To be allowable, costs must conform to relevant federal, state and local laws, regulations, FNS Instruction 796-2, Revision 4, and other policies and procedures. Such costs must receive consistent treatment through the application of generally accepted accounting principles. Each item of cost must be uniformly assigned as either direct or must be properly allocated so that only the allowable share of the cost is assignable to the program. In both cases, explanations of the relationship of the cost to the CACFP (if not self-evident) should be included in documentation. Costs must not be assignable or included as a cost to a prior or future period. Costs must be net of any applicable credits. Costs must be supported by documentation that adequately demonstrates that costs: 1) have been incurred; 2) are program costs; and 3) comply with all applicable laws, regulations and the FNS Instruction 796-2, Revision 4.

The organization must identify related party transactions, less than arms length transactions, ownership interests in equipment, supplies, vehicles and facilities or disclose any other information to MDHSS-CFNA to provide the ability for an informed assessment of cost allowability. Deliberate failure to do so will result in disallowance of the cost and may subject the institution, its principals, employees, consultants or others to the administrative and legal remedies available to MDHSS-CFNA and FNS.

Listed below is a partial list of allowable costs. (FNS Instruction 796-2, Rev. 4)

1. **Administrative Salary and Benefits** – Salaries and benefits of administrative personnel (clerical, accountants, and others) necessary to support administrative activities are allowable. Each element of an individual's compensation must be reasonable for the services provided by the individual and conform to the institution's written compensation policy. Payroll records are required to document these costs. Distribution of salaries and wages of employees chargeable to the CACFP must be supported by appropriate time and attendance reports.

   Labor costs associated with personnel who work part-time in the CACFP and part-time in other duties must be prorated based on hours worked for program and nonprogram activities. A separate time distribution report for each employee is required. The reports must reflect an after-the-fact determination of the actual activity of each employee.

2. **Travel Expenses** – Travel costs are expenses for transportation, lodging, meals, and related costs incurred by an organization's employees, officers, directors or trustees performing program work. Costs for program travel require prior approval and may be charged on an actual, per diem or mileage basis, provided that the method used results in charges consistent with those normally allowed by the institution in its nonprogram operations. It is recommended that expenses reimbursed be limited to the federal meals, lodging, mileage and incidental travel expenses for the appropriate location as prescribed by the United States General Services Administration (GSA) in their Meal and Lodging Travel Guide (CONUS) (www.gsa.gov, under Programs, per Diem Rate). Such costs include:

- **Meals and Lodging:** Reasonable actual costs incurred related to meals and lodging will be reimbursed. Meal limit allowances per CONUS include taxes and tip. Lodging limit allowances per CONUS do not include taxes. Receipts for meals under $25.00 are not required. Receipts for lodging shall be obtained and attached to travel expense forms. The MDHSS will only reimburse lodging costs that are documented with an appropriate receipt.

- **Mileage:** If vehicles owned by the sponsoring organization or any of its employees, officers, directors or trustees are used for Program administrative duties, the organization may use actual costs or a mileage allowance. Actual costs are the program share of costs for operating the vehicle, including gas, oil, routine maintenance and as applicable, depreciation, use allowance or leasing fee. The mileage allowance is considered to be the full cost for operating the vehicle, excluding the driver's salary, parking and toll fees. The official mileage allowance for the state of Missouri is updated when the IRS mileage is updated. Sponsors will be notified in writing when mileage reimbursement rates are updated. The state mileage rate is less than the rate assigned by the Internal Revenue Service (IRS) for tax purposes. Sponsoring organizations may elect to pay the IRS mileage rate, however, the difference between the state of Missouri rate and the IRS rate must be paid from non-program funds. Documentation to support mileage costs charged to the Program must include:

  a. Records of the date of each trip, driver's name, mileage, the origin and destination of each trip, parking receipts, and the reason for each trip.

  b. The employee must sign these records and an authorizing official must certify in writing that records documenting all travel costs and mileage claimed have been reviewed to ensure that costs are reasonable.

- **Out of State Travel Expenses:** With prior approval, the travel expenses and registration fees may be claimed for persons to attend out of state conferences that relate solely to the CACFP. With specific prior written approval, the prorated share of travel and registration fees is allowable when the CACFP is only a portion of a larger child and adult care related agenda.

  The number of staff that can attend out of state conferences must have been budgeted in the current fiscal year prior to attending. The following criteria are recommended as guidelines:

Number of Homes Claimed Under Each Sponsorship	Number of Staff Members Who May Attend Out of State Meetings
1 - 500	2 staff members
501 - 1,500	3 staff members
1,501 - 2,500	4 staff members
2,501 - 3,500	5 staff members

  If a sponsoring organization intends to send staff to the Technical Assistance Conference or the Sponsors Association Conference, more than the maximum number of staff members indicated above may attend, provided the cost of all travelers does not exceed the total reasonable expenditures for the number of people listed above.

- **Travel Wholly Within a Single Day:** If travel is wholly within a single day, reimbursement for lunch while away from the institution/office will be determined by sponsor policy. If an employee leaves home on official business prior to 6 a.m. and/or is unable to return home until after 7 p.m., meal allowances may be made for breakfast and/or dinner for the traveler.

- **Reimbursement Disallowances:** When overnight accommodations are furnished at no extra cost to the traveler (i.e., room furnished as part of the registration fee), no reimbursement may be claimed for lodging. When meals are included in a registration fee, transportation fare, official function or are otherwise furnished at no additional cost to the traveler, no reimbursement may be claimed for such meals.

- **Inclusions and Exclusions as to Authorized Expenses:** In addition to meals and lodging, the following actual expenses incurred as a necessary part of approved travel may be claimed.

  a. Registration fees (receipt required);

  b. Telephone calls for CACFP business;

  c. Commercial transportation cost actually paid by the traveler (may include up to 17% tip for taxi. Receipt required if over $35.00 for each individual ride in a commercial vehicle.);

  d. Parking fees (when reimbursing for actual costs, but not for mileage allowance. Receipt required if over $10.00.);

  e. Mileage for approved use of private vehicle;

  f. Road toll charges (when reimbursing for actual costs, but not for mileage allowance);

  g. Tips – a reasonable amount for porters and bellhops. (Tips paid in conjunction with meals are included in the meal allowance and cannot be claimed separately);

  h. Reimbursement of the cost of traveler's checks. The amount of traveler's checks shall not exceed the estimated out of pocket costs of travel. (Receipt required).

  The following expenses are **not** authorized for reimbursement:

  - Entertainment expenses;
  - Personal expenses such as hygiene items, magazines, snacks, etc.;
  - Travel insurance; and
  - Alcoholic beverages.

3. **Supplies** – This category includes durable supplies and expendable materials and supplies that do not meet the definition of equipment. Durable supplies are defined as items having a life expectancy of more than one year and an acquisition cost of less than $5,000 per unit or the organization's definition of equipment. With specific prior written approval, durable supplies can be directly

expensed. Allowable costs include the costs of durable supplies at the time of purchase or the costs of expendable program materials and supplies actually used within one month or less at the time of purchase. When expendable material and supply purchases exceed more than one month's usage, allowable material and supply costs are limited to the cost of the items actually used for the program during the month.

4. **Printing and Reproduction** – The cost of printing and reproduction is allowable to the extent that expenditures are made to meet Program needs.

5. **Postage** – Costs incurred for postage stamps, express mail, or other postal services.

6. **Office Equipment Depreciation and Use allowance (Non expendable Equipment)** – Depreciation is the expense associated with the physical deterioration and consequent loss in value of office equipment used in the Program. This loss in value may be claimed as an allowable operating cost. Equipment is a nonexpendable item with a useful life of more than one year and an acquisition cost of $5,000 or more per unit. Depreciation shall not be allowed on any item considered to be fully depreciated. All depreciation charged to the Program must be documented. All records for the full depreciation period must be retained during the life of the equipment and for three years after the end of the federal fiscal year during which an equipment item is fully depreciated. Records must be retained beyond this point if audit findings have not been resolved.

   Depreciation is based on acquisition cost and the life expectancy of the item, and the costs of improvements, alterations or repairs that extend the useful life of the item. The acquisition cost for computing depreciation must exclude the cost or any portion of the cost of equipment that was paid by or donated by the Federal Government or others, regardless of where title was originally vested or where it presently resides. Also, if an item of equipment is acquired by trading in another item and paying any additional amount, "acquisition cost" means the amount received for trade-in plus the additional outlay. However, if the trade-in item is either fully or partially depreciated, then that portion of the already depreciated trade-in value cannot be included in the acquisition cost. The cost of depreciation on idle or obsolete equipment is unallowable.

   Adequate property records must be maintained. Any generally accepted method of computing depreciation may be used. However, the method of computing depreciation must be consistently applied for all like assets for all federally sponsored programs. The depreciation method must result in equitable charges considering the use of assets and the benefits to the Program.

   For less than arms length transactions for equipment that is leased, the allowable lease cost is the amount that results from applying a 5 year life expectancy to the acquisition cost for automobiles and ADP equipment, and a 15 year life expectancy for other equipment.

   A use allowance can only be applied to items that have been fully depreciated by the institution before being placed into use by the program. The maximum annual rate for use allowances for equipment cannot exceed 6 2/3 percent (0.56% per month) of the acquisition cost.

7. **Contracted Services** – Contracted services can either be identified as professional services or as Purchased Services-Other. Different criteria relating to allowability governs each category. The professional service category includes the costs of legal and professional services performed by persons who are members of a particular profession or possess a particular skill and are not officers or employees of the institution. With specific prior written approval, allowable costs include the

sponsoring organization's cost to pursue administrative and judicial recovery of funds due from sponsored facilities with certain restrictions, and the costs for other professional services that are required in the administration of the program, have been properly procured and include contract terms that are adequate for the services required. Allowable costs also include the organization's cost for administrative appeals pursuant to the CACFP regulations. With prior approval, allowable costs for the Purchased Services-Other category include arms-length transactions for maintenance and repair of equipment to maintain an efficient operating condition and the costs of utilities, purchased security, janitorial services, etc. that are not included in space or labor costs. With specific prior written approval, allowable costs for the Purchased Services-Other category includes less-than-arms-length transactions, maintenance and service repair contracts on program equipment and all other purchased service costs needed for program operations.

8. **Training and Professional Development**– Costs for training for staff or providers for disseminating technical assistance and information about the Program are allowable. Training and professional development for staff could include costs for conferences, subscriptions and memberships in professional organizations. With prior approval, the registration and travel costs for staff to attend meetings and conferences devoted solely to CACFP are allowable. Costs for the organization's subscription to periodicals related to the program are allowable. Costs for organizational memberships in professional organizations related to the CACFP are allowable with certain restrictions. Allowable costs for training for program participants could include: 1) rental costs for meeting room space; 2) fees for speakers, who are not employees, officers, directors or trustees or immediate family members, to discuss program requirements; 3) costs for meals served to participants, but not to guests, when the training is presented concurrently with the meal service; and 4) costs for materials and supplies for the training. The following costs are unallowable: 1) costs for motivational speakers; 2) costs of social events, entertainment, flowers, door prizes and gifts; 3) travel and transportation costs for child care home providers to attend the training; and 4) the costs for substitutes for child care home providers when training is conducted during normal hours of operation.

9. **Telephone/Other Communications** – Costs incurred for telephone services, including cellular telephones, fax, license fees for electronic mail software, Internet services and messenger services, including pagers, used for program operations are allowable.

10. **Office Rent/Use Allowance** – The rental cost of space in privately or publicly owned buildings used for the benefit of the Program is allowable subject to the conditions stated below. The total cost of space, whether in a privately or publicly owned building, may not exceed the rental cost of comparable space and facilities in a privately owned building in the same locality. The cost of space incurred by the organization during periods of non-occupancy is a special consideration item and requires specific prior written approval.

    The rental cost of space in a privately owned building, such as a private home, is allowable to the extent the rate is reasonable and a bona fide arms-length rental exists. When charged as a direct cost, rental costs must be allocated between program and nonprogram use. To compute, prorate the ratio of square footage of program space to the total square footage of the rented space. The result must be further prorated by the actual number of hours of program use to the total number of hours that space is used. For example: The monthly rental fee for a private residence is $500. 25% of the square footage is used for operation of the CACFP. The actual number of hours of program use to the total number of hours is 50%. Result: The total monthly rental fee of $500 would be prorated by 25% to reflect the space use for the program and that amount would be further prorated by 50% to

reflect the time use for the program ($500 X 25% x 50% = $62.50 per month). However, if the 25% square footage were used solely for the CACFP, then further cost proration for time would not be necessary and the total rental cost attributable to CACFP would be the full 25% ($500 x 25% = $125 per month).

Similar costs for publicly owned buildings newly occupied on or after October 1, 1980 are allowable where "rental rate" systems or equivalent systems that adequately reflect actual costs are employed. Such charges must be determined on the basis of actual cost (including depreciation based on the useful life of the building, interest paid or accrued, operation and maintenance, and other allowable costs). Where these costs are included in rental charges, they may not be charged elsewhere. Rental fees cannot include costs originally financed by the Federal Government for purchase or construction.

Facilities and space costs for less than arms length transactions have specific guidance. When a private residence owned by the organization or a related party is used for program purposes, the costs claimed must meet all IRS requirements for business use of a home and must be supported by the records used to meet the IRS requirements for documenting the business use of a home. For less than arms length transactions for space and facilities that are leased, the allowable lease cost is the amount that results from applying a 30-year life expectancy to the property's acquisition cost, less the value of the land.

Whether privately or publicly owned, buildings can be depreciated, using a 30-year straight line or the depreciation method used and accepted for Federal income tax reporting purposes. Depreciation is based on acquisition cost and the life expectancy of the item, and the costs of improvements, alterations or repairs that extend the useful life of the item. The acquisition cost upon which depreciation is based must exclude the value of the land.

A use allowance can only be applied to items that have been fully depreciated by the organization before being placed into use for the program. The maximum annual rate of use allowances for buildings cannot exceed 2 percent of the acquisition cost, less the value of the land.

11. **Utilities** – If the cost of utilities such as electric, gas, and water are not included in the rental fee, they may be charged to the Program according to the same proration procedures above used to charge the rental fee itself.

12. **Other Miscellaneous Costs** – This category includes goods or services not identified in earlier defined cost categories. These should be itemized and may include:

- **Accounting:** The cost of establishing and maintaining accounting and other information systems required for the management of the Program is allowable. However, the cost of maintaining central accounting records to meet corporate, incorporation and tax requirements is unallowable.

- **Advertising:** Advertising media includes newspapers, magazines, radio and television programs, direct mail, world wide web pages, trade papers, imprinted buttons, pins, banners and similar goods. Allowable advertising costs are those which are solely for solicitation of bids for procurement of program goods and services, (including rental), recruitment of personnel to work in the Program, disposal of scrap or surplus materials acquired in the performance of the grant agreement, and other purposes approved by the MDHSS and/or USDA.

- **Legal Expenses:** The cost of legal services performed by persons who are not officers or employees of the organization required in the administration of the Program is allowable with specific prior written approval. The cost of maintaining a legal staff to perform general responsibilities and costs incurred in connection with organization and reorganization are unallowable. Legal expenses related to the organization's costs for administrative appeals pursuant to the CACFP regulations are allowable and include: 1) costs for in-house or properly procured private counsel; 2) costs for professional services, such as an accountant or consultant, administrative and clerical services; and 3) costs of directly related services provided by the institution's employees, officers and trustees not otherwise claimed as labor costs.

- **Payroll Preparation:** The cost of preparing payroll and maintaining necessary related wage records is allowable to the extent that the expenditures are made for Program purposes and to the extent that they are not further included in indirect costs.

- **Public Information Service Costs:** Public information service costs include the cost associated with development of pamphlets, news releases, and other forms of information services. Public information service costs for the following are allowable:

  1. Inform or instruct individuals, groups, or the general public about the CACFP.

  2. Increase an institution's CACFP participation.

  Prior approval is required for such direct costs.

- **Procurement Service:** The cost of procurement services, including solicitation of bids, preparation and awarding of contracts, and all phases of contract administration in obtaining supplies and services for the Program, is allowable.