Overview of Cost Principles for developing the Unit Cost Methodology

A. To be allowable, costs must be recognized reasonable, ordinary, and necessary (RON).

One of the principles when using the UCM is that previous year costs should reconcile back to your GL and because it is likely that your GL has costs that are unallowable for our programs and services, these costs should be included under the Fundraising & Unallowable Activities on the UCM. This provides a mechanism for reconciling to your agency annual recorded expenses.

Examples of Allowable Costs are:

Wages (Including OT of RON)
PR Taxes
Benefits (common benefits)
Depreciation (for Capitalized items that are RON)
(Dep'n for Land & Bldg. only as Indirect)
Insurance & Indemnification
Maintenance & Repair
Equipment (Not Capitalized that is RON)
Meetings & Confs. (RON & w/out Entertainment)
Supplies
Memberships/Subscription (RON)
Security
Printing
Marketing/Outreach
Rent
Training/Education (NOW)
Travel (RON & not first class)
Utilities

Examples of Unallowable Costs are:

Contingency Reserves
Contributions
Entertainment *
Fines & Penalties
Fundraising Costs
Bad Debt
Cost for Idle or unused facilities
Other contract losses
Taxes

B. **Direct Costs** are costs that are directly identifiable with specific programs or, in our case, services. On the UCM, Direct Costs are placed directly under the service for which the cost is reasonable, ordinary, and necessary.

C. **Indirect Costs** are costs that have been incurred for common objectives but cannot be readily identified with a particular service. In the UCM, there are two places for which Indirect Costs are placed: "Management & General Cost Pool" and the "Facilities & Maintenance Cost Pool."
   - **Management and General Cost Pools** will automatically allocated after you have entered all the costs into the Services, Non-DOEA Services, and Fundraising, Management & General Cost Pool, or the Facilities and Maintenance Cost Pools. This allocation is formula driven and allocated proportionately to all services based on Total Cost per service.
   - **Facilities and Maintenance Cost Pool** will automatically allocate by square footage. Total agency square footage and the allocation of that square footage is entered onto the UCM providing the ability form these expenses to be allocated buy square footage.

D. **Allocation Methods**:
One principle that should be remembered is consistency. The same methodology should be applied over time to provide a consistent review of costs allocated in rate development.

On the UCM, all cells that should be completed are highlighted in Bright Yellow. A better way to say this is that data entry should only be provided in cells highlighted in Bright Yellow. DO not overwrite any formula driven cells.

"Personnel Allocation" worksheet

- **Wages** – Salaries and Wages paid for each staff member are placed on a separate worksheet, the fist worksheet of the UCM, the "Personnel Allocation" worksheet. A reasonable, logical, and consistent method should be developed to determine the allocation of staff time. Of course, certain positions that work only under one service are easy as 100% of there time would be placed under one service. However, for staff that is being directly allocated to various services, there should be a reasonable, logical, and consistent method for determining the allocation. Such methods may include time sheets or time studies. Consideration should be made for upper management such as Executive Directors, CFOs, COOs, or CIOs to be placed in the Management & General Cost Pool so that they are allocated automatically to all services that are provided. Each service column for which wages are allocated will total and automatically feed into the next worksheet, the "Unit Cost Worksheet".

"Unit Cost Worksheet"

- **Fringe** – PR Taxes and Benefits will automatically be allocated proportionately based on total Salaries within each service. However, depending on organizational structure, a need to manually allocate Fringe. An example may be an organization for which a large portion of the staff are Part Time for which no benefits (other than PR Taxes) are paid for PT employees. **NOTE: This is the only place in the entire UCM where there may be reason to override a formula**. Again, the most simplistic with causing potential error is to allow the worksheet to automatically allocate Fringe.
- **Communication and Postage, Insurance -** These expenses would generally be allocated directly to the Management & General Cost Pool
- **Utilities, Space Cost (Rent), and Maintenance** – These expenses would generally be allocated directly to the Facilities Maintenance Cost Pool
- **Equipment** – This is for equipment under your capitalization threshold and may either be specific to a service or services which should be allocated directly to the service(s) or may benefit the entire agency. If the equipment is of benefit for multiple services or the entire agency, it should be placed under the Facilities & Maintenance Cost Pool.
- **Education/Training, Printing & Supplies, and Advertising** - These expenses may be specific to a service or services which should be allocated directly to the service(s) or may benefit the entire agency. If the equipment is of benefit for multiple services or the entire agency, it should be placed under the Management & General Cost Pool.
- **Professional Fees/Legal/Audit** –
  - **Legal & Audit** – These expenses generally are for the entire agency benefit or requirement and should be placed under the Management & General Cost Pool.
  - **Professional Fees** – These are expenses such as consultants or professionals retained for specific purposes such as Nutritionist, contracted IT or Accounting/Bookkeeping professionals. Depending on the nature of the contracts will depend on whether these expenses are allocated directly or placed in the Management & General Cost Pool. Direct allocation of Professional Fees would be expenses such as a contracted Nutritionist who would be directly allocated to Meals. Contracted IT or Bookkeeping services would generally be placed in the Management & General Cost Pool.
- **Subcontractors** – For the use of the UCM, subcontractors should be thought of as those that are either providing service directly or the product for the service and for whom a unit of service can be directly attributed to. Examples include caterers, Home Health Companies, or Mental Health organizations that provide Counseling. Total cost associated with Subcontractors should be developed from the subcontractor contracted rate multiplied by the anticipated number of units to be delivered. These costs should be directly allocated to specific services. The names of the subcontracts should be identified and included in the line item expenses. If you have more then 4 Subcontractors, lines may be added within lines 25 and 28 for additional subcontractors.
- **Program Supplies -** These costs are for supplies unique and necessary for specific services and are generally allocated directly to services.
- **Depreciation –** This is the Depreciation Expense for Capitalized things. Depreciation for the purchases of building or facilities can only be placed under the Facilities & Maintenance Cost

Pool. Depreciation for equipment specifically used for a serve can be allocated directly to that service. However, generally these are depreciated items that support the entire agency and generally should be included under the Facilities & Maintenance Cost Pool.

- **Food & Food Supplies –** These costs should not be confused with the costs of Meals provided by the caterer. These costs are generally related to Entertainment and unallowable and should generally be placed under Fundraising & Unallowable Activities.
- **Other –** These expenses are costs that will not fit in any other line item. This line item is not intended to be a "catch-all" because there is no other place to capture the cost. This line item should be no more than the lesser of $20,000 or 1% of the Total budget. If greater than this this established threshold, and separate document should be submitted detailing the costs included in this line item.

- **Subcontract Allowance** – In recognition that it may take a bit more Management & General costs to manage subcontractor contracts, this allowance provides the opportunity to increase the proportionate allocation of those services that contain subcontractor expense. Subcontract Alliance is limited to a maximum of $25,000 per subcontract. Should a subcontract include more than one service, the Subcontractor Allowance should be proportionately allocated between those services. Examples:
  - A caterer contract includes both Congregate and Homes Delivered Meals. The $25,000 allowance is proportionately allocated between Congregate and Home Delivered Meals.
  - There is one caterer contract for Home Delivered Meals and a second caterer contract for Congregate Meals. A $25,000 allowance may be used for Home Delivered Meals, and a $25,000 allowance may be used for Congregate Meals.
  - A contract with a Home Health company that provides both Homemaker and Personal Care – The $25,000 allowance would be proportionately allocated between Homemaker and Personal Care.

- **Square Footage Occupied** – IN order to allocate the Facilities and Maintenance Cost Pool expenses, Total Square Footage and square footage occupied per service must be entered.

- **Units** – These are the units of service you anticipate providing for each of the services to be provided, to include all funding sources. This should not be some sort of guess without basis. A historical look at the number of units provided should provide a foundational basis for the number of units anticipated to be served.

Support Budget Worksheet:

So far in the UCM, we have developed the cost of delivering one unit of service for the various services to be provided regardless how that service is funded. The Support Budget Worksheet begins to introduce how contracted rates are developed by considering various factors such as funding received from other non-DOEA funded sources, Match, Co-Pay, and Program Income.

Because calculated contract service rates may vary when considering factors such as Match, Co-Pay, Program Income, or other non-DOEA funded sources, it is at this point to consider copying the Support Budget Worksheet and adding a new tab for different Programs. For example: Programs with Match, Programs without Match, Programs with Co-Pay. Or saving what has already been accomplished thus far and creating different files for programs with Match, no Match, or Co-Pay.

Most cells requiring data entry are self-explanatory but will be further explained in the training.