

**Purpose:**

To describe how WESTAR will allocate overhead expenses consistent with OMB Circular A-122.

**Definitions:**

*Overhead expense* – Overhead expenses are general administrative costs that are incurred for common or joint objectives and cannot be readily identified with a specific project or grant. In this policy, “overhead” and “indirect” are used interchangeably.

**General Notes:**

OMB Circular A-122, Cost Principles for Non-Profit Organizations, outlines the principles to be used in determining costs chargeable to federal grants, including overhead costs. A-122 describes several methods for allocating indirect costs. In any given grant year, WESTAR may choose to allocate overhead expenses using a direct allocation method (that is, the approach described in this policy) or to negotiate an indirect rate in accordance with applicable OMB policies. Whichever cost allocation method is chosen, the approved method will be submitted to federal Grant Officers as a part of WESTAR’s grant application, which includes a detailed work plan, budget, and overhead cost allocation plan. Award of the grant will signify the granting agency’s acceptance of the budget and overhead cost allocation plan.

**Process Steps/Descriptions:**

The “Direct Allocation Method” for allocating overhead costs is described in OMB Circular A-122. This method may be used when the organization’s major functions benefit from its overhead costs to approximately the same degree. The method is acceptable provided that overhead costs are prorated using a base which accurately measures the benefits provided to each grant or contract. The steps to be used to prorate

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**Overhead Cost Allocation**  
**Policy # FA-07-07**  
Updated: April 1, 2014

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overhead expenses between grants and contracts are outlined in detail in WESTAR Procedure #9, Overhead Allocation Procedure. The procedure prorates overhead costs based on direct payroll expenses for the period. Payroll costs are determined for each billing cycle (typically twice per month) based on employee timesheets.

**Approval:** *Alice Edwards*  
WESTAR President

Date: April 1, 2014