

 <p style="text-align: center;">Policy for: Cost Allocation Process</p>	Document Number	
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Purpose:

The purpose of this cost allocation policy is to establish a reasonable and consistent method of allocating expenses to various grants, programs, departments, contracts and agreements.

A secondary purpose is to establish consistency in complying with Office of Management and Budget (OMB) Circulars A-122 “Cost Principles for Nonprofit Organizations.”

Definitions:

Allocable - expenses can be allocated to the federal grant or contract activity based on benefit derived, cause and effect, or other equitable relationship. The expense must benefit the cost objective per the scope of work

Allocation - process of assigning a cost, or a group of costs, to one or more cost objectives

Allowable - permitted as a direct cost under the terms of a specific grant or contract. The cost is permitted per regulations

Consistently treated - like expenses must be treated the same in like circumstances

Cost objective - a function, organizational subdivision, contract, or other work unit, project, function or activity for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc.

Direct Costs - costs that can be identified specifically to a grant, program, department, contract or agreements and therefore are charged to that cost objective

Fringe Benefits – all non-salary compensation received by and paid on behalf of LCRC’s employees. Fringe benefits are allocated in the same manner as salaries and wages

Fundraising Expenses – expenses that can be identified as part of a fundraising event or activity

Indirect Costs - costs incurred for common or joint objectives and therefore cannot be readily and specifically identified with a particular cost objective, including project or activity; i.e. facilities and administrative (F&A) costs. Indirect costs are usually grouped into common pools and charged to benefiting objectives through an allocation process or indirect cost rate

Indirect cost pools - groupings of incurred (or projected) costs which can be identified with two or more cost objectives but not identified specifically with any final cost objective

Management & General - overall management of the nonprofit organization other than the direct expenses of operating its programs and fundraising; sometimes called general and administration (G&A), facilities and administration (i.e. federal F&A), overhead costs, indirect costs

Program Expenses – Tied directly to accomplishing the mission or purpose of the organization (i.e. research and smoking cessation program activities)**Reasonable** - ordinary and necessary to accomplish the purpose of the expenditure and is comparable to market prices. A prudent person would have purchased this item and paid this price

Subrecipient - the legal entity to which a “subaward” is made and which is accountable to the recipient for the use of the funds provided

Subaward - an award of financial assistance in the form of money, or property in lieu of money, made under an award by a recipient to an eligible subrecipient

Policy Statement:

LCRC shall charge direct expenses to a particular cost objective including a grant, department, function, program, subprogram, contract or agreement whenever possible. In the event that the expense is not directly identifiable with a particular cost objective, an appropriate cost allocation method will be used. LCRC’s cost allocation shall consist of a reasonable and reliable method that is consistent.

The allocation methodologies used shall be based on a measure of relative benefit received that will produce an equitable allocation of costs. Measuring benefit received is the critical requirement and central task to be performed in allocating costs.

The general approach of LCRC in allocating costs to a particular cost objective is as follows:

1. All direct costs are charged directly to the appropriate cost objective, including programs, grants, activities, functions, departments, etc.
2. All direct costs that can be identified to more than one cost objective are allocated in a cost pool and distributed to the appropriate cost objective based on activity (and an approved allocation method).
3. Costs identified specifically with a final cost objective are direct costs and are not to be assigned to other cost objectives directly or indirectly.
4. After direct costs have been determined and assigned directly to a cost objective, indirect costs are those remaining to be allocated to benefiting cost objectives.
5. A cost may not be allocated to a cost objective as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to the cost objective as a direct cost (i.e. consistently treated: a similar cost should not be charged as both direct in some cases and indirect in others).

Non-federal Awards & Other Funding

As a nonprofit organization LCRC is required to summarize expenses and report expenses by function, in the statement of activities, notes to the financials, as well as in the annual IRS Form 990. Presenting in this manner give donors, funding sources, regulators, governance board, and other oversight bodies important information on how LCRC uses its resources.

LCRC employs the following practices in allocation of costs:

- Expenses are classified as program expenses, fundraising expenses, and management and general
 - Expenses are further classified by cost objectives including program components, subcomponents, departments, and/or functions
 - Costs are clearly defined and consistently treated as direct or indirect costs; with direct expenses charged appropriately and immediately whenever possible.
 - Proportional benefit, a consistent and reasonable methods of allocating indirect cost is employed, and allocated by the use allocation methodology as follows
 - LCRC shall maintain adequate internal controls to insure that no cost is charged both directly and indirectly
- **Cost by Program Component (Cancer Research & Tobacco Cessation (TFL)**
 - Administrative costs are initially charged as direct costs with salary, wages & related as a basis and allocated based on proportional benefit model; costs can be specifically identifiable with a reasonably high degree of accuracy
 - Project “percents of effort” are calculated annually and approved during the budgeting process
 - Actual salary & related expenses are direct charged on a monthly basis
 - Applicable overhead (indirect) charges such as occupancy related and allocated quarterly
 - Credible and complete documentation is maintained. Any required adjustment (by reconciliation or audit exception) is made at the end of the fiscal year
 - Allocation methods are documented and reviewed at least annually
 - **Allocation of Costs – Space Valuation** – After the assignment of costs by program component, LCRC assigns costs associated with the administration and operation (operating expenses) and maintenance reserves to subprogram components, departments or functions) component via an occupancy agreement with each tenant/partner housed in the LCRC facility. The basis for assignment of such cost is by leasable space.

- Non-operating and administrative costs not associated with occupancy are isolated and either direct charged to the appropriate cost object or charged as an indirect cost to the appropriate program
- A cost pool is established for the assignment of cost to leasable space; allocable operating expenses include but are not limited to administrative and facility salaries, wages and related, cost incurred for the housekeeping, maintenance and other building services, insurance, utilities, replacement and repairs, insurance, taxes, internet and telecommunications, security, environmental health and safety
- Excluded costs include, cost directly attributable to a cost object, including “excess operating expenses”, depreciation expenses, and those costs customarily excluded by federal cost allocation policies
- Square footage is identified and assigned based on useable space and common space prorated based on the proportional benefit received
- Costs are estimated, assigned and/or charged on a quarter annual basis, based on a prior year actuals, adjusted for inflation and known increases
- A cost reconciliation is completed within 90 days of a fiscal year; estimates are tried to actuals and adjustments are made accordingly
- A consistent and reasonable method of allocation is used to distribute the indirect costs, is evaluated annually, and updated as needed to reflect any significant changes in the level of current activities

Federal Awards (Grants and Contracts) – LCRC shall apply similar costs principles when billing for all services chargeable to sponsored projects.

When allocating costs associated with federal grants and contracts, LCRC will adhere to the following principles:

All charges must be

1. Reasonable:

A cost may be considered reasonable and necessary if the nature of the goods or services, and the price paid for the goods or services, reflects the action that a prudent person would have taken given the prevailing circumstances at the time the decision to incur the cost was made.

Charges are reasonable if

- a. Passes prudent person test – it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time of the decision to incur the costs
- b. Recognized as ordinary and necessary for the operation of the LCRC or the performance of the award
- c. Constitutes sound business practice, including arm’s length bargaining, and conforms to the restraints and requirements of Federal and State laws and regulations, and terms and conditions of the award
- d. Prudence exercised in the circumstances considering responsibilities to the LCRC, its members, employees, clients, public, and Federal Government
- e. Does not significantly deviate from the LCRC’s established practices

2. Allocable:

A cost is allocable to a particular grant or contract if the goods or services involved are able to be directly assigned to the specific grant or contract.

A cost is allocable if it is treated consistently with other costs incurred for the same purpose in like circumstances and

- a. Incurred specifically for the award (*direct relationship*), or
- b. Benefits both the award and other work and can be reasonably distributed in proportion to the benefits received, or
- c. Is necessary to the overall operation of the LCRC and a direct relationship to any particular cost objective cannot be shown

Costs allocable to a particular award or cost objective may not be “shifted” to other Federal awards to overcome funding deficiencies, or to avoid restrictions by law or by terms of the award

If an expenditure solely benefits one project, it should be charged entirely to that benefiting project. However, sometimes an expenditure can benefit two or more projects. When this occurs, the expenditure must be charged in the same proportions as the benefits on the respective projects.

Note: The allocation may need to be based on estimates at first because the correct allocation percentages may not be known until the item purchased has been used. If this is the case and the estimated percentages are not correct after the item has been consumed, a Cost Transfer will need to be completed to properly correct the allocation.

If a cost benefits two or more projects or activities, it must be charged in accordance with its benefits to each project respectively.

Charges split between more than one grant must be split on the basis of proportional benefit or other reasonable method. The division of the expenditure cannot be split based on available funding or any other type of synonymous methodology. An expenditure that benefited two or more projects cannot be charged solely to one project because the other project is almost out of funding.

Federal regulations provide two methods for allocating an allowable direct cost to two or more grants:

The Proportional Benefit Rule

The proportional benefit rule applies when it is possible to determine the proportional benefit of the cost to each project. The cost is allocated according to the proportion of benefit provided to each of the projects.

The Interrelationship Rule

The interrelationship rule applies when it is not possible to determine the proportional benefit to each project because of the interrelationship of the work involved. The cost is distributed on any reasonable and rational basis because the proportional benefit cannot be identified and applied to the individual projects.

Allocation methodologies shall be reviewed when the project begins and ends to ensure compliance.

3. Consistently Treated:

All costs incurred for the same purpose, in like circumstances, must be treated uniformly as either direct or indirect costs.

4. Allowable: Costs expressly unallowable or mutually agreed to be unallowable shall be identified and excluded from any billing, claim, application, or proposal.

For the cost to be considered allowable it must

- a. Be “reasonable” for the performance of the award
- b. Be “allocable” to the award under OMB A-122 cost principles
- c. Conform to any limitations or exclusions imposed by OMB A-122 cost principles or in the award as to the types or amount of cost items
- d. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the LCRC
- e. Be accorded consistent treatment
- f. Be determined in accordance with generally accepted accounting principles (GAAP)
- g. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program
- h. Be adequately documented

These Federal cost principles listed above shall be used when determining the costs of work performed by LCRC under Federal awards (grants, cooperative agreements, cost reimbursement contracts, and other contracts) in which costs are used in pricing, administration, or settlement.

All cost reimbursement subawards (subgrants, subcontracts, etc.) are subject to the Federal cost principles listed above and must adhere to OMB A-122 cost principles