COST ALLOCATION METHODOLOGY/PLAN

October 2026

WHAT IS A COST ALLOCATION METHODOLOGY OR PLAN?

- A written method of assigning shared or indirect costs to specific projects or services.
- Financial statements and budgets should reflect these costs.

See 2 C.F.R. 200.405 or https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E/subject-group-ECFRea20080eff2ea53/section-200.405

(d) (Direct cost allocation principles).

State Administrating Agencies (SAAs) should consider the reasonableness of the cost.

REQUIREMENTS OF SHARED COSTS (2 C.F.R. 200)

Requires shared costs to be
(1) allowable,
(2) reasonable,
(3) allocable and
(4) consistently treated across all grants.

2 C.F.R. 200 or httpS://www.ecfr.gov/current/title-2/subtitle-A/chapter-11/part-200

HOW TO CREATE A BASIC COST ALLOCATION PLAN (METHODOLOGY) - STEPS

Step #1: Define the Purpose and Scope
Clearly state why you are creating this plan.

Is it for internal budgeting, compliance with OMB Circular A-122, requirement of receipt of federal grants, etc.

Step 2: Identify Costs

Break-down the expenses into direct costs and indirect costs.

Direct costs – can be traced to a specific program (salaries for a project team).

Indirect costs – benefit multiple projects (office rent, shared IT systems, office supplies, etc.)

HOW TO CREATE A BASIC COST ALLOCATION PLAN (METHODOLOGY) – STEPS CONTINUED

Step #3: Choose Allocation Methodology

Personnel efforts (FTEs) – allocate based on time spent on each project/program.

Headcount – Allocate based on number of participants or beneficiaries.

Square footage – Allocate based on space usage.

Cost-benefit rationale – allocate based on proportional benefit received (also pro-ration based on funding %).

HOW TO CREATE A BASIC COST ALLOCATION PLAN (METHODOLOGY) – STEPS CONTINUED

Step #4: Document Allocation Rules

For each cost category, specify the rules.

- How the base is calculated
  - (e.g., total salaries divided by total program salaries by funding source)

- How proration is applied if a cost benefits multiple programs.

HOW TO CREATE A BASIC COST ALLOCATION PLAN (METHODOLOGY) – STEPS CONTINUED

Step #5: Record and Track Allocation

- Use Time & Activity reporting or other records to document time distribution for personnel costs.

- Maintain supporting documentation (e.g., space usage logs, participant lists, etc.) to justify allocations.

HOW TO CREATE A BASIC COST ALLOCATION PLAN (METHODOLOGY) – STEPS CONTINUED

Step #6: Apply the Plan

- Charge direct costs directly to the project or funding stream.
- Allocate indirect costs using the plan you created (methodology)
- Make sure all financial and leaderships know the plan and how to implement.

Step #7: Review and Update

- Periodically review the plan to ensure it is still accurate, equitable and aligns with your organization.
- Update if significant changes in funding or costs.

ITEMS FOR CONSIDERATION

Can federal funds pay for payroll and benefits and allocating other costs with state funds and other funding such as United Way, Foundation, Fundraising, etc.

Would an indirect cost rate (de minimus rate of 15%) be beneficial to cover the shared administrative costs.

Make your Share Cost Methodology/Plan **direct and simple, so, easy to understand**.

REMINDER

Apply the methodology consistently.

OTHER DEFINITIONS PER 2 CFR 200

Allowable – costs and activities that are outlined to be acceptable activities by federal and state administering agency, requirements as outlined in federal or state regulations, law, or code. See **2 C.F.R. 200.405.**

Reasonable: "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost." See **2 C.F.R. 200.404** (Reasonable costs).

Allocation: means the process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

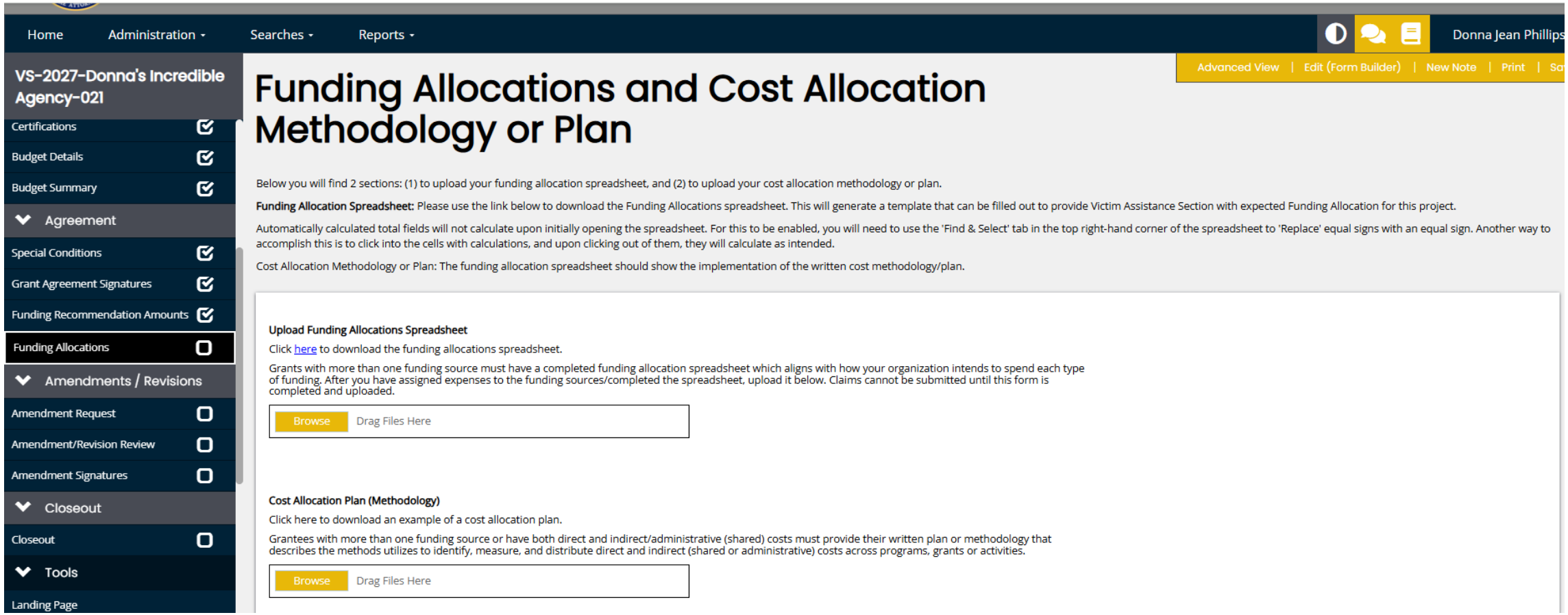
LINKS

Requirements of shared costs: See 2 C.F.R. 200 or httpS://www.ecfr.gov/current/title-2/subtitle-A/chapter-11/part-200.

Allowable –See 2 C.F.R. 200.405 or https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E/subject-group-ECFRea20080eff2ea53/section-200.405.

Reasonable: See **2 C.F.R. 200.404** or https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E/subject-group-ECFRea20080eff2ea53/section-200.404.

UPLOAD IT TO FUNDING ALLOCATION PAGE IN GVS AFTER CONTRACT IS EXECUTED



QUESTIONS

