

Sarvodaya Ashram: Common Cost Policy

Sikanderpur, Tandiyawan, District Hardoi, Uttar Pradesh, India

1. Policy Statement

Sarvodaya Ashram recognizes that certain expenses are incurred for the overall functioning and benefit of the entire organization, rather than being attributable to a single specific program or project. These "common costs" are essential for the Ashram's operational efficiency, administrative oversight, and the successful delivery of its mission. This policy establishes a clear, consistent, and transparent framework for identifying, managing, allocating, and accounting for these common costs, ensuring financial integrity, accountability to donors, and equitable distribution across various organizational activities and funding sources.

2. Purpose

The purpose of this policy is to:

- **Ensure Financial Accuracy:** Provide a systematic approach for accurately recording and reporting all organizational expenses, including those that are shared.
- **Promote Transparency:** Clearly define how common costs are managed and allocated, enhancing transparency for internal stakeholders, Governing Body, and external donors.
- **Facilitate Fair Allocation:** Establish equitable methods for distributing common costs across different programs, projects, and funding streams, reflecting the actual benefit derived.
- **Support Effective Budgeting:** Enable the inclusion of realistic common cost estimates in annual budgets and project proposals, ensuring full cost recovery where appropriate.
- **Enhance Accountability:** Define roles and responsibilities for the management and oversight of common costs.
- **Ensure Donor Compliance:** Provide a basis for demonstrating compliance with donor requirements regarding administrative overhead and indirect cost recovery.
- **Improve Resource Utilization:** Encourage efficient use of shared resources and facilities.

3. Scope

This policy applies to all financial transactions and accounting practices of Sarvodaya Ashram, covering all programs, projects, departments, and funding sources. It is applicable to all employees, volunteers, and Governing Body members involved in financial planning, management, and reporting.

4. Definitions

- **Common Costs (Indirect Costs/Overhead Costs/Shared Costs):** Expenses that are incurred for the general operation and management of Sarvodaya Ashram as a whole, and cannot be directly or exclusively attributed to a single program, project, or activity. These costs are necessary for the overall functioning of the Ashram.

- **Direct Costs:** Expenses that can be directly and exclusively identified with a specific program, project, or activity (e.g., salary of a program-specific coordinator, direct beneficiary aid, program-specific training materials).
- **Cost Center:** A unit or department within the Ashram to which costs can be assigned (e.g., Education Program, Health Program, Livelihoods Program, Administration).
- **Allocation Base:** A measurable factor used to distribute common costs among different cost centers or programs (e.g., number of staff, direct expenditure, square footage, time spent).
- **Full Cost Recovery:** The principle of ensuring that all costs (both direct and a fair share of common costs) associated with a program or project are covered by its funding.

5. Principles Governing Common Costs

- **Necessity:** All common costs must be necessary for the effective and efficient operation of Sarvodaya Ashram and the achievement of its mission.
- **Reasonableness:** Common costs incurred must be reasonable and justifiable, reflecting prudent financial management.
- **Consistency:** The methods for identifying, recording, and allocating common costs will be applied consistently across all programs and financial periods.
- **Transparency:** The identification and allocation of common costs will be transparent and documented, allowing for clear understanding and auditability.
- **Equitability:** Allocation methods will aim to distribute common costs fairly among programs and projects, reflecting the benefit received or the resources consumed.
- **Documentation:** All common cost expenditures and their allocation will be properly documented with supporting vouchers and records.
- **Compliance:** Management of common costs will comply with all applicable Indian laws, accounting standards, and specific donor requirements.

6. Identification of Common Costs

Common costs typically include, but are not limited to, the following categories:

- **Salaries and Benefits of Administrative Staff:** Director (portion of time), Finance & Admin Officer, General Office Staff, Security Personnel, Cleaners, etc., whose work benefits the entire organization.
- **Office Rent/Building Maintenance:** Rent for the main Ashram office, electricity, water, repairs, and general upkeep of shared facilities.
- **Utilities:** Electricity, water, internet, and telephone charges for common areas.
- **Office Supplies:** General stationery, printing paper, and other consumables used across the Ashram.
- **Audit Fees:** Fees paid for the annual statutory audit of the Ashram's financial statements.
- **Legal Fees:** General legal advice not specific to a single program.
- **Insurance:** General organizational insurance policies.
- **Bank Charges:** General bank transaction fees.
- **Depreciation:** Depreciation of common assets (e.g., main office building, shared vehicles, general office equipment).
- **General Communication:** Costs of general organizational communication (e.g., website maintenance, general public relations).

- **Travel & Conveyance:** General administrative travel not attributable to a specific program.
- **Capacity Building:** General staff training that benefits multiple programs or the entire organization.

7. Allocation Methodology for Common Costs

Sarvodaya Ashram will primarily use the **Direct Cost Percentage Method** for allocating common costs to its various programs and projects. This method is chosen for its simplicity, ease of implementation, and general acceptance among non-profit organizations.

7.1 Direct Cost Percentage Method:

Under this method, a predetermined percentage of common costs is allocated to each program/project based on its proportion of total direct costs.

- **Step 1: Identify Total Common Costs:** At the beginning of each fiscal year (or as part of budgeting), estimate the total common costs for the entire Ashram.
- **Step 2: Identify Total Direct Costs:** Estimate the total direct costs for all programs/projects combined for the same period.
- **Step 3: Calculate the Common Cost Rate:**

$$\text{Common Cost Rate} = \frac{\text{Total Estimated Direct Costs}}{\text{Total Estimated Common Costs}} \times 100\%$$

- **Step 4: Allocate to Programs/Projects:** For each program/project, the allocated common cost will be:

$$\text{Allocated Common Cost} = \text{Program's Direct Costs} \times \text{Common Cost Rate}$$

Example:

- Estimated Annual Common Costs = INR 5,00,000
- Estimated Total Annual Direct Costs (across all programs) = INR 20,00,000
- Common Cost Rate = $(5,00,000 / 20,00,000) \times 100\% = 25\%$

If Program A has direct costs of INR 8,00,000, its allocated common cost will be:

- Allocated Common Cost for Program A = $8,00,000 \times 25\% = \text{INR } 2,00,000$

7.2 Other Potential Allocation Bases (to be considered for specific cases or future refinement):

While the Direct Cost Percentage Method is primary, the Ashram may consider other methods for specific common cost categories if they provide a more accurate and equitable allocation:

- **Staff Time/FTEs:** For salaries of administrative staff, allocation could be based on the proportion of time spent supporting each program, or the number of Full-Time Equivalent (FTE) staff in each program.

- **Square Footage:** For rent and utilities, allocation could be based on the proportion of office space utilized by each program/department.
- **Usage:** For shared equipment (e.g., a common printer), allocation could be based on documented usage logs.

Any deviation from the primary Direct Cost Percentage Method for specific common cost categories must be justified, documented, and approved by the Director and Finance & Admin Officer.

8. Budgeting for Common Costs

- **Annual Budget:** The annual organizational budget will include a detailed breakdown of all estimated common costs.
- **Program/Project Budgets:** Each program or project budget will include a line item for "Allocated Common Costs" based on the approved allocation methodology and rate. This ensures that program proposals to donors reflect the full cost of implementation, including a fair share of the Ashram's administrative overhead.
- **Donor Guidelines:** When preparing budgets for specific donor proposals, the Ashram will adhere to any specific common cost recovery rates or limitations stipulated by the donor. If a donor does not allow full recovery, the shortfall will be absorbed by unrestricted funds or other funding sources.

9. Monitoring and Reporting

- **Separate Accounting:** Common costs will be recorded in separate general ledger accounts to distinguish them from direct program costs.
- **Regular Review:** The Finance & Admin Officer will regularly monitor actual common costs incurred against the budgeted amounts.
- **Internal Reports:** Monthly/Quarterly financial reports will include a clear presentation of common costs and their allocation to various programs. These reports will be shared with the Director and Program Managers.
- **External Reports:** For external reporting to donors or regulatory bodies, common costs will be presented as per their specific formats and requirements, ensuring consistency with this policy.
- **Reconciliation:** At the end of each fiscal year, actual common costs will be reconciled with the allocated common costs. Any significant variances will be analyzed and explained.

10. Donor Compliance

Sarvodaya Ashram understands that different donors may have varying policies regarding the recovery of common costs (indirect costs/overhead).

- The Ashram will strive to recover a fair share of its common costs from all funding sources to ensure financial sustainability.
- When submitting proposals, the Ashram will explicitly state its common cost recovery rate based on this policy.
- If a donor specifies a lower common cost recovery rate than the Ashram's calculated rate, the Ashram will:

- Accept the donor's rate if the funding is critical and the shortfall can be covered by other unrestricted funds.
- Negotiate with the donor to explain the Ashram's full cost recovery needs.
- Clearly identify the unrecovered portion of common costs as a co-financing or institutional contribution, where permissible.
- All common cost expenditures and their allocation will be auditable and supported by proper documentation to satisfy donor requirements.

11. Roles and Responsibilities

- **Governing Body:** Approves this Common Cost Policy, reviews overall common cost expenditures, and ensures financial sustainability.
- **Director/ Secretary:** Oversees the implementation of this policy, ensures adherence to budgeting and allocation principles, and approves significant common cost expenditures.
- **Finance & Admin Officer:**
 - Responsible for the accurate identification, recording, and allocation of common costs.
 - Calculates the common cost rate annually.
 - Prepares reports on common costs and their allocation.
 - Ensures compliance with this policy and donor requirements.
 - Provides guidance to staff on proper cost coding.
- **Program Managers:**
 - Understand the common cost allocation methodology.
 - Ensure that program budgets include the appropriate common cost allocation.
 - Provide inputs for accurate direct cost estimation for their programs.
- **All Staff:** Responsible for proper coding of expenses as either direct or common costs as per guidelines provided by the Finance & Admin Officer.

12. Review and Amendment of Policy

This Common Cost Policy will be reviewed at least annually by the Finance & Admin Officer and the Director, and approved by the Governing Body. The review will assess:

- The effectiveness and fairness of the allocation methodology.
- The reasonableness of the common cost rate.
- Compliance with changing legal or donor requirements.
- Any necessary adjustments based on changes in the Ashram's operations or financial structure. Any amendments to this policy must be formally approved by the Governing Body and communicated to all relevant staff.

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