

Step-Down Method (Alternative to Direct Costs) of Allocating Indirect Costs

Department	Direct Cost	Administration			Fundraising		
		Base	Distribution	Step 1 Total	Base	Distribution	Full Cost
Administration	\$70,000						
Fundraising	\$130,000	12.04%	\$8,426	\$138,426			
Program 1	\$600,000	55.56%	\$38,889	\$638,889	63.16%	\$87,427	\$726,316
Program 2	\$350,000	32.41%	\$22,685	\$372,685	36.84%	\$50,999	\$423,684
Total Cost	\$1,150,000	100.00%	\$70,000	\$1,150,000	100.00%	\$138,426	\$1,150,000
Less Administration	\$1,080,000						
Less Fundraising & Administration	\$950,000						

Step 1:

Calculate the base: sum the total cost (minus Administration direct cost); calculate the percentage of the other department/programs

Calculate Distribution: divide the department (administration) cost based on the BASE percentage

Calculate the Step 1 total: sum the direct cost and the distribution amount

Step 2:

Calculate the base: sum the total cost (minus administration & fundraising); calculate the percentage of the other department/programs (Program1&2)

Calculate Distribution: divide the department (fundraising cost) cost based on the BASE percentage

Calculate the Full Cost: sum the step1 total cost and the fundraising distribution amount to get the FULL COST

***Note: base is a proportion of the total cost less the Administration & Fundraising direct cost*