

Cost Allocation in School Nutrition Programs – Utilities, Labor and Services

In order to charge a cost to a federal program such as the National School Lunch Program, as a direct or indirect cost, that cost must first be an “allowable” cost as established by Federal cost principles in 2 CFR Part 225, and must also conform to program-specific rules. Allowable costs include but are not limited to labor, employee benefits, professional services, supplies, repairs, utilities, and other miscellaneous costs. There is no explicit Federal requirement that a School Food Authority’s (SFA) general fund must recover the cost of services provided to a federal assistance program or grant, but if put into place, certain guidelines must be followed.

Federal regulation (7 CFR 210.14) for school meal programs require school food service expenditures to be in accordance with the financial management system established by the state agency. Minnesota Statutes (§ 123B.77) requires school districts to adopt the Uniform Financial Accounting and Reporting Standards (UFARS). This document serves as guidance for SFAs when choosing to transfer costs from the general fund to the food service fund.

Direct/Indirect Costs and Chargebacks

A SFA generally has three options to recover costs benefiting the school food service that are paid from the General Fund:

- **Direct Distribution Method** - transfer of actual costs that can be readily and accurately identified at the time costs are incurred. This is the “best practice” method.
- **Chargeback Method** – distribution of costs that cannot be easily, conveniently and accurately allocated at the same time as the costs are being incurred.
- **Indirect Cost Rate Allocation Method** – allocation of allowable indirect costs to the school food service using a rate calculated by MDE in accordance with an approved Indirect Cost Rate Plan.

Appropriate Documentation

No matter how seemingly appropriate a cost appears to be (i.e., utilities, trash collection, custodial services, etc.), costs may be billed to the nonprofit school food service account only with **appropriate documentation**.

All calculations to quantify the exact benefit to food service operations and documentation to support charges against food service funds must be available upon request by the State Agency. All amounts must be based on actual costs, not a base year calculation and modified annually by an adjustment factor. Any departure from the acceptable documentation outlined below may result in the reversal of funds allocated.

Direct Distribution and Chargeback Methods

| Item of Cost | Direct Distribution Documentation | UFARS Account | Chargeback Documentation | UFARS Account |
|--|--|---|--|---|
| Kitchen Utilities | Billing based on vendor invoice that specifies cost from separate meter for kitchen/serving area | Finance Code 701-709 Object Code 330 | Billing based on ratio of square footage of kitchen/serving area to square footage of entire building times actual cost | Finance Code 701-709 Object Code 398 |
| Kitchen Custodial Services | Actual cost supported by time cards that identify the number of hours spent cleaning the kitchen, prep & serving areas | Finance Code 701-709 Object Code 170 | Time study* of regular daily hours spent cleaning the kitchen, prep & serving areas times number of days and billed at custodial wage rate | Finance Code 701-709 Object Code 195 |
| Trash Collection | Billing based on itemized vendor invoice that specifies cost for picking up trash in kitchen/serving areas | Finance Code 701-709 Object Code 330 | Billing based on number of trash receptacles used exclusively for food service times average rate per receptacle | Finance Code 701-709 Object Code 398 |
| Equipment Repair & Maintenance - Labor | Job cost ticket or similar documentation that details labor costs incurred based on actual labor hours worked performing R&M of food service equipment | Finance Code 701-709 Object Code 170 | N/A | N/A |
| Equipment Repair & Maintenance - Parts | Billing based on actual invoices for parts used in the R&M of food service equipment | Finance Code 701-709 Object Code 401 | N/A | N/A |

*Suggested period of time – 2 weeks

Indirect Cost Rate Allocation Method

The Indirect Cost Rate Method provides a shorthand approach to determining in a reasonable manner the proportion of indirect costs each program or other cost objective should bear. This method **may not** be used in conjunction with either the Direct Distribution or Chargeback methods.

Every five years the Minnesota Department of Education (MDE) submits an Indirect Cost Rate Proposal to the United States Department of Education (US-DOE). This proposal outlines the method by which the restricted and unrestricted indirect cost rates are calculated that are used when allocating an allowable percentage of general management costs to federal assistance programs or grants.

In general, a cost item must be treated consistently as direct or indirect in all activities of the SFA. Using this method of cost allocation, if a cost is included in the Indirect Cost Rate calculation, it may not be charged to the federal assistance program or grant as a direct or chargeback item.

SFAs choosing to use this method must fully understand the requirements and guidance found in the references listed below:

- [USDA memo SP41-2011](#) (and attachment) - provides indirect cost guidance as required by the Healthy, Hunger-Free Kids Act of 2010.
- [MDE UFARS Manual, Chapter 13](#) - addresses Indirect Costs Relating to Federal Grants and Contracts.
- Annual approved indirect cost rates for local education agencies (LEAs) in Minnesota found on the [MDE website](#).