



# AHDS' Cost Allocation Policy

## DEFINITIONS

**Direct costs:** The term direct cost is applied only to those costs which are directly attributable to running a specific program, manufacturing a specific product and delivering a specific service.

**Indirect costs (overhead costs):** Indirect costs are costs that have been incurred to achieve common objectives or activities for the organization in general, and that cannot be correlated with a specific program. Overhead or indirect costs are institution level costs. These expenses may not be directly contributing towards implementing a project but they are still essential to maintain the office and manage the day-to-day affairs of the organization.

**Full costs:** full costs are the total of direct costs and indirect costs.

### Program costs:

1. Salaries and benefits of staff working only for one program (project).
2. Travel costs and other costs directly attributable to these staff members.
3. Supplies and materials used for a specific program (project).
4. Costs of a facility that is exclusively used by one program (project).
5. Percentage of costs that have to be shared by a number of programs (projects).

**Operational costs:** day to day running costs without staff remunerations.

**Variable costs:** Variable costs are costs that increase or decrease dependent on the level of activity. For example, number of staff in a project.

**Fixed costs:** Fixed costs are independent of the level of activity. For example, the rent of the AHDS main office where AHDS manage it's all activities to address its mission and will stay the same, whether AHDS manage one or more projects.

## GOAL

This policy establishes a system for determining, tracking, and assigning certain costs within the organization as direct or indirect cost into the projects and contracts. Based on this policy, AHDS develops its Indirect Cost Rate to be able to ensure real cost recovery.

## PRINCIPLES

1. Indirect Cost Rate should not exceed 10% of the program costs in any proposal.
2. Each project budget should cover both direct and indirect costs, and also should support the organization reserve fund.

## PROCEDURE

- A. To determine the indirect cost of each project, the following factors are considered:
  1. Increasing the recovery of indirect costs from donors rather than using available reserve or unrestricted funds.
  2. Simplifying cost recovery practice (i.e. not having to hide indirect costs).
  3. Decreasing an existing rate to become more cost competitive.
  3. Increasing existing rate to adjust to new realities.
- B AHDS set up a separate account to follow up its indirect costs.

1. A separate bank account is established for indirect costs.
  2. The AHDS main office and field offices annual indirect costs budget is developed by Admin/finance Manager in proportional to the receivable resources and get approval of the Management Committee.
  3. The Quality Assurance Manager will report the status and analysis of the Indirect Cost to the Management Committee annually.
- C Any expenditures which are not related to a specific project or cannot be identified for a specific project, forms the indirect expenditure of AHDS, which are categorized under three main line items as follow:
1. Remunerations
  2. Operational costs
  3. Assets

## **1. REMUNERATIONS**

The remunerations is the total compensation, which includes salary and the financial value of all the benefits a staff receive as an employee based on AHDS' human resource policy. Salaries and other staff benefit of the main office and field office staff can be charged both as direct as well as indirect cost.

- 1.1. If the staff works for all the programs of AHDS, he/she will be charged as indirect cost. For example: the Director, Admin & Finance Manager,
- 1.2. If the staff works for specific project(s), he/she will be charged as direct cost (100% or divided among related projects). For example, Accountant, Projects Coordinator.
- 1.3. If the detailed project budget does not have a line, and there is a need for the main office and field office staff to work directly only for a specific project; then his/her salaries can be charged directly to that project for the time he/she works for that project considering budget flexibility.

## **2. ORGANIZATION OPERATIONAL COSTS**

It is the general and administrative expenses encompass a variety of expenses associated with performing the daily operations in AHDS, but not directly associated with its projects.

### **2.1. Management Information System (MIS)**

AHDS uses a MIS to record, compile, and analyze its financial, human resource, inventory, and its program information to meet international standards. The system has been regularly updated according to the new developments in IT technology, to be more effective and efficient. These changes require expenses both for technology tools and human resource development.

### **2.2. Communication Systems**

AHDS maintains some form of communication systems to work with customers, clients, employees, government, and donors; e.g., conventional telephone lines, e-mail, websites, cellular phones and postal services.

### **2.3. Office Equipment and Supplies**

Office equipment includes such things as office furniture, copy machines, computer equipment, fax machines and office supplies. AHDS offices equipment can depreciate, malfunction at times, or become obsolete. Therefore, AHDS usually upgrade their equipment, or purchase more on a regular basis. Additionally, some equipment may only need maintenance, and the AHDS must pay for repair expenses. Also, office supplies must be purchased on a regular basis to maintain an adequate supply for projects operation.

### **2.4. Office Space**

AHDS has to purchase or rent and maintain houses and warehouses as well as related utilities for running its operations.

## **2.5. Business Insurance**

AHDS will purchase property and liability insurance for it as soon as it would be feasible in Afghanistan.

## **2.6. Travel and transportation:**

The organization utilizes different transportation means including flights, vehicles, public transport, to transport its personnel, supplies and projects requirements.

The travel costs may be charged as either direct or indirect depending on the purposes of the expenses. For example, if Program Coordinator travels to do feasibility study for a new project it will be considered as indirect cost, but if he travels to monitor a specific project then it will be considered as direct cost.

## **2.7. Training and workshops**

AHDS provides training for its employees through various opportunities to enable them to perform their tasks efficiently and effectively.

Training and workshop cost may also be charged as either direct or indirect depending on the purposes of the training and the employee. For example, a fundraising training will be charged as indirect but mental health training for health staff will be charged directly on the project.

## **2.8. Other costs (Goods and Services):**

Other head office and Field Office costs such as but not limited to office stationery, un-expected expenses, materials, organization evaluation cost, project design cost are indirect if they are not for a specific project.

## **3. ASSETS**

Asset means property or right to property. Assets are economic resources that are owned by AHDS and are expected to benefit future operations. Asset divided into two categories:

- **Current Asset:** Current assets are those assets which are easily convertible into cash within one financial year. For example: cash, notes receivable, accounts receivable, inventory etc.
- **Fixed Asset:** Are those assets which can be utilized for more than one financial year and it's per/unit cost will be more than US\$ 100 or AFA 5,000. For example: land, building, machinery, vehicles, furniture.

Assets and its related cost can be charged both as direct as well as indirect cost.

- 3.1. The assets and their related expenses utilized for specific project(s), will be charged as direct cost (100% or divided among related projects) for the time that asset is used for that project(s).
- 3.2. If the asset is utilized for AHDS main office and field offices unrelated to a specific project, it and its related expenses will be charged as indirect cost.

This policy is drafted by the management committee on 11 Mar 2014 and approved by the Board of Directors on 11 May 2014.