



Mercy Hands
Humanitarian Aid

Mercy Hands for Humanitarian Aid (Mercy Hands)

Cost Allocation Policy

PURPOSE

The purpose of this cost allocation Policy is to summarize the methods and procedures that MERCY HANDS uses to charge direct costs and to allocate indirect costs to various programs, activities, grants, contracts and agreements.

GENERAL APPROACH

The general approach of MERCY HANDS in allocating costs to particular grants and contracts is as follows:

- A. All direct costs are charged directly to programs, grants, activities, etc.
- B. If a direct cost can be identified to more than one program (such as the time for a specific staff person) it is pro-rated as direct cost using a base most appropriate to the particular cost being prorated (in the case of staff time, the time and effort reporting).
- C. All other general and administrative costs (costs that benefit all programs and cannot be identified to a specific program) are pooled and allocated to programs, grants, etc. based on the ratio of direct costs for each program or activity to total direct costs.



ALLOCATION PROCEDURES

The following information summarizes the procedures used by MERCY HANDS beginning January 1, 2016.

A. Compensation for Personal Services

Daily timesheets are prepared by all MERCY HANDS employees and reflect an after-the-fact determination of the actual activity of each employee. The time sheets account for the employees' total activity during the pay period. Each individual signs their time sheet at the end of each pay period indicating that the distribution of activity on the time sheet represents a reasonable estimate of the actual work performed by the employee during the period covered by the time sheet. Salary deductions (due to administrative punishment, as defined by MERCY HANDS Staff Rules, such as in case of unjustified absence or failure to perform duties) will be pooled and used to pay other expenses at the discretion of the Board of Directors. All expenses must be of nonprofit nature and in accordance with MERCY HANDS mission and objectives. Examples of such expenses are: overtime payment, compensatory time, direct program cost, fundraising, administrative cost unallowable by a donor, etc. MERCY HANDS will report the actual program/ project personnel salaries to the donors as well as the pooled salary deductions but MERCY HANDS will not be obliged to report to donors the expenses of the pooled salary deductions. Only staff engaged in the actual administration of the agency are considered administrative staff. Administrative personnel costs and hours and salaries including vacation, sick and holiday costs and hours are allocated to programs based on the ratio of total program hours charged to each program by program personnel. Example One at the end of this plan shows an allocation of administrative hours when the administrative time benefits all programs. Example Two at the end of this plan shows an allocation of administrative hours when the administrative time benefits only a few programs.



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B. Fringe Benefits

When applied, fringe benefits will be allocated in the same manner as salaries and wages.

C. Travel Cost

Travel is charged directly to the program that benefits from the travel, or is allocated among programs according to the percentage of time that the staff person worked on each grant during the pay period in which the travel was taken. Administrative travel is an indirect cost allocated to the programs receiving benefits from the travel in proportion to the administrative salary allocation.).

Administrative travel costs that benefit all programs will be allocated based on a ratio of each program's salaries to total program salaries (see Example One). Travel costs that benefit only a few programs will be allocated to those programs based on the ratio of each program's salaries to the total of those programs' salaries (see Example Two).

D. Contractual Services and Professional Services Costs (such as consultants, accounting and auditing services)

Contractual services are charged directly to the programs benefiting from the services. Professional service costs are also charged directly to the program for which the service was incurred. Contractual and professional service costs that benefit all programs will be allocated based on a ratio of each program's expenses to total program direct expenses (see Example Three). Contractual and professional services that benefit only a few programs will be allocated to those programs based on the ratio of each program's direct expenses to total of the selected program direct expenses (see Example Four).



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E. Equipment

MERCY HANDS depreciates equipment when the initial acquisition cost exceeds \$1000.

Items below \$1000 are reflected in the supplies category and expensed in the current year. Unless allowed by the donor, equipment purchases are recovered through depreciation. Depreciation costs for allowable equipment used solely by one program is charged directly to the program using the equipment. Equipment that benefits all programs will be allocated based on a ratio of each program's direct expenses to total direct expenses (see example Three). If only a few programs benefit from the equipment, then an allocation of the depreciation costs will be based on a ratio each program's direct expenses to the total of the selected programs' direct expenses (see example Four).

F. Office Supplies (including postage), and Printing

Office supplies and printed materials used for a specific program will be charged directly to that program. Postage expenses are charged directly to programs to the extent possible. Costs that benefit all programs will be allocated based on a ratio of each program's direct expenses to total direct expenses (see Example Three). Costs that benefit only a few programs will be allocated to those programs based on the ratio of each program's direct expenses to the total of the selected programs' direct expenses (see Example Four).

G. Facility Expense including Facility Maintenance and Repair

Facility expense can be allocated to each program based on a percentage of total program salaries charged to each program by program personnel. Square meter used in each program is an alternative to salaries as an allocation basis. Example Five shows how to allocate facility expenses based on square meter. In that example, total square meter used by all personnel to total useable square meter is calculated. Facilities costs related to



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general and administrative activities are allocated to programs in a second step based on the ratio of program square meter to total program square meter.

H. Insurance

Insurance needed for a particular program is charged directly to the program requiring the coverage.

I. Telephone/Communications

Phone cards, landline local and international calls, and Internet based audio/video communications are charged to programs if readily identifiable. Other telephone/communications expenses that benefit more than one program will be allocated to those programs based on the ratio of each program's expenses to total program expenses as shown in Example Three. Costs that benefit only a few programs will be allocated based on a ratio of each program's expenses to the total expenses of the selected programs as shown in Example Four.

J. Training/Conferences/Seminars

Seminars are charged directly to one program or allocated among programs according to the percentage of time that the staff person attending the training, conference or seminar worked on each grant during the pay periods prior to the time the training conference or seminar occurred. Administrative training, conferences, or seminar expenses are allocated to each program based on the ratio of each program's personnel expenses to total program personnel expenses as shown in Example One if the entire center benefits or Example Two if only selected programs benefit.



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K. Other Costs (including dues, licenses, fees, etc.)

Other joint costs will be allocated on a basis determined to be appropriate to the particular costs.

Examples of Allocation Methodology

Example One

Administrative Expense Amount = \$10,000

Costs that benefit all programs are allocated based on a ratio of each program's personnel costs (salaries & applicable benefits) to total program personnel costs, as follows:

Grant	Personnel Costs	%	Admin. Allocated
A	\$20,000	13%	\$1,300
B	\$10,000	7%	\$700
C	\$30,000	20%	\$2,000
D	\$40,000	27%	\$2,700
E	\$50,000	33%	\$3,300
Total	\$150,000	100%	\$10,000

Example Two

Administrative Expense Amount = \$5,000

Administrative Costs that benefit two or more specific programs, but not all programs, are allocated to those programs based on the ratio of each program's personnel costs



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(salaries & applicable benefits) to the total personnel costs of the selected programs, as follows:

Grant	Personnel Costs	%	Amount Allocated
A	\$20,000	20%	\$1,000
C	\$30,000	30%	\$1,500
E	\$50,000	50%	\$2,500
Total	\$100,000	100%	\$5,000

Example Three

Expense Amount = \$8,000

Costs that benefit all programs will be allocated based on a ratio of each program's direct expenses to total program expenses before administrative allocations as follows:

Grant	Program Expenses	%	Admin. Allocated
A	\$120,000	18%	\$1,440
B	\$110,000	17%	\$1,360
C	\$130,000	20%	\$1,600
D	\$140,000	22%	\$1,760
E	\$150,000	23%	\$1,840
Total	\$650,000	100%	\$8,000

Example Four

Expense Amount = \$4,000



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Costs that benefit two or more specific programs, but not all programs, are allocated to those programs based on the ratio of each program's direct expenses to the total expenses of the selected programs before administrative allocations as follows:

Grant	Personnel Costs	%	Amount Allocated
A	\$120,000	30%	\$1,200
C	\$130,000	303%	\$1,320
E	\$150,000	37%	\$1,480
Total	\$400,000	100%	\$4,000

Example Five

Facilities Expense Amount = \$10,000

Facilities costs are allocated based on square meter. Square meter for each program and general and administrative activity is considered in the analysis. General and administrative facilities costs are further allocated to each program based on the square meter of each grant program to the total square meter of all grant programs. The calculation is as follows:

Grant	Square Meter	%	Amount Allocated	G&A Allocated	Total Amount Allocated
A	150	30%	\$3,000	\$340	\$3,340
B	50	10%	\$1,000	\$110	\$1,110
C	100	20%	\$2,000	\$220	\$2,220
D	100	20%	\$2,000	\$220	\$2,220
E	50	10%	\$1,000	\$110	\$1,110



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G&A	50	10%	\$1,000	0	0
Total	500	100%	\$10,000	\$1,000	\$10,000

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