TEMPLATE

Cost-Allocation Methodology Template

What this is	A written methodology with allocation bases, the documentation trail that supports each base, and the worksheet structure that produces the rates.
It assumes	Federal or state pass-through funding, or a funder that asks how indirect costs are allocated.
Change before use	Your cost pools, your bases, and everything your auditor tells you to change.

What a monitor is actually testing

A fiscal monitor testing cost allocation asks three things: is there a written methodology adopted before the costs were incurred; are the allocation bases reasonable and supported by documentation; and do the books actually follow the methodology. "We split it roughly by program size" fails all three — not because the split is unreasonable, but because it cannot be evidenced. This template produces the written methodology. Adopt it before the fiscal year it governs, and revisit it annually.

> SCOPE
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> This template addresses allocation of shared costs across programs and awards. Whether a given cost is allowable at all, and whether your organization should negotiate an indirect cost rate or use a de minimis rate, are separate questions for your CPA against the current federal cost principles. Do not paraphrase this document into a claim about allowability.

The methodology document

1. Purpose and adoption

This methodology governs the allocation of shared and indirect costs of [Organization] for fiscal year [20__]. It was reviewed by the finance committee on [date] and adopted by the board on [date]. It is applied consistently to all programs and funding sources.

2. Direct, shared, and indirect

- **Direct costs** benefit one program or award and are charged to it: program staff time, program supplies, program-specific occupancy.
- **Shared direct costs** benefit more than one program identifiably and are allocated on a base that tracks the benefit: a facility housing two programs, a staff member serving three.
- **Indirect costs** benefit the whole organization and cannot be identified to a program: general accounting, the audit, board expenses, organizational insurance, executive management not assignable by activity.

3. Cost pools and bases

Each shared or indirect pool is allocated on the base below. The test for every base: it tracks the relative benefit received, and it is supported by documentation that exists anyway or is cheap to keep.

Pool	Base	Supporting documentation
Occupancy (rent, utilities, maintenance)	Square footage occupied by each program; common space allocated in proportion to directly-occupied space	Floor plan with measured assignments, updated on any move
Shared personnel	Time actually worked per program, from time records — not budget estimates	Timesheets or a compliant personnel activity documentation method
Technology and communications	User count per program, or device count where users are shared	The systems inventory, per-program user list, refreshed quarterly
Organizational insurance	In proportion to each program's share of total direct salaries, unless a policy is program-specific (charge those direct)	Payroll register summary by program
General administration (finance, audit, governance, executive)	[Modified total direct costs / total direct salaries — choose one and keep it]	The general ledger grouping that defines the base, documented once
Vehicles	Miles by program from vehicle logs	Vehicle logs

4. What is never allocated to awards

Costs unallowable under the applicable cost principles or a specific award's terms — for example fundraising, fines, entertainment, and lobbying — are recorded in separate accounts and are excluded from every pool that touches an award. The chart of accounts marks them.

5. The worksheet

The allocation runs [monthly/quarterly] on a worksheet that shows, for each pool: the total from the general ledger; the base values and their source; the resulting percentages; and the amounts posted to each program. The worksheet is filed with the close for the period. The books, the worksheet, and this methodology must agree — a monitor will check all three against each other.

6. Change control

A base is changed prospectively, by finance committee review and board adoption, with the reason recorded. Bases are not changed retroactively, and never because of the result they produce for a particular award.

The two failure modes

- **Budget-based "time" allocation.** Allocating shared salaries by budgeted percentages instead of records of time actually worked is the most common repayment finding in the sector. Keep the time records.
- **The drifted floor plan.** Programs move; the square-footage base does not. Re-measure on any move and date the floor plan.

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