

The North Carolina Partnership for Children, Inc.
Smart Start Cost Principles
Revised July 2, 2007

Purpose

This document establishes principles for determining costs that may be paid with State Smart Start funds. These Cost Principles are not intended to address all items of cost.

Effective July 1, 2005, the State adopted new administrative rules, Title 09 NCAC 03M, "Uniform Administration of State Grants," applicable to non-State entities that receive grants of State funds. These rules provide that Federal Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," be used in the determination of allowable uses of State funds.

OMB Circular A-87 specifies that OMB Circular A-122, "Cost Principles for Non-Profit Organizations," should be used by not-for-profit organizations. Accordingly, these Cost Principles incorporate the relevant provisions of OMB Circular A-122.

Applicability

These Cost Principles are applicable only to Smart Start funds, including program income, and supersede any prior guidance for the items listed. Other sources of funds may have specific guidelines and principles that must be used for their funds. Accordingly, each grant agreement or contract related to sources of funds other than Smart Start should be reviewed carefully to ensure compliance with requirements.

These Cost Principles apply to The North Carolina Partnership for Children, Inc., the local partnerships, and their direct service providers and grantees. More restrictive provisions apply to direct service providers and grantees in three areas (Section B.12, Flowers; Section B.16, Interest; and Section B.27, Severance Pay) as identified in bold text below.

Stricter principles may be adopted if desired.

Effective Date

These Cost Principles are effective July 2, 2007.

General Principles

A. Basic Considerations

1. Factors affecting allowability of costs.

In order to be paid from Smart Start funds, costs must meet the following general criteria:

- a. Be reasonable and in compliance with these principles.

- b. Conform to any limitations or exclusions set forth in these principles.
- c. Be consistent with policies and procedures of NCPC and the local partnership.
- d. Be adequately documented.

2. Reasonable costs.

A cost is reasonable if, in its nature or amount, it does not exceed that which would be prudent under the circumstances prevailing at the time the decision is made to incur the cost. In determining the reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of services.
- b. The restraints or requirements imposed by such factors as generally accepted sound business practices, fair and open competitive bidding, Federal and State laws and regulations, and terms and conditions of the Smart Start contract or grant agreement.
- c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the State.

B. Selected Items of Cost

1. Advertising

The term “advertising costs” means the costs of advertising media. Advertising media include magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.

- a. The following costs are allowable:
 - (1) Classified advertising for recruitment of employees;
 - (2) Advertising for the procurement of goods and services;
 - (3) Advertising related to the disposition of property and equipment;
 - (4) Yellow page advertisements that publicize direct services for children and families;
 - (5) Display advertisements that publicize direct services for children and families;
 - (6) Radio or television advertisements that publicize direct services for children and families; and,
 - (7) Listings in community and resource directories.
- b. The following costs are unallowable:
 - (1) Yellow page, display, classified, radio or television advertisements other than those to publicize direct services for children and families; and
 - (2) Billboards.
- c. Also see **Section B.23, Promotion and Public Relations.**

2. Alcoholic Beverages

Costs of alcoholic beverages are unallowable.

3. Apparel and Jewelry

- a. Costs of apparel are unallowable. Apparel includes, but is not limited to, t-shirts, jackets, aprons, and hats.
- b. Costs of jewelry are unallowable.

4. Audit Services

- a. Costs of audit services for local partnerships are unallowable.
- b. Costs of audit services for direct service providers or grantees are allowable **only** if an audit is required by the State (resulting from total State funding exceeding \$500,000). Costs are allowable **only in the proportion** of revenues that Smart Start represents of the total revenues.

5. Bad Debts

Bad debts, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs, and related legal costs, are unallowable.

6. Capital and Repair and Maintenance

- a. Capital expenditures are prohibited by legislation and are unallowable.
- b. The term “capital” is defined as “land acquisitions, new construction, or rehabilitation of existing facilities, and repairs and renovations” (N.C.G.S. § 143-34.40).
- c. Costs incurred for improvements which: 1) add to the permanent value of the buildings and/or for land; or 2) appreciably prolong the life of the asset, shall be treated as capital expenditures.
- d. Capital “repairs and renovations” are defined by N.C.G.S. § 143-15.3A to include the following types of projects:
 - (1) Roof repairs and replacements;
 - (2) Structural repairs;
 - (3) Repairs to electrical, plumbing, and heating, ventilating, and air-conditioning systems;
 - (4) Improvements and renovations to improve use of existing space;
 - (5) Improvements to roads, walks, drives, utilities infrastructure;
 - (6) Historical restoration; and
 - (7) Improvements to meet safety or Federal and State standards.
- e. Costs incurred for necessary, recurring minor maintenance, repair, or upkeep of buildings that do not add to the permanent value of the property or

appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable.

7. Contributions and Donations

Contributions and donations to others are unallowable other than cash and non-cash grants to individuals or organizations identified with an approved service activity.

8. Defense and Prosecution of Criminal and Civil Proceedings, Claims and Appeals

- a. Legal costs incurred in connection with any criminal, civil or administrative proceeding commenced by the Federal Government, or a State, or local government are not allowable if the proceeding:
 - (1) Relates to a violation, or failure to comply with, a Federal, State or local statute or regulation; **and**
 - (2) Results in any of the following dispositions:
 - i. In a criminal proceeding, a conviction;
 - ii. In a civil or administrative proceeding involving an allegation of fraud or similar misconduct, a determination of organizational liability.
 - iii. In the case of any civil or administrative proceeding, the imposition of a monetary penalty.
 - iv. A disposition, by consent or compromise, if the action could have resulted in any of the dispositions described above.
- b. Legal costs incurred in connection with proceedings described in **paragraph a**, but which are not made unallowable by that paragraph, are allowable to the extent that they are reasonable and necessary and cannot be recovered from another party.

9. Employee Salaries and Fringe Benefits

- a. Costs for salaries and wages must be based on documented timesheets approved by a responsible member of the organization.
- b. Timesheets that reflect the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals).
- c. Costs for salaries and wages must reflect an after-the fact determination of the actual time spent on each activity. Budget estimates are not allowed.
- d. Employee fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave, sick leave and the like are allowable.
- e. Employee fringe benefits in the form of extended paid leave, such as sabbatical or paid family medical leave, are unallowable.

- f. Pension plan costs incurred in accordance with established policies are allowable, provided such policies meet the test of reasonableness and are not discriminatory.
- g. Employee fringe benefits in the form of gifts or gift certificates are unallowable, with the exception of token items (i.e., value of \$25 or less) to recognize employees for years of service.

10. Entertainment

Costs of activities for amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows, amusement parks or sports events; meals and lodging; rentals; and transportation) are unallowable. Also see **Section B.24, Recognition Events**.

11. Fines, Penalties and Fees

- a. Costs of fines and penalties resulting from violations of, or failure of the Partnership to comply with Federal, State, and local laws and regulations are unallowable.
- b. Costs of non-sufficient fund (NSF) fees are unallowable.

12. Flowers

Costs of flowers are allowable only in the following circumstances:

- a. Condolences to an employee upon the death of a spouse, parent, child or stepchild of the employee;
- b. Condolences to the employee's family in the event of the death of a Partnership employee; and
- c. Condolences to an employee in the event of his or her hospitalization.
- d. Costs of flowers are unallowable for direct service providers or grantees.**

13. Food

- a. Costs of food are allowable only in the following circumstances:
 - (1) For Partnership Board or Board Committee meetings; or
 - (2) For service and grant activities for which food purchases have a documented legitimate business purpose and are needed to accomplish the purpose of the activity.
 - (3) Also see **Section B.18, Meetings and Conferences**.
- b. All events at which food is served must be work-related and must involve persons other than partnership employees.
- c. Due care and judgment must be used to ensure that purchases of food are not, or could not be perceived as, unreasonable or excessive with regard to either purpose or cost.

14. Fund Raising

- a. Costs of organized fund raising for contributions that do not qualify as a Smart Start program match, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are unallowable.
- b. Costs of fund raising, including financial campaigns and the solicitation of cash and in-kind donations to meet the legislative mandate for program match are allowable.

15. Goods or Services for Personal Use

Costs of goods, equipment or services for personal use are unallowable, with the exception of token items (i.e., value of \$25 or less) for partnership board member appreciation.

The term “goods or services for personal use” includes beach mats, umbrellas, coolers, tote bags, pen sets, and other “giveaway” items.

Also see **Section B.24, Recognition Events.**

16. Interest

- a. Interest costs on borrowed capital or for the use of funds borrowed from the organization’s non-Smart Start funds are unallowable.
- b. Interest on debt incurred subsequent to June 30, 2001, to acquire or replace capital assets is unallowable.
- c. Interest on debt incurred prior to July 1, 2001 to acquire or replace capital assets is allowable.
- d. See **Section B.6, Capital and Repair and Maintenance**, for the definition of “capital.”
- e. **Interest costs are unallowable for direct service providers or grantees.**

17. Lobbying

- a. Costs associated with the following activities are unallowable:
 - (1) Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in-kind or cash contributions, endorsements, publicity, or similar activity;
 - (2) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;
 - (3) Any attempt to influence: (i) the introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation through communication with any member or employee of the Congress or State legislature (including efforts to influence State or

- local officials to engage in similar lobbying activity), or with any Government official or employee in connection with a decision to sign or veto enrolled legislation;
- (4) Any attempt to influence: (i) the introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign or letter writing or telephone campaign; or
 - (5) Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying.
- b. The following activities are excepted from the coverage of **paragraph a**:
- (1) Providing a technical and factual presentation of information on a topic directly related to the performance of the Smart Start Program through hearing testimony, statements or letters to the Congress or a State legislature, or subdivision, member, or cognizant staff member thereof, in response to a documented request made by the recipient member, legislative body or subdivision, or a cognizant staff member thereof;
 - (2) Educating any member of the public about the work of, and services provided by, the partnership;
 - (3) Any lobbying made unallowable by **paragraph a(3)** to influence State legislation in order to directly reduce the cost, or to avoid material impairment of authority to perform Smart Start services;
 - (4) Any activity specifically authorized by statute to be undertaken with Smart Start funds; and
 - (5) Communications with any legislative body whose actions might affect the organization's existence, powers and duties, tax-exempt status, or the deductibility of contributions.

18. Meetings and Conferences

- a. Costs associated with the conduct of meetings and conferences include the cost of renting facilities, meals, speakers' fees, etc.
- b. To the extent that these costs are identifiable with a specific service activity, they should be charged to that activity. These costs are allowable, provided that they have a legitimate business purpose.
- c. Due care and judgment must be used to ensure that meeting and conference costs are not, or could not be perceived as, unreasonable or excessive with regard to either purpose or cost.
- d. Also see **Section B.10, Entertainment** and **Section B.13, Food**.

19. Memberships

- a. Costs of membership in civic or community organizations that provide benefits to the organization, such as training and networking, are allowable.
- b. Costs of memberships in any country club or social or dining club or organization are unallowable.
- c. Costs of memberships for lobbying or advocacy are unallowable.
- d. Due care and judgment must be used to ensure that membership costs are not, or could not be perceived as, unreasonable or excessive with regard to either purpose or cost.

20. Participant Costs

- a. Participant support costs are costs for items such as stipends, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in conjunction with meetings, conferences, or training.
- b. These costs are allowable as part of an approved service activity.

21. Patents, Royalties and Copyrights

Costs related to patents, royalties and copyrights are allowable with prior NCPC approval.

22. Professional Services Costs

- a. Costs of professional and consultant services provided by persons who are members of a particular profession or possess a special skill, and **who are not also officers or employees of the organization to which services are provided**, are allowable subject to **paragraphs b and c** when reasonable.
- b. In determining the allowability of costs in a particular case, the following factors are relevant:
 - (1) The nature and scope of the services rendered in relation to the service required;
 - (2) The necessity of contracting for the service, considering the organization's capacity;
 - (3) Whether the service can be performed more economically by direct employment rather than contracting;
 - (4) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).
- c. Allocation or assignment of costs among activities must be based on documented distributions approved by a responsible member of the organization.

NOTE: For professional services contracts with individuals, the organization must comply with Internal Revenue Service regulations regarding the determination of the status of the individual as an independent contractor versus an employee.

23. Promotion and Public Relations

- a. Pursuant to Smart Start legislation, expenditures of Smart Start funds for promotional activities are unallowable. Promotional activities are those that promote the Smart Start Initiative and/or organization in a general manner and do not publicize specific available services.
- b. Also see **Section B.1, Advertising**.
- c. The terms “promotion” or “public relations” include community relations and means those activities dedicated to maintaining the image of the organization or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.
- d. Costs associated with the following items are allowable:
 - (1) Communicating with the public and press pertaining to specific activities or accomplishments which result from performance of the Smart Start Initiative (these costs are considered necessary as part of the outreach effort);
 - (2) Conducting general liaison with news media and government officials, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of contract/grant awards, financial matters, etc.;
 - (3) Sponsorship of, or participation in, community health fairs or children’s fairs that focus on the provision of service to parents and children, including reasonable costs of signage to publicize the partnership’s sponsorship of, or participation in, the event;
 - (4) Parent education materials (parent education videos, educational displays, resource guides, resources for “Welcome Baby” packets, etc.);
 - (5) Newsletters, educational brochures and annual reports;
 - (6) Websites;
 - (7) Advertisements, newspaper inserts, and radio or television announcements that publicize direct services for children and families;
 - (8) Materials in “Welcome Baby” packets or distributed through hospitals libraries or other distribution means that directly reach parents of young children and serve as a resource for parents; and
 - (9) Signage for quality improvement items purchased for child care centers, libraries, etc. (labels for books or signage that provides information that Smart Start provided the service).
- e. The following costs for general promotion are unallowable:
 - (1) Costs of meetings or other events related to general promotional activities including:
 - i. Displays, posters, banners, demonstrations, and exhibits; and

- ii. Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other promotional events;
- (2) General promotional videos (not parenting videos);
- (3) Public relations consultants for general promotion of the partnership; and
- (4) Advertisements, newspaper inserts, and radio or television announcements other than those that publicize direct services for children and families.
- f. The following costs of promotional items and memorabilia (with or without a logo) are unallowable, including, but not limited to:
 - i. "Giveaway" items, including but not limited to, lunch bags, umbrellas, coffee mugs, stadium cups, license plates, stress balls, frisbees, etc.; and
 - ii. Jewelry, lapel pins, stickers and tattoos.
- g. The costs of billboards are unallowable.
- h. Due care and judgment must be used to ensure that public relation costs are not, or could not be perceived as, unreasonable or excessive with regard to either purpose or cost.

24. Recognition Events

- a. Recognition events are defined as events to recognize individuals or agencies for performance. Costs associated with recognition events include the cost of renting facilities, meals, speakers' fees and the like.
- b. To the extent that these costs are identifiable with a specific service activity, they should be charged to that activity. These costs are allowable, provided that they have a documented legitimate business purpose and the event is identified in the contract activity description.
- c. Due care and judgment must be used to ensure that recognition events are not or could not be perceived as, unreasonable or excessive with regard to either purpose or cost.
- d. Also see **Sections B.2, Alcoholic Beverages; B.10, Entertainment; B.13, Food; and B.15, Goods or Services for Personal Use.**

25. Rental Costs

- a. Rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition and value of the property leased.
- b. Rental costs under "sale and leaseback" arrangements are allowable only up to the amount that would be allowed had the partnership continued to own the property.

26. Selling and Marketing Expenses

- a. Costs of selling and marketing any products or services must be netted against any income derived.
- b. Losses on sales of products or services are unallowable.

27. Severance Pay

- a. Severance pay is a payment to employees whose employment is being involuntarily terminated. Severance pay is defined as an additional payment upon termination other than regular salaries and wages or vacation and sick leave payouts.
- b. Costs of severance pay are allowable only to the extent that in each case, it is required by (i) law, (ii) employer-employee contractual agreement; or (iii) policy approved by the Partnership Board of Directors in place at time of termination.
- c. **Costs of severance pay are unallowable for direct service providers or grantees.**

28. Travel

- a. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by individuals traveling on business.
- b. The maximum allowable payment for meals shall be the rates set by the State.
- c. Individuals may receive payment for meals for partial days of travel when traveling overnight and the partial day is the day of departure or the day of return.
- d. Individuals may receive payment for breakfast and evening meals when traveling when the following applies:
 - (1) Breakfast – departure from duty station/home prior to 6:00 a.m.
 - (2) Dinner – return to duty station/home after 8:00 p.m.
- e. Payment for lunch for travel away from home or duty station is unallowable if travel does not involve an overnight stay, with the exception that employees may receive payment for lunch when the employee's job requires attendance at a meeting in his or her official capacity and involves persons other than partnership employees.
- f. Payment for meals is unallowable if the meal is provided during a conference or workshop, or if the cost of the meal is included in the registration fee.
- g. Payment for breakfast for travel away from home or duty station on business is allowable even if the lodging establishment offers a free continental breakfast.
- h. The maximum allowable mileage reimbursement rate for the use of personal vehicles is the rate set by the State.
- i. Reimbursement of mileage for commuting is unallowable. "Commuting" is defined as "traveling between your home and your place of work."

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- j. Every effort should be made to obtain the State rate for lodging. Excess lodging authorization must be obtained from the partnership Executive Director or his or her designee in order to reimburse for actual costs that exceed the State rate.
- k. Charges for recreation fees, such as movies and gym use, are unallowable.
- l. The actual cost of moderately-priced coach airfare is allowable. Due care should be taken to obtain economical airfare.
- m. The actual cost of moderately-priced vehicle rental is allowable.
- n. Attendance by multiple employees at out-of-state conferences should be limited. Staff attending should share information with other Partnership staff.
- o. International travel is unallowable.