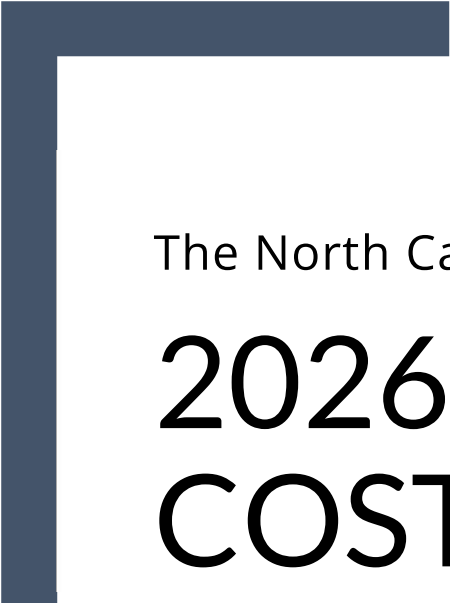
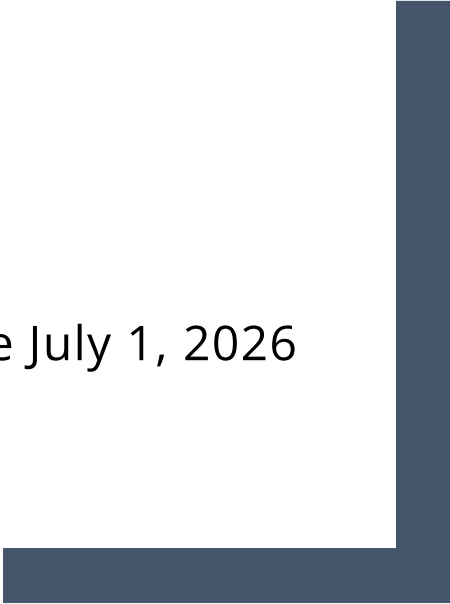




The North Carolina Partnership for Children, Inc.

2026 SMART START COST PRINCIPLES

Effective July 1, 2026



The North Carolina Partnership for Children, Inc.
SMART START COST PRINCIPLES
Effective July 1, 2026

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**PURPOSE OF COST
PRINCIPLES**

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

The North Carolina Partnership for Children, Inc. ("NCPC") is charged with ensuring fiscal integrity and accountability of State funds. In this role, we have developed the following Cost Principles, incorporating a variety of authoritative rules that Smart Start must comply with. These sources are further explained in the Resources section at the end of this document.

Key to citations relevant at the time of this update are as follows:

NCGS	North Carolina General Statutes
NCSL	North Carolina Session Law
NCBM	North Carolina Budget Manual
DCDEE	North Carolina Division of Child Development and Early Education Guidance/Requirements
CFR	Code of Federal Regulations - Office of Budget and Management (Federal Cost Principles)

The Smart Start Cost Principles are applicable only to State Smart Start funds, including Smart Start program income, and supersede any prior guidance for the items listed. In cases where expenditures are allowable but limited to a specific dollar amount, overages can be charged to other sources of funds.

Other sources of funds may have specific guidelines and principles that must be followed for their funds. Specifically, Federal Funds must follow all the requirements in the Uniform Guidance in 2CFR 200. NCPC requires you to follow our cost principles if they are more restrictive than the Uniform Guidance in 2CFR 200. Accordingly, each grant agreement or contract related to sources of funds other than Smart Start should be reviewed carefully to ensure compliance with requirements.

These Cost Principles are effective **July 1, 2026**, and apply to NCPC, the Local Partnerships, and their direct service providers and grantees. [The term "direct service providers" refers to external entities with whom a Smart Start Partnership subcontracts for services.] More restrictive provisions apply to direct service providers and grantees in several areas (Section B.7. - Condolences; Section B.10. - Employee Salaries and Fringe Benefits; Section B.14. - Food for Hosted Meetings and Events, Section B.18. - Interest; and Section B.29. - Severance Pay) as identified in **bold** text below.

Stricter principles may be adopted if desired.

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**GENERAL
PRINCIPLES**

A. Basic Considerations

1. Factors affecting allowable costs [2CFR Part 200.403]

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

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

2. Reasonable costs [2CFR Part 200.404]

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

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

B. Selected Items of Cost

ADVERTISING

1. Advertising [2CFR Part 200.421] [NCSL 2023-134 S9D.5.(h)(2)]

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

- a) The following costs are allowable:
 - i. Classified advertising for recruitment of employees;
 - ii. Advertising for the procurement of goods and services;
 - iii. Advertising related to the disposition of property and equipment;
 - iv. Yellow page advertisements that publicize direct services for children, families and providers who serve children and families;

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**ALCOHOLIC
BEVERAGES**

**APPAREL AND
JEWELRY**

AUDIT SERVICES

- v. Display advertisements that publicize direct services for children, families and providers who serve children and families;
- vi. Radio, television and internet advertisements that publicize direct services for children, families and providers who serve children and families; and,
- vii. Listings in community and resource directories.
- b) The following costs are unallowable: Yellow page, display, classified, radio, television or internet advertisements other than those to publicize direct services for children, families and providers who serve children and families.
- c) *Also see Section B.25. Promotion and Public Relations.*

2. Alcoholic Beverages [2CFR Part 200.423]

Costs of alcoholic beverages are unallowable.

3. Apparel and Jewelry

- a) Costs of most apparel are unallowable. Apparel includes, but is not limited to, t-shirts, jackets, aprons and hats. Unallowable apparel includes, but is not limited to:
 - i. T-shirts, polo shirts or other clothing for staff, parents, child care providers, board members, or people in the community; and
 - ii. Apparel for children in child care for special events, such as caps and gowns for a prekindergarten graduation ceremony.
- a) Costs of the following apparel are allowable, if reasonable and necessary as a component of an approved Smart Start service activity:
 - i. Nursing bras;
 - ii. Children's costumes for use in dramatic play and/or cover-ups for use in art projects, cooking, etc.; and
 - iii. Onesies and similar infant clothes.
- b) Costs of jewelry (including watches and charms) are unallowable.

4. Audit Services [NCAC Title 09 NCAC 03M .0205] [2CFR Part 200.425]

- a) Costs of audit services are unallowable for local partnerships.
- b) Costs of audit services for direct service providers or grantees are allowable **only** if an audit is required by the State (resulting from total State funding of at least the dollar amount requiring audit listed in 2 CFR 200.501(a.) herein incorporated by reference, including subsequent amendment and editions. Costs are allowable **only in the proportion** of revenues that Smart Start represents of the total revenues.

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BAD DEBTS

5. Bad Debts [2CFR Part 200.426]

Bad debts, including losses (whether actual or estimated) arising from special events or fundraisers, uncollectible accounts and other claims, related collection costs, and related legal costs, are unallowable. *See also Sections B.15. Fund Raising and B.28. Selling and Marketing Expenses.*

**CAPITAL AND
REPAIR AND
MAINTENANCE**

6. Capital and Repair and Maintenance [2CFR Part 200.1] [NCSL 2023-134 S9D.5.(h)(1)] [NCGS143C-1-1(d)(5)]

- a) Capital expenditures are prohibited by legislation and are unallowable.
- b) Capital expenditures are expenditures for capital improvements as defined in G.S. 143C-1-1(d)(5). Capital improvements include “real property acquisition, new construction or rehabilitation of existing facilities, and repairs and renovations over one hundred thousand dollars (\$100,000) in value.”
- c) Costs incurred for improvements which: 1) add to the permanent value of the buildings and/or land; or 2) appreciably prolong the life of the asset, shall be treated as capital expenditures.
- d) Capital “repairs and renovations” are defined to include the following types of projects:
 - i. Roof repairs and replacements;
 - ii. Structural repairs;
 - iii. Repairs to electrical, plumbing, heating, ventilating, and air-conditioning systems;
 - iv. Improvements and renovations to improve use of existing space;
 - v. Improvements to roads, walks, drives, utilities infrastructure;
 - vi. Historical restoration; and
 - vii. Improvements to meet safety or Federal and State standards.
- e) For any project that meets the above definition of capital expenditures, including a total project cost over one hundred thousand dollars (\$100,000), Smart Start funds cannot pay for any portion of that cost.
- f) Costs incurred for necessary, recurring minor maintenance, repair, or upkeep of buildings that do not add to the permanent value of the property or appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable.

CONDOLENCES

7. Condolences

Costs of condolences, such as flowers, plants, fruit baskets, memorial donations, and the like are allowable only in the following circumstances:

- a) The total cost of the item(s) including delivery or service charge does not exceed \$75; **and** one of the following situations exists:

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**CONTRIBUTIONS
AND DONATIONS**

LEGAL COSTS

- i. Condolences to a Partnership employee upon the death of a spouse, parent or step-parent, or child or step-child of the employee;
 - ii. Condolences to the Partnership employee's family in the event of the death of a Partnership employee;
 - iii. Condolences to a Partnership employee in the event of his or her hospitalization;
 - iv. Condolences to a Partnership board member upon the death of a spouse, parent or step-parent, or child or step-child of the board member;
 - v. Condolences to a Partnership board member's family in the event of the death of the board member; or
 - vi. Condolences to a Partnership board member in the event of his or her hospitalization.
- b) Costs of condolences cannot be charged to any services activity.
- c) Costs of condolences are unallowable for direct service providers or grantees.**
- d) *Also see Section B.13. Flowers, Plants and Trees.*

8. Contributions and Donations [2CFR Part 200.434]

Contributions and donations to others are unallowable other than memorial donations. *See Sections B.7. Condolences and B.21. Memberships.*

9. Defense and Prosecution of Criminal and Civil Proceedings, Claims and Appeals [2CFR Part 200.435]

- a) Legal costs incurred in connection with any criminal, civil or administrative proceeding commenced by the Federal Government, or a State, or local government are not allowable if the proceeding:
- i. Relates to a violation, or failure to comply with, a Federal, State or local statute or regulation; **and**
 - ii. Results in any of the following dispositions:
 - 1. In a criminal proceeding, a conviction.
 - 2. In a civil or administrative proceeding involving an allegation of fraud or similar misconduct, a determination of organizational liability.
 - 3. In the case of any civil or administrative proceeding, the imposition of a monetary penalty.
 - 4. A disposition, by consent or compromise, if the action could have resulted in any of the dispositions described above.
- b) Legal costs incurred in connection with proceedings described in paragraph B.9.a, but which are not made unallowable by that paragraph, are allowable to the extent that they are reasonable and necessary and cannot be recovered from another party.

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**EMPLOYEE
SALARIES AND
FRINGE BENEFITS**

- 10. Employee Salaries and Fringe Benefits** [2CFR Part 200.430 and 200.431] [NCSL 2023-1349D.5.(c)]
- a) Costs for salaries and wages must be based on documented timesheets approved by a responsible member of the organization.
 - b) Timesheets that reflect the distribution of activity of each employee must be maintained for all staff members (exempt and non-exempt).
 - c) Costs for salaries, wages and benefits must reflect an after-the-fact determination of the actual time spent on each activity. Budget estimates and averaging of salary or benefit costs are not allowed.
 - d) Local Partnership Executive Director salaries and wages must be in compliance with the Salary Schedule developed by NCPG.
 - e) Employee fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave, sick leave and the like are allowable.
 - f) Employee fringe benefits in the form of paid parental leave, generally following the birth or adoption of a child, are allowable if reasonable (earned after minimum employment period, and duration of leave and related terms are not excessive).
 - g) Employee fringe benefits in the form of paid family leave are allowable if reasonable (earned after minimum employment period, and duration of leave and related terms are not excessive).
 - h) Employee fringe benefits in the form of extended paid leave other than parental leave or family leave as described above, such as sabbaticals, are unallowable.
 - i) Pension plan costs incurred in accordance with established policies are allowable, provided such policies meet the test of reasonableness and are not discriminatory.
 - j) Employee fringe benefits in the form of gifts are unallowable, with the exception of token items (i.e., value of \$25 or less per item) to recognize Partnership employees for meritorious service (years of service or exemplary performance).
 - k) Costs of fringe benefits in the form of gifts are unallowable for direct service providers or grantees.**
 - l) Continuing benefit costs after termination, such as health insurance, are unallowable for former employees of direct service providers or grantees.**
 - m) Payout upon termination for more than 10 days of accrued vacation, accrued sick leave, and/or accrued paid time off (combined) are unallowable for direct service provider or grantee staff.**
 - n) Also see *Section B.16. Gift Cards*.

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**ENTERTAINMENT
COSTS**

11. Entertainment Costs [2CFR Part 200.438]

- a) When designed for the benefit of adults, costs of activities for amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows, amusement parks or sports events; meals and lodging; rentals; and transportation) are unallowable. *Also see Section B.26. Recognition Events.*
- b) Costs of the age-appropriate and developmentally-appropriate entertainment/education for young children are allowable, if reasonable and necessary as a component of an approved Smart Start service activity.

**FINES, PENALTIES
AND FEES**

12. Fines, Penalties and Fees [2CFR Part 200.441]

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

**FLOWERS, PLANTS
AND TREES**

13. Flowers, Plants and Trees

- a) Costs of flowers, plants and related materials are allowable only if reasonable and necessary as a component of an approved Smart Start service activity (for example, a quality improvement plan for an outdoor learning environment for young children). Allowable materials in such circumstances include, but are not limited to:
 - i. Non-toxic vegetable plants, flowers, seeds, or other garden plants;
 - ii. Fruit trees;
 - iii. Shade trees; and
 - iv. Related planting supplies (soil, stakes, etc.).
- b) Costs of purely decorative flowers, floral arrangements, or plants (live or artificial) are unallowable under any circumstances.
- c) *Also see Section B.7. Condolences.*

14. Food for Hosted Meetings and Events [NCBM Chapters 5 & 7]

**FOOD – IN
GENERAL**

14.1 Food - In General

- a) Food purchases include beverages, meals and/or refreshments and snacks.
- b) Purchases of beverages, including coffee and water consumed by employees are unallowable, except when attending hosted meetings and events as described in sections 14.2, 14.3, and 14.5. If coffee or water purchases are made in bulk (e.g., bottled water service in 5-gallon jugs), and used for both allowable hosted meetings and events as well as for employee consumption, the cost must be apportioned between Smart Start and non-Smart Start funds. A justification of the cost apportionment must be

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**FOOD - BOARD OR
COMMITTEE
MEETINGS**

documented. The intent is to support the most reasonable and economical allocation of the cost of coffee and water consumption. Factors that might be considered are quality of water; number of board, committee and service meetings held; individual bottles of water v. water cooler, etc.

- c) Due care and judgment must be used to ensure that purchases of food are not, or could not be perceived as, unreasonable or excessive with regard to either purpose or cost.
 - i. Per person costs shall be calculated to include all related costs (e.g., all food purchases, gratuities, delivery fees, and prepared food tax, but excluding refundable sales tax). [DCDEE]
 - ii. Per person cost (excluding refundable sales taxes) cannot exceed the established State allowance for refreshments or State per diem for that meal. [DCDEE]
- c) "Required Staff" shall be defined as an employee who, in the regular course of his/her duties, is expected to attend the meeting and any other employee whose presence is necessary to accomplish a purpose of the meeting. [NCBM 5.3.2]
- d) An individual shall not be reimbursed under travel expense reimbursement policies for meal costs when that meal is provided at a meeting or event they attended. [NCBM 7.2]

14.2 Food - Board or Committee Meetings [NCBM 7.3]

- a) Costs of food are allowable for Board or Committee meetings.
- b) The number of people for whom meals or refreshments are purchased cannot exceed the number of persons expected to attend.
- c) In addition to Board or Committee members, food for required staff is also allowable.
- d) Documentation of allowable food expenses must include:
 - i. the meeting or event agenda;
 - ii. rationale for providing meals/refreshments (legitimate business purpose; duration);
 - iii. number of persons expected to attend; and
 - iv. calculation of the total cost per person (excluding refundable sales taxes).
- e) **Food costs for Board meetings are unallowable for direct service providers or grantees.**

**FOOD - EMPLOYEE
TRAINING**

14.3 Food - Employee Training [NCBM 7.5; 7.3]

- a) Employee training involves courses that further develop an employee's knowledge, skill, and ability to perform the duties of his/her present job, such as courses on computer usage, management skills development, early childhood education, etc.

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**FOOD - STAFF
MEETINGS AND
OTHER INTERNAL
MEETINGS**

- b) Partnerships sponsoring training sessions for employees that are at least 2 hours in duration may provide refreshments for “coffee breaks” provided costs do not exceed the established limit set by the State for refreshments per participant per day.
- c) The number of people for whom refreshments are purchased cannot exceed the number of persons expected to attend.
- d) Documentation of allowable food expenses must include:
 - i. the meeting or event agenda;
 - ii. rationale for providing refreshments (legitimate business purpose; duration);
 - iii. number of persons expected to attend; and
 - iv. calculation of the total cost per person (excluding refundable sales taxes).

14.4 Food - Staff Meetings and Other Internal Meetings [NCBM 7.4]

- a) Food may not be purchased for staff meetings/retreats, department meetings, or inter-departmental workgroup meetings, regardless of duration, content, or attendance by an outside party or parties such as Employee Benefits Representative(s) or guest speaker(s).
- b) Refreshments, but not meals, are allowable if the criteria in *Section 14.3. Food - Employee Training* are met.

**FOOD - EXTERNAL
MEETINGS AND
CONFERENCES**

14.5 Food - External Meetings and Conferences [NCBM 7.3]

- a) External conferences are those that involve the attendance of persons other than the employees of a single entity. Staff meetings, as defined in *14.4. Food - Staff Meetings and Other Internal Meetings*, are not considered External Meetings/Conferences.
- b) The number of people for whom meals or refreshments are purchased cannot exceed the number of persons expected to attend.
- c) If the number of persons expected to attend is determined using a means other than RSVPs, it must be documented how the number was determined, for example, based on historical attendance at similar events.
- d) Food purchases are allowable for activities for which food purchases have a documented legitimate business purpose and are needed to accomplish the purpose of the activity.
- e) In general, events should be planned not to conflict with meal times unless there is a documented legitimate business purpose for planning an event at or during a meal time. For example, hosting a meeting for parents at a meal time may be a legitimate business purpose in order to allow them to attend when not at work. However, holding a meeting between staff and other parties for reason of convenience or personal preference of the participants is not considered a legitimate business purpose for providing meals/refreshments.

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FUND RAISING

- f) Except for specifically allowed food purchases defined above, food costs are unallowable for business meetings. This includes meetings with one or more existing or potential board member(s), donor(s), service provider(s), grantee(s), staff of other Partnerships, legislator(s), etc. regardless of the purpose or content of the meeting.
- g) Documentation of allowable food expenses must include:
 - i. the meeting or event agenda;
 - ii. rationale for providing meals/refreshments (legitimate business purpose; duration);
 - iii. number of persons expected to attend; and
 - iv. calculation of the total cost per person (excluding refundable sales taxes).
- h) Also see *Sections B.20. Meetings and Conferences and B.26. Recognition Events.*

15. Fund Raising [2CFR Part 200.442] [NCSL 2023-134 S9D5.(d)]

- a) Costs of organized fund raising for contributions that do not qualify as a Smart Start program match, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are unallowable.
- b) Costs of fund raising, including financial campaigns and the solicitation of cash and in-kind donations to meet the legislative mandate for program match are allowable.
- c) Costs of fund raising cannot be charged to any services activity, but can be charged to administrative funds.
- d) Losses arising from fund raising events are unallowable. *Also see Section B.5. Bad Debts.*

**GIFT CARDS AND
OTHER PRE-PAID
INSTRUMENTS**

16. Gift Cards and Other Pre-Paid Instruments [NCBM 6.4.4]

- a) Gift cards may be purchased for use in limited circumstances, such as, but not limited to:
 - i. Incentives or rewards for participants in services activities;
 - ii. Gas cards for participants in services activities to help cover transportation costs; and
 - iii. Token appreciation (i.e., value of \$25 or less per item) for partnership board members as defined in *Section B.17. Goods or Services for Personal Use.*
- b) Pre-paid credit/debit cards are only allowable for token appreciation for partnership board members.
- c) Neither gift cards nor pre-paid credit/debit cards are allowable for employees.
- d) Documentation must be maintained to support the distribution of gift cards or other pre-paid instruments (e.g., an acknowledgement sheet signed by the 12 parents receiving gift cards for attending a training).

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**GOODS OR
SERVICES FOR
PERSONAL USE**

- e) Under no circumstances may gift cards or other pre-paid instruments be used to subvert or circumvent normal purchasing procedures.

17. Goods or Services for Personal Use [2CFR Part 200.445] [NCBM 6.4.2]

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

- a) Costs of goods, equipment or services for personal use are unallowable, with the exception of token items (i.e., value of \$25 or less per item) for partnership board member appreciation or employee recognition for meritorious service (years of service or exemplary performance).
- b) Costs of goods, equipment or services for personal use by or for young children are allowable if reasonable and necessary as a component of an approved Smart Start service activity. These items include, but are not limited to: thermometers, bibs, diapers, sippy cups, educational books and toys that are developmentally appropriate for the recipients.
- c) Costs of reasonably-priced items to be used by adults are not considered “personal use” items if the use is reasonable and necessary as a component of an approved Smart Start service activity. These items include, but are not limited to: tote bags to hold educational materials, portfolios for professional development note-taking, pens and highlighters. These items are considered to be approved service items. (See also *Section B.25. Promotion and Public Relations* regarding items with logos.)
- d) Also see *Sections B.10. Employee Salaries and Fringe Benefits; B.16. Gift Cards; and B.26. Recognition Events.*

INTEREST

18. Interest [2CFR Part 200.449]

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

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LOBBYING

19. Lobbying [2CFR Part 200.450]

a) Costs associated with the following activities are unallowable:

- i. Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in-kind or cash contributions, endorsements, publicity, or similar activity;
- ii. Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;
- iii. Any attempt to influence: (1) the introduction of Federal or State legislation; or (2) the enactment or modification of any pending Federal or State legislation through communication with any member or employee of the Congress or State legislature (including efforts to influence State or local officials to engage in similar lobbying activity), or with any Government official or employee in connection with a decision to sign or veto enrolled legislation;
- iv. Any attempt to influence: (1) the introduction of Federal or State legislation; or (2) the enactment or modification of any pending Federal or State legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign or letter writing or telephone campaign; or
- v. Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying.

b) The following activities are excepted from the coverage of paragraph B.19.a:

- i. Providing a technical and factual presentation of information on a topic directly related to the performance of the Smart Start Program through hearing testimony, statements or letters to the Congress or a State legislature, or subdivision, member, or cognizant staff member thereof, in response to a documented request made by the recipient member, legislative body or subdivision, or a cognizant staff member thereof;
- ii. Educating any member of the public about the work of, and services provided by, the Partnership;
- iii. Any lobbying made unallowable by paragraph B. 19.a (iii) to influence State legislation in order to directly reduce the

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**MEETINGS AND
CONFERENCES**

- cost, or to avoid material impairment of authority to perform Smart Start services;
- iv. Any activity specifically authorized by statute to be undertaken with Smart Start funds; and
- v. Communications with any legislative body whose actions might affect the organization's existence, powers and duties, tax-exempt status, or the deductibility of contributions.

20. Meetings and Conferences [2CFR Part 200.432] [NCBM 5.2.5]

- a) Costs associated with the conduct of meetings and conferences include the cost of renting facilities, meals, speakers' fees, etc.
- b) To the extent that these costs are identifiable with a specific service activity, they should be charged to that activity. These costs are allowable, provided that they have a legitimate business purpose and the event(s) is/are identified in the contract activity description (CAD).
- c) Due care and judgment must be used to ensure that meeting and conference costs are not, or could not be perceived as, unreasonable or excessive with regard to either purpose or cost.
- d) Penalties or charges resulting from the cancellation of a meeting or conference, in the event of critical circumstances beyond the control of the host, are allowable.
- e) Also see *Sections B.11. Entertainment Costs and B.14. Food for Hosted Meetings and Events*.

MEMBERSHIPS

21. Memberships [2CFR Part 200.454]

- a) Costs of memberships in civic or community organizations that provide benefits to the organization, such as training and networking, are allowable.
- b) Costs of memberships in any country club or social or dining club or organization are unallowable.
- c) Costs for charitable or political donations that are invoiced with membership dues are unallowable; also see *Section B. 8. Contributions and Donations*.
- d) Costs of memberships for lobbying or advocacy, as well as lobbyist registration fees, are unallowable.
- e) Due care and judgment must be used to ensure that membership costs are not, or could not be perceived as, unreasonable or excessive with regard to either purpose or cost.

**PARTICIPANT
COSTS**

22. Participant Costs [2CFR Part 200.456]

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

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**PATENTS,
ROYALTIES AND
COPYRIGHTS**

23. Patents, Royalties and Copyrights [2CFR Part 200.448]

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

**PROFESSIONAL
SERVICES COSTS**

24. Professional Services Costs [2CFR Part 200.459]

- a) Costs of professional and consultant services provided by persons who are members of a particular profession or possess a special skill, and **who are not also officers or employees of the organization to which services are provided**, are allowable **subject to Sections 24.b. and 24.c.** when reasonable.
- b) In determining the allowability of costs in a particular case, the following factors are relevant:
 - i. The nature and scope of the services rendered in relation to the service required;
 - ii. The necessity of contracting for the service, considering the organization's capacity;
 - iii. Whether the service can be performed more economically by direct employment rather than contracting; and
 - iv. Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).
- c) Allocation or assignment of costs among activities must be based on documented distributions approved by a responsible member of the organization.
- d) For professional services contracts with individuals, the organization must comply with Internal Revenue Service regulations regarding the determination of the status of the individual as an independent contractor versus an employee.

**PROMOTION AND
PUBLIC RELATIONS**

25. Promotion and Public Relations [NCSL 2023-134 S9D.5.(h)(2)] [2CFR Part 200.421 and 200.461]

- a) Pursuant to Smart Start legislation, expenditures of Smart Start funds for promotional activities are unallowable. Promotional activities are those that promote the Smart Start Initiative and/or organization in a general manner and do not publicize specific available services or provide educational information about early care and education.
- b) Also see *Section B.1. Advertising*.
- c) The terms "promotion" or "public relations" include community relations and means those activities dedicated to maintaining the image of the organization or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.
- d) Costs associated with the development or design of a logo, including separately billed "set-up" fees, are unallowable.

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- e) Other costs associated with the printing of logos on various items are allowable in the following circumstances:
 - i. Signs, banners and display boards that also include contact information for services to children, families, or providers who serve children and families; and
 - ii. Other materials that include printing where the addition of the logo does not increase the total cost.
- f) Costs associated with the following items are allowable:
 - i. Communicating with the public and press pertaining to specific activities or accomplishments which result from performance of the Smart Start Initiative (these costs are considered necessary as part of the outreach effort);
 - ii. Conducting general liaison with news media and government officials, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of contract/grant awards, financial matters, etc.;
 - iii. Sponsorship of, or participation in, community health fairs or children's fairs that focus on the provision of service to parents and children, including reasonable costs of signage to publicize the partnership's sponsorship of, or participation in, the event;
 - iv. Parent and provider education materials or online media (parent education videos, educational displays, resource guides, resources for "Welcome Baby" packets, etc.);
 - v. Newsletters, educational brochures and annual reports;
 - vi. Websites;
 - vii. Advertisements, billboards, newspaper inserts, radio or television announcements, and online media that publicize direct services for children, families or providers who serve children and families;
 - viii. Advertisements, billboards, newspaper inserts, radio or television announcements, and online media that provide educational information about early care and education;
 - ix. Signage for quality improvement items purchased for child care centers, libraries, etc. (labels for books or signage that provides information that Smart Start provided the service); and
 - x. Outreach display items, including, but not limited to: display boards, posters, tablecloths designed for outreach displays, and the like, provided the items include contact information. Contact information is defined as a website, QR code, phone number, email address, or similar information allowing people to connect to services.

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- g) The following costs for general promotion are unallowable:
 - i. Costs of meetings or other events related to general promotional activities including:
 - 1. Displays, posters, banners, demonstrations, and exhibits; and
 - 2. Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other promotional events;
 - ii. General promotional videos (not parenting videos);
 - iii. Public relations consultants for general promotion of the partnership; and
 - iv. Advertisements, newspaper inserts, and radio or television announcements other than those that publicize direct services for children, families, or providers who serve children and families, or provide educational information about early care and education.
- h) The following costs of promotional items and memorabilia (with or without a logo) are unallowable, including, but not limited to:
 - i. "Giveaway" items, including but not limited to, lunch bags, umbrellas, coffee mugs, stadium cups, license plates, stress balls, frisbees, etc.; and
 - ii. Jewelry.
- i) Due care and judgment must be used to ensure that public relation costs are not, or could not be perceived as, unreasonable or excessive with regard to either purpose or cost.

**RECOGNITION
EVENTS**

26. Recognition Events

- a) Recognition events are defined as events to recognize individuals or agencies for performance. Costs associated with recognition events include the cost of renting facilities, meals, speakers' fees and the like.
- b) To the extent that these costs are identifiable with a specific service activity, they should be charged to that activity. These costs are allowable, provided that they have a documented legitimate business purpose and the event is identified in the contract activity description (CAD).
- c) Due care and judgment must be used to ensure that recognition events are not, or could not be perceived as, unreasonable or excessive with regard to either purpose or cost.
- d) *Also see Sections B.2. Alcoholic Beverages; B.11. Entertainment Costs; B.14. Food for Hosted Meetings and Events; B.16. Gift Cards and Other Pre-Paid Instruments; and B.17. Goods or Services for Personal Use.*

RENTAL COSTS

27. Rental Costs [2CFR Part 200.465]

- a) Rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable

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**SELLING AND
MARKETING
EXPENSES**

property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition and value of the property leased.

- b) Rental costs under “sale and leaseback” arrangements are allowable only up to the amount that would be allowed had the partnership continued to own the property.

28. Selling and Marketing Expenses

- a) Costs of selling and marketing any products or services must be netted against any income derived.
- b) Losses on sales of products or services are unallowable. Also see *Section B.5. Bad Debts*.

SEVERANCE PAY

29. Severance Pay [2CFR Part 200.431]

- a) Severance pay is a payment to employees whose employment is being involuntarily terminated. Severance pay is defined as an additional payment upon termination other than regular salaries and wages or vacation and sick leave payouts.
- b) Reasonable costs of severance pay are allowable only to the extent that in each case, it is required by (i) law, (ii) employer-employee contractual agreement; or (iii) policy approved by the Partnership Board of Directors in place at time of termination.
- c) **Costs of severance pay are unallowable for direct service providers or grantees.**
- d) *Also see Section B.10. Employee Salaries and Fringe Benefits.*

**TRAVEL – IN
GENERAL**

30. Travel - In General [NCBM Chapter 5]

- a) Travel status means being away from the employee's normal duty station or home and, while traveling, the employee must be acting in his/her official capacity as required by his/her work activities. [NCBM 5.2.1]
- b) An employee traveling on official business is expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds. Excess costs, circuitous routes, delays, or luxury accommodations and services unnecessary, unjustified, or for the convenience or personal preference of the employee in the performance of official business are prohibited. [NCBM 5.0.2]
- c) Charges for recreation fees, such as movies and gym use, are unallowable.
- d) Employees will be responsible for unauthorized costs and any additional expenses incurred for personal preference or convenience. [NCBM 5.0.2; 5.1.2]
- e) Mileage is measured from the closer of duty station or point of departure to destination (and return). [NCBM 5.2.13]

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- f) No reimbursement shall be made for the use of a personal vehicle in commuting from an employee's home to his/her duty station. [NCBM 5.2.17]
- g) When an employee travels extra miles for a business-related purpose while commuting to or from home, the extra miles beyond their normal commute are reimbursable.
- h) The maximum allowable mileage reimbursement rate for the use of a personal vehicle is the rate set by the State. [NCBM 5.2.13]
- i) Travel costs are the expenses for transportation, subsistence (lodging and meals), and related items (such as toll costs) incurred by individuals traveling on business.
- j) The maximum allowable payment for subsistence (lodging and meals) shall be the rates set by the State. [NCBM 5.2.1].
- k) Any request for meal reimbursement must list departure and arrival times. [NCBM 5.2.10]
- l) Payment for meals is unallowable if the meal is provided during a conference or workshop, or if the cost of the meal is included in the registration fee. [NCBM 5.2.10]
- m) Use of personal vehicles versus rental vehicles: It is the intent that travel shall be conducted in a cost-effective and efficient manner. The actual cost of a standard class vehicle rental (and related costs such as fuel) is allowable when cost-effective. Partnerships shall establish policies and procedures that promote efficient travel for partnerships and their subcontractors/grantees.
- n) Parking expenses are reimbursable while in the course of conducting Partnership business as long as such expenses are determined reasonable and clearly show that there was care taken to keep the costs to the State as low as possible. Any parking rates considered excessive and only for the convenience of the traveler will not be reimbursable. [NCBM 5.2.19]
- o) Reimbursable gratuity or tips must be considered reasonable for items that are not already covered under subsistence. Excessive tips will not be reimbursed. A reasonable tip would be one that a prudent person would give if traveling or conducting personal business and expending personal funds.
- p) Penalties and charges resulting from cancellation: Penalties and charges resulting from the cancellation of travel reservations (including airline, hotel, or other travel reservations and conference registration) shall be the Partnership's obligation if the employee's travel has been approved in advance and the cancellation or change is made at the direction of and/or for the convenience of the Partnership. If the cancellation or change is made for the personal benefit of the employee, it shall be the employee's obligation to pay the penalties and charges. However, in the event of accidents, serious illness, or death within the employee's immediate family or other critical circumstances

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beyond the control of the employee, the Partnership may pay the penalties and charges. [NCBM 5.2.5]

- q) Reimbursement for air, rail, or bus fare is limited to actual coach fare, substantiated by receipt. Reimbursement for check-in fees is limited to actual costs substantiated by receipt. Due care should be taken to obtain economical rates. [NCBM 5.2.20]
- r) The actual costs of taxi and shuttle service fares, including trips to/from airports or train/bus stations, are reimbursable when required for travel on Partnership business. The request must be documented with a receipt. The use of public transportation is reimbursable for actual costs with a receipt. [NCBM 5.2.26; 5.2.27; 5.2.28]
- s) Attendance by multiple employees at out-of-state conferences should be limited. Staff attending should share information with other staff.
- t) International travel is unallowable.

TRAVEL – DAILY

31. Travel - Daily

An employee may receive payment for lunch during daily travel only when the employee's job requires attendance at a meeting or event in his/her official capacity and the meal is preplanned and involves persons not employed by the same entity. Preplanned meals are those that are referenced in the meeting announcement, registration, agenda, or the like. [NCBM 5.2.9] [DCDEE]

**TRAVEL –
OVERNIGHT**

32. Travel - Overnight

- a) Subsistence is an allowance consisting of lodging and meal costs, including gratuities. [NCBM 5.2.1]
- b) Overnight travel must involve a travel destination located at least 35 miles from the employee's regularly assigned duty station or home, whichever is less, to receive approved reimbursement. "Duty station" is defined as the location where the employee is assigned. Prior written approval by the Executive Director or his/her designee must be obtained in order to qualify for reimbursement for overnight travel. [NCBM 5.2.2]
- c) Every effort should be made to obtain the State rate for lodging. Excess lodging is allowed when: the employee is in a high cost area and unable to secure lodging within the current allowance; cost of excess lodging is less than the cost of lower cost lodging plus transportation costs; or when the employee or agency deems that lower cost lodging would put the employee at risk for safety or security. [NCBM 5.2.3] Excess lodging may be allowed for other documented legitimate business purposes, if the cost is reasonable (not excessive).

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- d) Excess lodging authorization is not allowed for reason of convenience or personal preference for the employee. [NCBM 5.2.3]
- e) Excess lodging authorization must be obtained in advance from the partnership Executive Director or his/her designee in order to be reimbursed for actual costs that exceed the State rate. [NCBM 5.2.3]
- f) The payment of sales tax, lodging tax, local tax, or service fees applied to the cost of lodging is allowed in addition to the lodging rate. [NCBM 5.2.1]
- g) Employees may be reimbursed for meals, including lunches, while on official business and in overnight travel status. [NCBM 5.2.6]
- h) Employees may be reimbursed for meals for partial days of travel when in overnight travel status and the partial day is the day of departure or the day of return. The following applies:
 - i. Breakfast: depart duty station prior to 6:00 am.
 - ii. Lunch: depart duty station prior to Noon (day of departure) or return to duty station after 2:00 p.m. (day of return).
 - iii. Dinner: depart duty station prior to 5:00 p.m. (day of departure) or return to duty station after 8:00 p.m. (day of return). [NCBM 5.2.6]
- i) If the organization's policy requires actual meal reimbursement from receipts as opposed to per diem amounts, State per diem amounts for allowable meals cannot be exceeded. However, if one or more actual meal receipts exceed the related per diem(s), reimbursement is allowed up to the combined limit for reimbursable meals that day. [DCDEE]
- j) Payment for breakfast for travel away from home or duty station on business is allowable even if the lodging establishment offers a free continental breakfast. [NCBM 5.2.10]

RESOURCES

C. Resources

There are many authoritative rules that Smart Start must comply with, including legislation (both NC General Statutes and Uncodified Session Law), the State Budget Manual issued by the NC Office of State Budget and Management (OSBM), and relevant Cost Principles issued by the Federal Office of Budget and Management (OMB).

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

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2CFR Chapter 2 – Office of Management and Budget Guidance Part 200 “Uniform administrative requirements, cost principles, and audit requirements for Federal awards”, should be used by not-for-profit organizations.

These Cost Principles incorporate the relevant provisions of each of the aforementioned guidelines, and where appropriate, citations are provided to indicate the source of the rule or concept. These Cost Principles also reflect NCPC policies, accumulated guidance from the Office of the State Auditor (OSA) and DCDEE, and best practices in areas of fiscal accountability.