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Sample Not-for-Profit Expense Allocation Policy and Procedures

Policy

The purpose of the Expense Allocation Policy is to summarize, in writing, the methods and procedures used to report expenses by their functional classifications for financial statement reporting per FASB ASC 958-720.45. In addition, the policy ensures all expenses are consistently and appropriately allocated to program services and supporting activities for the fair presentation of the true functional expenses. Supporting activities may include one or more of the following: management and general, fundraising or membership development.

Procedures

1) Prepare a worksheet using the table below as an example.

Account number and name	Ending balance*	Program service A	Program service B	Total program service	Management and General	Fundraising	Total allocation*	Is allocation direct or indirect **	Allocation basis

* Ending balance and total allocation columns should agree

**See description of direct allocation in item 2 below. Indirect includes both joint costs and shared direct expenses as described in the definitions below.

- 2) Identify direct expenses that are attributable to a single functional category and reference to the appropriate column. Document rationale for why direct classification is appropriate.
- 3) Determine relevant allocation basis and calculate allocation percentages. Document rationale for selection of basis and calculation of percentages.
- 4) Select appropriate allocation base for each shared direct expense. Document allocation basis and rationale for why basis was selected in the appropriate columns.
- 5) Determine if joint costs meet the criteria for allocation. If so, select appropriate allocation base.
- 6) Review expense allocations by management periodically and revise as necessary to reflect significant changes in the nature and level of the organizational activities.

Definitions and Considerations

Fundraising: Expenses to build relationships with potential and existing donors. Expenses to induce potential and existing donors to donate.

Joint costs: Expenses incurred for shared program and fundraising purpose. Examples include direct mail campaigns, special events, and telephone solicitations.

Management and general: Expenses for supporting activities essential to management and sustainability of the organization not specifically identified with a single program, fundraising activity, or membership development. These expenses benefit the organization as a whole. Typically, this includes accounting, human resources, payroll processing, and board expenses.

Membership development: Expenses for soliciting membership dues from prospective members and serving the existing membership base.

Program services: Expenses resulting from *direct* conduct or *direct* supervision of providing goods or services to recipients in fulfillment of the organizational mission. The factors to consider in determining the major programs to present include: program objectives, nature of services, constituents service by geographic or demographic criteria, and magnitude of the program

Shared direct expense: Shared direct expenses incurred for program work and management and general. Use one of the methods described below to allocate these costs. Examples of shared direct expenses include occupancy costs, technology, equipment, telephone, postage, office supplies, etc.

Shared Direct Expense Allocation Methods

- Salaries – total cost including taxes and benefits incurred for an activity / total salaries
 - Example uses – technology, equipment, office supplies
- Head count – number of employee spent on an activity / total number of employees
 - Example uses – technology, equipment, office supplies
- Square footage – physical space of an activity / total building square footage
 - Example uses – occupancy costs such as rent, depreciation, utilities, property insurance

Joint Expense Allocation Methods

- Physical-units – cost of materials and activities in proportion to number of units of output
- Relative-direct-costs – allocation on respective direct costs
- Standalone – cost estimates for items if they had been incurred independently