

INTRODUCTION

The following report explains our indirect cost system and contains documentation for that system's basis. Organizations such as the North Central Florida Regional Planning Council, by their nature, create many accounting problems. During the course of a fiscal year, new grants may be added which were not included in the original budget. Many grants have fiscal years which do not correspond with the Council's fiscal year. Problems such as these make the drawing of an overall budget difficult and complicates the bookkeeping process since some costs have to be carried over more than one fiscal year to enable the Council to report the grant expenditures correctly. It also causes many problems in the allocation of expenses. Since the Council's makeup is based entirely on grants, matching funds, and membership dues, the general overhead costs of maintaining the office must be shared by all grants.

FMC Circular 74-4 provides means by which all grants may be charged a portion of those costs which are necessary to the operation of an organization but cannot be specifically identified as a cost of those grants. This document provides for the establishment of a "cost pool" where indirect costs may be accumulated and then prorated to various cost objectives on a reasonable and equitable basis. All direct costs will be charged directly to the appropriate cost objective and the indirect costs will be accumulated in an account called "Indirect Cost Pool." Within this cost pool, expenses will be broken down by line item accounts. Through the indirect cost rate, these indirect costs are prorated back to the cost objectives.

The indirect cost rate is a ratio between total indirect costs and the direct personnel costs. A cost allocation is simply a process which sets out the projected direct costs, the projected indirect costs, and the projected base for allocation of these costs, thus arriving at an indirect cost rate for those costs. We have chosen personnel costs as our basis for proration because almost every one of the cost items considered indirect will increase with the addition of personnel.

This cost allocation plan should provide a fair and equitable method for allocating indirect costs.

DIRECT VS INDIRECT POLICY STATEMENT

Basically, the policy for determining which costs are direct and which are indirect is dependent on the definition set down in FMC Circular No. 74-4. Indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Using this basic principle, determination can be made for each expense.

Personnel Costs - Using the timesheet as a tool, time worked on any specific grant can be charged to that grant by using each employee's chargeable rate. Some job functions can't be charged to a specific program because the time expended is of benefit to all the programs in general and so should be considered indirect. Some of this work falls into the administrative category and covers: some work performed by the Executive Director; most of the time of the Executive Secretary (who handles work flow in the secretarial pool and general administrative duties for the Executive Director); and most duties of the Bookkeeper and the Finance and Accounting Director. Most of the secretarial and graphics personnel costs are non-administrative in nature, but because this work is pooled, it is charged to programs on an indirect basis as well. Indirect personnel costs are charged to the Indirect Cost Pool and charged out along with other indirect expenses.

Rent - This expense is most easily treated as an indirect expense. All the common areas, such as hallways, closets, and restrooms, are indirect by nature. Areas which are used primarily for administrative work or areas whose use is fragmented, such as the secretarial pool or graphics room, are also indirect. Space used by planners is indirect because the use increases directly with increase in personnel costs.

Machine Rental/Maintenance - This expense covers rental on any temporary typewriter, leases on all dictation equipment, and maintenance on all office equipment. The maintenance of office equipment benefits everyone in general and it would be impossible to calculate each grant's use of the various pieces of equipment.

Office Supplies - By their nature, office supplies are usually expenses which are not readily assignable to a specific grant because of a disproportionate amount of time involved to determine each program's use. Many of these supplies used are also mainly to benefit all the programs in general. Supplies purchased for use on a specific program are charged as a direct expense to that program.

Graphic Supplies - Many graphic supplies are bought as a general supply and are not readily assignable. Supplies purchased for use on a specific program are charged as a direct expense to that program.

Telephone - The monthly service charge and long distance costs are considered indirect both because they are not readily assignable and because there is a large part of this cost which is for all programs in general (for instance, phones used by secretaries, graphics personnel, etc.).

Postage - Most postage charges are direct and are determined by the use of a postage log kept as mail is run through the postage meter. Some postage is for general use, such as administrative correspondence or correspondence for purchases and disbursement.

Audit - An annual audit by an independent C.P.A. firm is a requirement of the Council, is to the general benefit of all programs, and is charged to indirect.

Printing - Printing for a specific program is a direct charge and is determined by actual cost. Some printing is for general benefit (i.e., general office forms).

Computer Operations - This expense is entirely direct and is determined by an itemized invoice from the data processing center.

Dues, Publications and Subscriptions - This expense is generally indirect. The maintenance of a library is for general use of the entire Council and accessible to any employee of the Council. Dues to various organizations are for the benefit of the entire Council as most are national.

Moving Expenses - The indirect portion of this expense refers to expense of moving furniture and equipment to new office space. The direct portion is the moving expense allocation paid to new employees to help cover relocation expenses when they join the Council staff. It is charged to Council Dues. The expense covers documented moving expenses only.

Recruiting - This is an indirect expense and covers expenses of choosing an employee to fill a position with the Council, such as, newspaper and publication advertisements and travel expenses incurred for personal interviews.

Travel - This expense is both direct and indirect. Travel expenses incurred for the benefit of a specific program are charged directly to that program. Travel expenses incurred for benefit of the entire Council are indirect.

Insurance and Bonding - This expense covers General Liability/Fire and Casualty policy, workmen's compensation and bonding coverage. Almost all the policies are maintained for general benefit and are indirect expenses, any policy which benefits one program only, e.g., insurance on Job Training Learning Labs, is charged directly to that program.

Contractual - All contractual expenses are direct and are charged to the program which negotiated the contract.

Furniture and Equipment - Fixed assets are purchased by the Council and the purchase costs are recovered from the projects by depreciation charges, either directly or indirectly, as appropriate. Where the asset is required for a particular project (example: a special calculator), the depreciation charges are charged directly to that project over an appropriate life/project period. Assets having a more general usage, such as desks, chairs, typewriters, and file cabinets, are depreciated through the indirect pool using a generally accepted method of computing depreciation. Almost all assets purchased fall into the latter group.

Unemployment Compensation - As a governmental entity, the Council is required by state law to be a self-insured entity for unemployment compensation purposes. The Council policy adopted during Fiscal Year 1994-1995 increased the level of the unemployment compensation pool from \$10,000 to \$30,000. Replenishments or increases to the pool are made by charging the Indirect Pool one percent of personnel costs for each pay period until the authorized level is reached.