



DATE: September 2012

TO: SFA Authorized Representative
SFA Food Service Director
Business Managers

FROM: Jeff Berger, Deputy Director

SUBJECT: Child Nutrition Reauthorization 2010: Indirect Cost Guidance

The Healthy, Hunger-Free Kids Act of 2010 (the Act), Public Law 111-296, requires Food and Nutrition Service (FNS) to provide guidance on program rules pertaining to indirect costs. The purpose of this memorandum is to provide guidance describing the Federal requirements with respect to indirect costs.

Section 307(a) of the Act establishes the requirement to issue guidance providing assistance to ensure the nonprofit school food service account funds are limited to those expenses that are reasonable and necessary to provide quality meals for the National School Lunch Program (NSLP) and School Breakfast Program (SBP). In general, the full cost of the NSLP and SBP includes both direct and indirect costs. Direct costs are incurred specifically for the NSLP and SBP, and can be readily identified to a particular school food service objective. Allocation of indirect cost is necessary because it identifies the portion of the costs benefitting the school food service.

The guidance intends to provide the following information to state agencies (SAs) and school food authorities (SFAs) on program rules pertaining to indirect costs:

- Definitions for both direct and indirect costs, including the proper classification of costs and discussion on the treatment of certain typical costs in the NSLP and SBP. Direct costs are discussed because direct and indirect costs are complementary;
- An overview of the Federal cost principles and explanation that all costs (direct or indirect) paid with funds from the nonprofit school food service account must be allowable. The guidance provides criteria that will aid an SFA in determining allowable costs and includes relevant examples;

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- Information on how a school district's general fund recovers indirect costs from the nonprofit school food service account. This includes appropriate application of the indirect cost rate; and
- Considerations for the SFA when assessing indirect costs charged to the nonprofit school food service account. This information includes how an SFA should address errors and the billing of previous years' indirect costs;

If you have any questions, please contact Jeff Berger at jeff.berger@iowa.gov or 515-281-3968.

Sincerely,

Jeff Berger
Deputy Director
Division of School Finance and Support Services