

South Carolina
School Food Service Program Reference Manual
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Chapter 8 - Use of Child Nutrition Program Funds

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Chapter 8 – School Food Service Funds

Food Service Account

The Office of Nutrition Programs at the South Carolina Department of Education (SCDE) recommends that School Food Authorities (SFAs) establish a separate food service account consisting of all money deposited or transferred for the operation of the Child Nutrition Program (CNP). However, if SFAs choose not to establish a separate food service account, the SFA must have an accounting system in place to identify all food service revenues and expenditures throughout each school year.

CNP funds are required to comply with generally accepted accounting principles, including the annual budgeting process. However, the following provisions of the CNPs differ from other funds, programs, and accounts:

- All revenues received by or accruing to the food service account must be used only for the operation and improvement of the CNP. Revenues include, but are not limited to, receipts from:
 - Operations of the lunch, breakfast, snack and milk programs;
 - A la carte sales, concessions and internal catering;
 - Earnings on investments;
 - Other local revenue; and
 - Federal meal reimbursement.

Interest Income

Q-1 *Must the interest earned on money from the food service account that has been invested be deposited in the food service account?*

A Yes. All revenue received by the CNP may be used only for the operation or improvement of the CNP. This includes earnings on investments. If CNP funds are used totally or in part for investment purposes then the interest earned from such investments must accrue to the food service account and be used only for authorized program purposes.

- Food service account funds may not be used for expenditures that are not directly related to the operation of the CNP although they are part of the SFA general fund.
- Any positive balance remaining in the food service account at the end of the school year must be carried over to the next school year as a beginning balance of the food service account.
- To maintain the nonprofit status of the CNPs, the fund balance or net cash resources of the food service account must not exceed three months' average expenditures. If an excess balance should occur, the SFA must immediately take steps to reduce the balance or have an acceptable plan for using surplus revenues. The plan should be such that the balance would be reduced within a year. The plan must be submitted to the Office of Nutrition Programs, SCDE. Since program funds may be used only for program purposes, an excess balance could be reduced by improving the quality of food

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served; reducing the prices of meals served to students; or purchasing needed supplies, services or equipment.

To determine if an excessive balance exists, you may complete the following calculations: (See example in [Table 8.1 – Example of Excessive Balance Calculation.](#))

- The formula used is total expenditures for the school year divided by ten (10) times three (3) is compared to the net cash on hand at the end of the school year.

If the Comparison Amount is a negative figure, a plan to reduce the excessive balance must be submitted to SCDE. Use of the [Plan for Reducing Excessive Operating Balance](#) form (Form 8-A) is recommended.

Table 8.1 – Example of Excessive Balance Calculation

Net Cash Resources Calculation	
School Food Authority: Palmetto School District	School Year: 2013-2014
Expenditures	\$559,431.13
Adjusted Expenditures divided by 10 times 3 (maximum allowable balance amount)	\$167,829.33
Minus Cash Balance	\$190,187.71
Comparison Amount*	< \$22,358.38 >

* A negative number represents the excess balance amount and a plan to reduce the balance must be submitted.

Loans to the Food Service Account

The U. S. Department of Agriculture (USDA) has ruled that the SFA may not retroactively determine that funds transferred from the general fund to cover CNP deficits were a loan subject to repayment.

1. In order for a liability to exist, a bona fide loan agreement must be in effect at the time that the funds are transferred. This means that a fund transfer cannot be retroactively designated to be a loan. Documentation that the CNP incurred deficits in past years that were covered by local contributions is not sufficient to substantiate the claim that the funds were transferred with the intent that the money would be repaid.
2. The conditions for repayment must be documented and agreed to by both parties, the general fund manager and the CNP, in advance. The agreement must be submitted to SCDE for approval.
3. Interest payments are not allowable program expenditures.
4. Short-term or multi-year obligations are permissible provided that a bona fide loan agreement exists at the time that funds are made available.

Loans from the CNP to the SFA

Q-2 *Can CNP funds be loaned to the SFA? If so, must interest be paid and at what rate?*

A Yes, CNP funds may be loaned to the SFA on a short-term basis (i.e. a school year). The SFA should pay interest at the prevailing loan rate. The loan agreement should contain such stipulations as the purpose, interest rate (simple or compounded), the repayment schedule for the principal and interest, and any penalties for late payment.



Q-3 *If the CNP has purchased a Certificate of Deposit (CD), may it be cashed in before the maturity date in order to loan the money to the SFA?*

A Yes. However, the SFA must pay any penalties associated with this action. The payment of interest at current rates for CDs would be in order.



Q-4 *What records must be maintained for loans to the SFA?*

A The original loan agreement, duly executed, and the payments for the principal and interest must be maintained and be on file for the duration of the loan plus the retention period required for all federal and state records.

Expenditures

All CNP expenditures should be classified as food, labor, and other. Expenditures should be documented by itemized receipts or invoices. To be allowable, expenditures must be necessary and reasonable for proper and efficient administration of the programs and conform to any limitations or exclusions set forth in program regulations.

The types of allowable and non-allowable expenditures that may be made by SFAs operating the CNPs under the National School Lunch Act are listed below. For specific expenditures not listed or for further interpretation of those listed, contact SCDE.

Allowable Expenditures

- Food purchases and costs directly related to the storage, handling, processing, and transportation of food.

- Labor, which includes payments for labor and other services directly related to operating the CNPs - This includes the employer's share of retirement, social security, insurance payments, bonuses and fringe benefits after the state allocation to the district has been exhausted.

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- Other supplies and expendable equipment (under \$5,000) used directly in the operation of the CNP - This includes items that must be replaced from time to time such as pots and pans, serving trays, dishes, glassware, silverware, linen, mops, brooms, cleaning supplies, etc.
- Non-expendable items (over \$5,000), generally classified as movable property and used directly in preparing, storing or serving school meals - This includes ranges, refrigerators, freezers, steam tables, mixers, storage cabinets, tables, chairs, hot water heaters, and other equipment. This category may also include such items as charges for installing and connecting equipment to utilities in the building in which the program is operated, as well as service for maintenance and repair of equipment. Note: When food service account funds will be used to purchase equipment costing more than \$5,000 per unit for new construction, permission must first be obtained from SCDE. The form entitled, "Request to Purchase New Equipment" (Form 8-B) provided at the end of this chapter should be used to make the request.
- Training of CNP employees.
- Travel on CNP business such as workshops, conferences, and training programs.
- Memberships, subscriptions, books, and audiovisual equipment used to benefit the CNP.
- Rental of food storage facilities or equipment as required for program needs.
- Computers, cash registers, adding machines, typewriters, communication equipment, and other office equipment used exclusively for the operation of the CNP.
- Printing and reproduction equipment or services.
- Employee information publications.
- Automotive equipment used exclusively in transporting food for program purposes.
- Services, when actual costs attributable to the CNP are billed separately such as pest control, trash removal, security, and janitorial – If the invoice does not specifically identify the actual costs attributable to the CNP, the expenditure must be categorized as an indirect cost.
- Utilities, when actual costs attributable to the CNP are billed using separate meters – If the invoice does not specifically identify the actual costs attributable to the CNP, the expenditure must be categorized as an indirect cost.
- Advertising for the recruitment of personnel, for the solicitation of bids for the procurement of goods and services required, and for the disposal of scrap or surplus materials.
- Promotional materials and exhibits relating specifically to the program and to advisory councils related to parental and student involvement.
- Indirect costs for the current school year at the assigned indirect cost rate for the school district.

Prorating a Secretary's Wage

Q-5 *May a prorated part of a school secretary's wages be paid from the food service fund?*

A Yes, under certain circumstances. It is allowable to charge the CNP for wages and fringe benefits for a secretary who does lunchroom accountability if records are maintained of the time actually spent on the CNP. For example, if the school secretary spends from 11 AM to 1 PM each day as the cashier in the dining room, the wages for those two hours may be charged to the food service account.

Paying for Awards Dinner

Q-6 *Is it allowable to use nonprofit CNP funds to pay for an awards dinner at a local restaurant to recognize the achievements of CNP staff in areas such as increased participation, expanded nutritional information and education, or increased productivity?*

A Yes, under certain circumstances. In order to use CNP funds for activities as described above, certain criteria must be met. The activity must be part of the SFA's established practice, be reasonable and necessary, and be consistent with regulations, policies and procedures that apply uniformly to both federally assisted and other activities of the SFA (be consistent with the use of local funds).

Paying Publishing Fees

Q-7 *May food service funds be used to pay for publishing the free and reduced-price guidelines (for example, in the local newspaper) at the beginning of the school year?*

A Yes. However, this should not be required because the SFA's responsibility is fulfilled by disseminating the press release with the guidelines to the media as a public service announcement. The SFA does not have to pay to have this published unless the local newspaper refuses to honor the SFA's request.

Non-allowable Expenditures

- No income accruing to the CNP may be used to purchase land, acquire or construct buildings, or make alterations to existing buildings that materially increase the value of capital assets - However, paint and decorator items would not be considered capital expenditures. Only those improvements that materially increase the value or life of the building would be considered capital expenditures.

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- Contributions and donations.
- Entertainment, amusements, social activities, gratuities, and related activities.
- Interest on loans.
- Rent or usage fees for district-owned facilities.
- Cafeteria monitors –CNP funds may not be used to pay salaries for monitoring. However, CNP personnel may have monitoring duties assigned to them as part of their other food service responsibilities.
- Custodian and maintenance costs which are already included in the district’s formula for indirect cost.
- Indirect cost expenses from prior year(s), and/or those that exceed the assigned rate.
- Any direct costs that are included in the indirect cost rate approved for the CNP.

Charging Rent

Q-8 *Can a SFA charge the food service account rent or usage fees for cafeterias, kitchens, or storage facilities?*

A No. The SFA is not allowed to charge rent to the CNP for SFA-owned facilities. However, the SFA can recover indirect costs that occur as a result of operating the CNP.

Bad Checks

Q-9 *If a parent issues a bad check, may the student’s meal account be charged for the fee?*

A No. The student’s “meal money” (i.e. money paid by the household to the school with the intent and understanding that it is to pay for meals) should **not** be used to pay the bank service fee. A SFA may refuse to extend credit for meals under whatever circumstances it deems appropriate. The SFA may request that the parent reimburse the CNP fund for the bank service charge with funds other than those sent for payment of meals.

Adult Visitors

Q-10 *Can food service funds be used to provide meals for adult visitors attending a meeting in the SFA or to purchase meals in a commercial restaurant for the visitors?*

A No. CNP funds are to be used to provide meals for children. Adults should pay

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a sufficient price to cover the cost of their meals. If adults are not charged for their meals, the CNP fund must be reimbursed for each meal from another fund. The amount of reimbursement must be more than or equal to the current year's student free reimbursement rate for each meal.

Special Dinners for Adults

Q-11 *When the school board hosts a special dinner for employees, must the food service fund be reimbursed for food, supplies, and labor?*

A Yes. The CNP fund must be fairly reimbursed for **all** costs associated with serving meals or food to adults. The source of the payment (for example, general fund or an activity fund) must be clearly indicated.

Indirect Costs for Child Nutrition Programs

Indirect costs are not readily identified with a specific program. These costs are incurred by a SFA for the benefit of all programs. SFAs are allowed to recover food service related indirect costs for general administration, utilities, custodial services, etc.

An indirect cost rate is used to determine the maximum amount of indirect costs each federal program should bear. The rates for public school districts are calculated annually by SCDE and are entered in the South Carolina Automated Payment System (SCAPS) for each SFA.

Indirect costs are limited to the SFA's indirect cost rate multiplied by specific direct costs.

Indirect Costs

Q-12 *Is a SFA required to pay the maximum indirect costs of the program from the food service fund?*

A No. The SFA may permit the CNP to reimburse the SFA less than the maximum amount allowed. Indirect costs paid from the CNP fund cannot exceed the maximum allowable indirect costs based on the indirect cost rate.



Q-13 *When is a labor expenditure considered a direct cost and when is it considered an indirect cost?*

A A labor expenditure can be recorded as a direct cost only when there is actual supporting documentation of the time spent on the CNP. Estimation or allocation of time worked (for example 10% of work time) in the CNP is not acceptable. Indirect labor costs include custodians, secretaries and other supplemental services. Generally, these employees spend only a portion of their work hours completing food service tasks.

Custodian's Wages

Q-14 *If a SFA employs a custodian that works exclusively for the CNP, may that custodian's salary be reported as a direct labor expenditure rather than an indirect expenditure?*

A No. Custodians are included in the indirect cost rate computation and they cannot be charged to the CNP fund as a direct cost. The custodian's wages may be paid from the CNP fund and reported as an indirect expenditure as long as the total indirect costs do not exceed the computed indirect cost limitation.

Demonstrating Compliance

Federal regulations (7 CFR 210.14) require SFAs to submit forms and reports to SCDE as appropriate to demonstrate compliance with CNP requirements. SCDE requires SFAs to comply with this regulation by completing the Revenues and Expenses Report in SCAPS once a year.

Procedures for Completing "Plan for Reducing Excessive Operating Balance" Form

When food service funds exceed three months average expenditures as contained in 7CFR 210.9(2), the School Food Authority (SFA) must complete the Plan for Reducing Excessive Operating Balance" form and submit it to the State Agency (SA). The completed form must contain a plan on how the excess balance will be spent in order to maintain the Program's non-profit status.

The following procedures must be followed for completion and implementation of the "Plan for Reducing Excessive Operating Balance" form.

1. The SA accountant will determine through SCAPS at the end of the school year that an SFA's food service net cash resources exceed three months operating balance as required in Subpart C, 7CFR 210.9(2).
2. The SA accountant will notify SFA and copy the assigned SA Education Associate that a "Plan for Reducing Excessive Operating Balance" form must be completed by the SFA and submitted to the attention of the Director in the Office of Nutrition Programs. The Director or his/her designee will approve the plan or may deny the plan and will send it back to the SFA with a copy forwarded to the assigned Education Associate. If the plan is denied, an explanation for denying the plan will be sent back to the SFA and a revised plan must be resubmitted. The plan must be completed within 12 months (1 year) from the date of submission unless prior written approval is received from the State Director.

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3. When the approved date for plan completion is reached, the assigned Education Associate will conduct an on-site review to verify all aspects of the completed plan have been completed and acknowledge by signing the form.
4. The completed form will be forwarded to the SA Director for final approval and all related records will be maintained by the SA. The SA Director will remit a letter notifying the SFA that the plan has been completed.
5. **Failure to complete the plan in the approved timeframe may result in food service funds being retained by SCDE. Any changes to the approved plan or completion date must be approved by SCDE prior to executing them.**

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Plan for Reducing Excessive Operating Balance

Form 8-A

Instructions: When food service funds exceed three months operating expenditures, complete this form to explain how the excess balance will be spent in order to maintain the Program's non-profit status. Submit the completed form to the South Carolina Department of Education (SCDE), Office of Nutrition Programs, 1429 Senate Street, Rutledge Office Building Room 700, Columbia, SC 29201.

Date: _____

School Food Authority (SFA): _____

SFA Address: _____

City: _____ State: _____ Zip Code: _____

Telephone #: _____ Fax #: _____

Contact Person's Name: _____ Title: _____

(1) Cash Balance End of Year \$ _____

(2) Total Yearly Expenditure divided by 10 times 3) = \$ _____

(3) Amount of funds to be reduced (#1 minus #2) = \$ _____

Briefly Outline Plan (Please complete page two or attach Plan)

The above named SFA herein submits the following plan to reduce the excessive operating food service balance. This plan will be completed by _____, 20 _____.

Printed Name of SFA Authorized Representative: _____

Signature of SFA Authorized Representative: _____

FOR USE BY SCDE ONLY:

_____ **Approved** _____ **Denied (Justification):** _____

Name & Title of SCDE Official

Signature and Date of SCDE Official

On-Site Review and Verification of Completed Plan:

Signature of Education Associate

Date

Final Approval of Completed Plan:

Director, Office of Nutrition Programs

Date

Briefly Explain Plan for Reducing Excessive Operating Balance:

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Request to Purchase New Equipment

Form 8-B

Instructions: Prior to purchasing equipment costing more than \$5,000 per unit for new construction with Child Nutrition Program funds, obtain permission by completing and mailing this form to South Carolina Department of Education (SCDE), Office of Nutrition Programs, 1429 Senate Street, Rutledge Office Building Room 700, Columbia, SC 29201 or faxing to: (803) 737-4148.

Date: _____ School Food Authority (SFA) Name: _____

Address: _____

City: _____ State: _____ Zip: _____

Telephone: _____ Fax: _____

Contact Person's Name: _____ Title: _____

List Equipment to be Purchased*:

Estimated Cost of Each Item:

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

Name of Building in Which Equipment Is to be Used: _____

Type of Building (e.g. elementary school, central kitchen): _____

Approximate Number of Children Fed by This Facility: _____ % Free/Reduced: _____

Printed Name of Authorized Representative

Signature of Authorized Representative

* Use additional paper if needed

FOR USE BY SCDE ONLY:

Approved

Denied

Name of SCDE State Office Director

Signature of SCDE State Office Director