

Havasu Community Health Foundation

Cost Allocation Plan

Presented to Board of Directors for their Review: September 15, 2017

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

The general approach of the HCHF Finance/Audit Committee in allocating costs to a particular program is as follows:

The Finance/Audit Committee considered three important criteria that support the HCHF cost allocation decisions.

1. Document the activity that caused the costs to be incurred.
2. Justify that the cost is reasonable and fair with the program in a contract.
3. Confirm that the cost object has the ability to bear the cost.

The Methods:

1. All allowable direct costs are charged directly to programs or the foundation.
2. Allowable direct costs that can be identified to more than one program are prorated individually as direct costs using a base most appropriate to the particular cost being prorated.
3. All other allowable general and administrative costs (costs that benefit all programs and cannot be identified to a specific program) are allocated to programs, programs, or the foundation using a base that results in equitable distribution. *Insurance & Audit Fees*
4. Allocation of expenses amongst the functions? It is very important to properly allocate expenses because, while many costs can be identified to a specific program, others cannot.

ALLOCATION OF COSTS – Staff Support, Accounting, and Insurance

The following information summarizes the procedures that will be used by the Havasu Community Health Foundation.

The Financial Accounting Standards Board (FASB) and the Department of the Treasury Internal Revenue Service require the filing of (Section IX of our 990 IRS report) for all voluntary health and welfare organizations to include a Statement of Functional Expenses in their financial statements.

It is important that the basis for allocation is consistent from period to period to ensure comparability; however, changes can be made to the basis for allocation if needed. The basis used should be documented for audit and tax purposes. It is allowable for estimates to be used

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when allocating expenses. Methods used may vary depending on the actual expense being allocated.

Common allocation metrics include time, square footage, actual usage, percentage of direct costs, and the number of employees.

- a. For example, occupancy expenses (such as rent and depreciation) can be allocated based on the square footage of space occupied by each program and supporting service. Note: *HCHF absorbs these occupancy-related costs 100%*.
- b. The allocation of personnel costs (such as salaries and benefits). These costs can be easily allocated if staff time is tracked by the functional expense category for each pay period.
 - i. In keeping with the standards set for reporting the annual Statement of Functional Expenses in our IRS 990 report, the Finance/Audit Committee believes timesheets show time distribution for all employees and are allocated based on time spent on each program, partner or foundation.
 - ii. Personnel costs that benefit more than one partner or the program will be allocated to those programs based on time studies of actual services.
 - iii. Fringe benefits and payroll tax (FICA and Worker's Compensation) are allocated in the same manner as salaries and wages.
 - iv. Vacation pay is accrued as earned and is allocated in the same manner as salaries and wages. Note: *HCHF absorbs these Vacation related costs 100%*.
- c. The allocation of Insurance and CPA fees can be easily allocated by tracking staff time for functional expenses during the fiscal year. However, HCHF does not allocate these costs to the programs but will bring consideration for the insurance and audit fee allocations to the programs in a budget year.