

CACFP Administrative Handbook

Table of Contents

7. Financial Management

CACFP Financial Management System Components	7-1
CACFP Budget	7-1
CACFP Food Service Fund Requirements.....	7-2
Use of CACFP Funds.....	7-2
Allowable Costs	7-3
Non-Allowable Costs.....	7-6
Procurement Requirements	7-8
Standards of Conduct	7-8
Written Purchasing Procedure	7-8
General Purchasing Guidelines.....	7-8
Procurement Methods.....	7-9
Meals Purchased from a Vendor or Contractor	7-11
Equipment and Services	7-12
Equipment.....	7-12
Leases and Contracts	7-12
Purchase or Lease of Equipment and Furniture	7-12
(Other than Computer Equipment)	7-12
Purchase or Lease of Computer Equipment.....	7-13
Purchase or Lease of Computer Software	7-13
Services.....	7-14
CACFP Inventory	7-14
Depreciation.....	7-14
Use Allowance	7-15
Disposing of Equipment	7-15
Documentation of Equipment Disposal	7-15
Terminating Participation	7-16

7. Financial Management

All CACFP sponsors must maintain a financial management system to document sound financial practices, ensure good internal controls, and provide information needed for audits. Each sponsor is also required to follow federal regulations for expending CACFP funds, including FNS 796-2, Rev. 4. and 2 CFR 200, <http://www.fns.usda.gov/sites/default/files/796-2%20Rev%204.pdf>.

Additional guidance for financial management can be found in the USDA Handbook for Management Plans and Budgets, http://www.fns.usda.gov/sites/default/files/CACFP%20Management_PlansHandbook.pdf.

Refer to the homes section for additional information regarding administrative budgets for home sponsors.

CACFP Financial Management System Components

CACFP Budget

All participating sponsors must operate a nonprofit food service principally for the benefit of enrolled participants and maintain records documenting the operation of that food service. Program reimbursement funds must be used solely for the operation or improvement of that food service. In centers, reimbursement varies according to the income level of the families of the participants served. Reimbursement is based on claiming percentages established from information reported by families on the Enrollment & Income Eligibility Form. Reimbursement for meals served through At-Risk Afterschool Meals and in Emergency Shelters is paid at the free reimbursement rate. In day care homes, providers are reimbursed for children's meals at rates (i.e. Tier 1, Tier 2, Mixed Tier) dependent upon the location of the home or the household income of the provider.

Sponsors are required to submit a budget annually. The budget must show the use of CACFP funds, including food service expenditures

The CACFP is intended to supplement overall Program expenditures rather than cover the entire cost of the Program. As a result, sponsors must have additional funds to cover costs that the CACFP reimbursement does not cover. This difference is typically bridged by tuition, fundraising efforts, and/or other government funding received by the sponsor. The budget must identify how the unfunded costs will be covered and details about that source so KSDE may determine the viability of the CACFP when it is expending more than it earns on a routine basis.

CACFP Food Service Fund Requirements

Sponsors must establish a separate CACFP food service fund. The fund's purpose is to provide a clear accounting of CACFP reimbursement (income) and expenditures.

Although a sponsor may choose to have a separate CACFP bank account, this is not required. Sponsors may use the CACFP Ledger for Food Service Fund (7-A) or a form developed by the sponsor.

The following requirements govern the CACFP food service fund:

1. All CACFP reimbursements received will be credited to the CACFP food service fund.
2. All expenses attributable to the CACFP will be paid from the CACFP food service fund.
3. Money in the CACFP food service fund cannot be transferred to another fund of the sponsor.
4. Documentation of the CACFP food service fund must show reimbursement (income) and expenditures. The accounting system (ledger or electronic) must have a separate line item number for each budget item for which CACFP reimbursement is expended. For example, a line item for "Food/Groceries" and a line item for "Non-Food Supplies". Each financial transaction for the food service program is then recorded in the CACFP fund using the appropriate line item number.

All line item entries will be supported by receipts that are kept on file.

To maintain the nonprofit status of the food service fund, the fund balance or net cash resources of the fund should not exceed three (3) months' average expenditures. If the balance exceeds this threshold, the sponsor must take steps to reduce the balance or have an acceptable plan for using surplus revenues. The plan should be such that the balance will be reduced within a year. Since program funds may be used only for food service purposes, an excess balance may be reduced by improving the quality of food served, or purchasing needed supplies, services, or equipment.

Use of CACFP Funds

Sponsors must account for all costs of operations through the consistent use of generally accepted accounting principles (GAAP). Some of these cost will be allowable operating or administrative cost of the CACFP while others will be unallowable.

Costs may be reported on an accrual basis, where expenses and income are recorded when incurred, or on a cash basis, where expenses and income are reported when paid and received. Since the CACFP is federally funded, and requires annual budgets, all CACFP sponsors must use the accrual method of accounting, even if cash or modified accounting is used throughout the remaining months of the year.

Allowable Costs

All allowable CACFP costs, operative and administrative, must meet the following criteria:

- ◆ **Necessary** – The cost must be essential to fulfill regulatory requirements for the operation of the CACFP.
- ◆ **Reasonable** – The type and amount of cost must not exceed what a prudent person would incur under the same circumstances.
- ◆ **Authorized** – The cost must be authorized or not prohibited under CACFP regulations and state or local laws.
- ◆ **Limitations** – The cost must conform to any limitations or exclusions in the federal laws or governing regulations as to type or amount of cost items.
- ◆ **Current** – The cost must not be assignable or included as a cost to a prior or future period.
- ◆ **Multiple Awards** – The cost must not be assignable or included as a cost to any other current or prior federally financed program.
- ◆ **Consistent Treatment** – The cost must be treated consistently through application of generally accepted accounting principles.
- ◆ **Net Cost** – The cost must be net of all applicable credits.
- ◆ **Allocated** – The cost must be properly allocated so that only the allowable share of the cost is assigned to the CACFP.
- ◆ **Documented** – The costs must be supported by adequate documentation.

Most costs must receive prior approval from KSDE which is typically granted through the budget process. Some costs must have specific prior written approval from KSDE which is granted in writing and specifically identifies the cost and approves the cost. Allowable costs include but are not limited to:

Accounting costs include those to establish and maintain accounting systems required for the management of the CACFP.

Advertising costs include those that are solely for solicitation of bids for procurement of goods and services, recruitment of personnel for CACFP, or disposal of surplus materials used for the CACFP. With prior written approval, advertising cost for pamphlets, and other information to inform individuals and groups about the CACFP, and increase the sponsor's CACFP participation.

Auditing Service costs include both organization-wide and CACFP specific audits meeting federal requirements, excluding any portion of a CACFP audit reimbursed by KSDE.

Bonding costs arise when a sponsor is required to provide an assurance against financial loss to the CACFP. Allowable costs include those for premiums on bonds covering employees who handle CACFP funds.

Communications costs include those for telephone and postage when necessary for the CACFP. Costs for supplies and services must be allocated between program and non-program use.

Communication and Technology Costs cost of supplies, services, and equipment such as landline telephones, cell phones, fax, internet and connectivity services, and automatic data processing (ADP) equipment and software. Cost for supplies and services must be allocated between CACFP and non-CACFP use.

Depreciation costs include those associated with physical deterioration and consequent loss in value of equipment used in the CACFP. Refer to the *Depreciation* section in this chapter for more information.

Food costs include those for food used in CACFP meals served. Allowable food costs are determined by the net cost of food used and not the cost of all food purchased.

Records to document the cost of food used must include:

- ◆ Itemized food service invoices and/or grocery receipts;
- ◆ Procurement documents, including bids and contracts;
- ◆ Records of returns, allowances, cash discounts taken, and other credits when they are not shown on purchase invoices;
- ◆ Canceled checks or other forms of receipts for payment; and
- ◆ Menu records which reflect the actual meal components and foods served to participants.

Unallowable food costs include, but are not limited to, the cost of food or meals not meeting specifications or program requirements, the cost of foods or meals not properly procured, and the value of donated foods.

Indirect Costs are those that benefit more than one program and cannot be readily identifiable or assigned. Utilities, trash disposal, and insurance are examples of costs that are usually shared among programs. If a negotiated indirect cost rate exists, this rate must be used by the sponsor for indirect costs that are charged to the CACFP. If there is no existing indirect cost rate, each sponsor must have a rate approved by KSDE prior to use.

Insurance costs may be allowable with specific prior written approval from KSDE. Contact KSDE for further information on requirements and restrictions.

Labor Costs include all forms of compensation earned and all forms of payment, cash and noncash, for personal services for CACFP administration and operating labor. Each element of an individual's compensation must be reasonable for the services provided by the individual and conform to the sponsor's written compensation policy.

CACFP Labor Costs are allowable when the amounts reported are based upon hourly rates that are reasonable for the services provided and properly documented on the CACFP Time & Task Form for Centers (7-B). Hourly rates for CACFP labor will be considered reasonable to the extent that those rates are consistent with rates paid for similar work in the area or neighborhood in which the sponsor is located. The cost of CACFP labor may include the amount of wages and fringe benefits, such as Social Security, withholding tax, and retirement benefits.

The costs associated with personnel who work part-time as CACFP labor and part-time in other duties, including those performed in child care centers or other programs must be prorated based on the hours worked for each activity. In order to establish the portion of costs that may be reported as CACFP labor, the CACFP Time & Task Form for Centers (7-B) or other approved time distribution method must be used to compute the amount of time spent on food service duties. The report must identify the total time actually worked by the employee, not just the time spent on CACFP activities. This report is in addition to the payroll records. This procedure will enable the sponsor to determine the number of CACFP hours per month.

Less-Than-Arms-Length Transactions and other special lease or purchase arrangements require specific prior written approval from KSDE. A less-than-arms-length transaction is one under which one party to the agreement is able to control or substantially influence the actions of the other(s). Such transactions include, but are not limited to those:

- ◆ between divisions of an organization (such as a school district);
- ◆ where an organization is under common control through common officers, directors, or members;
- ◆ between a sponsor and a director, trustee, officer, or key employee of the sponsor;
- ◆ between a sponsor and immediate family either directly or through corporations, trusts, or similar arrangements in which a controlling interest is held.

Management Study costs are used to identify Program weaknesses, target unserved eligible populations or improve Program administration or operations. These costs are allowable with specific prior approval from KSDE.

Mileage Allowance costs are allowed when a sponsor owns or leases vehicles or its employees, officers, directors or trustees use personally owned or personally leased vehicles for CACFP purposes. The sponsor may use actual costs or a mileage allowance. When using actual costs, the CACFP share of costs for operating the vehicle includes gas, oil, routine maintenance and as applicable, depreciation, use allowance or leasing fee. Mileage may be paid based on the State agency approved mileage allowance, or for vehicles owned or leased by the sponsor, the same allowance used by the sponsor for reporting business vehicle costs for Federal tax purposes. Documentation to support mileage allowances charged to the CACFP must include: driver's name and for each trip: date, times (including a.m. and p.m.), mileage, origin, destination, parking and toll receipts (if applicable), purpose of travel, employee signature, and agency approval. Mileage records must be reviewed to ensure costs are reasonable and approved by an authorizing official. A record of payment to the employee must be documented. The Mileage Record for the CACFP (7-C) must be used if CACFP funds are used for mileage costs.

Unallowable costs include the costs for personal travel, reimbursement for the costs of commuting to and from work, and a mileage allowance when actual operating costs is charged for the same vehicle.

Non-Food Supplies include documented costs of non-food items necessary for the service of CACFP meals.

Payroll Preparation costs include those for preparing payrolls and maintaining necessary related wage records to the extent that the expenditures are made for CACFP purposes and to the extent that they are not further included in the indirect cost pool and have received specific prior approval from KSDE.

Printing and Reproduction costs include those for printing and reproduction of materials necessary to the CACFP and approved by KSDE.

Procurement Service costs include those for procurement services, including solicitation of bids, preparation and awarding of contracts and all phases of contract administration in obtaining supplies and services for the CACFP.

Professional Services costs, including those for professional services (for example, computer consulting, accounting, legal expenses, etc.) rendered by outside individuals or organizations, are allowable subject to specific prior written KSDE approval.

Purchased Services must be limited to those required for CACFP operations, supported by source documents and approved by KSDE. Allowable costs include those for:

- ◆ Maintenance and repair of equipment, and
- ◆ Utilities, security, janitorial service when not otherwise included in the indirect cost pool.

Space and Facilities Costs in privately or publicly owned buildings used for the benefit of the CACFP are allowable subject to specified conditions. The total cost of the space, whether in privately or publicly owned buildings, may not exceed the rental cost of comparable space and facilities for privately owned buildings in the same locality. The cost of space procured for CACFP use may not be charged to the CACFP for periods of non-occupancy without authorization from KSDE.

Maintenance and Operation of Building Space costs, including those for utilities, insurance, security, janitorial service, elevator service, upkeep of grounds, normal repairs and alterations, and the like, are allowable to the extent that they are not otherwise included in rental agreements, indirect cost pool, or other charges for space.

Rearrangement and Alterations costs must have specific prior written approval by KSDE. Allowable costs include those for rearrangement and alterations of facilities owned by the sponsor that are required specifically for the CACFP or those costs of work that materially increase the value or useful life of the facilities.

The rental of any property owned by any individual or entities affiliated with the sponsor, to include commercial or residential real estate, for purposes such as a home office workspace is unallowable.

Tax costs include those that are a legal requirement as a result of operating the CACFP. Unallowable costs include personal income tax, corporate income tax, and taxes resulting from non-program operations.

Travel costs include those for transportation, lodging and subsistence when incurred by employees who are in approved travel status on CACFP business.

- ◆ In-state travel must be approved in writing by an official of the sponsor prior to the trip.
- ◆ Out-of-state travel must be approved in writing by KSDE prior to the trip.

Non-Allowable Costs

Accounting System costs to maintain a central accounting system that meets requirements of the overall organization are not allowed.

Bad Debts are any losses arising from uncollectible accounts and other related claims. For example, a bad debt is unpaid tuition (child care fee) which cannot be collected.

Bond Discounts include the cost of financing and refinancing operations, and related legal professional fees.

Contingencies are contributions to a contingency reserve or any other similar provision to finance unforeseen events.

Contributions and Donations are generally not allowable. With prior notice, KSDE may approve the costs required to make goods or services donated to the organization usable for the CACFP.

Door Prizes include gifts or prizes given for any reason.

Entertainment includes costs for amusements, social activities, and incidental costs such as meals, beverages, lodging, rentals, transportation and gratuities.

Fines and Penalties are costs resulting from failure to comply with federal, state, and local laws and regulations.

Fund Raising includes costs for financial campaigns, endowment drives, solicitations of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions.

General Business Expenses are costs of conducting the general business of an organization. This includes any costs to meet or maintain the organization's incorporation or nonprofit status, such as filing federal and state income tax forms.

Gifts include any favors or gifts given for any reason.

Insurance Losses include actual losses that could have been covered by permissible insurance through an approved self-insurance program or otherwise.

Land/Building Use and/or Purchase costs include those for purchasing land, acquiring or constructing building, and charges for the use of land or buildings. These costs are non-allowable unless approved by USDA. Contact KSDE for further information.

Late Charges and Penalties are any costs associated with late filings and/or late payments (penalties, interest, etc.).

Legal Expenses that are non-allowable include, but are not restricted to: (1) legal retainer fee or cost of maintaining a legal staff solely for the purpose of discharging general responsibilities, (2) legal expenses for reorganization for the sponsor, and (3) legal costs when the sponsor doesn't prevail in a court matter.

Political or Partisan Advocacy costs are non-allowable.

Refreshments include those served at meetings/trainings (staff and provider).

Resource and Referral services are established primarily to benefit the day care community, not the CACFP. Since any benefit to the CACFP derived from these services is considered coincidental, the services are not an allowable cost.

Under Recovery means any excess of costs over the federal contribution under another grant agreement.

Procurement Requirements

Procurement standards establish guidelines for the purchase of food, supplies, equipment, a **Single** audit, and other goods and services. These standards are designed to ensure that materials and services are obtained efficiently and economically and in compliance with CACFP regulations and other applicable federal laws. Procurements made with CACFP funds must conform to the standards set forth in regulations 7 CFR 226.22, <http://www.ecfr.gov/cgi-bin/text-idx?node=pt7.4.226&rgn=div5>, and Office of Management and Budget (OMB) Circular 2 CFR Part 200, http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.

Standards of Conduct

Each sponsor must have a written standard of conduct for all employees to follow when engaging in the selection, award, or administration of contracts. The standard of conduct must include the following:

- ◆ Employees, officers, and agents will conduct all procurement transactions in a manner that avoids conflict of interest, real or apparent. A conflict of interest exists when a purchasing transaction involves:
 - a. An employee, officer, or agent of the sponsor;
 - b. An immediate family member of an employee, officer or agent;
 - c. A partner of an employee, officer or agent; or
 - d. An organization that (a) employs or is about to employ any of the above individuals or (b) has a financial or other interest in the firm selected for the award.
- ◆ Policies that prohibit officers or employees from soliciting or accepting gratuities, favors, or anything of monetary value from contractors, potential contractors, or parties to sub-agreements.
- ◆ Policy for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the sponsor.

Sponsors may refer to the sample Standard of Conduct (7-D).

Written Purchasing Procedure

All sponsors must develop and follow a purchasing procedure. A purchasing procedure can be valuable for two reasons. It can serve to clarify the purchasing practices of an organization for the benefit of everyone involved. Secondly, it can guide employees to use the appropriate method of purchasing for each category of items. If an organization has its own purchasing procedures in place, the sponsor will follow those procedures provided that the purchases for CACFP conform to federal and state purchasing regulations. Sponsors may refer to the sample Purchasing Procedure (7-E).

General Purchasing Guidelines

- ◆ Conduct all procurement transactions in a manner that provides maximum open and free competition. Situations considered to be restrictive of competition include but are not limited to:
 - a. Placing unreasonable requirements in order for them to qualify to do business
 - b. Requiring unnecessary experience and excessive bonding

- c. Noncompetitive pricing practices between firms or between affiliated companies
 - d. Organizational conflicts of interest
 - e. Specifying only a “brand name” product instead of allowing “an equal” product to be offered and describing the performance of other relevant requirement of the procurement, and
 - f. Any arbitrary action in the procurement process.
- ◆ A cost analysis is required for procurement in excess of the simplified acquisition threshold before beginning the formal purchase procedures. Independent estimates must be received prior to receiving bids/proposals. Conducting a cost analysis is required when using both the RFP and IFB procurement methods.
 - a. A market basket analysis can be used to conduct a cost analysis. A market basket allows for a representative sample of goods (USDA recommends at least 75% of the estimated contract value) to be used for evaluating prices for a contract award. However, before the contract can be awarded, sponsors must list and obtain prices for ALL items to ensure that prices are reasonable.
 - ◆ No vendor may be selected based on geographic location with the exception of locally grown foods. Purchasing institutions are encouraged to purchase **unprocessed** locally grown and locally raised agricultural products, so procurement may give preference to agricultural products that are grown or raised in the local area. Bids/quotes still must be obtained from an adequate number (two or more) of qualified sources to ensure full and open competition.
 - ◆ Take affirmative steps to assure that small and minority businesses are utilized when possible.
 - ◆ Prepare solicitations of offers that incorporate a clear and accurate description of the requirements so as not to unduly restrict competition, and also set forth all requirements and other factors to be used in evaluating bids.
 - ◆ Procure the entire scope of the good and/or service (cannot separately procure the CACFP portion).
 - ◆ Make awards to only responsible contractors.
 - ◆ Use only the appropriate procurement methods described in this chapter.
 - ◆ Keep a copy of all documents related to each procurement.

Procurement Methods

The federal purchasing regulations and state statutes ensure that food, supplies, equipment and services will be obtained at the lowest possible cost. All purchases must be obtained using competitive purchasing procedures assuring free and open competition between vendors.

To determine the type of purchasing procedure to use, the sponsor must evaluate the dollar value of the purchases or contract. The dollar amounts apply to all purchases from one source for one agreement/contract period.

The methods described in the following paragraphs must be used for obtaining food and services purchased with any state or federal funds.

Micro-Purchase – The purchase of supplies or services which do not exceed an aggregate amount of **\$10,000** are referred to as a micro-purchase. This method of small purchasing does not require the sponsor to solicit quotations if the sponsor considers the

price to be reasonable. To the extent practicable, the sponsor must distribute micro-purchases equitably amount qualified suppliers.

Small Purchases –The small purchase procedure is the relatively simple and informal method of securing services and supplies that do not exceed \$250,000. Price or rate quotations must be obtained from an adequate number (two or more) of qualified sources. The Price Quotation Record (7-D) should be used to document all contacts and quotes.

Formal Purchasing – When the value of the purchase is expected to exceed \$250,000 for food, or \$20,000 for non-food use one of the following:

- ◆ Competitive Sealed Bidding (2 CFR 200.320(c))
- ◆ Competitive Proposals (2 CFR 200.320(d))

Competitive sealed bidding is a procurement method that contains a complete specification of products and services, two or more responsible bidders respond, and a firm fixed price contract is awarded.

Bids are awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method when:

- ◆ A complete, adequate, and realistic specification or purchase description is available;
- ◆ Two or more responsible bidders are willing and able to compete effectively for the business; and
- ◆ The procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.

Components of competitive sealed bidding include:

- ◆ Bids must be solicited from an adequate number of known suppliers, providing them sufficient response time prior to the date set for opening the bids, for state, local, and tribal governments, the invitation for bids must be publically advertised;
- ◆ The invitation for bids, which will include any specifications and pertinent attachments, must define the items or services in order for the bidder to properly respond;
- ◆ All bids will be opened at the time and place prescribed in the invitation for bids, and for agencies, the bids must be opened publicly;
- ◆ Requests for proposals must be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals must be considered to the maximum extent practical;
- ◆ Proposals must be solicited from an adequate number of qualified sources;
- ◆ The non-Federal entity must have a written method for conducting technical evaluations of the proposals received and for selecting recipients

KSDE must approve all contracts and bids over \$50,000 **PRIOR to signing**. Sponsors must also submit all bids to KSDE for approval before accepting a bid which exceeds the lowest bid.

Meals Purchased from a Vendor or Contractor

If meals are not prepared on site, a center may contract with a school, a hospital, a restaurant, another care facility, or a food service management company to obtain meals. CACFP regulations define a Food Service Management Company (FSMC) as “an organization other than a public or private nonprofit school, with which an institution may contract for preparing and, unless otherwise provided for, delivering meals, with or without milk, for use in the Program.”

Procurement of meals must adhere to the procurement standards set forth in Part 226.22 of regulations. Sponsors are responsible for all contractual agreements. Each day care home must provide a copy of the completed contract to its sponsor. Centers must provide a copy of the completed contract to KSDE. Refer to www.kn-eat.org, *Child & Adult Care Food Program, Administration, Meal Contracts* for all meal contracts and related forms.

If the sponsor prepares meals in one location and transports to other sites **within** the organization, the sponsor is encouraged to have a written agreement on file to ensure that meals are compliant with CACFP. The sponsor may develop its own agreement or use the KSDE **Vendor Meals Contract Prototype**.

Organizations that contract for meals from a School Food Authority (SFA) are exempt from these procedures to the extent that contracts with SFAs may be procured noncompetitively, without soliciting or advertising for bids. If the contract exceeds \$50,000, the sponsor must submit the contract to KSDE **prior to signing**.

The duration of contracts for meals shall be no longer than 1 year, and options for the yearly renewal of a contract may not exceed 4 additional years. Renewal terms should be established in the initial contract with a yearly addendum used to document such renewal. All contract shall include a termination clause whereby either party may cancel for cause with 60-day notification.

The required process for contracting for meals depends upon the annual expenditures on the food service contract. See the chart below.

Process Required	School - Public or private	Contract less than \$250,000	Contract more than \$250,000
Complete Vendor Meals Contract Prototype or a contract that contains all components of the prototype	✓	✓	
Complete Price Quotation Record		✓	
Follow Competitive Negotiation Procedures; Complete <i>Request for Proposal</i> and <i>Solicitation Contract</i>			✓
Complete <i>Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion</i>			✓
Complete Lobbying Statement			✓

*For all contracts in excess of \$50,000, the completed contract and all bids must be sent to KSDE for approval **prior** to signing the final contract. If the contract is not approved by KSDE prior to signing, meals cannot be claimed for reimbursement.

Equipment and Services

The following procedures must be followed to obtain KSDE approval for the acquisition of equipment and services. The length of contract and agreements cannot exceed 12 months, and the length of leases cannot exceed 36 months.

Equipment

Equipment is an article of nonexpendable personal property with a useful life of a year or more and an acquisition cost which equals or exceeds the Federal per-unit capitalization threshold of \$5,000. USDA requires sponsors to obtain prior written approval before incurring the cost of capital expenditures including equipment. Sponsors will receive automatic KSDE approval for equipment contained on the Child Nutrition Program Equipment List (7-F). The sponsor must still follow proper Federal, State, and local purchasing procedures, including obtaining an adequate number of price quotes. If a sponsor chooses equipment that is not included on the KSDE approved list, they must submit a request for approval to KSDE prior to purchasing the item.

Leases and Contracts

Leases and contracts for equipment are allowable if the rates are reasonable, taking into consideration such factors as rental costs of comparable equipment; alternatives available; and type, life expectancy, condition and value of the equipment leased.

It is recommended that the following clause be included on leases: "Should federal funds be unavailable, this lease is null and void." Without this clause, the person signing the lease may be liable.

A lease with an option to purchase or other unusual lease arrangements requires specific prior written approval from KSDE.

Purchase or Lease of Equipment and Furniture (Other than Computer Equipment)

Over \$5,000 – Approval from KSDE is required prior to purchase or lease. To obtain KSDE approval, the sponsor must follow the steps below:

1. Verify that adequate funds for the purchase or lease are available from the CACFP ledger/budget. Adequate funds may vary according to the method of purchase or lease.
2. Obtain equipment comparisons and price quotes for lease or purchase of the equipment.
3. Submit a written request for purchase or lease of the item including verification that price quotes were obtained from an adequate number of qualified sources. This will generally be a minimum of three quotes for lease and be a minimum of three quotes for purchase.
4. Send copies of the price quotes to KSDE. List first and second choices for purchase or lease in order of preference. Include an explanation for the choices. If the purchase or lease is not requested from the lowest-priced responsible vendor, include justification for requesting a vendor who did not submit the lowest quote. Lease information must include all terms of the lease including disposition of equipment at the termination of the lease.

The steps previously identified are the same regardless of whether the item is purchased/leased by paying cash or making payments.

Over \$20,000 – Approval from KSDE is required prior to purchase or lease. If any CACFP funds are to be used, a formal purchasing is required. Follow the guidance for the Request for Proposal or contact KSDE for Formal Purchasing Requirements.

- ◆ Submit a written request for purchase or lease of the item including verification that formal purchasing procedures were used. This will generally be a minimum of two or more responses/bids for lease and a minimum of two or more responses/bids for purchase.
- ◆ Send copies of the bids to KSDE. List first and second choices for purchase or lease in order of acceptability. Include an explanation for the choices. If the purchase or lease is not requested from the lowest responsible bidder, include justification for requesting a vendor who did not submit the lowest bid. Lease information must include the lease agreement with all terms of the lease including disposition of equipment at the termination of the lease.

The steps identified above are the same regardless of whether the item is purchased or leased by paying cash or making payments.

KSDE has the right to limit the amount of depreciation charged to CACFP if an item was not procured in a manner which resulted in the lowest price for the item purchased.

Purchase or Lease of Computer Equipment

When using CACFP funds, sponsors must have specific prior written approval from KSDE prior to obtaining any computer equipment. Computer equipment includes all computer hardware and peripheral equipment (i.e. monitor, printer, keyboard, etc.). Computer equipment over \$20,000 must follow formal purchasing requirements.

To obtain KSDE approval to purchase or lease computer equipment, the sponsoring organization must:

1. Verify that adequate funds are available from the CACFP ledger/budget. Adequate funds may vary according to the method of purchase or lease.
2. Submit a written request for purchase or lease of the item including verification that price quotes were obtained from an adequate number of qualified sources. This will generally be a minimum of three quotes for lease and a minimum of three quotes for purchase.
3. Send copies of the price quotes to KSDE. List first and second choices for purchase or lease in order of acceptability. Include an explanation for the choices. If the purchase or lease is not requested from the lowest responsible bidder, include justification for requesting a vendor who did not submit the lowest bid. Lease information must include all terms of the lease including disposition of equipment at the termination of the lease.

The steps identified above are the same regardless of whether the item is purchased or leased by paying cash or making payments.

Purchase or Lease of Computer Software

All software, regardless of the price, must have specific prior written approval by KSDE prior to purchase. Please contact KSDE for guidance.

Services

Any contract for services must be approved by KSDE. Contracts for non-food services over \$20,000 must follow procedures for formal purchasing.

CACFP Inventory

An inventory must be maintained for any equipment purchased with CACFP funds that had a purchase price of \$5,000 (federal capital asset threshold) or more and a life expectancy of more than 2 years. If the sponsor uses a lesser amount when reporting equipment as an asset on its financial statement, the sponsor shall use this threshold.

The inventory records must include:

1. Description of the item
2. Manufacturer's serial number or other identification
3. Acquisition date
4. Acquisition cost
5. Cost to CACFP
6. Current location of item
7. Use and condition of item

A physical inventory must be completed annually and reconciled with the property records. Physically marking each item of equipment is not required.

Depreciation

Depreciation is an allowance made for a loss in value of property. Capital assets whose costs may be depreciated include tangible property, such as buildings, furniture, motor vehicles, and other equipment. Depreciation may be applied only to the net acquisition cost. Acquisition costs include the net invoice price paid for an item, and the cost of improvements or alterations necessary to make it usable for its intended purpose. Acquisition costs may include any separate payments for delivery and installation of an equipment item.

If equipment is acquired by trading in another item and paying an additional amount, the acquisition cost is only the additional expenditure. The depreciation of idle or obsolete equipment is unallowable.

If a sponsor incurred costs to obtain or utilize donated facilities, vehicles or equipment, only the portion of the cost actually incurred by the sponsor may be classified as the acquisition cost. The value of the donation is not depreciable.

Any generally accepted method of computing depreciation may be used. However, the method must be consistently applied for all like assets of the sponsor and must result in equitable charges considering the use of assets and the benefits to the CACFP. The use of any depreciation method other than straight line requires specific prior written approval from KSDE.

For depreciation purposes, the definition of equipment is an item with an acquisition cost of \$5,000 or more per unit. Use the following guidelines as useful life expectancies for assets:

- ◆ 30 years for space and facilities
- ◆ 15 years for equipment, and
- ◆ 5 years for all computer hardware, printers and vehicles

All depreciation charged to CACFP must be documented through depreciation records indicating the amount of depreciation taken each period, and, when appropriate, allocated between CACFP and non-program use. FNS 796-2, Rev. 4, Exhibit D contains a suggested format and instructions for recording equipment and depreciation. This format may be adapted for use with other depreciable assets.

All records must be retained during the life of the equipment and for 3 years after the end of the CACFP year during which an equipment item is fully depreciated or disposed of, whichever comes first. Records must be retained beyond this period if audit findings have not been resolved.

Use Allowance

Use allowance is an alternative to depreciation that a sponsor may use if it has not maintained adequate property cost records upon which to base depreciation expense. The use of this method requires a reasonable estimate of the asset's original acquisition cost, which must be approved by KSDE. The maximum annual rate for use allowances for building and improvements cannot exceed 2 percent of the acquisition cost, and for equipment, the rate cannot exceed 6 2/3 percent of the acquisition cost.

Disposing of Equipment

Approval from KSDE is required prior to disposing (i.e. discarding, transferring, trading-in) of equipment purchased with CACFP funds.

All transferred equipment must be operable. Equipment should be listed as an individual item or as an "operable unit". For example, a computer monitor is an "item", while a computer system is an "operable unit" that includes a processor (CPU), monitor, keyboard, software, cables etc.

Documentation of Equipment Disposal

When requesting approval to dispose of CACFP equipment, give the following information to KSDE:

- ◆ Item description (model number, etc.)
- ◆ Purchase date
- ◆ Purchase price
- ◆ Percent of CACFP funds used when purchase was made
- ◆ Current condition of equipment

Terminating Participation

If a sponsor terminates its participation in the CACFP, contact KSDE immediately regarding disposal of CACFP equipment. Provide the following information:

- ◆ Item description
- ◆ Purchase date
- ◆ Purchase price
- ◆ Current condition
- ◆ Current fair market value