



COMMISSIONER
Adelaide Horn

MEMORANDUM

TO: AAA Directors

FROM: Betty Ford, Section Manager
Access & Intake - Area Agencies on Aging

DATE: August 2, 2007

SUBJECT: Uniform Rate Negotiation Forms and Instructions – Federal Fiscal Year 2008

The necessary documents to complete the Federal Fiscal Year (FFY) 2008 budget process and establish nutrition meal unit rates for providers who receive funding from the Department of Aging and Disability Services (DADS) are available on the AAA website at <http://www.dads.state.tx.us/providers/AAA/Forms/index.html>. Available on the website are reporting policies and procedures for the Administration on Aging (AoA) Nutrition Services Incentive Program (NSIP). These policies define the respective roles and responsibilities of the regional contract managers and Area Agencies on Aging (AAA) designated staff in reporting eligible meals.

CHANGES FOR FEDERAL FISCAL YEAR (FFY) 2008

The following changes have been made to the NSIP procedures and the Uniform Rate Negotiation procedures:

- **Routine Inflation Rate:**

The routine inflation percentage for the uniform rate negotiations is 1.02% for FFY 2008. If any amount in Column F, Percent Difference (Budgeted to Annualized) of the Budget Worksheet exceeds 1.02%, an explanation must be provided in Column G, Reason for Difference (If Over Routine Inflation Percentage or Other). If the whole unit rate variance exceeds the Routine Inflation Percentage, an explanation must be provided.

- **Nutrition Services Incentive Program (NSIP):**

The NSIP rate for FFY 2008 is sixty-one cents (\$0.61) per meal. All forms have been updated to reflect the new rate.

- **Nutrition Education Services**

In accordance with Sections 331 (42 USC 3030.e) and 336 (42 USC 3030.f) of the Older Americans Act Amendments of 2006, congregate and home delivered nutrition services projects must provide nutrition education, nutrition counseling, and other nutrition services, as appropriate, based on the needs of meal participants or recipients.

DADS Title XX Home Delivered Meals program requires provider agencies to provide nutrition education on a monthly basis to their clients. Since the Title XX program provides only home delivered meals, there is no mechanism which will allow nutrition education to be provided using additional funding. At one time, Title XX allowed administrative costs to support this function.

A new section has been added to the rate setting forms to capture the expenses required to meet the nutrition education requirement. This Section is required for all common (Title III and Title XX) home delivered meal providers. If a provider is non-common home delivered meal provider or a congregate meal provider, you may choose not to include nutrition education expenses on the rate setting forms. However, if you choose to exclude the expenditures for nutrition education in the rate setting process, you must budget and report nutrition education service expenditures. Nutrition education expenditures must be budgeted using one of the two options described above.

Instructions are included in the Budget Worksheet FFY 2008 Instructions document.

- **Total Number of Anticipated Meals**

Total number of Anticipated Meals will include DADS A&I AAA, Title XIX, XIX Managed Care and Title XX meals.

NOTE: Neither the State Generated Revenue from the Texas Department of Agriculture nor the units that will be provided with this funding are to be included on the rate setting form.

In accordance with OMB A-87, Attachment B (19)(a)(1), "Capital expenditure means the cost of the asset including the cost to put it in place. Capital expenditure for equipment means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from, capital expenditure cost in accordance with the governmental unit's regular accounting practices"

If a provider purchases an item(s) considered a controlled asset(s), it should be budgeted under the correct cost category and the detail should be provided under Column G to include the item(s) to be purchased. It is the AAA's discretion if the purchase is deemed appropriate.

It is the responsibility of the AAA to verify all entries in the home delivered and congregate meal budget workbook are correct, accurate, and appropriate prior to signing the budget. AAA staff should carefully review the budget worksheets. Any discrepancies should be discussed with the provider and DADS regional contract manager before signing.

As a reminder, the completion of these forms is required for all nutrition services (i.e., home delivered and congregate). DADS encourages all AAAs utilize to the BudgetWorkbook2008 NonMeal forms, available on the website, to establish unit rates for all other unit rate services.

Should you have any questions regarding these forms or instructions, please contact the AAA Help Desk at T3AHelp@dads.state.tx.us.

INSTRUCTIONS FOR COMPLETING THE BUDGET WORKSHEET

The Budget Worksheet is to be completed by Home Delivered/Congregate Meal contract/vendor providers. The Budget Worksheet is to be used by the contract/vendor provider, Texas Department of Aging and Disability Services (DADS) and Area Agency on Aging (AAA) staff or their representative to determine a per meal unit rate.

AAA/Region Name:

Enter the name of the AAA or the Region representing DADS in rate negotiation with vendors/sub-contractors.

Provider Information:

Enter Provider/Vendor Name in cell C3, Contract Number in cell G2 if applicable, Service in cell G3, Period Covered in Year-to-Date in cell C4 and the number of months of expense used as the basis for year-to-date actual in cell D11.

Budget Information:

Column C - Year-to-Date Actual Expenses

Report year-to-date actual expenses in the appropriate line items. Expenses should be reported on an accrual basis and in accordance with the guidelines outlined in these instructions.

Column D - Annualized Expenses

The expenses reported in column C, "YTD Actual Expenses" will most likely not represent 12 months of expenses. Formulas have been included to calculate this information based on the number of months of expenses used as the basis for year-to-date actual listed in cell D11.

Formula: The year-to-date actual expenses, column C, divided by the annualized expense number of month's year-to-date based on the number from cell D11 multiplied by 12.

Column E - Budgeted Expenses for New Contract Year

Report in column E the budgeted expenses for the new contract year. Reasonable adjustments can be made to expenses annualized in column D based on anticipated increases or decreases in costs that will occur during the prospective contract year.

If the expenditure is paid annually the amount budgeted in column E will be less than annualized expenditures in column D. Enter "annual payment" in column G for "Reason for difference".

This amount will not include the State Generated Revenue (SGR) funding received from the Texas Department of Agriculture.

Column F - Percent Difference (Budgeted to Annualized)

Formulas have been included to calculate this information.

Formula: The budgeted expense for the new contract year, column E amount, divided by the annualized expense, column D amount, minus 1.

Column G - Reason for Difference (If Over Routine Inflation Percentage)

The current routine inflation percentage is 1.02%. If any percentage in column F is greater than 1.02%, identify the reason in column G. Maintain supporting documentation for the increase. For any Cost Area when “Other” is used for expenditures, you must explain these expenditures.

Total Number of Meals Provided

Report the total year-to-date number of all meals in cell C90.

Total Number of Anticipated Meals

The provider must enter the proposed number of meals or the number of proposed meals for each funding sources in cell D101 through D109. This does not include units that will be provided with the SGR from Texas Department of Agriculture.

Budgeted Cost per Meal

Based on the budgeted expenses (E89) and the anticipated or projected number of meals (cell E91), the cost per meal is calculated in cell H92.

Revenue Based on Projected Meals

When entering the proposed number of meals by funding source the worksheet will calculate the amount of revenue required from each funding source on the Budget Worksheet.

Please note, revenue is based on calculated rates which have been rounded to the nearest cent, and the total of the calculated revenue (cell F110) may differ from the total budget expense (cell E89).

Page 4 - Budget Worksheet Calculation of the Per Meal Unit Rate

The total budgeted expenses for the contract year, item 1, is linked to cell E81 of the budget worksheet. For item 2, the number of meals is linked to the information entered in cells D90 through D95 of the budget worksheet.

All information and calculations on this worksheet are automated. Any adjustments to the information must be made on the source documents (Budget Worksheet and In-Kind Match Certification).

Once the per meal unit rate has been determined, this page must be dated and signed by the contract/vendor provider representative and DADS, AAA staff or their representative.

The contract/vendor provider representative must be an individual legally responsible for the conduct of the contract/vendor provider, such as a sole proprietor/owner, a partner, a corporate officer, an association officer, a Board member or a governmental official.

Page 5 - Budget Worksheet Certification

This page must be signed by an individual legally responsible for the conduct of the contract/vendor provider, such as a sole proprietor/owner, a partner, a corporate officer, an association officer, a board member or a governmental official.

In-Kind Match Certification

If no in-kind is requested by the provider, this page does not have to be completed.

The total of the value column (cell G22) is used to calculate the match reduction from in-kind in cell D24 of the Budget Worksheet Calculation of the Per Meal Unit Rate.

This page must be signed by an individual legally responsible for the conduct of the contract/vendor provider, such as a sole proprietor/owner, a partner, a corporate officer, an association officer, a Board member or a governmental official. The certification must be submitted with the rate setting forms.

Accounting Method

All financial information must be based upon the **accrual method** of accounting. This method of accounting requires expenses (as reported in Column C, Year-to-Date Actual Expenses) be reported in the period they are incurred, regardless of when they are paid. Governmental units may use the cash method or the modified accrual method where required by statute, ordinance, charter or constitution. Cost reporting by contract/vendor providers should be consistent with generally accepted accounting principles (GAAP), which are those principles approved by the American Institute of Certified Public Accountants (AICPA).

Allowable and Unallowable Costs

Allowable and unallowable costs, both direct and indirect, are defined in Federal Circulars OMB A-87 and A-122. When a particular type of expense is classified as unallowable, the classification means the expense will not be included in the per meal unit rate determination. The classification does not mean individual contract/vendor providers may not fund the expenditure with other

sources.

Reasonable and Necessary

The description of reasonable and necessary costs is designed to be a general guide. The reasonable and necessary criteria are to be applied to allowable costs.

- (1) “Reasonable” refers to the amount expended. The test of reasonableness includes the expectation that the provider seeks to minimize costs and that the amount expended does not exceed what a prudent and cost-conscious buyer pays for a given item or service. In determining the reasonableness of a given cost, the following are considered:
 - (A) the restraints or requirements imposed by arm’s-length bargaining (i.e., transactions with non-owners or other unrelated parties, federal and state laws and regulations, and contract terms and specifications); and
 - (B) the action that a prudent person would take in similar circumstances, considering his responsibilities to the public, the government, his employees, clients, shareholders, and members, and the fulfillment of the purpose for which the business was organized.
- (2) “Necessary” refers to the relationship of the cost, direct or indirect, incurred by a provider to the provision of contract/vendor services. Necessary costs are direct and indirect costs which are appropriate in developing and maintaining the required standard of operation for providing services in accordance with the contract and state and federal regulations. In addition, to qualify as a necessary expense, a direct or indirect cost must meet all of the following requirements:
 - (A) the expenditure was not for personal or other activities not directly or indirectly related to the provision of contract/vendor services;
 - (B) the cost does not appear as a specific unallowable cost in these instructions;
 - (C) if a direct cost, it bears a significant relationship to the contract/vendor service. To qualify as significant, the elimination of the expenditure would have an adverse impact on service quality;
 - (D) the direct or indirect expense was incurred in the purchase of materials, supplies, or services provided to clients or staff in the normal conduct of operations to provide the contract/vendor service;
 - (E) the direct or indirect costs are not allocable to, or included as a cost of any other program in either the current, a prior, or a future cost-reporting period;
 - (F) costs are net of all applicable credits;
 - (G) allocated costs of each program are adequately substantiated; and

(H) the costs are not prohibited under other pertinent federal, state, or local laws or regulations.

Reporting Expenses

Report only those reasonable and necessary expenses that reflect the activity of the contract/vendor provider and are directly related to the provision of home delivered/congregate meals. Do not report expenses of other activities.

- (1) Direct costs are those costs that are incurred by a provider, which are definitely attributable to the operation of providing contract/vendor services. Direct costs include, but are not limited to, salaries and non-labor costs necessary for the provision of contract/vendor services. In the Meal Program, the salaries of cooks and other food service personnel are direct costs, as are food, non-food supplies and other such dietary costs.
- (2) Indirect costs are those shared costs which benefit, or contribute to, the operation of providing contract/vendor services, other business components, or the overall entity with which DADS or the AAA have contract/vendor. These costs could include, but are not limited to, administration salaries and non-labor costs, building costs, insurance expense and interest expense. Central office and/or home office administrative expenses are considered indirect costs. Indirect costs must be allocated directly, or as a pool of costs across those business components sharing in the benefits of those costs.

Nutrition Education

In accordance with Sections 331 (42 USC 3030.e) and 336 (42 USC 3030.f) of the Older Americans Act Amendments of 2006, congregate and home delivered meal nutrition service projects must provide nutrition education, nutrition counseling, and other nutrition services, as appropriate, based on the needs of meal participants or recipients. Texas Administrative Code Title 40, Part 1, Chapter 84, §84.5 requires nutrition education be provided monthly to each participant for both home delivered and congregate meals.

For all common home delivered meal providers, the rate setting process must include the nutrition education expenditures. The expenditures for nutrition education can not be included as administrative costs of the nutrition service.

For the non-common providers and congregate meal providers, it is optional whether to include nutrition education in the rate setting process. Due to NAPIS requirements, if you choose to exclude the expenditures from the rate setting process, you must budget and report nutrition education activities as a separate service. **Please note:** The budget will include DADS funds, local cash and/or in-kind.

Depreciation

In determining whether to expense or depreciate a purchased item or repair, depreciate any single item costing \$5,000 or more and having a useful life of more than one year. Expense a purchased item or repair when the single item costs less than \$5,000 or has a useful life of one year or less with the exception of Controlled Assets.

Include only assets that are used directly or indirectly in the provision of contract/vendor services.

Depreciation may not be reported for items funded with federal or state funds. If items have partial federal or state funding, the reported depreciation must be proportional to the non-federally or state funded portion.

Allowable depreciation expense includes only straight-line depreciation. No additional first-year depreciation or accelerated depreciation is allowable.

The following estimated lives for depreciable assets are the minimum requirements: buildings, 30 years with a 10% salvage value; passenger automobiles (including minivans), 3 years; light trucks and vans, 5 years; and buses, 7 years. Additional depreciation information is included in "Attachment A."

Cost Allocation

Direct costing must be used whenever reasonably possible. Direct costing means allowable costs, direct or indirect, incurred for the benefit of, or directly attributable to, a specific business component must be directly charged to that particular business component. In the case of direct costs as defined in these instructions, direct costing is required. In the case of indirect costs as defined in these instructions, it is necessary to allocate these costs either directly or as a pool of costs across those business components sharing in the benefits.

If cost allocation is necessary for budget worksheet purposes, contract/vendor providers must use reasonable methods of allocation and must be consistent in their use of allocation methods across all program areas and business entities.

Allocation methods should be based on criteria that directly relate to the contract/program/business entity to which the costs are being allocated.

Allocations may NOT be based upon revenue or budgets.

Allocation Methods

The following is a summary of the acceptable allocation methods for indirect (shared) costs:

Square Footage - Used to allocate building costs.

Total Direct Cost Less Building Costs - Where the services are not equivalent and building space is used to serve clients directly (services are home delivered meals and congregate

meals), the total direct costs of each service/program less the direct building costs can be used as a basis of allocation.

Cost-to-Cost - Where services are not equivalent and building space is not used to serve clients directly, as in a congregate meal setting, total direct costs of each service/program can be used as a basis of allocation.

Labor Cost* - Where services are not equivalent and building space is not used to serve clients directly, as in a congregate meal setting, labor costs including the direct staff wages, contract staff fees (excluding consultants), payroll taxes and benefits of each service/program can be used as a basis of allocation.

Salaries* - Where services are not equivalent, labor costs, including the direct staff wages and contract staff fees (excluding consultants), of each service/program can be used as a basis of allocation.

Functional Basis - Used to allocate costs related to a function (central kitchen costs by meals served, transportation costs by a transportation log).

Time study - Used to allocate indirect (administrative) salary costs to each service/program.

**These methods may not be suitable when a large number of volunteers are utilized.*

In each of these methods, a ratio of each individual component to the total of the individual components is determined and the resulting percentages are used to allocate costs.

For adequate documentation purposes, a written description of each cost allocation method must be maintained which includes, at a minimum, a clear and understandable explanation of the numerator and denominator of the allocation ratio described in words and in numbers, as well as a written explanation of how and to which specific business components the remaining percentage of costs were allocated.

Example: A business entity has a contract with DADS to provide home delivered/congregate meals and has a contract with the Texas Department of Transportation to provide medical transportation services. The entity has staff in a central office that provides support services such as payroll and billing to both the home delivered/congregate meals contract and the medical transportation contract. The central office staff, building and related costs must be allocated between the two contracts. The cost-to-cost allocation method could be used as follows:

Total direct costs for the home delivered/congregate meals contract:	\$32,136
Total direct costs for the medical transportation contract:	<u>\$50,522</u>
Total direct costs:	\$82,658

(Direct costs are those costs which are incurred by a provider which are definitely attributable to the operation of providing contract/vendor services)

Total Central Office costs:	\$15,439
$\$32,136 / \$82,658 = 38.88\%$	
$\$50,522 / \$82,658 = 61.12\%$	
$\$15,439 * .3888 = \$6,003$ to be allocated to the home delivered/congregate meals contract	
$\$15,439 * .6112 = \$9,436$ to be allocated to the medical transportation contract	

Related Party Transactions

A related party is a person or organization related to the contract/vendor provider entity by blood/marriage, common ownership, or any association which permits either entity to exert power or influence, either directly or indirectly, over the other. Two or more individuals or organizations constitute related parties whenever they are affiliated or associated in a manner that entails some degree of legal control or practical influence of one over the other. This affiliation or association may be based on common ownership, past or present mutual interests in long-term care or other types of enterprises, or family ties. In determining whether a related party relationship exists with the contract/vendor provider, the tests of common ownership and control are applied separately. Control exists where an individual or organization has the power, directly or indirectly, significantly to influence or direct the actions or policies of an organization or institution. If the elements of common ownership or control are not present in both organizations, the organizations are deemed not-to-be related to each other. The existence of an immediate family relationship will create an irrefutable presumption of relatedness through control or attribution of ownership or equity interests.

Costs applicable to services, equipment, facilities, leases or supplies furnished to the contract/vendor provider by organizations related to the provider by common ownership or control are permitted in the allowable cost of the provider at the cost to the related organization. However, the cost must not exceed the price of comparable services, equipment, facilities, leases or supplies that could be purchased or leased elsewhere. The purpose of this principle is two fold: to avoid the payment of a profit factor to the contract/vendor provider through the related organization (whether related by common ownership or control), and to avoid payment of artificially inflated costs which may be generated from less than arm's-length bargaining. The related organization's costs include all actual reasonable costs, direct and indirect, incurred in the furnishing of services, equipment, facilities, leases, or supplies to the provider. The intent is to treat the costs incurred by the supplier as if they were incurred by the contract/vendor provider. Therefore, if a cost would be unallowable if incurred by the contract/vendor provider, it would be similarly unallowable to the related organization. The principles of reimbursement of contract/vendor provider costs described throughout these instructions will generally be followed in determining the reasonableness and allowability of the related organization's costs.

Record Keeping

Contract/vendor providers must maintain records that are accurate and sufficiently detailed to substantiate the information reported on the budget worksheet. These records might include accounting ledgers, journals, invoices, purchase orders, vouchers, cancelled checks, time cards, payroll, mileage logs, loan documents, insurance policies, asset records, inventory records, organization charts, time studies, functional job descriptions and work papers used in the preparation of the budget worksheet. These documents must be available for review by DADS and AAA staff or their representative at the time of rate negotiation.

Access to Records

Each contract/vendor provider or its designated agent(s) must allow access to all records necessary to verify information submitted on budget worksheets. This requirement includes records pertaining to related party transactions and other business activities in which the contract/vendor provider is engaged.

ATTACHMENT A

Excerpts from the depreciation guidelines as published in "Estimated Useful Lives of Depreciable Hospital Assets, 1993 Edition, by American Hospital Publishing, Inc. are as follows:

Land Improvements

Fencing, Brick or Stone	25 years
Fencing, Chain Link	15 years
Fencing, Wire	5 years
Fencing, Wood	8 years
Parking Lot, Open-Wall	20 years
Parking Lot, Gate	3 years
Parking Lot, Striping	2 years

Building Components

Automatic Doors	10 years
Handrails	15 years
Wall Paint	5 years
Wallpaper	5 years

Major food Service, Housekeeping, and Laundry Equipment

Compactor, Waste	10 years
Coffee Maker	5 years
Commercial Garbage Disposal	5 years
Dishwasher	10 years
Electric Can Opener	10 years
Oven (Baking, Roasting)	10 years
Microwave	5 years
Refrigerator - Commercial	10 years
- Undercounter	10 years
- Domestic	10 years
Washing Machine - Commercial	10 years
- Domestic	8 years
Dryer	10 years

Major Miscellaneous Equipment

Air-Conditioner, Window	5 years
Beepers, Paging	3 years
Bulletin Board	10 years
Clock	10 years
Lawn Mower, Power	3 years

Excerpts from the depreciation guidelines as published in "Estimated Useful Lives of Depreciable Hospital Assets, 1993 Edition, by American Hospital Publishing, Inc. are as follows:

Major Miscellaneous Equipment (Continued)

Projection Machine	10 years
Recorder, Tape	10 years
Safe	20 years
Stereo Equipment	5 years
Television Monitor	5 years
Vacuum Cleaner	8 years
Video Cassette Recorder	5 years

Major Furnishings

Bookcase, Metal	20 years
Chair, Executive	15 years
Chair, Folding	10 years
Credenza	15 years
Desk, Metal or Wood	20 years
Library Furniture	20 years
Office Furniture	12 years
Shelving, Portable, Steel	20 years
Work Station	10 years

Major Office Equipment

Accounting/Bookkeeping Machine	5 years
Adding machine	5 years
Calculator	5 years
Computer	5 years
Computer Disk Drive	5 years
Computer Software	5 years
Computer Terminal	5 years
Dictating Equipment	5 years
Duplicator	5 years
Facsimile Transmitter	3 years
Mailing Machine	10 years
Paper Cutter	10 years
Paper Shredder	5 years

Excerpts from the depreciation guidelines as published in "Estimated Useful Lives of Depreciable Hospital Assets, 1993 Edition, by American Hospital Publishing, Inc. are as follows:

Major Office Equipment (Continued)

Partitions, Movable Office	10 years
Photocopier	5 years
Postal Scale	10 years
Stamp Machine	10 years
Stapler, Electric or Air	10 years
Transcribing Equipment	5 years
Typewriter	5 years
Word Processor	5 years

AAA/Region:	Circle: HDM / Congregate
Provider:	

- 1) Were state issued forms utilized? Yes No
- 2) Are there any costs that may be paid annually but would not be annualized? (e.g., insurance, audit costs, licenses, conference costs) Yes No
- 3) Compare previous year's expenses with proposed new year's expenses. Yes No
 (Appropriate increase is current inflation rate of 1.02%)
- If variance is greater than the current inflation rate, has justification(s) been provided? N/A Yes No
 - Is explanation of variance acceptable? N/A Yes No
- 4) Was in-kind used to meet all or part of match requirement? Yes No
- Is the in-kind reported appropriate? (If volunteer time is reported as in-kind, is the rate used for calculation appropriate? If greater than minimum wage, use <http://www.tracer2.com/cgi/dataanalysis/AreaSelection.asp>) N/A Yes No
- 5) Are all costs appropriate? Yes No
- a) If no, list questioned costs/issues:
- i) _____
 - ii) _____
 - iii) _____
 - iv) _____
 - v) _____
- b) Have all questioned costs been resolved? N/A Yes No
- 6) Does the number of anticipated meals include local meals? Yes No
- a) If no, notify AAA/Contract Manager.
- b) If local meals are proposed, does the revenue include local cash? N/A Yes No
- c) If no local meals proposed, why? If no, notify AAA/Contract Manager and request additional information or clarification. If yes, has issue been resolved to satisfaction? N/A Yes No
- 7) Compare previous year's rate with proposed new year's rate. Is variance appropriate and reasonable? Yes No
 (Appropriate increase is current inflation rate of 1.02%)
- a) If yes, review complete
- b) If no, notify AAA/Contract Manager and request additional information or clarification.

8) Has additional information or clarification been received and approved?

N/A Yes No

a) If yes, review complete.

b) If no, additional action required is:

i) _____

ii) _____

iii) _____

c) Is information or clarification acceptable?

N/A Yes No

Approved by: _____

Date Approved: _____

Identifying & Valuing In-Kind

In-kind match may be obtained from a variety of sources and used to meet the non-federal share match requirements provided they are garnered from the administration and implementation of the Title III program. Collaborating with local organizations can often provide in-kind match. For example, collaborative steering committees and hosting meetings at other agency's offices may count as match, providing the organization is not funding all of its efforts with federal funds. Potential sources of in-kind match include, but are not limited to:

1. Volunteer services used to assist with carrying out the program
2. Donated time of employees of other organizations
3. Donated supplies and loaned equipment or space
4. Donated equipment, buildings and land.

Additionally, an AAA may identify in-kind match when utilizing a contractor. Sources may include but are not limited to:

1. Hiring a contractor to provide services at fee lower than they would usually charge or below market value. In this case, the difference between the fee being paid by the AAA, and the contractor's usual fee, may count as match. For example, if the contractor typically charges \$75 per hour, and the AAA pays only \$50 per hour, the \$25 per hour difference may count as match.
2. Document the office support costs of a contractor. Independent contractors are used to documenting their office costs for tax purposes. Most contractors should be able to document the percentage of office costs associated with your project.

45 CFR 92.24 Matching or Cost Sharing provides guidelines for determining the value of third party in-kind contributions and how an AAA must document the value of third party in-kind contributions.

We have included the complete text from 45 CFR 92.24 Matching or Cost Sharing. The sections that relate to valuing and recording third party in-kind contributions are bolded.

45 CFR 92.24 Matching or Cost Sharing

- (a) Basic rule: Costs and contributions acceptable.

With the qualifications and exceptions listed in paragraph (b) of this section, a matching or cost sharing requirement may be satisfied by either or both of the following:

- (1) Allowable costs incurred by the grantee, sub grantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants or by others cash donations from non-Federal third parties.
- (2) The value of third party in-kind contributions applicable to the period to which the cost sharing or matching requirements applies.

(b) Qualifications and exceptions—

- (1) Costs borne by other Federal grant agreements.

Except as provided by Federal statute, a cost sharing or matching requirement may not be met by costs borne by another Federal grant. This prohibition does not apply to income earned by a grantee or sub grantee from a contract awarded under another Federal grant.

- (2) General revenue sharing.

For the purpose of this section, general revenue sharing funds distributed under 31 U.S.C. 6702 are not considered Federal grant funds.

- (3) Cost or contributions counted towards other Federal costs-sharing requirements.

Neither costs nor the values of third party in-kind contributions may count towards satisfying a cost sharing or matching requirement of a grant agreement if they have been or will be counted towards satisfying a cost sharing or matching requirement of another Federal grant agreement, a Federal procurement contract, or any other award of Federal funds.

- (4) Costs financed by program income.

Costs financed by program income, as defined in Sec. 92.25, shall not count towards satisfying a cost sharing or matching requirement unless they are expressly permitted in the terms of the assistance agreement. (This use of general program income is described in Sec. 92.25(g).)

- (5) Services or property financed by income earned by contractors.

Contractors under a grant may earn income from the activities carried out under the contract in addition to the amounts earned from the party awarding the contract. No costs of services or property supported by this income may count toward satisfying a cost sharing or matching requirement unless other provisions of the grant agreement expressly permit this kind of income to be used to meet the requirement.

(6) Records.

Costs and third party in-kind contributions counting towards satisfying a cost sharing or **matching** requirement must be verifiable from the records of grantees and sub grantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allowability of regular personnel costs.

(7) Special standards for third party in-kind contributions.

(i) Third party in-kind contributions count towards satisfying a cost sharing or matching requirement only where, if the party receiving the contributions were to pay for them, the payments would be allowable costs.

(ii) Some third party in-kind contributions are goods and services that, if the grantee, sub grantee, or contractor receiving the contribution had to pay for them, the payments would have been indirect costs. Costs sharing or matching credit for such contributions shall be given only if the grantee, sub grantee, or contractor has established, along with its regular indirect cost rate, a special rate for allocating to individual projects or programs the value of the contributions.

(iii) A third party in-kind contribution to a fixed-price contract may count towards satisfying a cost sharing or matching requirement only if it results in:

(A) An increase in the services or property provided under the contract (without additional cost to the grantee or sub grantee) or

(B) A cost savings to the grantee or sub grantee.

(iv) The values placed on third party in-kind contributions for cost sharing or matching purposes will conform to the rules in the succeeding sections of this part. If a third party in-kind contribution is a type not treated in those sections, the value placed upon it shall be fair and reasonable.

(c) Valuation of donated services—

(1) Volunteer services.

Unpaid services provided to a grantee or sub grantee by individuals will be valued at rates consistent with those ordinarily paid for similar work in the grantee's or sub grantee's organization. If the grantee or sub grantee does not have employees performing similar work, the rates will be consistent with those ordinarily paid by other employers for similar work in the same labor market. In either case, a reasonable amount for fringe benefits may be included in the valuation.

(2) Employees of other organizations.

When an employer other than a grantee, sub grantee, or cost-type contractor furnishes free of charge the services of an employee in the employee's normal line of work, the services will be valued at the employee's regular rate of pay exclusive of the employee's fringe benefits and overhead costs. If the services are in a different line of work, paragraph (c)(1) of this section applies.

(d) Valuation of third party donated supplies and loaned equipment or space.

(1) If a third party donates supplies, the contribution will be valued at the market value of the supplies at the time of donation.

(2) If a third party donates the use of equipment or space in a building but retains title, the contribution will be valued at the fair rental rate of the equipment or space.

(e) Valuation of third party donated equipment, buildings, and land.

If a third party donates equipment, buildings, or land, and title passes to a grantee or sub grantee, the treatment of the donated property will depend upon the purpose of the grant or sub grant, as follows:

(1) Awards for capital expenditures.

If the purpose of the grant or sub grant is to assist the grantee or sub grantee in the acquisition of property, the market value of that property at the time of donation may be counted as cost sharing or matching,

(2) Other awards.

If assisting in the acquisition of property is not the purpose of the grant or sub grant, paragraphs (e)(2) (i) and (ii) of this section apply:

- (i) If approval is obtained from the awarding agency, the market value at the time of donation of the donated equipment or buildings and the fair rental rate of the donated land may be counted as cost sharing or matching. In the case of a sub grant, the terms of the grant agreement may require that the approval be obtained from the Federal agency as well as the grantee. In all cases, the approval may be given only if a purchase of the equipment or rental of the land would be approved as an allowable direct cost. If any part of the donated property was acquired with Federal funds, only the non-federal share of the property may be counted as cost-sharing or matching.
- (ii) If approval is not obtained under paragraph (e)(2)(i) of this section, no amount may be counted for donated land, and only depreciation or use allowances may be counted for donated equipment and buildings. The depreciation or use allowances for this property are not treated as third party in-kind contributions. Instead, they are treated as costs incurred by the grantee or sub grantee. They are computed and allocated (usually as indirect costs) in accordance with the cost principles specified in Sec. 92.22, in the same way as depreciation or use allowances for purchased equipment and buildings. The amount of depreciation or use allowances for donated equipment and buildings is based on the property's market value at the time it was donated.

(f) Valuation of grantee or sub grantee donated real property for construction/acquisition.

If a grantee or sub grantee donates real property for a construction or facilities acquisition project, the current market value of that property may be counted as cost sharing or matching. If any part of the donated property was acquired with Federal funds, only the non-federal share of the property may be counted as cost sharing or matching.

(g) Appraisal of real property.

In some cases under paragraphs (d), (e) and (f) of this section, it will be necessary to establish the market value of land or a building or the fair rental rate of land or of space in a building. In these cases, the Federal agency may require the market value or fair rental value be set by an independent appraiser, and that the value or rate be certified by the grantee. This requirement will also be imposed by the grantee on sub grantees.

Identified below are examples of potential third party in-kind contributions and methodologies for determining their value. These are provided only as examples and do not include all potential sources of in-kind.

Example #1 Congregate Meal Site Volunteers

A contracted provider has three volunteers that assist with serving lunches and clearing tables. Another volunteer, a retired CPA, oversees the collection of program income and the client sign-in roster, assists new clients complete nutritional risk assessments and prepares the bank deposit for all program income collected.

The AAA used the required rate-setting package in negotiating the unit rate paid to this contracted meal provider. If volunteers were not available the provider would have to hire employees to perform these duties and the unit rate would have increased. The value of the volunteer time is allowable as an in-kind contribution.

The cost of staff to perform the duties of the three volunteers that assist with serving lunches and clearing tables would be valued at a rate consistent with those ordinarily paid for similar work including a reasonable amount for fringe benefits. In most areas this would be minimum wage plus FICA.

In valuing the volunteer time you must also consider the amount of time. The three volunteers are at the center an average of three hours per day, five days per week. If the provider were paying for these services how many hours would be required to perform the assigned duties? If the duties could be performed in two hours using two paid staff, the value of the volunteer time would be calculated based on two staff at two hours per day.

The fourth volunteer works two hours per day, five days per week. CPAs in the AAA's region are paid an average of \$25 per hour. The cost of hiring staff to perform the duties assigned to this volunteer would not be based on the skill level of the volunteer but on the skill level required for the assigned duties. If the provider has other staff performing similar duties, the rate would be consistent with those staff members. If there were no staff members performing similar job duties, the rate would be valued consistent with those ordinarily paid by other employers for similar work in the same market area.

Example #2 Volunteer Meal Delivery Personnel

A home delivered meal provider has 10 meal routes serving 80 clients five days per week and a total of 30 volunteers who rotate delivery of meals on these routes.

The AAA used the required rate-setting package in negotiating the unit rate paid to this contracted meal provider. If volunteers were not available the provider would have to hire employees to perform these duties and the unit rate would have increased. The value of the volunteer time is allowable as an in-kind contribution.

The cost of staff to perform the duties of the volunteers would be valued at a rate consistent with those ordinarily paid for similar work including a reasonable amount for fringe benefits.

In addition to the value of the volunteers, the provider can value the transportation cost donated by these providers. The value is based on the distance from where the meals are picked up to the last drop off point and return to the meal pick-up location (round trip) for each route. The

standard mileage rate for 2003 is 36 cents per mile based on the federal IRS publication 463. This rate is adjusted periodically.

Example #3 Ombudsman Volunteers

An AAA has 25 Ombudsman volunteers. While all volunteers are certified, are assigned to a nursing facility and are required to attend training sessions and regular meetings, they have varying skill levels.

The cost of staff to perform the duties of the volunteers would be valued at a rate consistent with those ordinarily paid for similar work including a reasonable amount for fringe benefits. The cost of hiring staff to perform the duties assigned to this volunteer would not be based on the skill level of the volunteer but on the skill level required for the assigned duties (i.e., an entry level program specialist at the AAA).

The value of volunteer services would include time spent in the nursing facility, the associated travel time, training time, and required meeting time. In addition the standard mileage rate (36 cents per mile based on the federal IRS publication 463) can be used for travel associated with the performance of Ombudsman services. As Ombudsman volunteers do not have a regular place of work but have one or more temporary workplaces (nursing homes and the AAA office) the mileage between the Ombudsman volunteer's residence and a temporary workplace may be valued using the standard mileage rate.

Example #4 Advisory Committee Members

An AAA has an advisory committee consisting of (1) Governing Body Official (local elected official) (3) local elected officials, (2) Board members of non-profit service delivery agencies (1 Medical Doctor and 1 University Professor), (2) employees of service delivery agencies, (4) minority members (2 local elected officials and 2 retired workers) (1) 60+ representative from each county in the region totaling 13.

The value of the advisory committee member's time must first be determined. As an AAA would not have staff performing similar duties the rate would be valued consistent with those ordinarily paid by other employers for similar work in the same market area. The value of the services performed by the advisory committee members would not be based on the skill level of the advisory committee member but on the skill level required for the assigned duties.

After determining the value of the advisory committee member's time the AAA must determine which advisory committee member's time can be valued as in-kind. It is the AAA's responsibility to collect the information from the committee members. If the time the advisory committee member is attending the meeting is being paid for by an employer or local entity the AAA must identify the source of the income. If the committee member is not being paid the time can be classified as donated time and valued as in-kind.

