Understanding Direct and Indirect Costs

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Are your CN funds spent solely on the school meal program?

One of the major responsibilities that accompany the decision to participate in the SMPs is the management of the nonprofit school food service account. The SFA must adhere to the Federal regulations and determine whether a cost is allowable, allocable and charged appropriately as direct or indirect to safeguard the financial integrity of the non profit school food service.
Total Program Cost = Direct Costs + Indirect Costs

- Direct Cost Incurred for the SFS program, can be readily identified to the SFS
- Indirect Costs are incurred for the benefit of multiple programs, or functions and cannot be readily identified and specifically associated with the SFS
Direct Costs

Direct Costs are costs incurred specifically for the program

- Food
- Wages
- Non-food
- Equipment
Indirect Costs

Indirect Costs are costs that typically support administrative overhead functions:

- Fringe benefits
- Accounting
- Payroll
- Purchasing
- Facilities
- Utilities
Indirect Cost Rate

- Used to allocate indirect costs to the Food Service Fund and other grants
- Calculated through a Federal formula annually
  - Restricted Rate
  - Unrestricted rate
- *Indirect cost rate can only be applied to items that are not included in the indirect cost pool*
Indirect Cost Pool

• Payroll service
• Human Resources
• Worker’s compensation
• Procurement
• Utilities
• Trash
• Superintendent’s office
No double dipping!

IF

a cost is included in the indirect cost pool and the district charges indirect cost recovery to the SFS

THEN

The SFS cannot also pay directly for the cost.
Question?

• Do you know your indirect cost rate?
  • Restricted
  • Unrestricted
• Do you pay indirect cost recovery?
• Do you pay direct costs?
Allowable Costs

Regardless of whether a cost is allocable as indirect or direct, it must first be allowable (2 CFR Part 225)

• Necessary and reasonable
  • Could the SMP be carried out without incurring this cost?
  • Could the SFA defend this purchase to the SA, media, etc?

• Treated consistently as direct or indirect in all activities of the SFA
Allowable Costs

• Net of applicable credits
  • Purchase discounts
  • Rebates
• Appendices A and B of 2 CFR Part 225
• Renovating a school kitchen
  • Keep property in efficient operating condition
  • Do not add to the permanent value of the property
  • Limited renovations within the inside perimeter of the kitchen with SA approval
Allowable Costs

• A cost cannot be charged that is grossly disproportionate to the benefit the school food service received from the service.
Question?

- Are indirects consistently applied throughout the district?
- Are you aware of paying for any non allowable costs?
Questions?