for each line and then determine the gap that is left.

This is where you will plug in the unrestricted dollar amounts, or if there are not enough, these are the numbers you will use to identify where to focus grant writing efforts.

Sample Budget: Income

DSHS DV Program	\$100,000
SA – OCVA	\$84,000
United Way	\$30,000
Fundraising	\$15,000
Cash Donations	\$5,000
STOP Grant	\$10,000
Other Grants	\$8,000
Total Income	\$252,000

Cost Allocation Plans

- ❑ Describes methods & procedures that you use to allocate costs to programs, grants, contracts and agreements.
- ❑ Describes the cost relationship between funding & your programs.

Sample from the Florida Coalition:

<http://www.fcadv.org/downloads/events/2010-2011%20FY%20Cost%20Allocation%20Plan.doc>

Sample Cost Allocation Plan from Emergency Support Shelter

- ❑ Cost Allocation Using FTE: telephone, benefits, admin, internet, general office supplies, payroll expense, employee relations, equipment and repairs, audit
- ❑ Cost Allocation Using Square Ft: insurance, electricity, water/sewer/garbage, carpet cleaning, maintenance
- ❑ Cost Allocation Using Actual Cost: advertising, 401k, client expenses, shelter food, program brochures, outreach, program specific supplies, training, mileage reimbursements, rent, dues.

(Continued sample) Funding & Match FTE allocation

	<i>FTE</i>	DV	DV-LA	SA	SA-MC	CVAP	Children	STOP	
Miriam	1					1			
Sonny	1					1			
Lesieli	0.5	0.5							
Kathy	1	0.75				0.25			
Hazel	1		0.6					0.4	
Heather	1			1					
Josie	0.5	0.5							
Stephanie	1					1			
Jeanie	1	1							
Evelyn	1	0.5		0.25		0.25			
Bekah	1	0.75				0.25			
New Hire	0.5				0.5				
Laurie H	0.75	0.75							
Darla	0.25						0.25		
Jacinta	1			1					
Juli	1	1							
Nancy	0.5	0.5							
DiAnn	1			0.5		0.5			
Amanda	0.5						0.5		
Misty	1			0.5		0.5			
New Hire	0.5	0.5							
Lekechia	1	0.5	0.5						
Mary	1		0.5			0.5			
TOTAL	19	7.25	1.6	3.25	0.5	5.25	0.75	0.4	19

(Continued sample) Programs Square Foot Allocation (figures are rounded up)			Allocating \$50,960.00	
Program	%		Square Ft	Total
DV	63.90%		5,211	\$32,563
SA	14.64%		1,194	\$7,461
CVAP	16.19%		1,320	\$8,249
ADMIN	5.27%		430	\$2,687
Total	100%		8,155	\$50,960.00

EVALUATIONS

- When this webinar ends, an online evaluation form will appear.
- Please fill it out.
- Thanks to Sherrie Tinoco from Emergency Support Shelter!
- Thanks to you for participating!

