



## Definition of Costs

A cost allocation plan is a means of distributing expenses which benefit more than one program to various projects. Cost allocation is basically a mathematical exercise to distribute costs proportionally based on the benefit received.

An agency will incur basically three kinds of costs: direct, administrative, and allocable direct.

1. Direct costs are those costs that benefit a specific project and include expenses such as:
  - Salaries/benefits of persons who provide direct services to only one project
  - Travel costs, which benefit a program,
  - Equipment and maintenance and insurance for the equipment used only for one project
  - Project supplies for a specific project
  - Professional services which benefits a single project
  - Printing which benefits a single project
2. Administrative costs are costs that benefit the operations of the entire agency, but cannot be identified to specific projects and include:
  - Executive director's salary and benefits, or administrative portion thereof if the executive director spends time on grant-related activities
  - Fiscal officer's salary and benefits, or administrative portion thereof if the fiscal officer spends time on grant-related activities
  - Purchasing staff's salary and benefits
  - Secretarial support of administrative employees
  - General office supplies
  - Travel of administrative employees
  - Occupancy costs (e.g., rent and utilities) of administrative employees,
  - Postage and telephone costs of administrative employees
  - Liability insurance
3. Allocable direct costs are costs which benefit more than one project and are not administrative costs. These expenses include:
  - Salaries and benefits of employees whose work benefits more than one project
  - Travel costs of employees whose work benefits more than one project
  - Occupancy costs of projects
  - Communication costs of projects
  - Supplies used by more than one project
  - Contract for professional services that benefit more than one project
  - Rental and maintenance for equipment used by more than one program
  - Audit costs

