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SAMPLE COST ALLOCATION PLAN

PURPOSE

The purpose of this cost allocation plan is to summarize, in writing, the methods and procedures that this agency will use to allocate costs to various programs, grants, contracts and agreements.

Federal grants require that OMB Circular A-122, "Cost Principles for Nonprofit Organizations:", be complied with by this agency, in addition, various state and other grants require compliance with A-122".

A-122 states that "the total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits". Further, costs must be reasonable, necessary and documented.

According to A-122, "a cost is allocable to a particular cost objective . . . in accordance with the relative benefits received. Direct costs are those that can be identified specifically with a particular final objective. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective".

Only costs that are allowable in accordance with the cost principles and appropriate contract provisions will be allocated to benefiting programs by (Organization). Allocation must also be made to nongrant activities, such as fundraising.

GENERAL APPROACH

The general approach of (Organization) in allocating costs to particular grants and contracts is as follows:

- A. All allowable direct costs are charged directly to programs, grants, etc. (including general and administrative costs).
- B. All allowable joint or shared costs are prorated individually using a base most appropriate to the particular cost being prorated.
- C. All other allowable general and administrative costs are allocated to programs, grants, etc. based upon a labor distribution (timesheet) method for those general and administrative staff.

The joint cost allocation and allocation of general administrative costs are discussed in the following sections of this plan.

PART 1: ALLOCATION OF JOINT COSTS

Joint costs (including general and administrative costs) are allocated to programs, grants, etc. using a base that is most appropriate to those particular costs. Considerations in determining an appropriate base include the relative benefits, the materiality of the cost, and the amount of time and cost to perform the allocation. Joint costs will be allocated to the programs and to the indirect pool, which will then be allocated in accordance with Part II of this plan.

The following information summarizes the joint cost procedures that will be used by (Organization) during the period January 1 - December 31, 20__:

- A. Compensation for Personnel Services - allocated based on time spent on each program/grant.
 - 1. The salaries and wages of staff assigned and working for more than one program are allocated using the following method:
 - 2. Salaries and wages of staff assigned and working for more than one program are allocated using the following method:

Staff not working throughout the period on the same programs and/or staff whose time fluctuates significantly maintain timesheets each pay period with columns which indicate the amount of time spent on each program.
 - 3. Fringe benefits (FICA, UC, and Worker's Comp.) are allocated in the same manner as salaries and wages.
 - 4. Vacation, Holiday, and Sick pay are allocated in the same manner as salaries and wages.
 - 5. Health insurance, Dental insurance and Life & Disability are also allocated as above.
- B. Travel Costs - Allocated based on purpose of travel. All travel costs (local and out-of-town) are allocated to the program for which the travel was incurred. All travel vouchers require the individual to indicate the appropriate program.
- C. Professional Services Costs - Allocated to the program benefiting from the service. Each time consultants or contractors (including attorneys and auditors) are hired it will be determined which programs are benefiting and the most reasonable method to assign the cost if more than one program received benefits. A memo indicating the programs, method, and showing the actual calculation will be included with the documentation supporting the payment of consultant and contract service invoices.

- D. Office Expense and Supplies (including office supplies and postage) - Allocated based on usage in the following ways:
1. Supplies ordered for a specific program will be allocated to that program. Otherwise they will be allocated to the indirect cost pool.
 2. Postage will be allocated through Indirect cost pool.
- E. Equipment purchased or leased (over \$1,000) and services agreements - Allocated to the program using the equipment. Equipment will be purchased in accordance with the agency bidding and other purchasing requirements. The cost will then be allocated to the program ordering and using the equipment. If more than one program used the equipment, then an allocation of the purchase cost (or leased cost) will be through the indirect cost pool.
- F. Printing (including supplies, maintenance and repair) - Allocated based upon the actual costs for photocopy to major programs. Allocation between grants within a program will be allocated on a percentage of total expenditure.
- G. Insurance - Allocated on the following basis:
1. Vehicle insurance allocated to the program using that vehicle.
 2. General Liability, Dishonesty Bonding, Directors & Officers' coverage is charged through the Indirect cost pool.
 3. Insurance needed for particular programs is charged directly to the program requiring the coverage.
- H. Telephone - Long distance calls are charged to programs if readily identifiable otherwise they will be allocated through the Indirect cost pool.
1. Long distance calls, inside and outside our service area will be presented to the Executive director who will be asked to verify the calls for reasonableness, before charging them to that program.
- I. Space Costs - Allocated based upon usable square footage. Total square footage by program to total leased square footage is calculated. The derived percentage is used to allocate space costs to various programs. Space occupied by administrative staff is not included in total building square footage.
- J. Vehicle Costs – Allocated to the program using the vehicle.
- K. Other Costs (including advertising, special costs, etc.) - Other joint costs will be allocated on a basis determined to be appropriate to the particular costs.

GENERAL AND ADMINISTRATIVE COSTS

The underlying methodology for the allocation of general and administrative wage cost is actual time worked as indicated by a periodic time study.

The following positions may be included in the general and administrative costs:

Executive Director
Administrative Assistant
Accountant

These employees spend their time in two ways. They spend time working on specific programs, for such things as meetings with program staff, meetings with funding source representatives, developing and/or reviewing budgets, reviewing and monitoring ongoing operations, preparing and receiving financial and program reports, etc. Second, they spend time doing work that benefits all agency programs and that cannot be readily identifiable with any specific program. For example, developing overall agency policies and procedures, attending agency staff and/or board meetings, meetings with various third parties relating to overall agency operations, audit and other accounting matters, etc.

The procedure to the allocation of general and administrative costs:

- A. Total actual salary and fringe benefits spent directly for individual programs are charged directly to those programs, as indicated by the time study.
- B. Time allocated to "shared" cost center are allocated through the agency Indirect cost pool.

PART 2: DESCRIPTION OF THE INDIRECT COST POOL

(Organization) uses a separate set of administrative accounts within the general ledger to record distribution of shared costs.

- A. Costs to be distributed during the month are charged to appropriate administrative expense categories by the Accountant.
- C. Before month end closing, the charges to this account are reviewed by the Accountant. Account totals are entered into a Excel program by cost center.
- D. A direct wage percentage is calculated from year-to-date payroll records, using direct time actually charged to each program. This percentage is entered into the Excel program.
- E. A general journal entry is prepared by the Excel program and these figures are manually entered as credit to the administrative expenses and individual programs are charged for the portion of costs that applies to that program.
- F. The Excel program maintains monthly year-to-date information.

ALLOCATION OF THE GENERAL ADMINISTRATIVE AND JOINT OR SHARED COSTS

All costs, other than direct costs, are allocated to various programs based on the ratio of budgeted program salaries to total program salaries. The calculated allocation percentages are adjusted quarterly based on budget modifications. For 20XX, the following percentages will be used for the first quarter:

Program 1:	40%
Program 2:	10
Program 3:	35
Program 4:	<u>15</u>
	100%

Any modifications to the above calculated percentages will be attached to this allocation plan. Effective dates for the modifications will also be noted on any attachments.

As a result of budget modifications and changes in grant agreements, the following allocation percentages were used for the period July 12, 20XX – December 31, 20XX:

Program 1:	40%
Program 2:	15
Program 3:	25
Program 4:	<u>20</u>
	100%

Calculation of general administrative and joint or shared cost allocation percentage:

Budgeted agency program salaries:		\$ 100,000
Budgeted salaries by program:	Program 1:	\$ 40,000
	Program 2:	10,000
	Program 3:	35,000
	Program 4:	<u>15,000</u>
		<u>\$ 100,000</u>

Program 1 allocation percentage: $\$40,000 / 100,000 = 40\%$. Programs 2-4 calculated similarly.