

<b>Contract Requirements</b>	<b>Allowable Costs</b>
------------------------------	------------------------

## PURPOSE

To provide guidance on allowable Budget expenditures to ensure local agencies use WIC Program funds correctly.

## POLICY

The Local Agency must comply with all Federal regulations and State Codes regarding funds expenditure. Title 2 of the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2CFR Part 200) outlines allowable cost categories and should be the basis for determining the allowable expenditures.

## REQUIRED PROCEDURE

**2 CFR Part 200, Subpart E – Cost Principles, contains the federal requirements regarding factors affecting allowability of costs.**

- I. Factors affecting allowability of costs:** In accordance with federal regulations, allowable costs must:
  - A. Be necessary and reasonable for proper and efficient performance and administration of the WIC Program;
  - B. Conform to any limitations or exclusions set forth in the cost principles or in the Federal award, or other governing regulations as to types or amount of cost items;
  - C. Be consistent with policies and procedures that are applied to the CA WIC Program and other grants held by government agencies and nonprofit organizations;
  - D. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.;
  - E. Be determined in accordance with generally accepted accounting principles;
  - F. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation; and
  - G. Be adequately documented.
  - H. Be allocable to the CA WIC Program;
  - I. Be authorized or not prohibited under State or local laws or regulations;
  
- II. Reasonable Costs:** A cost is considered reasonable if it:
  - A. Does not exceed the amount a prudent person would spend under the circumstances prevailing at the time the decision was made to incur the cost;
  - B. Is generally recognized as an ordinary and necessary cost for the operation or performance of the CA WIC Program;
  - C. Follows sound business practices (such as arms-length bargaining), Federal and State laws and regulations, and WIC policies and contract requirements;

Contract Requirements	Allowable Costs
-----------------------	-----------------

- D. Is similar to market prices for comparable goods and services;
- E. Supports the local agency's responsibilities to the WIC Program, participants, and the public; and
- F. Complies with the local agency's established purchasing practices to manage costs.

**III. Allocable Costs:** A cost is considered allocable if:

- A. It is incurred specifically for the WIC Program;
- B. The cost of the goods or services is reasonably proportional to the benefits received by the WIC Program; and
- C. Is necessary to the overall operation of the WIC Program,

**IV. Direct and Indirect Costs**

Each item of cost shall be treated consistently in like circumstances either as a direct or indirect cost. A cost is direct when it is incurred for direct client services and benefits only the CA WIC Program. A cost is indirect when it is incurred for a common or joint purpose that benefits more than one of the organization's programs. In general, indirect costs are expenses incurred for the services provided by the executive and administrative offices of the parent organization (and/or other expenses of a general nature) that do not involve direct client services. A cost may **not** be assigned as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated as an indirect cost.

- A. Direct Cost Examples: The following examples are guidelines to help determine direct costs:
  - 1. Employee compensation for time specifically allocated to the WIC Program for direct client services;
  - 2. Materials used to implement WIC Program activities;
  - 3. Equipment and other approved capital expenditures used for the WIC Program;
  - 4. Expense items or services contracted specifically for the WIC Program through subcontracts; and/or
  - 5. Travel and training expenses incurred specifically to carry out initiatives for the WIC Program.
  
- B. Indirect Cost Examples: The following examples are guidelines to help determine indirect costs:
  - 1. Accounting;
  - 2. Payroll preparation;
  - 3. Legal services;

<b>Contract Requirements</b>	<b>Allowable Costs</b>
------------------------------	------------------------

4. Data processing;
5. General administration services; and/or
6. Depreciation.

**V. Local Government Method for Calculating Space Costs for Agency-owned Buildings**

(Refer to 2 CFR Part 200, Subpart E for more details)

Method	Condition
<p><b>Use Allowance</b> – Two percent (2%) of acquisition cost times the percentage of square feet occupied by WIC divided by 12 equals the WIC monthly space cost.</p>	<ul style="list-style-type: none"> <li>• Acquisition costs are based on building only, not land.</li> <li>• Cannot combine use allowance and depreciation.</li> <li>• If the use allowance method is utilized it must be applied consistently for all Local Agency programs (not just WIC).</li> </ul>
<p><b>Depreciation</b> - Acquisition cost divided by the useful life (50 years) divided by 12 equals the WIC monthly space cost.                      ~ or ~                      Acquisition cost divided by the straight-line depreciation times divided by 12 equals the WIC monthly space cost.</p>	<ul style="list-style-type: none"> <li>• Acquisition costs are based on building cost only, not land.</li> <li>• Cannot combine use allowance and depreciation.</li> <li>• If the depreciation method is utilized it must be applied consistently for all Local Agency programs (not just WIC).</li> </ul>
<p><b>Actual Cost Based on Principle Only</b>                      - The monthly mortgage principle divided by the total building square footage equals the cost per square foot times the square footage occupied by WIC equals the WIC monthly space cost.</p>	<ul style="list-style-type: none"> <li>• Building acquired before October 1, 1980.</li> <li>• If the actual cost method is utilized it must be applied to all Local Agency programs (not just WIC).</li> </ul>
<p><b>Actual Cost Based on Principle and Interest</b> -The monthly mortgage principle and interest divided by the total building square footage equals the cost per square foot times square footage occupied by WIC equals the WIC monthly space cost.</p>	<ul style="list-style-type: none"> <li>• Buildings acquired on or after October 1, 1980.</li> <li>• If facility cost is \$500,000, or more, a lease/purchase must be approved by USDA or Dept. of Health and Human Services prior to the acquisition.</li> <li>• If facility cost is less than \$500,000 USDA must approve the purchase without lease/purchase analysis.</li> </ul>

<b>Contract Requirements</b>	<b>Allowable Costs</b>
------------------------------	------------------------

**VI. Nonprofit Method for Calculating Space Costs for Agency-owned Building**

(Refer to 2 CFR Part 200, Subpart E for more details)

Method	Condition
<p><b>Use Allowance</b> – Two percent (2%) of acquisition cost times percentage of square feet occupied by WIC divided by 12 equals the WIC monthly space cost.</p>	<ul style="list-style-type: none"> <li>• Computation excludes: 1) cost of land; 2) any portion of the building cost borne by or donated by the Federal Government; and 3) any portion of the building contributed by or for the organization in satisfaction of a statutory matching retirement.</li> <li>• Use allowance for the building and improvement (including land improvement such as paved parking areas, fences and sidewalks) will be computed at an annual rate not exceeding two percent (2%) of acquisition cost.</li> <li>• Cannot combine use allowance and depreciation methods.</li> <li>• If the use allowance method is utilized it must be applied consistently for all Local Agency programs (not just WIC).</li> <li>• Must be supported by adequate property records.</li> <li>• Entire building must be treated as a single asset.</li> </ul>
<p><b>Depreciation</b> – Acquisition cost divided by the useful life (50 years) times the percentage of square feet occupied by WIC divided by 12 equals the WIC monthly space cost. ~ or ~</p> <p>Acquisition cost divided by the straight-line depreciation times the percentage of the square feet occupied by WIC divided by 12 equals the WIC monthly space cost.</p>	<ul style="list-style-type: none"> <li>• Computation excludes 1) the cost of the land; 2) any portion of the building cost borne by or donated by the Federal Government; and 3) any portion of the building contributed by or for the organization in satisfaction of a statutory matching retirement.</li> <li>• Cannot combine use allowance and depreciation methods.</li> <li>• If the depreciation method is utilized it must be applied consistently for all Local Agency programs (not just WIC).</li> <li>• Must be supported by adequate property records.</li> <li>• Must be supported by adequate depreciation records indicating the amount of depreciation taken each period.</li> <li>• Building shell may be segregate from each building component and each item depreciated over its estimated useful life or the entire building may be treated as a single asset.</li> <li>• The method of depreciation used to assign the cost of an asset to accounting periods shall reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater or lesser in the early portions of its useful life than in the later portions, the straight-line method shall be presumed to be the appropriate method.</li> </ul>
Method	Condition

<b>Contract Requirements</b>	<b>Allowable Costs</b>
------------------------------	------------------------

Method	Condition
<p><b>Actual Cost Based on Principle Only</b> – The monthly mortgage principle (less interest) divided by the total building square footage equals the cost per square foot times the square footage occupied by WIC equals the WIC monthly space cost.</p>	<ul style="list-style-type: none"> <li>• Building acquired before September 29, 1995.</li> <li>• If the actual cost method is utilized it must be applied consistently for all Local Agency programs (not just WIC).</li> <li>• If facility cost is \$500,000 or more, a lease/purchase analysis must be approved by USDA or Dept. of Health and Human Services prior to the acquisition.</li> <li>• If facility cost is less than \$500,000 USDA must approve purchase without lease/purchase analysis.</li> <li>• Facility acquisition costing over \$10 million and where WIC reimbursement is expected to equal or exceed 40% of an asset’s cost, the nonprofit must submit a justification to the WIC Program prior to the acquisition.</li> </ul>
<p><b>Actual Cost Based on Principle and Interest</b> – The monthly mortgage principle and interest divided by the total building square footage equals the cost per square foot time square footage occupied by WIC equals the WIC monthly space cost.</p>	<ul style="list-style-type: none"> <li>• Building acquired on or after September 29, 1995.</li> <li>• If facility costs \$500,000, or more, a lease/purchase must be approved by USDA or Dept. of Health and Human Services prior to the acquisition.</li> <li>• If facility cost is less than \$500,000 USDA must approve the purchase without lease/purchase analysis.</li> <li>• Facility acquisition costing over \$10 million and where WIC reimbursement is expected to equal or exceed 40% of an asset’s cost the nonprofit must submit a justification to the WIC Program prior to the acquisition.</li> <li>• Interests incurred to finance or refinance capital assets that were held prior to September 29, 1995 and re-acquired on or after September 29, 1995 are not allowable.</li> <li>• Allowable interest for capital assets includes renovations, alterations, land and capital assets acquired through capital leases.</li> <li>• If the actual cost method is utilized it must be applied consistently for all Local Agency program (not just WIC).</li> </ul>

**AUTHORITY**  
2CFR Part 200