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Arkansas Department of Human Services	Procedure - AR CACFP 2013-16
Division of Child Care and Childhood Education	Section: All Institutions
Child and Adult Care Food Program	Subject: Financial Management-Typical Allocation of Costs
	Effective date: 04/16/2013

TYPICAL ALLOCATION OF COSTS

Some costs benefit more than one objective or activity; however, only the share of the costs that benefit CACFP can be assigned as Program costs. A variety of methods are available to allocate these costs. Nonprofit institutions typically segregate their expenditures into either direct or indirect categories, and further classify as either operating costs or administrative costs.

Direct costs are costs that can be readily identified with a specific activity or program. For example, costs to conduct monitoring visits, to review and approve income eligibility statements and to process provider claims are readily identifiable as activities that solely benefit the CACFP. On the other hand, **indirect costs** are costs incurred for joint objectives and cannot be readily identified with a specific program. For example, the benefit to CACFP from a receptionist that answers the phone for the organization or accounting staff that oversee financial operations of the organization cannot be readily identified, since the work of these individuals benefit multiple programs in the organization and costs are not easy to assign to each program. The reporting for each type cost, direct and indirect, has different methodology.

Direct costs that solely benefit CACFP are charged totally to the Program. Direct costs that benefit multiple programs must be allocated on a consistent and rational basis, based on the benefits received, and only the portion that benefits CACFP is chargeable to the Program. For example, rental space costs could be directly allocated based on square footage or Internet charges could be directly allocated based on the number of outlets.

Indirect costs are derived by developing an indirect cost rate using information from the previous time period to create a method to project indirect costs for the current time period. The indirect cost rate is the ratio of indirect costs to a direct cost base, obtained from the previous year audited costs. The resulting ratio is applied to the direct cost base of the current time period to derive current year indirect costs. The direct cost base includes salaries, fringe benefits and hourly wage cost. Indirect costs must be allocated on a consistent and rational basis and the indirect cost rate must have been developed through a cost allocation plan approved by Department of Human Services, Child and Adult Care Food Program. The cost allocation plan must be approved by Department of Human Services, Child and Adult Care Food Program at the time of application and must be reviewed at least once a year.