

Expenditure Guide for Programs Receiving UPK Funding

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I. INTRODUCTION

This Expenditure Guide applies to private entities providing programs (“Providers”) receiving public funds under the New York State funded Universal Prekindergarten (“UPK”) program which is administered by the New York City Department of Education (formerly known as the Board of Education) (hereinafter “Department”) and is controlling, unless formally amended.¹

This Expenditure Guide sets forth the guidelines that will be applied in determining whether UPK costs will be reimbursed by the Department. If the Provider wishes to incur an expense not covered in this Expenditure Guide, the Provider is advised to consult with the Borough Office with which the Provider has entered into an agreement for UPK services (“Agreement”), and, if the expense is allowed, to obtain a written exception clearly stating the nature of the expense and the approved cost. In any case where the expense is incurred outside the guidelines, and a written exception cannot be produced, the expense will be subject to disallowance.²

Final reimbursable costs may be determined upon review of *actual* UPK program expenditures. The purpose of the review is to ensure that payments are only made when costs are reasonable, necessary and directly related to the UPK program. Costs must also have adequate documentation substantiating the transaction. Designation of a cost as reimbursable during the initial proposal or subsequent budget modification process does not mean that the cost will be reimbursed since all costs are subject to adjustment, in accordance with the terms of the UPK contract and New York State regulations. A more detailed review of expenditures during an audit may reveal that costs reimbursed during a prior year should not have been reimbursed because they failed to meet expenditure guidelines, pass the reasonable and necessary test, or rest upon acceptable documentation.

¹ Information contained in Provider’s financial reports may provide a basis for future modification of this Expenditure Guide, as would findings obtained through audit or review of UPK programs by and on behalf of the New York State Education Department (SED), other state agencies, the Borough Offices that have entered into an Agreement for UPK program services, or the Chancellor or his/her designee.

² Those Providers that receive tuition payments from the Department for preschool special education programs pursuant to New York State Education Law §4410 may be familiar with the New York State Education Department Costs Reimbursable Manual which sets the guidelines for reimbursement of programmatic costs. Those Providers should be aware that the UPK Costs Reimbursement Manual, while similar in some respects, has a narrower scope of items that are deemed reimbursable, particularly with respect to certain indirect student services. It should not be assumed that because expenditures are reimbursable under the special education program guidelines, they will be reimbursable under the UPK’s. Whether reimbursable or not, all costs that can be fairly allocated to the UPK program must be so allocated.

II. COST PRINCIPLES

In computing unit price (per pupil tuition) Borough Offices rely upon the work plans and budgets submitted by Providers. Actual costs will be considered for reimbursement provided such costs are within the area of expenditures permitted in this Expenditure Guide, and are reasonable, ordinary, necessary, related to the education program and properly documented.

“Cash” Transactions: Providers are required to maintain appropriate documentation of expenditures on behalf of the UPK program. Therefore, except as discussed in the Petty Cash section, below, providers must not conduct cash transactions for which UPK funds are used.

Checks written to “cash” will not be acceptable proof of an expenditure.

“Petty Cash” Transactions: As a general rule, payments/reimbursements should be made by check. However, consistent with the Department’s Standard Operating Procedures for accounting for General School Funds, petty cash may be used to meet *small, immediate* expenses incurred in operating the UPK program. It is acceptable for the Provider to establish a petty cash fund of no more than \$200 as long as the petty cash funds are safeguarded and the person(s) having access to the cash and responsibility for approving petty cash transactions is clearly identified. Each transaction must be documented with a voucher identifying the person to whom the cash was provided, the nature of the expense, date of payment and the person approving the payment. A receipt or invoice reflecting the actual expenditure should be part of the documentation. Before the petty cash account is replenished, all outstanding petty cash vouchers should be accounted for.

Reasonable Costs: A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration will be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the UPK program;
- The restraints or requirements imposed by such factors as: sound business practices, arm's-length bargaining, Federal, State or local laws and regulations;
- Prices for comparable goods or services determined by reviewing similar entities;
- Whether the individuals concerned acted with prudence given their responsibilities to the entity's Board of Directors, its employees, the public at large and the Department;
- Significant deviations from the established practices of the entity or similar entities that may unjustifiably increase the cost of the approved program.

Cost Allocation: As the Department is concerned about appropriate allocation of costs among funding streams, including other City agencies, federal and private sources,

Providers have a continuing obligation under the terms of the Agreement to establish a cost allocation methodology and to allocate costs across programs, where applicable. Therefore, where the Provider accepts funding for programs from non- Department funding sources, or from the Department for programs other than the UPK (e.g., special education programs), the Provider must:

- Establish an allocation methodology that fairly and reasonably apportions costs and disclose that methodology to the Borough Office;
- For each fiscal year, maintain books, records, documents and other evidence, in sufficient detail to support all claims against the UPK program, including those that have been made on a cost allocation basis;
- Make the records available for review by the Borough Office or its representative upon request;
- Review allocation percentages on an annual basis and adjust them as necessary to reflect a reasonable cost distribution among programs.

Depending on the cost category, the method used for allocating costs among programs may be based on the percentage of hours of UPK operation or square feet used by the UPK program or children served with UPK funds. Of course, the Department's interests in providers' adherence to UPK cost allocation requirements are consistent with those of the other funding sources. Therefore, we expect that the methodology reported to the Department for allocation of UPK funds in a particular cost category will be the same used to report expenditures within that category to all funding sources. The following are just some examples of how the methodologies can be applied by cost categories.

- **Rent/Utilities/Telecommunication (UPK program site):** An allocation of costs by square footage utilization would constitute a reasonable methodology.
- **Salaries of Direct Service Staff:** The number of hours that the UPK program is in operation can be used as a basis for allocation. For example, the Provider operates an 8-hour program; and the UPK program accounts for 2.5 hours (not including approved indirect instructional time), the percentage of cost that should be allocated to the teacher's salary will be 31% (2.5/8). The percentage allocable to UPK will be greater if the teacher is paid for UPK program-related activities before or after the direct instructional 2.5 hour class.
- **Instructional Supplies/Classroom Equipment:** Since the allocation of costs should be made according to the benefit derived from the goods purchased, this cost category should be allocated based on the number of students in each program who are using the instructional supplies.
- **Administrative Expenses:** Administrative expenses are those associated with the overall operation of the agency (e.g., salaries of a receptionist, bookkeeper, Chief Financial Officer, Chief Executive Officer; and costs associated with rent, utilities, telecommunications, equipment and/or supplies for the administrative office). It is most acceptable to compute the allocable share of administrative expenses on the basis of program revenue. However, those providers that are operating programs that require submission of a Consolidated Fiscal Report

(CFR) to the State, must base the allocation of administrative expenses for the UPK program on the “ratio value factor”.

NOTE: There is one exception to the direction that costs must be prorated (allocated) among programs. That exception applies to budgeting costs between UPK and private programs as long as the UPK program is not charged more than it would have been charged under an appropriate cost allocation methodology. The following is one example of how the exception applies: A provider purchased a computer that cost \$3,000 for the use of both a morning UPK program and an afternoon private-pay program. The allocation is determined to be 50% to each program based on hours of operation. However, if the UPK budget cannot absorb the full 50% charge, it would be acceptable for the provider to charge less than 50% to the UPK program.

EXPENDITURE CATEGORIES

NOTE: In certain cases a dollar limit is imposed on expenditures within the category. In cases where circumstances require a waiver of that limit, providers must submit a written request to the contract manager stating the need for the waiver. This request must identify the total cost of the proposed expenditure and specify the budgeted cost category/categories that would be reduced to meet the increased cost. Cost categories that could be reduced are limited to those that are administrative and do not impact the quality of the program. The contract managers will respond in writing. The provider and contract manager must maintain the request and the approval/denial for audit purposes. If the waiver is approved, the program provider must amend the budget to reflect the approved changes.

Accounting

Costs of establishing and maintaining accounting and other information systems required for the management of the UPK funded program are reimbursable, including the cost of hiring an accountant/accounting firm. As in other situations, if the costs cannot be directly charged to a specific program, the costs associated with these activities must be allocated to all the programs that benefit from such expense.

Admission Fees

See Transportation/Travel (Students)

Advertising

Advertising means the costs associated with publications and other public relations endeavors using the mediums of newspapers, magazines, radio and television programs, direct mail, trade papers, and the like.

Outreach activities, such as publications and other public relations endeavors that describe the services offered by approved Providers are reimbursable. The intended outcome of these publications and public relations endeavors should be that of providing information and for the purpose of recruiting students into UPK programs or for advertising for staff for the UPK program.

Guidelines for UPK Program Advertising:

Pursuant to the terms of the UPK contract, advertising costs are a reimbursable expense **up to \$1,000**. The following guidelines have been developed to assist Providers in properly advertising their services to the community or for locating staff.

Each Borough Office has the right to require program service Providers to periodically submit copies of advertising to the Borough Office for review. However, there is no regulation that requires approved programs to advertise.

Advertisements must include:

- Clear identification that the program is for children who will be four (4) years old on or before December 31st of each school year;
- A statement that the services are free for a 2-½ hour period;
- A statement that the services are provided at no direct cost to the parent, but that funding is provided through county taxes and state funds earmarked for UPK services;
- A statement that parents are responsible for arranging for and paying the costs of any transportation to the site;
- A description of services available;
- A description of the appropriate licensure and/or certification of staff employed.

Advertisements cannot include:

- Information that might mislead parents to believe that their children can receive, at no cost to the parents, child care services beyond the 2 ½ hours provided by the UPK program (unless the family qualifies for additional programs or are willing to pay the costs associated with the remainder of the day).
- Information which would indicate that transportation is provided free of charge through the UPK program.
- Any information that would be false, deceptive or fraudulent with respect to the services to be provided to children and their families under the terms of the Agreement.

Agency Administration

Note: The Department reviews indirect costs in relationship to total costs to determine the “reasonableness” of agency administrative charges. Indirect costs will be carefully scrutinized and will be subject to adjustment upon a determination that they are excessive.

Agency administration costs are defined as those expenses that are not directly related to a specific program, but are attributable to the overall operation of the agency. These costs include: costs for the overall management of the organization; costs for general record keeping, budget and fiscal management; costs for public relations (non-fundraising); and costs for parent involvement expenditures.

Agency administrative costs, which are more specifically defined by category in this Section, may include, but are not limited to: salary and fringe benefit costs of persons whose primary function is management and administration of the program and/or agency, in accordance with UPK program guidelines; other-than-personal-services (OTPS), including: telephone, utilities, office equipment and supplies, accountants/bookkeepers, computer technicians and other consultants, advertising, postage, office equipment rental, minor repairs and maintenance, *operating* licenses and permits (such as DOH licenses, but not professional licenses), and insurance.

Automobiles/Travel

The cost of *public transportation* from one UPK site to another and to and from meetings called by the Department relative to UPK programs is reimbursable.

Generally, “the cost of travel by private vehicle is not reimbursable.” (*Expenditure Guide, Automobiles/Travel*). However, in instances where travel from one UPK site to another using public transportation is impossible or impractical, mileage costs associated with travel by car will be considered in accordance with the guidelines of the Department’s Standard Operating Procedures chapter on *Travel and Conferences* (<http://www.nycenet.edu/Offices/DFO/SOP/Default.htm>). Providers should consult with the Borough Offices to determine the reasonableness and cost of site-to-site travel by car and obtain Borough Office approval for those costs in writing. If approval is given by the ROC, Providers must maintain a log indicating the date, time, location and purpose of travel, mileage, and identity of persons traveling. Under no circumstances, however, can the Provider use UPK funds for the cost of travel (by any means) to and from work.

The cost of purchasing/leasing, garaging or maintaining a personal or agency-owned vehicle **cannot** be charged to the UPK program.

Capital Expenditures

Capital expenditures are not reimbursable. However, costs associated with certain *minor repairs* may be reimbursed (See Repairs and Maintenance)

Clothing/Uniforms

Ordinary living expenses, such as the cost of clothing and school and athletic uniforms that are normally assumed by parents or legal guardians of students attending child care centers or public schools, are not reimbursable. Clothing expenses for staff such as

uniforms for custodians or food handlers, even if required by school policy, are not reimbursable.

Commencements and Convocation

Costs of commencement and convocation activities are not reimbursable.

Compensation for Personal Services

Compensation for personal services includes all salaries and wages, as well as fringe benefits and pension plan costs. Unearned vacation/sick leave is not reimbursable. Payments for accrued vacation/sick leave, including lump sum payments that are made upon the termination of the employment relationship and that are required by law or by employer-employee agreement and meet the criteria stated in "Fringe Benefits" below, are reimbursable when paid and reported in the base year financial reports.

Salaries

Salary for UPK instructional staff is not limited to compensation for 2½ direct instructional hours and may include time for such UPK program-related activities as planning, team meetings, and clean-up. Providers should reach an agreement with the Borough Office regarding the amount of indirect instructional time that is included within teachers' salaries, but it should **not exceed 1½ hours per day**.

Salaries include all taxable and non-taxable salaries and wages paid or accrued to employees on the agency payroll, including severance pay to regular employees. Reimbursement of salary expense shall be subject to the following principles:

- Entities operating approved programs must develop employer-employee agreements with written salary scales and issue them to employees.
- Lump sum payments for sick and vacation leave credits for an employee whose employment relationship is terminating are reimbursable when paid to the extent that the agreement between the Provider and employee provides for such cost and the Provider has maintained complete and accurate records of the employee's sick leave and vacation balances.
- The Borough Office reserves the right to request additional justification for the salaries, and, if appropriate, recommend adjustments to compensation (i.e., salaries plus fringe benefits) for the Provider's administrative employees, e.g., executive director, assistant executive director and chief financial officer.
- For any individual who is employed in a non-administrative title (e.g., teacher, teacher's assistant or custodian) the compensation for that individual shall be evaluated on a case-by-case basis. Non-administrative employee's salaries will be evaluated by the Borough Office with reference to the salaries charged to other funding sources, such as ACD and private child care for the same hours of employment.

- The Provider must maintain the following records for all employees charged either directly or indirectly to the UPK program. (This does not apply to Director-level employees).
 - Provider must maintain contemporaneous time records (e.g., time cards, daily sign-in sheets, electronic timekeeping) of each employees' actual activity in all programs to which the employee is assigned or for which the employee has administrative responsibility; all hours of the employees' workday must be accounted for.
 - The records must be signed and dated by the employee and the employee's supervisor or, in the case of administrative employees, the appropriate supervisor or Board officer.

NOTE: Budget estimates or other allocation methods that determine compensation before services are rendered will not suffice as a record for purposes of documenting reimbursement.

The allocation methodology for staff working in multiple programs must be uniform and properly documented. The Borough Office retains the right to request and receive documentation in the form of a W-2 or 1099 to confirm total compensation to any employee/consultant charged to the UPK program.

The Borough Office has the right to negotiate a salary less than the rate proposed.

Compensation to all individuals including shareholders, trustees, board members, officers, family members or others who have a financial interest in the program and who are also program employees must be commensurate to actual services provided to the program as relevant employees or consultants, and shall not include any distribution of earnings in excess of reimbursable compensation.

Compensation for board service or trustee service is not reimbursable.

Compensation paid to an employee which duplicates worker's compensation awards, jury fees or disability claims is not reimbursable.

The estimated /fair market value of donated services is not reimbursable.

Compensation of overtime work for direct child care and non-direct child care staff who are compensated on an hourly basis are not reimbursable

Bonus compensation means a non-recurring and non-accumulating (i.e., not included in base salary of subsequent years) lump sum payment(s) in excess of regularly scheduled salary which is not directly related to hours worked. Bonus compensation may be reimbursed only if budgeted and specifically approved in writing by the Borough Office. Bonuses cannot be restricted to administrative staff and must be subject to union contract

rules and regulations. Bonuses must be based on merit as measured and supported by employee performance evaluations.

Fringe Benefits

Fringe benefits may be paid only to employees (individuals who receive IRS form W-2), not consultants (individuals who receive IRS form 1099).

Fringe benefits may include paid time off, such as vacation leave, sick leave, military leave, and holidays, provided the benefit is established by written Provider policy. Payments into specific employee benefit packages, such as teachers' retirement, employees' retirement and pension plans, Social Security, health insurance, unemployment insurance, disability insurance, union welfare funds, or pension plan termination insurance premiums paid pursuant to the Employee Retirement Income Security Act of 1974, may also be included. Providers must disclose to the Borough Office all costs comprising "fringe benefits."

Any costs that are listed above must be included as a fringe benefit only and cannot be charged as a separate/split cost elsewhere in the budget.

Reimbursement of fringe benefit expenses shall be subject to the following principles:

- Vacation and sick leave are reimbursable in the year actually paid and reported as a salary expense. Accrued vacation and sick leave expenses are not reimbursable until actually paid.
- Costs of benefits for employees who provide services to more than one entity and/or program must be allocated in proportion to the salary expense allocated to each program.
- Benefits, including pensions, for individual employees or officers/directors must be proportionate to those received by other classes or groups of employees of the same Provider.
- Amounts paid or credited to employees for sabbatical leave shall not be reimbursed.

Costs of employer-funded **pension plans** which are approved by the Internal Revenue Service and accounted for under generally accepted accounting principles (GAAP) are reimbursable subject to the following exceptions and limitations:

- Payments in lieu of pensions made to or for the benefit of school officers, directors, presidents, etc. are not reimbursable.
- IRA or KEOGH plan payments made by an entity for employees or officers are not reimbursable as a fringe benefit.
- Employer funded plans such as 403(b) plans are reimbursable if they qualify under IRS Guidelines.
- Costs of plans that include only the owner or owner's relatives will not be reimbursed. In no case will the Department allow a charge for a pension that is accounted for as a salary deduction through compensation paid to the employee.

The New York State Department of Labor Unemployment Insurance Division offers not-for-profit organizations an “Election of Reimbursement Option” for staff **unemployment insurance** coverage. What that means is that the provider will reimburse the Unemployment Insurance Fund on a dollar-for-dollar basis in the event that an employee is “laid off” and accepts unemployment benefits from the Fund. This option allows the provider to avoid paying unemployment insurance premiums as part of their employees’ fringe benefits.

While this may be a cost saving opportunity for not-for-profit organizations, as a policy matter, **the DOE will not reimburse UPK providers for out-of-pocket expenses incurred because they chose the “Election of Reimbursement Option.”**

Consultants

Costs of consultants and other independent contractors that are identified in the appropriate cost category in the provider’s annual budget submission may be reimbursable. The Borough Office may require bidding in its discretion. In general, the rates for consultants should be reasonable and should not involve less-than-arm’s-length transactions. (See Less-Than-Arm's-Length (LTAL) Relationships, below)

Reasonable fees paid to independent contractors for services such as grounds maintenance or pest control are reimbursable. (See **Sanitation Collection** section below).

Costs associated with retainers for legal, accounting or consulting services are not reimbursable unless the fee represents payment for actual documented reimbursable services rendered for the UPK program. Legal, accounting or consultant costs that result from claims or lawsuits against a UPK funded program are not reimbursable.

Costs of legal, accounting or consulting services, and related costs incurred in connection with reorganization of the agency, including mergers and acquisitions are not reimbursable. The cost of certain influencing activities (lobbying) associated with obtaining grants, contracts, cooperative agreements, or loans are not reimbursable.

NOTE: In the event that the Department requests a copy of the Provider’s tax return, Consolidated Financial Report or Certified Financial Statement, the costs of copying the record, but not the costs of preparation, will be reimbursed since the Provider has to have at least one of those records prepared in order to satisfy its tax obligations or reporting requirements for programs other than the UPK program.

Fringe benefit costs for independent contractors or consultants are not reimbursable.

Contingency Reserve

Note: Contingency Reserves have been eliminated as a budgeted cost category.

Contributions and Donations

Political and charitable contributions and donations made by the program are not reimbursable.

Depreciation/Amortization

Items must be fully expensed and inventoried in the year in which they are purchased.

NOTE: Providers are reminded that the Department has reserved the right to claim inventory purchased with UPK funds within a year of the purchase upon termination of the contract.

Dues

See Subscriptions and Dues

Entertainment Costs and Personal Expenditures

Costs incurred for entertainment of officers or employees, such as meals, lodging, rentals, transportation, and gratuities are not reimbursable.

All personal expenses, which include, but are not limited to personal travel expenses, beverage charges, gift certificates to staff and vendors, flowers or parties for staff, and/or holiday parties are not reimbursable.

Family Involvement

The DOE desires to engage its partners in supporting parental and family involvement in the education of children and recognizes that improved student achievement is linked to engaging parents and families in the education process and that parents and families are the first educators of children.

Therefore, reasonable costs, no greater than one (1) percent of the total budget, that are associated with family involvement activities are reimbursable. Allowable activities include creating parent/child lending libraries; offering child care service at parent meetings and/or parent/teacher conferences; and encouraging parent participation in instructional field trips. The reasonable cost of snacks at meetings attended by parents is also reimbursable. Providers must maintain a separate account column in their general ledger for family involvement expenditures and, as with all purchases made with UPK funds on behalf of the UPK program, maintain acceptable proof of expenditures.

Fines, Penalties and Late Charges

Costs resulting from violations of, or failure by, the entity to comply with Federal, State, and/or local laws and regulations, are not reimbursable.

Any charges incurred as a result of a delay in payment and/or inaction of the provider are not reimbursable.

Fingerprinting

See Recruitment of Personnel. Read the *Security Clearance* section of the Agreement carefully. Failure to comply may be considered a material breach of the Agreement.

Food

Food costs will be reimbursed to allow programs to provide one daily snack/meal of adequate nutritive quality, as recommended by the National Research Council.

The cost of food for the UPK students and the compensation of the food preparers/handlers are reimbursable. The costs for food preparation staff must be reasonable when compared to length of time the students are at the site and the number of students being fed.

If UPK staff are required to eat with the UPK students, the cost of food for staff is also reimbursable. The Borough Office reserves the right to disallow any food preparation costs it deems excessive.

NOTE: If the food for the UPK students are paid for by any other state, federal, or city program, food related costs will not be reimbursed by the UPK program. Reimbursement of food and food related expense will only be considered when programs have taken full advantage of the funding available from the NYS Department of Health and Mental Hygiene Division of Nutrition Child and Adult Care Food Program (CACFP). For more information about how a program can participate, call the Albany office of CACFP at (518) 458-5550.

Fringe Benefits

See Compensation for Personal Services

Fund Raising Costs

Costs of organized fund raising (*i.e.*, financial campaigns, endowment drives, or solicitation of gifts and bequests) to raise capital, or to obtain contributions are not reimbursable.

In-kind Contribution

“In-kind” contributions refer to expenditures that are not chargeable to a public funding source either partially or in full. In other words, only private funding may be viewed as the source of “in-kind” contributions. In-kind contributions, further, are not subject to cost allocation principles, as long as the UPK program is not charged more than it would have

been charged under an appropriate cost allocation methodology. In-kind contributions are reported on line 39 of the budget form.

Insurance

Reimbursable insurance premium costs include those for commercial general liability, school board or school leader's errors or omissions, professional liability for independent contractors and medical professionals, fire/disaster, or casualty loss insurance obtained to guard against loss to the program.

Costs resulting from losses not covered because of deductible insurance policy provisions, and in keeping with sound business practice, are reimbursable.

Costs are not reimbursable if the provider chooses not to file a claim with the insurance company for losses that are covered under the policy in force at the time.

NOTE: Self-insurance plans for liability, professional liability, fire/disaster, or casualty loss, whereby a program establishes a reserve or contingency account/fund for future liabilities are not reimbursable. Costs of insurance on the lives of owners/officers or employees when the entity is identified as the beneficiary are not reimbursable. Costs to insure against the loss of key personnel are not reimbursable.

Internet

See Telephone/Facsimile/Internet

Less-Than-Arm's-Length (LTAL) Relationships

In general, a LTAL relationship exists when there are related parties and one party can exercise control or significant influence over the management or operating policies of another party, to the extent that one of the parties is or may be prevented from fully pursuing its own separate interests.

Related parties consist of all affiliates of an entity, including but not limited to:

- Its management and their immediate families;
- Its principal owners and their immediate families;
- Any party that may have an opportunity to enter into a transaction, or deal with the agency/entity and that party has ownership of, control over, or can significantly influence the management or operating policies of a program/entity to the extent that an arm's-length transaction may not be achieved.

LTAL relationships must be disclosed in writing to the Borough Office if the Provider seeks reimbursement for expenses incurred in an LTAL transaction. Unless otherwise stated in this Expenditure Guide, LTAL transactions will be reimbursed using actual documented costs of the owner or vendor, subject to tests for reasonableness.

Licenses/Permits

The costs of DOH licenses and operating permits are reimbursable to the extent that the costs are allocated across all programs that require the license.

Loans/Interest Costs

NOTE:

- This section does not apply to loans secured by real property. (See *Mortgage* section, below).
- Under no circumstances are UPK funds to be loaned.
- Working capital interest is defined as interest paid on loans that are secured for operational expenses.

As a general rule, costs associated with interest on a working capital loan to the UPK program are not reimbursable. However, if the Department's UPK payments to the Provider have been delayed, and the Provider has not caused the delay by failing to respond to requests for necessary records/documentation, the Provider may apply to the Borough Office in writing for written approval to enter into a written loan agreement to acquire working capital over a short term, not to exceed the fiscal year in which the loan is obtained, to meet its operating obligations. The application to the Borough Office must disclose whether the lender is in an *arm's-length* or *less-than-arm's-length* relationship (as defined below) with the Provider and identify the name of the lender, interest rate, term of the loan, schedule of repayment, and the name of the institution/individual to whom checks will be drawn in repayment of the loan. If the Borough Office approves the loan, the budget must be amended and re-submitted to include a cost category for the anticipated interest costs; all interest costs must be reported on the required disclosure reports (on an accrual basis). The interest on a Borough Office-approved loan will be reimbursable with UPK funds according to cost allocation and records maintenance guidelines (including a written loan agreement) and to the following extent:

- Interest expense on working capital loans obtained for the purpose of repayment of UPK funds as a result of an audit and/or demand for return of unexpended balances **is not reimbursable**.
- Interest expense **is reimbursable** only when there are corresponding payments of principal on the working capital loans.

Arm's-Length Transactions. Interest expense on a Borough Office -approved loan for working capital is reimbursable provided the interest rate is not in excess of the prime rate plus one percent of the lending institution at the time the loan was made. Loan procurement fees are not reimbursable.

Less-Than-Arm's-Length Transactions. Interest expense on a Borough Office-approved loan for working capital in a LTAL transaction between the lender and the borrower will be

reimbursed only if the interest rate charged by the LTAL lender is less than or equal to the prime rate on lending in the geographic area. The borrowing LTAL entity must demonstrate that this LTAL transaction was necessary as a last resort to acquiring monies and that the interest rate charged by the lending LTAL entity was more favorable than could be obtained in the market place and that rate of interest must be demonstrated to be at prime or less of the lending institutions in the geographic region at the time the loan was incurred. Loan procurement fees are not reimbursable.

Magazines

See Subscriptions and Dues

Maintenance

See Repairs and Maintenance

Meals

See Food

Meetings/Seminars/Staff Development

The costs of a consultant hired to conduct/speak at meetings/seminars (meetings) or to deliver professional development services for staff are reimbursable. However, details are required if the annual cost exceeds \$2,000.

Mortgages

Generally, the portion of the mortgage payment that represents principal is reimbursable to the same extent that rent is reimbursable (*i.e.*, to the extent that it does not exceed fair market rental value of similar property in the area. (See Rent section).

The portion of the mortgage payment representing interest may be reimbursable as long as the total charge (interest plus principal) does not exceed fair market rental value and the interest charges meet the guidelines stated below.

Interest charges in an arm's-length loan transaction may be reimbursable subject to the above and provided that the interest rate is not in excess of the Prime Rate plus one percent at the time the loan was made. Any rate in excess of the Prime Rate plus one percent must be disclosed to and pre-approved in writing by the Borough Office before reimbursement is sought. The Borough Office should consider whether the borrower has made good faith efforts, supported by documentation that it attempted to obtain the most competitive rate available from lending institutions.

The portion of the mortgage payment representing interest charges in a less-than-arm's-length loan transaction may be reimbursable, subject to the above restrictions relating to

fair market rental value, and only upon the prior written approval of the Borough Office and the establishment of cost effectiveness of the transaction. A cost effective transaction is one in which the interest rate charged by the LTAL lender is less than or equal to the Prime Rate in effect at the time the LTAL loan was secured.

Loan procurement fees are not reimbursable.

Payments that represent "interest only" are not reimbursable.

Parent Corporation or Related Entity Charges

Where a UPK program receives administrative services, insurance, supplies, or technical consultants from a corporate parent or a related entity, the cost of those services are reimbursable provided they are based on actual direct and indirect costs, fairly allocated to all programs the benefit from this expense.

Payroll Preparation

The reasonable cost of preparing payrolls and maintaining related wage records is reimbursable.

Pension

See Compensation for Personal Services

Personal Services

See Compensation for Personal Services

Postage

Postage costs such as stamps, postage meter rentals, and other related costs for UPK program mailings and activities are reimbursable.

Printing and Reproduction

Costs of printing and reproducing forms, reports or similar items which are necessary for the UPK program, are reimbursable.

Professional Development for Staff

See Meetings/Seminars/Professional Development

Proposal Costs

Costs of staff or consultants to prepare a proposal to obtain UPK funding are not reimbursable.

Recruitment of Personnel

- Costs of "help wanted" advertisements are reimbursable.
- Costs of fingerprinting for staff are reimbursable
- Costs of certifications/licenses for staff are not reimbursable.
- Employment agencies' fees are not reimbursable.

Rent: Facility Costs/Equipment/Furniture

Rental agreements, including renewals, must be in writing, dated and signed by the lessee and the landlord. A copy of the Provider's rental agreement in effect for the applicable period must be submitted to the Borough Office and attached to the UPK contract if the rent is in excess of \$15.00/square foot. Entities operating approved programs must submit copies of new or renegotiated leases to Borough Office staff for review at least 90 days before the effective date of the lease to allow the Borough Office's designated fiscal representatives to determine the extent to which the costs of the rental agreements are reimbursable.

The Borough Office must be given copies of all leases in effect during the contract period, including renewals and renegotiated leases.

A program must have prior approval from the Borough Office to move to a new location. Moving costs are not reimbursable.

The share of rental expense allocated to UPK programs must be based on documented and reasonable allocation methodology, such as square footage utilization.

Rental costs based on a less-than-arm's-length rental agreement (e.g., the program director owns the UPK program site) are reimbursable only to the extent that they do not exceed actual costs (e.g., landlord's mortgage) and do not exceed fair market rental value. In cases where the mortgage has been re-paid, thereby reducing actual costs, the rental costs cannot exceed fair market value. If the space occupied by the UPK program is also designated for personal use, only the space used by the UPK program during UPK hours can be subject to rental charges. Providers must follow the same rules as promulgated by the Internal Revenue Service for assigning expenses to non exclusive-use premises (see IRS publication 587).

Schools engaged in less-than-arms-length transactions *must* request and receive approval in writing from the Borough Office, and provide appropriate documentation, which must include a lease agreement between the school and the property owner and a statement

identifying to whom the rent will be paid. In no event will checks written to "Cash" be acceptable as a record of rental payment.

The Borough Office's approval may be rescinded retroactively if, based on further review/reconciliation/audit, it is determined that information used in the initial approval was erroneous, incomplete, did not fairly represent all relevant facts, data or issues, or there was inadequate supporting documentation for information/data provided and used during the approval process.

Reasonable rental costs of equipment, furniture and fixtures are reimbursable if the Borough Office has authorized the rental and approved the rental charges in writing. Costs should be comparable to the costs that would be incurred if the equipment were owned, maintained and depreciated by the school.

Note: Rent/Lease security deposits are not reimbursable.

Repairs/Maintenance/Renovations/Alterations – Facility and Equipment

Capital expenditures are not reimbursable. However, costs associated with *minor* maintenance or repair of equipment may be reimbursed if incurred and used for the benefit of the UPK program. Similarly, *minor* facility renovations or alteration costs (e.g., limited work on a Provider's plumbing systems; installation of safety devices, such as fire exit signs, smoke alarms or smoke detectors; minor renovations necessary to comply with New York State standards) may also be reimbursed. In all cases where reimbursement of costs for minor repairs, maintenance, renovation or alteration is sought, the costs must be incurred for the benefit of the UPK program, charged in a manner that is fairly allocable to the UPK program, and conform with the following:

- The repair/maintenance expense cannot exceed \$2,500 per site in the aggregate per year.
- The Borough Office must pre-approve any facility, equipment, furniture, or fixture, repair/maintenance expense that is in excess of \$1000 and has a useful life of in excess of 2 years.
- The Provider must attach to the request for approval three written bids if the expense will exceed \$1000. The Borough Office shall make the determination to reimburse costs on a *case by case* basis. If pre-approval cannot be obtained because the cost is incurred due to an emergency (e.g., flood, fire, contamination) the Borough Office should be notified via fax or phone within twenty-four (24) business hours of the repair being made.
- A record of the expense must be submitted immediately upon the Borough Office's request. Failure to maintain and provide such record may result in disallowance of costs.

Salaries

See Compensation for Personal Services

Sanitation Services

Providers may engage private carting companies for waste removal. However, the costs associated with private carting cannot be charged to the UPK program inasmuch as the New York City Department of Sanitation offers its services free of charge to private schools that receive funding from the Department of Education. Borough Offices will give Providers letters for each site in which a UPK program is operating to confirm the Provider's receipt of funds from the Department. Providers should follow the directions that will be distributed with the letters to arrange for services directly with the Department of Sanitation.

Seminars

See Meetings/Seminars/Staff Development

Subscriptions and Dues

Costs of subscriptions to periodicals and membership in civic, business, technical, and professional organizations and coalitions (dues) are not reimbursable. However, since children's magazines add an additional literacy dimension to the program and especially to the parent involvement component, UPK funds can be used to subscribe to magazines that are written for children and magazines that are written for parents about children.

Supplies and Materials (Instructional)

Purchases of UPK program classroom supplies and instructional materials are reimbursable and should be charged at the net price after deducting all cash discounts, trade discounts, rebates, and allowances received by the entity. Reasonable freight charges, cartage, postage and other transportation services relating either to supplies and materials purchased, in process, or delivered are reimbursable. Reasonable and necessary costs incurred for supplies and materials that are related to UPK programs are reimbursable.

Supplies and Materials (Non-Instructional)

Purchases made specifically for the UPK programs should be charged at the net price after deducting all cash discounts, trade discounts, rebates, and allowances received by the entity. Reasonable freight charges, cartage, postage and other transportation services relating either to goods purchased, in process, or delivered are reimbursable. Costs of supplies such as light bulbs, brooms, paper products, and other similar maintenance supplies not included in the rent charges are reimbursable. Costs of office supplies (paper, pens, pencils, clips, etc.) and the costs of printing financial reports, checks, or office forms are reimbursable. First aid supplies are reimbursable.

Taxes

In general, taxes that the entity must pay and that are chargeable to the UPK program (such as water, school or property tax) are reimbursable if they are paid or accrued in accordance with generally accepted accounting principles. Payments made to local governments in lieu of taxes commensurate with services received are reimbursable.

The Provider is responsible for paying all applicable sales taxes. The Borough Office cannot allow private entities to use its tax-exempt certificate to purchase supplies and/or materials. However, the tax paid on the purchase of items for the UPK program, the costs of which are reimbursable, will be reimbursable as well, subject to guidelines concerning cost allocations.

Payments for Federal, State and local income taxes or any related penalties and interest are not reimbursable.

Penalties and interest on late payments or nonpayment of payroll withholding taxes are not reimbursable.

Telephone/Facsimiles/Internet

Costs incurred for telephone service, local and long distance telephone calls; electronic facsimiles (FAX); internet access and charges for cellular telephones are reimbursable to the extent of the percentage of use that pertains to the UPK program. In the case of long distance charges, a written record must be maintained identifying the date, time, caller, telephone number, purpose of the call, and name of person/entity called. International long distance calls will not be reimbursed.

Transportation/Travel (Staff)

See Automobile/Travel

Transportation/Travel (Students)

Costs of transportation to and from a student's home to the UPK program are not reimbursable.

Costs of transportation from school to an *approved instructional field trip* are reimbursable. The Borough Office must pre-approve all instructional field trips (destination, total costs and the manner of transport) in writing. Paid trips are limited to 3 per class per school year.

Admission fees for students that are associated with each *approved instructional field trip* are reimbursable only up to \$10.00 for each student and each staff member required to accompany the students.

If the Provider will be seeking reimbursement for parents' admission fees, the request for trip approval must include the number of parents for whom reimbursement will be sought, as well as the necessity for including that number. The admission fees for parents cannot exceed \$10.00 per parent per trip.

Providers must maintain all records supporting the expenses of the trip and a log identifying the students, staff and parents that attended. Failure to maintain such documentation may result in a disallowance of expenses upon audit.

Unemployment Insurance

See Compensation for Personal Services (*Fringe Benefits*)

Utilities

Costs of electricity, gas, and other fuel are reimbursable, provided these costs have not already been included in costs reported for rental or lease agreements. Such costs must be directly charged to all applicable programs or allocated on a reasonable basis when the site is receiving funding from multiple sources.

III. Record Keeping

UPK program Providers are required to retain all pertinent accounting, allocation and enrollment/attendance records supporting reported data directly or indirectly related to the establishment of student unit rates for six (6) years following the end of each reporting year. Information relating to the acquisition of fixed assets, equipment, and any related financing arrangements and grants must be retained for six years or for the period of use, whichever is longer.

If during a site review and/or audit, the Provider fails to supply adequate written documentation for costs charged to the UPK program, such cost may be disallowed.

Documentation includes, but is not limited to the following, and in no way limits Provider's responsibilities under the terms of the Agreement.

Contractual Agreements

All contractual agreements (e.g., real property leases, equipment rental) must be in writing, signed and dated. Copies of all current and reimbursable agreements shall be made available to the Borough Office upon request.

Cost Allocation

Providers must use allocation methods that are fair and reasonable. Such allocation methods, as well as the statistical basis used to calculate allocation percentages, must be documented and retained for each fiscal year and be available for review by the Borough

Office or its representatives upon request. Allocation percentages should be reviewed on an annual basis and adjusted as necessary.

Consultants

Costs associated with consultants must be identified in the Provider's annual budget submission. Adequate documentation of the reasonableness of consultants' fees and his/her scope of work includes, but is not limited to, the consultant's resume, a written contract which includes the specific services to be provided, the charge per day or unit of service, service dates, locations, and deliverables, if any. In addition, the documentation should include the number of days actually worked, dates worked, work location and if applicable, the students'/names and/or staff sign-in sheet for each service date, and the number of hours of services performed.

Equipment and Furniture Inventory

Records of inventory purchased with UPK funds in whole or with part must be maintained for seven years.

Inventory records, including the invoice, must be kept for all items purchased by the entity or donated to the entity for the benefit of approved programs. These records should list: the invoice number; a description of the item; the make; model; serial number of the item; cost; date of purchase; date retired; if applicable, the program(s) paying for and using the asset; and the location. For donated items, inventory records should identify the item as donated, listing the date of donation and the fair market value of the item at the time of donation. A copy of the inventory record must be submitted to the Borough Office upon request.

Liabilities

Long-term payables (e.g., mortgage and loans) must be supported with amortization schedules, the signed and dated mortgage/loan agreements, and evidence of payments made. The acquired assets related to each loan must be identified as well as the program(s) utilizing each of these assets.

Payroll

Compensation costs must be based on payrolls that are properly documented and consistent with the budget and work plan submitted to and approved by the Borough Office. Employee time records prepared during the time period for which the employee was paid must support payroll. Employee time sheets must be signed by the employee and a supervisor and must be completed at least monthly.

Purchases

All purchases must be supported with itemized invoices indicating items purchased, date of purchase and date of payment, as well as canceled checks. A credit card receipt will not suffice if the items purchased are not specifically identified. If the invoice contains purchases of items not chargeable to the UPK program, the invoice must be annotated to specifically identify the UPK program purchases.

Student Attendance Records

Student attendance records must be maintained for all students indicating date of admission, discharge, program, and funding source. Daily attendance records must be maintained indicating whether each student is present or absent. In addition, individual student files must be maintained and kept current. Attendance records and documentation of absences must be kept for seven years. The manner in which attendance is performed must be in compliance with rules of the Department and reviewed/approved by the Borough Office.

Time Distribution

An actual hour of service is the basis upon which to allocate salaries and fringe benefits for shared staff that work on multiple programs. Entities must maintain appropriate documentation reflecting the hours used in this allocation. Acceptable documentation may include payroll records or time studies. Documentation for all allocation methods (bases and percentages) must be retained for a minimum of seven years.

Transportation/Travel (Students)

Logs must be kept for each pre-approved instructional field trip indicating dates of travel, destination, purpose, mileage, and related costs such as admission fees, bus costs and tolls.

IV. Accounting Requirements

Entities operating programs must maintain accounts in accordance with generally accepted accounting principles for all programs that receive UPK funds either directly or on an allocated basis.

The accrual basis of accounting is required for all programs receiving UPK program funds.

Accounting books of original entry shall include asset, liability, and fund balance or equity accounts, as well as expenditure and revenue accounts. Subsidiary revenue and expenditure accounts shall be maintained for each approved UPK program.