SCHOOL BREAKFAST AND LUNCH PROGRAMS
ALLOWABLE COSTS GUIDANCE

Regulatory Guidance: 7CFR Part 210, OMB Circulars A-87 and A-122, FNS Instruction 796-1, USDA Policy Memorandums, previously issued State Memorandums. 7CFR 210.14(a) states that “Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, except that, such revenues shall not be used to purchase land or buildings, or to construct buildings. Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency....”. 7CFR 210.2 states, in part, “Revenue means all monies received by or accruing to the nonprofit school food service in accordance with the State agency’s established accounting system including, but not limited to, children’s payments, earnings on investments, other local revenues, State revenues, and Federal cash reimbursements”.

Basic financial management system:
All records must be supported by source documents; must identify the source and use of all funds; must provide for accurate, current and complete disclosure of the financial results of CNP. System must exercise control over and accountability for all funds, property and assets; must compare actual amounts expended with budgeted amounts; and must have an audit system to determine fiscal integrity and a system to assure resolution of audit recommendations.

Factors Affecting Allowability of Costs:
1. Necessary and reasonable for proper and efficient performance and administration of the Program (SBP and NSLP).
2. Be allocable to the Program under the provisions of OMB A-87 or A-122.
3. Be authorized or not prohibited under State or local laws or regulations.
4. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Program, or other governing regulations as to types or amounts of cost items.
5. Be consistent with policies, regulations, and procedures that apply uniformly to both the Program and other activities of the governmental unit.
6. Be accorded consistent treatment. A cost may not be assigned to the Program as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Program as an indirect cost.
7. Except as otherwise provided in the Circular, be determined in accordance with generally accepted accounting principles.
8. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or prior period, except as specifically provided by Federal law or regulation.
9. Be net of all applicable credits (refunds against disbursements, discounts, etc.).
10. Be adequately documented.

Reasonable Costs:
1. Provide the program a benefit commensurate with the costs incurred.
2. Consistent with the costs of similar items from other vendors.
3. Are in proportion to other program costs for the function that the cost serves.
4. Are priority expenditures relative to other demands on available administrative resources.

Necessary Costs:
1. Are incurred to carry out essential program functions, and
2. Cannot be avoided without adversely impacting program operations.

Allowable Cost Groups (most common)
1. Labor – salaries and employee benefits.
2. Cost of Food Used. Beginning Inventory + Food Purchased – Ending Inventory.
3. Food Processing, Food Service, Other, and General Supplies.
4. Purchased Services.
5. Non-Capitalized Equipment/Furniture & Fixtures
6. Capitalized Equipment ($5,000 and above). (Refer to SDE Accounting Manual for definitions.)
7. Indirect Costs.

Food Processing Supplies: (Examples – not to be considered complete)
1. All disposable serving, preparation or cleanup supplies used in place of permanent supplies in the service of food.
2. All single service items which are consumed with the meal service.
3. Items which are included, but are not limited to:
   - Disposable trays
   - Food wraps
   - Straws
   - Plastic wrap
   - Napkins
   - Disposable gloves
   - Garbage bags
   - Paper Bags
   - Disposable aprons
   - Food storage bags
   - Disposable meal boxes, cups, forks, spoons, bowls, etc.
   - Soufflé cups
   - Aluminum foil
Regular Supplies – examples:
- Paper towels
- Computer paper
- Steam table pans
- Permanent utensils
- Permanent aprons
- Cash register tapes
- Permanent wares
- Serving utensils

Improvement of Facilities:
1. Except for the purchase of land and buildings, the State Agency retains primary responsibility for determining whether a capital project expenditure is considered an allowable cost.
2. Construction activities which increase the square footage of a building constitute the construction of a building and are not allowable, while renovations or improvements to a structure that do not increase its size would be an improvement of facilities and are therefore potentially allowable. CNP funds could not be used to add a kitchen or a dining area to an existing building. However, they could be used to convert existing space in the building into a kitchen or a dining area.
3. The addition of air conditioning to SFS facilities not currently air conditioned or the replacement of air conditioning systems in SFS facilities is currently permitted under FNS Regulations since this could be described as an improvement.
4. The SFA must request permission in writing before proceeding with any improvement projects paid with CNP funds.

Criteria used to respond to requests from local school systems on the allowable expenditures of CNP funds:
1. The expenditure must not bring the system’s CNP net worth below 2½ month’s operating balance.
2. All schools in the system must be adequately equipped with basic large equipment.
3. A request for purchase of non-food production items will require an on-site evaluation of food production equipment and facilities by SDE staff member prior to approval.

Requests for approval should include the following:
1. Local school system’s CNP net cash resources.
2. Description of the project requested.
3. Name of school where project is proposed.
4. Estimated cost of project.

Salaries: An employee’s full salary may be charged to the CNP only if that employee works full time for CNP. If an employee performs part-time or occasional work for the CNP, only the cost of that part-time or occasional work may be charged to CNP. Payrolls must be supported by time and attendance records for the individual. Salaries chargeable to more than one program shall be supported by time distribution records.

Direct Program Expenditures: Direct costs are those that can be identified specifically with the Child Nutrition Food Service Program. Program equipment and costs necessary to maintain program equipment are considered allowable direct costs.

Uniforms: Uniforms are an allowable cost only if the LEA has a board-approved policy to provide uniforms to all like (support) personnel. The board must have an established policy to provide uniforms to all personnel in the support role, not just CNP. If the board does not have such a policy, then the cost for the uniforms is not considered to be a necessary and reasonable expenditure for the safe and proper operation of the program. OMB Circular A-87, Attachment B, Items 11a – 11c. The provision of uniforms to employees would be considered a non-taxable fringe benefit if the uniforms (as part of the board policy) are required to be worn as a condition of employment, are clearly identified as a uniform and would not be considered suitable for everyday wear. If a cash allowance for uniforms is given and considered part of compensation, it should be included on the W-2 and is taxable. The employee, however, can deduct the cost of the uniforms purchased on their individual tax returns if they itemize. Employees should consult their tax accountant/preparer for details.

Allowability of Cost for Program Incentive Items
1. Program incentive items can be allowable if they are considered reasonable and necessary costs that promote the specific program purposes of outreach and nutrition education promotion.
2. Examples of allowable items: Nutrition Education: calendars that contain important nutrition education messages and refrigerator magnets picturing the food pyramid. Outreach: tee-shirts, buttons, pens, cups or other items of nominal value with reasonable opportunity for public display that contain a program promotional message.
3. Example of some unallowable items: Celebratory items, or items designed primarily as staff morale boosters, generally for the personal use of the staff, with minimum public display; items of nominal value which have no outreach or nutrition education message; any program incentive item intended for persons who are not participants, potential participants or their parents/guardians, or for persons with no connection to the subject Programs.
Interest earned on school food service funds is considered program income and must be credited to the school food service account and used only for the operation or improvement of the school food service program. Policy Memo. 210-14-06 states, in part, “USDA funds should be entered into the school food service account as soon as possible on receipt. If program reimbursement funds are held in a different account (such as a county’s general fund) before placing it into the school food service account, any interest on this USDA revenue must also be credited to the school food service account”.

UNALLOWABLE COSTS:

1. Bad debts. (Bad checks, uncollected charged meals, uncollected catering functions, etc.)
2. Fines and penalties.
3. Interest and financial costs.
4. Legislative expense or executive direction.
5. Contingency reserve contributions.
6.Depreciation or use allowance for publicly owned buildings & improvements.
7. Direct labor cost for administrative personnel above the school food service employee level without DIRECT DAILY program responsibility.
8. USDA Donated foods or cash received in lieu of foods. (can't buy commodities from anyone)
9. Other donations of cash, services and goods.
10. Equipment depreciation costs for:
   - Nonexpendable equipment items fully depreciated.
   - Nonexpendable equipment in storage for future use or disposal.
   - That portion of equipment purchased with Federal funds.
11. Capital expenditures for:
   - Land or construction, facilities, unapproved capital projects, other capital assets purchases (including passenger automobiles and other equipment).
12. Occupancy by contractual agreements which are classified as rental-purchase or leased with an option-to-purchase.
13. Costs associated with sales or service to adults and other a la carte sales. (denotes costs that are not adequately covered by sales price of items)
15. Entertainment.
17. Costs of memberships, subscriptions and professional activities that are in the name of an individual and benefit that individual rather than the organization.
18. Legal awards and settlements.

Foods of Minimum Nutritional Value and Competitive Foods: USDA Policy Memorandums, 210.11 and 220.12 prohibits the sale of carbonated beverages and other categories of foods of minimal nutritional value.

The Policy for Competitive Food Sales in schools in the State of Alabama: **No food other than that provided by the Child Nutrition Program shall be available to students during meal service times.** Schools are required to restrict student access to concessions, extra sales, vending and fundraisers that are in direct competition with the Child Nutrition Program during meal services. If income from such sales occurs, the revenue is required to be deposited into the Child Nutrition account. The rational for this directive is to encourage healthy eating habits of our youth and ensure that the foods provided to our children are handled in accordance with the Alabama State Department of Health food safety regulations. Effective November 15, 2001.

**Competitive Foods**: Any foods sold in competition with the Program to children in food services areas during the lunch periods.

**Food of minimal nutritional value**: Foods that provide less than 5% of the RDI for each of 8 specified nutrients per serving (for artificially sweetened foods); and foods that provide less than 5% of the RDI for 8 specified nutrients per 100 calories and less than 5% of the RDI for each of 8 specified nutrients per serving. (Vit. A, C, niacin, riboflavin, thiamin, calcium and iron). (soft drinks, water ices, chewing gum, and certain types of candies such as hard candies, jellies and gums, marshmallow candies, fondant, licorice, spun candy, and candy coated popcorn)

**The Local School Food Authority may issue a more restrictive policy. If so, above requirements would be superceded by more restrictive regulations.**