

<b>CRITERIA AND PROCEDURE</b>	
<b>BROAD SUBJECT: FINANCIAL MANAGEMENT</b>	<b>NO: FM-01-05</b>
<b>TITLE: Indirect Costs for School Nutrition Program</b>	<b>EFFECTIVE DATE: January 1, 2007 (Revised August 14, 2009)</b>

## **PURPOSE OF THIS CRITERIA/PROCEDURE -**

Indirect costs for the School Nutrition Program (SNP) are those costs that have been incurred for common or joint purposes within the school or school district such as costs associated with the personnel or payroll function. These costs benefit more than one cost objective (program) and cannot be readily identified with a particular final cost objective (program) without effort disproportionate to the results achieved. For example, warehouse costs may be charged directly when the program manages its own warehouse rather than sharing a warehouse. When there is no reasonable method to determine the appropriate cost of utilities to charge to the SNP, then these costs can be determined and assigned through the application of a federal indirect cost rate.

Indirect costs are federally allowable expenses that are necessary for the SNP to operate. The most common method of identifying indirect costs is through the school system's development of an indirect cost allocation plan. Through this indirect cost allocation plan, the school system is able to establish both restricted and non-restricted indirect cost rates. This rate, which must be approved by the Georgia Department of Education (GaDOE), may be applied to federal programs being administered by the local school system.

It is strongly recommended that prior to applying the indirect cost rate to the school nutrition account the school board determine that funds remaining after the payment of indirect will be equal to 1 ½ - 3 months' average operating expenses. This is essential to (1) provide for adequate program supervision, (2) ensure that schools can pay bills on time prior to the receipt of reimbursement, (3) pay for the costs of new program requirements such as meal pattern changes and emergencies such as replacement of major equipment and (4) decrease the probability that the general fund will need to subsidize the school nutrition fund in the future.

## KEY TERMS AND DEFINITIONS -

**(Federal) Indirect Costs:** Expenses that represent necessary, reasonable and actual costs and which are not easily identifiable with a specific objective or function (program). They are allowable costs for common or joint purposes that represent part of the operating budget.

**Indirect Cost Allocation Plan** - GaDOE calculates both the restricted and non-restricted indirect costs plans for each Local Education Agency, based on data submitted in the most recent year-end financial report.

**Non-restricted Rates:** Higher rates encompassing all programs that do **not** have specific non-supplanting legislation. This rate is the **maximum** factor that can be used to compute indirect costs charged to the SNP. Non-restricted rates apply to the SNP.

**Restricted Rates:** Special rates established to incorporate the provisions of non-supplanting program legislation. This means that the recipient may not substitute federal funds for the revenues that they applied to the same activity in past years. These rates are lower than the non-restricted rates.

**Utilities:** Gas and electricity (object 620) and water (object 410).

## CRITERIA AND/OR PROCEDURES –

1. Some systems identify allowable costs, such as utilities, and charge them directly to the SNP. Others use an approved formula to recover these costs from the SNP account annually.
2. In order to charge the indirect cost rate, it must first be budgeted in the district's general and SNP budgets.
3. The indirect cost rate (resulting in a percentage) is initially computed using expenditures (adjusted) from the second prior school year as reported to the GaDOE on the Annual Financial Report, DE Form 0046. This is calculated automatically on-line in the GaDOE portal.
4. Adjusted school nutrition expenditures for the current year must be calculated prior to the Board's application and recovery of the indirect cost rate in the current year.

Adjusted expenditures for the **current year** are computed using the following formula:

	<b>Total School Nutrition Program Expenditures</b>
minus	Purchased Food (object 630) <sup>1</sup>
minus	USDA Food Received (object 635) <sup>1</sup>
minus	Equipment (objects 730 + 734) <sup>1</sup>
minus	Utilities Directly Billed to SNP (objects 410 + 620) <sup>2</sup>
minus	Other costs that are normally shared but which are billed directly to school nutrition because they can be identified. <sup>2</sup>
minus	Federal Indirect Cost Paid in Current Year <sup>3</sup> for the Current or Prior year <sup>4</sup> (object 880)
equals	<b>Adjusted Expenditures</b> for the Current Year <sup>5</sup>

<sup>1</sup> Purchased food (object 630), food acquisitions (object 635), equipment (objects 730 and 734) and federal indirect cost (object 880) must be excluded from total expenditures.

<sup>2</sup> If utilities are charged directly to the SNP they must be excluded from the total expenditures; other functions, normally considered common, but which are directly charged to the school nutrition account such as the cost of procurement, garbage pickup, extermination, warehousing, etc. must be excluded from the total expenditures.

<sup>3</sup> Indirect costs may be billed to the SNP monthly or quarterly, however, the indirect paid must be reconciled to that due prior to the close of the fiscal year.

<sup>4</sup> Funds must be budgeted in the current year's board-approved school nutrition budget on file with GaDOE in order to charge the resulting indirect cost to school nutrition.

- a. The maximum amount of indirect costs that can be charged to the SNP under the indirect cost rate method is determined by multiplying the GaDOE approved indirect rate (or a lesser rate) by the current year's **adjusted school nutrition (fund 3100) expenditures** as follows:

**Adjusted expenditures for the current year** (<sup>5</sup> in the chart on the preceding page)  
**X (multiplied by) SFA's approved indirect cost rate (as a %)**

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**= (equals) Indirect costs charged to SNP for the current year**

- b. The school system can apply any rate (percentage), equal to or lower than the non-restricted rate, to the SNP's adjusted expenditures. Therefore, if the local school system should choose to do so, they could apply to the SNP the restricted rate or any rate lower than the non-restricted rate.

## **AUTHORITY – FEDERAL**

34 CFR 76.561(b)

Office of Management and Budget Circular A-87, Attachment E

## **AUTHORITY – STATE**

GaDOE On-line Indirect Cost Allocation Plan

GaDOE Portal, Indirect Cost User's Guide