**Section 900.321 Non-Allowable Costs and Revenue Offsets**

a) Non-allowable costs. The following shall be considered non-allowable or non-reimbursable costs:

1) Medical care provided by licensed physicians and therapy services provided by psychiatrists, except for their diagnostic or evaluation services and consultation to education staff; licensed dentists, except for diagnosis or evaluation and consultation to education staff; other health or medical personnel, including nurses, except as they are providing school health services, as defined in Section 900.310(e); and other medical personnel involved in the provision of ongoing medical care. Nursing services necessary to meet State child care licensing requirements are allowable.

2) Supplies used by the medical care personnel listed in subsection (a)(1) of this Section in carrying out activities that are not reimbursable.

3) Overhead costs incurred by the medical care personnel listed in subsection (a)(1) in the provision of services that are not reimbursable.

4) Expenses resulting from transactions with related organizations that are greater than the expense to the related organization.

A) Where the provider makes rent/lease payments to a related organization, as defined in Section 900.310(i) of this Part, rent/lease expense is disallowed and the capital costs of the related organization must be used.

B) Interest expense paid to a related organization is disallowed. However, interest expense incurred by the related organization is allowable.

C) The cost of goods and services purchased from a related organization shall be allowable to the extent that the cost to the provider does not exceed the cost to the related organization.

D) Providers may be required to submit evidence to substantiate or refute any claim of relatedness in determining allowable costs.

E) Providers shall identify all transactions with related organizations in their annual filing of the cost report.

F) Allowable costs of related organizations shall be added to the provider's costs for the same cost centers for determination of reasonable cost standards applicable to the provider's costs.

5) Non-straight-line depreciation. (However, straight-line depreciation is an allowable cost.)

6) Research cost, other than costs for program evaluation.

7) Bad debt.

8) Special benefits to owners, including owner and keyman life insurance, except insofar as required by lending institutions.

9) Compensation to non-working owners and non-working officers' salary.

10) Discounts, rebates, allowances and charity grants.

11) Entertainment expenses.

12) Fund raising.

13) Costs of production, including wages paid to students, incurred solely for the purpose of generating revenue from the sale of goods and services. Wages paid to students and other services approved by the State Board of Education for vocational training or educational arts and craft activities are allowable, even if they generate revenue.

14) Interest payments related to a provider's assets that are unrelated to a special education program.

15) Costs incurred by owners or boards of directors for non-program activities, including that portion of overhead that should be allocated to these activities.

16) Printing expenses not related to the program.

17) Travel, lodging, food and registration expenses to attend conferences, conventions, and meetings related to lobbying activities, association business, or entertainment. Costs to attend conferences and conventions held in-state, or within 50 miles of the state where the attendee is employed, are allowable under the following conditions:

A) The conference or convention is specifically related to special education, or the conference, convention or meeting was sponsored by the State.

B) Allowable conference and convention expenses shall be grouped under administrative costs and subject to the administrative ceiling, in accordance with Section 900.330(b)(1) of this Part.

C) Allowable employee development or training costs incurred to meet staff certification or licensure requirements of any State agency or other governmental unit may be reported under program costs.

18) Dues to national, State and parent organizations.

19) Scholarships or awards and grants to individuals .

20) Fees for professional, technical, social or other organizations unrelated to the program.

21) Nonclient transportation, including staff transportation to and from work. Program-related staff transportation is an allowable cost.

22) Meals provided to individuals who are not clients.

23) Interest on loans among intra-organizational funds.

24) Fines and penalties.

25) Mortgage and loan principal payments.

26) Contributions and donations by the provider.

27) Asset acquisition costs. (That is, costs of items reported on the provider's books when those costs exceed $500 for items having a life of one year or more. Depreciation for these items is, however, an allowable expense.)

28) Contingencies.

29) Legal expenses incurred on behalf of clients for non-program activities or for litigation against governmental agencies.

30) Imputed value of goods and services.

31) Severance pay.

32) Sales tax for not-for-profit organizations.

33) Income tax.

34) Student transportation to and from the provider's program, as a responsibility of the placing school district, reimbursable under Section 14-13.01 of the School Code [105 ILCS 5/14-13.01].

35) Clothing and allowances.

36) Costs of advertising for clients and public relations.

b) Private contributions and non-governmental revenues granted to a provider for improving or enhancing its program shall not be offset. The following sources of revenue shall be offset:

1) Revenues from government-funded school breakfast and lunch programs must be offset against the cost of meals.

2) Revenues from the rental of portions of the provider's building must be offset against property costs.

3) Revenues from unrestricted investments must be offset against interest costs; revenues from unrestricted investments exceeding interest expenses need not be offset.

4) Revenues from local educational agencies for diagnostic services.

5) Revenues from workshop programs must be offset against the cost of those programs in whichever of the components listed in this subsection (b) they were reported.

6) Revenues for special education, related services, and room and board, insofar as any income not related to a specific client is received from any governmental agency.

7) A gain on a sale of an asset, in which the State has any monetary interest, shall be offset against the cost center in which the asset was reported.

A) The total offset taken shall not exceed the State's interest in the asset.

B) The offset shall not be applied against other cost centers unless an expense allocation has been made to more than one cost center.

C) An offset schedule shall be developed any time a single-year offset creates a financial difficulty for the provider. The length of an offset schedule shall not exceed the length of the original expense schedule (depreciation) as reported to the Board on the annual cost report or certified audit.

8) Fees paid by any governmental agency for specific client services in addition to the per diem cost approved by the Board, insofar as the fees are for services included in program costs reported to the Board. The Board may waive the offset if the provider stops charging these fees and there is documentation with respect to the necessity for specific client services from the State agency that is responsible for program approval or that purchases services from the provider.

(Source: Amended at 28 Ill. Reg. 7242, effective May 5, 2004)