



Food and  
Nutrition  
Service

DATE: September 30, 2016

Park Office  
Center

MEMO CODE: SP 60-2016

3101 Park  
Center Drive  
Alexandria  
VA 22302

SUBJECT: Indirect Cost Guidance

TO: Regional Directors  
Special Nutrition Programs  
All Regions

State Directors  
Child Nutrition Programs  
All States

The purpose of this memorandum is to replace guidance issued July 7, 2011, describing the Federal requirements State agencies and school food authorities (SFA) must comply with in the National School Lunch Program (NSLP) and School Breakfast Program (SBP) with respect to indirect costs. This guidance reflects current cost principles in 2 CFR 200 Subpart E.

Indirect cost guidance provides assistance to SFA business officials to ensure the nonprofit school food service account (NSFSA) funds are limited to those expenses that are reasonable, necessary, and allocable to provide quality meals for the NSLP and 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 provides information to State agencies and SFAs on program rules pertaining to:

- 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 NSFSA must be allowable. The guidance provides criteria that will aid an SFA in determining allowable costs and includes relevant examples;
- Information on how a school district's general fund recovers indirect costs from the NSFSA. This includes appropriate application of the indirect cost rate and the requirements for the SFA to determine the rate;
- Considerations for the SFA when assessing indirect costs charged to the NSFSA. This information includes how an SFA should address errors and the billing of previous years' indirect costs; and

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- An overview of how the indirect cost rate is developed as relevant background information for SFAs. The information includes a discussion on appropriate uses of restricted or unrestricted indirect cost rates and adjustment of the rates.

SFAs with questions concerning the guidance should direct these to the State agency. State agencies should direct questions to the appropriate Food and Nutrition Service (FNS) Regional Office.

**Original Signed**

Sarah Smith-Holmes

Director

Program Monitoring and Operational

Support Division

Child Nutrition Programs

Attachment