



COST ALLOCATIONS:

Three ways to Evaluate Financial Performance

Kelsey Vatsaas
Managing Consultant, Public Sector Group

AGENDA

- 1 3 allocation types
- 2 Functional allocations
- 3 Indirect rate allocations
- 4 Fully-loaded allocations
- 5 Strategic Analysis
- 6 Conclusion

3 ALLOCATION TYPES



FUNCTIONAL

- Required by accounting standards
- Included in audit and 990 and specifically identified on Guidestar
- Used by donors, charity watchdogs, etc.



INDIRECT COST RATE

- Required for those with federal contracts
- Specific direction given through OMB A-122
- Used by the Federal Government and tested in single audits



FULLY-LOADED

- Optional
- Allocates all expenses to programs to identify true resource requirements
- Used for management and board decision-making



3 ALLOCATION TYPES

- Allocations are not mutually exclusive
- Your organization may use one, two, or all three types of allocations for different purposes
- You may be able to use the information gathered for one type of allocation, organized in a new way, for another allocation





FUNCTIONAL ALLOCATIONS

Functional allocations for external reporting

COST TYPES

Program

Supporting Activities

- Management and General (Administration)
- Fundraising



PROGRAM COSTS

- Costs associated with direct program or service delivery
- Number of programs specified varies by entity

MANAGEMENT AND GENERAL COSTS

- Costs of administering the organization
- Examples
 - Business management
 - Accounting/recordkeeping
 - Budgeting
 - Soliciting funds other than contributions, including for exchange transactions (even if program related)
 - Informing the public about your stewardship of contributions
 - All administration except for direct conduct of program services or fundraising

FUNDRAISING COSTS

Working with potential donors to solicit contributions
(cash, services, in-kinds, other assets)



INDIRECT COST RATE

Allocations for federal grant reporting purposes

INDIRECT COST RATE ALLOCATIONS

A device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear:

- Provisional or billing rate
- Final rate
- Predetermined rate

INDIRECT COST RATE ALLOCATIONS

Simplified

Multiple Rate

Direct
Allocation

← Three Basic Methods for Non Profits →

INDIRECT COST RATE ALLOCATIONS

SIMPLIFIED ALLOCATION METHOD

- Used whenever the major functions of an organization benefit from its indirect costs to approximately the same degree
- Indirect cost rate is used to distribute indirect costs to individual Federal financial assistance programs and contracts
- Both direct and indirect costs exclude capital expenditures and unallowable costs, but these are included in direct cost base

INDIRECT COST RATE ALLOCATIONS

DIRECT ALLOCATION METHOD

- Used by organizations that treat all costs as direct costs EXCEPT general administration and expenses
- Generally separate costs into three basic categories:
 1. General administration and expenses
 2. Fund raising
 3. Other direct functions (including projects performed under Federal awards)

INDIRECT COST RATE ALLOCATIONS

DIRECT ALLOCATION BASE SUGGESTIONS

Type of Service	Suggested Allocation Base
Legal service	Direct hours
Building lease & management	Number of leases
Accounting	Number transactions posted
Office space use & related costs	Square feet of space occupied
Personnel administration	Number of employees
Employee retirement system administration	Number of employees contributing



FULLY-LOADED ALLOCATIONS

Internal allocations for better decision making

FULLY-LOADED ALLOCATIONS

How many of you currently use a process where you allocate all of your costs to programs to identify the true costs of each program?

FULLY-LOADED ALLOCATIONS

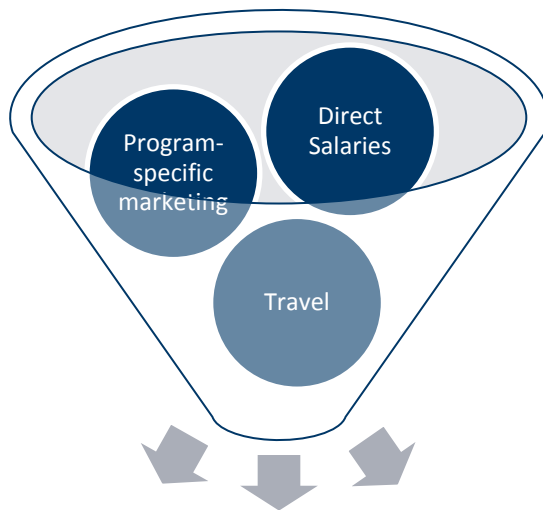
The ideal setup for completing and using a fully-loaded allocation at your organization includes:

- Accounting and reporting system that delineates profit centers from cost center(s)
- Ability to identify or estimate Management and Administrative staff time spent supporting each program
- Willingness by staff and board to evaluate financial results in new ways

FULLY-LOADED ALLOCATIONS

Step 1: Record Expenses

DIRECT EXPENSES

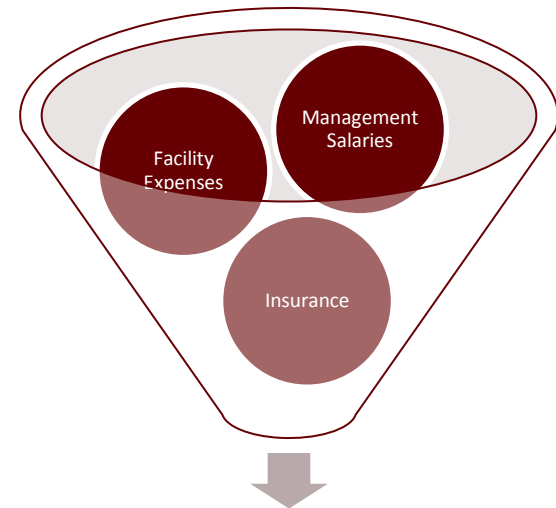


Program A

Program B

Program C

INDIRECT EXPENSES



Management & Administration

FULLY-LOADED ALLOCATIONS

Step 2: Identify Allocation Methods

Staff Time

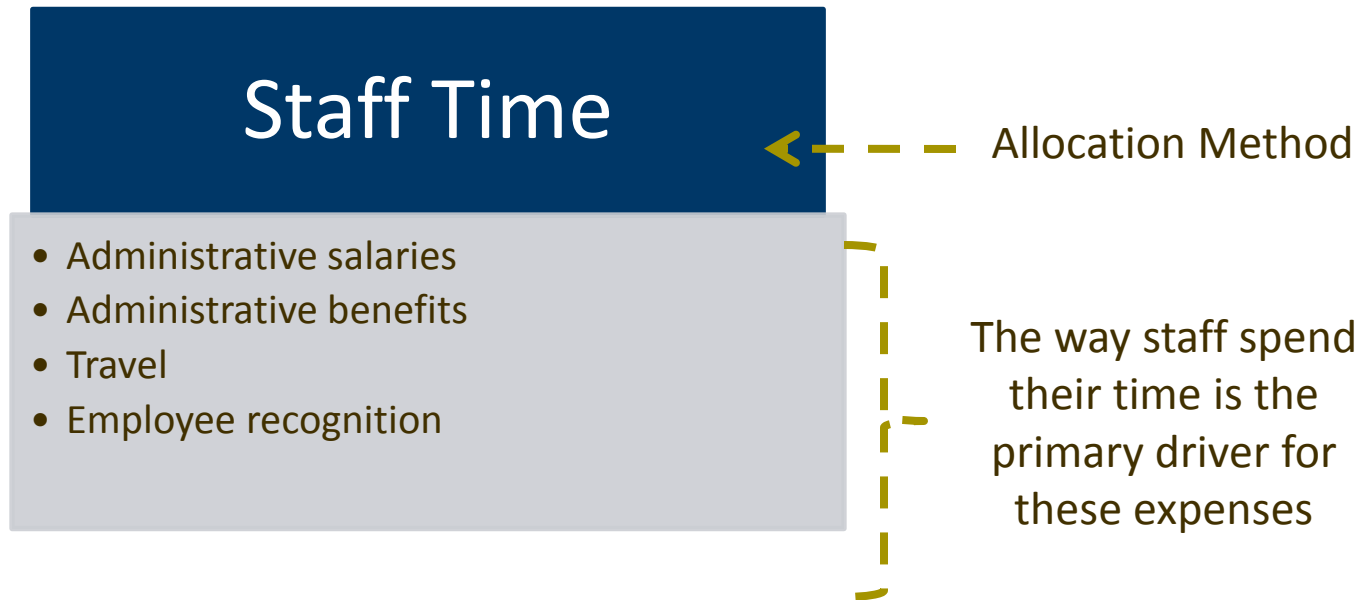
Square
Footage

% Direct
Expenses

← Multi-Step Allocations →

FULLY-LOADED ALLOCATIONS

Step 3: Determine Method for Each Expense



FULLY-LOADED ALLOCATIONS

Step 4: Apply Allocations to Indirect Expenses



NOTE: ONLY allocating to programs

FULLY-LOADED ALLOCATIONS

Step 5: Total and Report

- There are many options for how you can report the information
- Try to identify the most intuitive/logical reporting structure for your organization
- We recommend separating the direct and indirect expenses



STRATEGIC ANALYSIS

How to use internal information as a strategic decision making tool

STRATEGIC ANALYSIS

- How does your organization measure if a program is successful?
- What types of measures does your organization use to determine impact?
- How does your organization promote the impact of programs to your stakeholders?

Strategic Considerations

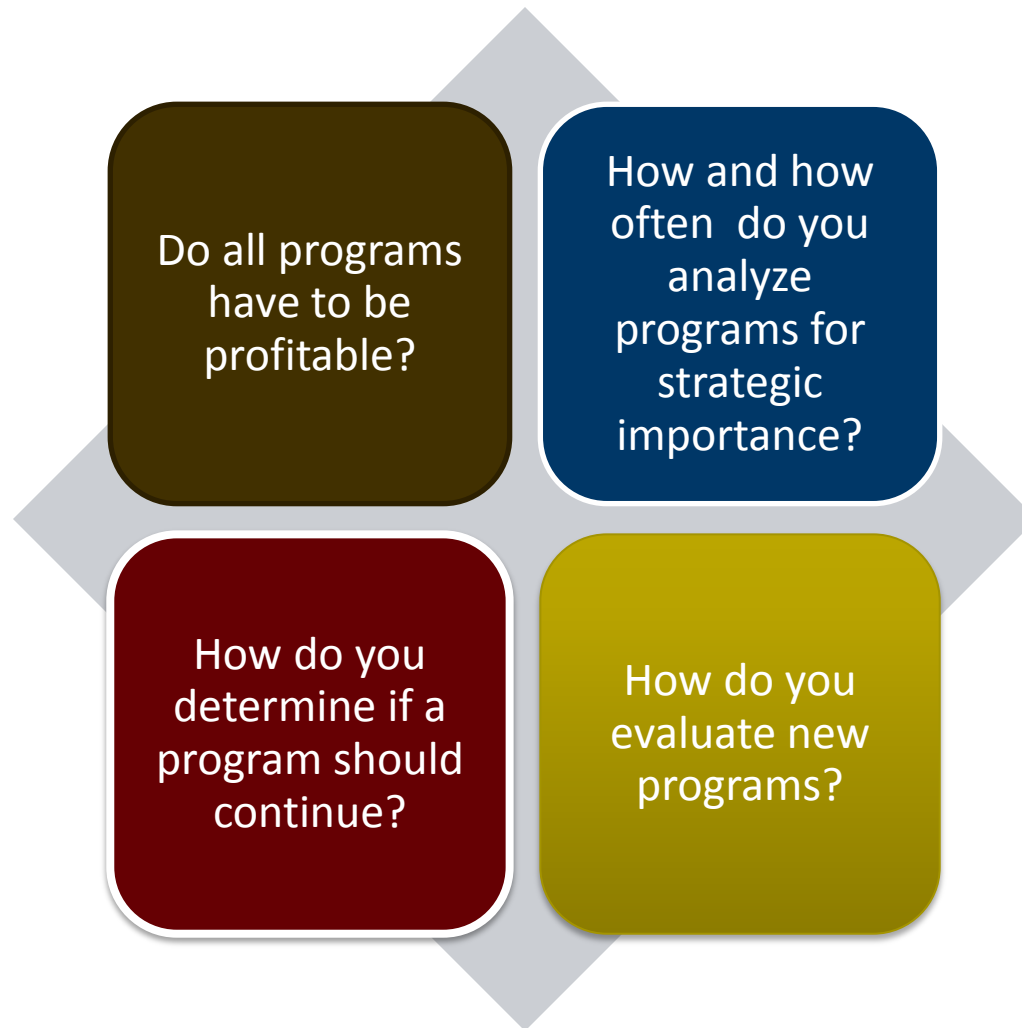
Profitability

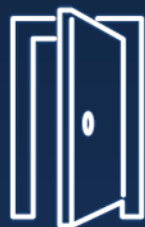
- Is the program profitable (fully absorbed)?
- Is the program a loss leader?

Impact

- How does the program advance your mission?
- Does the program/activity generate funds for other programs?

DISCUSSION 6 – PROGRAM ANALYSIS





Thank You!

Kelsey Vatsaas

612.376.4657

Kelsey.vatsaas@claconnect.com

