

Instructional Guide for Child Nutrition Programs Annual Financial Report



**Illinois State Board of Education
Nutrition Programs
100 North First Street—W270
Springfield, Illinois 62777-0001
800/545-7892 (Illinois Only) or 217/782-2491
Fax 217/524-6124
www.isbe.net/nutrition
Email cnp@isbe.net**

Revised July 2007

Foreword

The Child Nutrition Programs are administered by the Illinois State Board of Education.

This handbook was developed to assist school food authorities in completing the Child Nutrition Programs Annual Financial Report. The purpose of this report is to account for all revenue and expenses associated with the administration of the National School Lunch, School Breakfast, Special Milk, and Illinois Free Programs.

All private or non-public sponsors participating in any Child Nutrition Program must complete a Child Nutrition Programs Annual Financial Report covering the period of July 1–June 30.

Similar data for public school districts will be retrieved from the Illinois School District Annual Financial Report available at <http://www.isbe.net/sfms/afr/afr.htm>. Private or non-public sponsors can access and complete this report by going to <http://www.isbe.net> and clicking on *IWAS* in the top margin. After logging in, select *System Listing*, then *Child Nutrition—ACES*. The annual financial report will be listed within the Sponsor Application under *Applications and Claims*. Under *Search Type* select *Application*, then select *NSL* for *Program Type* along with the *Program Year* desired and select *Search*. Under *Select a Link* click on *Sponsor Application* and you will find the Annual Financial Report under the Financials section of the Sponsor Application.

All entries on the report should be rounded to the nearest dollar. The report may be completed on the cash basis of accounting or using Generally Accepted Accounting Principles (GAAP). The accurate completion of the Annual Financial Report requires an understanding of indirect costs, indirect cost rates, and equipment depreciation. Accordingly, this handbook includes a discussion of these subjects.

Questions concerning any of the information contained in this handbook should be directed to:

Illinois State Board of Education
Nutrition Programs Division
100 North First Street
Springfield, Illinois 62777-0001
800/545-7892 (Illinois only) or 217/782-2491
Fax 217/524-6124
Email cnp@isbe.net

In accordance with Federal law and U. S. Department of Agriculture policy, this institution is prohibited from discriminating on the basis of race, color, national origin, sex, age, or disability. To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, 1400 Independence Avenue, SW, Washington, D. C. 20250-9410 or call (800) 795-3272 or (202) 720-6382 (TTY). USDA is an equal opportunity provider and employer.

Table of Contents

Child Nutrition Programs Annual Financial Report Sample Form	iii
Revenue.....	1
Federal Reimbursement (Line 1)	1
State Reimbursement (Line 2)	1
Children’s Payments (Line 3)	1
Adults’ Payments (Line 4)	1
Payments in Lieu of Commodities (Line 5)	2
Other Revenue (Line 6).....	2
Total Revenue (Line 7).....	2
Expenditures	3
Salaries and Employee Benefits (Line 8)	3
Equipment Depreciation (Line 9).....	4
Other Costs (Line 10).....	4
Subtotal (Line 11).....	4
Indirect Costs (Line 12)	5
Food and/or Contracted Food Service (Line 13).....	5
Food Service Management Fee (Line 14).....	5
Total Expenditures (Line 15).....	5
Unallowable Expenses.....	5–6
Revenue Over/Under Expenditures—Current Year (Line 16).....	6
Equipment Depreciation.....	7
Equipment Classification and Life	7
Unallowable Depreciation	7
How to Calculate Depreciation.....	7–8
Equipment Depreciation Schedule and Worksheet.....	8–9
Traded, Scrapped, or Sold Equipment.....	9–10
Gain/Loss on Sale of Equipment.....	10–11
Equipment Depreciation Schedule—Sample Form	12
Equipment Depreciation Schedule Instructions	13
Equipment Depreciation Worksheet—Sample Form	14
Indirect Costs	15
Indirect Cost Rate	15
How to Calculate Indirect Costs	15–17
Definition of Terms.....	18–19

REVENUE

The school food authority must designate whether the report is being completed on the cash basis of accounting or using Generally Accepted Accounting Principles (GAAP).

Income must be documented by a cash receipts journal showing all food service income. This journal must be supported by bank deposit receipts, monthly reimbursement claims, claim payment sheets, daily cash reports, or any other documentation showing income received.

The following is a line by line summary for reporting revenue.

Federal Reimbursement (Line 1)

Federal reimbursement should include all federal revenue received for the reimbursement of meals, snacks, or milk served in the following programs:

<u>Program Name</u>	<u>Program Code</u>
National School Lunch Program	4210
Special Milk Program	4215
School Breakfast Program	4220

State Reimbursement (Line 2)

State reimbursement should include all state revenue for the reimbursement of meals served in the Illinois Free Lunch and Breakfast Programs. This would also include revenue received for the School Breakfast Incentives: School Breakfast Program Start-Up Grants, Universal Free Breakfast Program, and monies for increasing school breakfast participation.

<u>Program Name</u>	<u>Program Code</u>
State Free Lunch and Breakfast	3360
School Breakfast Program Incentives	3365

Children's Payments (Line 3)

Report revenue received from children's payments for reimbursable lunches, breakfasts, milks, after-school snacks, and a la carte sales.

If your program is a non-pricing program, this amount would be zero.

Adults' Payments (Line 4)

Report the revenue from adult sales of lunch and breakfast meals and all adult a la carte payments.

Payments in Lieu of Commodities (Line 5)

This is the amount of cash payments received in lieu of United States Department of Agriculture (USDA)-donated commodities.

Other Revenue (Line 6)

This includes all other revenue; for example, the gain on sale of equipment, special functions, catering and vending machines, selling of meals to other school districts or agencies, cash donations, and any other revenue not reported on other lines.

Total Revenue (Line 7)

This amount is the sum of all amounts listed in the Revenue Source section (lines 1 through 6).

EXPENDITURES

The school food authority must designate whether the report is being completed on the cash basis of accounting or using Generally Accepted Accounting Principles.

Expenditures must be documented by an expense journal showing all food service expenditures. This journal must be supported by canceled checks, receipts, invoices, computer printouts, and any other documentation showing food service expenditures.

The following is a line by line summary for reporting expenditures.

Salaries and Employee Benefits (Line 8)

Enter all salaries and related employee benefits charged to the food service.

Labor expended directly in the planning, production, and service of food is an allowable expense. In addition, the time spent supervising children while reimbursable meals, after-school snacks, or milk are served and consumed is an allowable expense; however, playground supervision is not an allowable expense to the Child Nutrition Programs.

Operation and Maintenance of Plant Services—Custodial services and internal services (for example, warehouse personnel, purchasing agents, and computer services) directly related to the food service program are allowable program costs. However, to direct cost these functions to the food service program, complete documentation must be maintained to support these costs, including time sheets, and/or approvable allocation plans.

The following is a list of labor expenses that may be charged to the food service program.

Labor Related to the Food Service Program

Salaries, Regular
Salaries, Temporary
Overtime Pay

Employee Benefits Related to the Food Service Program

Municipal Retirement*
Employer FICA Taxes*
Employer Life Insurance
Employer Medical Insurance
Employer Dental Insurance
Tuition Reimbursement
Unemployment Compensation
Workers' Compensation

*Include only if district charges these expenditures directly to the food service program.

Equipment Depreciation (Line 9)

Food service equipment purchased during the year valued at more than \$500 per item must be depreciated and reported on the Annual Financial Report as an *Equipment Depreciation* expense. (See Appendix A for instructions on depreciation.) Food service equipment purchased during the year valued at less than \$500 should be reported on the Annual Financial Report as *Other Costs*.

Any equipment purchased prior to July 1, 1993, cannot be reported as a depreciation expense because this equipment has already been fully expensed.

Other Costs (Line 10)

Enter all other direct food service costs; for example, nonfood supplies, and food service equipment repair.

Additional costs (for example, custodial supplies, utilities, communication, and accounting services) can be directly charged to the program. However, to direct cost these functions to the food service program, complete documentation must be maintained to support these costs, including time sheets, approvable allocation plans, and invoices.

School food authorities utilizing an indirect cost rate cannot report any other costs on line 10 on the Annual Financial Report. These costs will be covered by Indirect Costs (line 12).

Other Costs Related to the Food Service Program

Food Service Equipment (valued less than \$500 per item)

Food Service Repair and Maintenance

Loss on Disposal of Fixed Assets

Extermination

Laundry and Linen

Trash Removal

Travel and Training (both in-state and out-of-state)

Transportation Charges (students/meals/supplies)

Food Service Supplies

Food Service Office Supplies

Professional and Technical Services

Rentals

Printing and Publishing

Other Miscellaneous Food Service Costs

Other Costs Related to the Food Service Program

Utilities

Custodial and Maintenance Supplies

Communications

Computer Services

Accounting Services

Subtotal (Line 11)

This amount is the sum of all amounts listed on lines 8 through 10.

Indirect Costs (Line 12)

Indirect costs benefit several activities and programs. (See Appendix B for instructions on indirect costs.) Examples of what indirect costs could cover include utilities, custodial salaries, supplies, and communication. Additional cost (for example, warehouse personnel, business support services, data processing, insurance, and personnel administration). Indirect costs may be charged and reported only if the above salaries and expenses have not been recorded as direct costs.

This amount would be zero if all expenditures related to the school breakfast and lunch program have been charged and reported as direct costs.

Food and/or Contracted Food Service (Line 13)

Include costs to the program for food items and/or any food service contract expense with an outside agency.

Rebates received from food companies are used to offset the expense of food and are not recorded as revenue items.

Food Items Purchased for the Food Service Program

Food—Meat, Poultry, Fish, Eggs

Food—Dairy Products (except milk)

Food—Milk

Food—Processing Costs

Food—Contracted

Food—Storage, Handling, Freight (include commodities)

Food—All Other Items

Food Service Management Fee (Line 14)

Enter any cost to the program that is a fee for management of the food service program. This line would apply to programs contracted for management only. This amount would be zero if you have not contracted with a food service management company.

Total Expenditures (Line 15)

This amount is the sum of all amounts listed in the Expenditures section (lines 11 through 14).

Unallowable Expenses

The following is a list of some expenses which are not allowable to the food service program and therefore should not be reported on the Annual Financial Report:

- Bad debts
- Fines and penalties
- Interest costs

- Legislative expense or executive direction without direct program responsibility, such as school boards
- Purchase of land or construction of buildings
- Donations or contributions made by the sponsor
- Passenger automobiles
- Depreciation on public buildings and improvements, fully depreciated equipment, equipment in storage or not in use, and equipment purchased with other federal funds
- Contingency reserve contributions
- Occupancy by contractual agreements classified as rental-purchase or leased with an option to purchase
- Any expenditure not related to the food service program

Revenue Over/Under Expenditures—Current Year (Line 16)

To calculate the gain or loss for the food service program, subtract the Total Expenditures (line 15) from the Total Revenue (line 7) on the Annual Financial Report.

EQUIPMENT DEPRECIATION

Depreciation is a process which spreads the cost of equipment over its estimated useful life rather than expensing the total purchase price in one year. The straight-line method of determining depreciation is to be used for reporting depreciation on the Annual Financial Report. Equipment used for food preparation and serving, as well as transportation and computer equipment used exclusively in the food service program valued at more than \$500 per item, must be reported as a depreciation expense.

Equipment Classification and Life

The cost of food service equipment (for example, ranges, refrigerators, steam tables, carts, and work tables) must be depreciated over a ten-year period from the date acquired. This simply means one-tenth of the acquisition cost is expensed per year.

Vehicles and/or transportation equipment used exclusively in the food service program may be charged as an allowable expense. The rate of depreciation for vehicles or transportation equipment is based on five years.

Computer equipment used exclusively in the food service program may also be charged as an allowable expense. The rate of depreciation for computer equipment is based on three years.

If any equipment is used for purposes other than the food service operation, only the portion of the cost used in the food service program can be depreciated and expensed on the Child Nutrition Programs Annual Financial Report. Documentation must be maintained showing the amount of use to the food service program.

Unallowable Depreciation

While depreciation costs are allowable for food service equipment, vehicles, and computers, depreciation is not allowable for the following items:

- Publicly owned buildings
- Depreciable equipment which has been fully depreciated or has remained in use beyond its original life expectancy
- Depreciable equipment in long-term storage for future use or equipment that was sold, traded, or otherwise disposed of
- Portions of time in which equipment is not used in the food service program

How to Calculate Depreciation

In order to compute depreciation, you need the following information for each class of equipment.

To compute depreciation for the year, multiply the acquisition cost times the depreciation factor. Acquisition cost is the purchase price plus installation and/or freight. The depreciation factor is determined by dividing 1 by the number of years over which the purchase is to be depreciated:

Equipment:	1 divided by 10 years = .10
Computer equipment:	1 divided by 3 years = .333
Vehicles:	1 divided by 5 years = .20

Equipment purchased during the year is depreciated for the entire year regardless of the purchase date.

EXAMPLE: Calculate Depreciation Cost

School District #1 purchased a refrigerator (serial number 00123) on March 21 for \$15,300, and Acme Cooling Company charged \$300 for installation and \$50 for delivery. The refrigerator has an estimated useful life of ten years.

Purchase Price	\$15,300
Installation	300
Freight/Delivery	<u>50</u>
Acquisition Cost	\$15,650

The depreciation cost in the example is calculated as follows:

$$\$15,650 \text{ (Acquisition Cost)} \times .10 \text{ (Depreciation Factor)} = \$1,565$$

Equipment Depreciation Schedule and Worksheet

The suggested Equipment Depreciation Schedule (page 13) and Worksheet (page 14) will provide the documentation necessary to support depreciation charges expensed to the Child Nutrition Programs Annual Financial Report. A separate schedule for each type of equipment purchased (equipment, vehicles, and computers) must be maintained.

To prepare the schedule and worksheet, the following steps should be performed for all food service equipment:

1. List each item, including serial number, tag number, and/or any other identifying information (Column C).
2. List the date placed in service, most likely the date purchased (Column A). Any equipment acquired during the year is depreciated for the entire year regardless of the purchase date.
3. Compute the acquisition price for each item: purchase price plus or minus any adjustments (Column D plus or minus Column E).
4. Total the acquisition cost (column F) on each page of the Equipment Depreciation Schedule.
5. Transfer the total acquisition cost to the Equipment Depreciation Worksheet under the appropriate acquisition cost category.
6. The Equipment Depreciation Worksheet summarizes all depreciation expenses by type (equipment, vehicles, and computers) of equipment purchased. To calculate the depreciation amount by category, multiply the total acquisition cost by type (equipment,

vehicles, and computers) times the appropriate depreciation factor (equipment .100, vehicles .200, or computers .333) provided on the worksheet.

7. To calculate the total depreciation to be reported as Equipment Depreciation (line 9) on the Annual Financial Report, total the amounts calculated on the Equipment Depreciation Worksheet under the depreciation amount category.

Once the schedule has been established, the depreciation calculations will be required once per year. If no changes occur on the schedule, the depreciation expense will remain the same from one fiscal year to the next. Only when new equipment is purchased and added to the program, or equipment is disposed of, sold, or fully depreciated, will a change in depreciation expense be necessary.

Traded, Scrapped, or Sold Equipment

Special problems are presented by equipment which is traded in on a new item of equipment, scrapped before the end of its expected life, or sold.

EXAMPLE: When Equipment Is Traded In

When equipment is traded in on another item of equipment, the amount that has not been fully depreciated, book value, must be recognized as part of the acquisition cost of the new equipment. This is illustrated in the following example:

School District #1 purchased a freezer in March 1999 for \$3,000. However, in May 2002 the freezer was traded in on a larger model. The book value of the old freezer equaled \$2,100. Calculated as follows:

1999 Acquisition Cost	\$3,000
Depreciation	<u>900</u> (.10 X \$3,000 X 3 years)
Book Value	\$2,100

The new freezer cost School District #1 \$3,750 after trade-in plus the book value of the old freezer, \$2,100. Therefore, the acquisition cost of the new freezer would be \$5,850. Calculated as follows:

Purchase Price After Trade-in	\$3,750
Book Value of Trade-in	<u>2,100</u>
Acquisition Cost	\$5,850

The new freezer was added to the equipment depreciation schedule, and the old freezer was deleted. Because of the higher acquisition cost of the new freezer, the depreciation expense was higher for the next year. No other changes occurred because of this transaction.

EXAMPLE: Scrapped Equipment

When equipment is scrapped, the book value would be recognized as an expense for the fiscal year. The book value is to be recorded as a loss on disposal or sale of equipment and is to be reported as Other Costs on the Annual Financial Report. This is illustrated in the following example:

School District #1 purchased a freezer in March 1999 for \$3,000. However, in May 2002, the freezer was scrapped. The book value of the old freezer equaled \$2,100. Calculated as follows:

1999 Acquisition Cost	\$3,000
Depreciation 3/1/1999 through 2/28/2002	<u>900</u> (.10 x \$3,000 x 3 yrs)
Loss on Disposal or Sale of Equipment	\$2,100

The loss on disposal or sale of equipment would be reported as Other Costs for the fiscal year in which the equipment was scrapped. It would also be removed from the equipment depreciation schedule and the depreciation expense would be lower for the next Annual Financial Report, assuming no additional equipment was purchased.

Gain/Loss on Sale of Equipment

When equipment is sold, the difference between the sale price and the book value would be recognized as *revenue* if there was a gain and as *expense* if there was a loss for the fiscal year. If there was a gain, the amount would be recorded as a gain on the sale of equipment and reported as Other Revenue. If there was a loss, the amount would be recorded as a loss on the disposal or sale of equipment and reported as Other Costs on the Annual Financial Report. This is illustrated in the following examples:

EXAMPLE: Gain on Sale of Equipment

School District #1 purchased a freezer in March 1999 for \$3,000. However, in May 2002 the freezer was sold. The book value of the old freezer equaled \$2,100. School District #1 sold the freezer to School District #2 for \$2,500. The gain on the sale of equipment would be \$400. Calculated as follows:

1999 Acquisition Cost	\$3,000
Depreciation 3/01/1999 thru 2/28/2002	<u>900</u> (.10 X \$3,000 X 3 years)
Book Value	\$2,100
Sale of Equipment	<u>2,500</u>
Gain on Sale of Equipment	\$ 400

The gain on sale of equipment would be reported as Other Revenue for the fiscal year in which the equipment was sold. It would also be removed from the equipment depreciation schedule and the depreciation expense would be lower for the next Annual Financial Report, assuming no additional equipment was purchased.

EXAMPLE: Loss on Disposal or Sale of Equipment

School District #1 purchased a freezer in March 1999 for \$3,000. However, in May 2002, the freezer was sold. The book value of the old freezer equaled \$2,100. School District #1 sold the freezer to School District #2 for \$1,500. The loss on the sale of equipment would be \$600. Calculated as follows:

1999 Acquisition Cost	\$3,000
Depreciation 3/1/1999 thru 2/28/2002	<u>900</u> (.10 X \$3,000 X 3 years)
Book Value	\$2,100
Sale of Equipment	<u>1,500</u>
Loss on Disposal or Sale of Equipment	\$ 600

The loss on sale of equipment would be reported as Other Costs for the fiscal year in which the equipment was sold. It would also be removed from the equipment depreciation schedule and the depreciation expense would be lower for the next Annual Financial Report, assuming no additional equipment was purchased.

EQUIPMENT DEPRECIATION SCHEDULE INSTRUCTIONS

List all food service equipment under ten years old, vehicles used in the food service program under five years old, and computer equipment used in the food service program under three years old. Separate schedules should be maintained for equipment, vehicles, and computer equipment.

Column A—Actual purchase date (invoice date)

Column B—Date equipment will be fully depreciated and removed from schedule (ten or five or three years from date in column A)

Column C—Identifying numbers and names

Column D—Full cost of equipment (invoice total)

Column E—Additions to purchase price for costs of installation and/or freight and deductions from purchase price for portions of equipment not utilized 100 percent in food service operations

Column F—Column D plus or minus column E

Column G—Total depreciation expense to date

Column H—Column F minus column G (When this column equals zero, equipment is fully depreciated and should be removed from schedule. This should correspond with the exit date.)

EQUIPMENT DEPRECIATION WORKSHEET

SAMPLE FORMAT—Distributed by Illinois State Board of Education (ISBE) for school food authority discretionary use only. Format may be modified or copied. Do not return to ISBE.

EQUIPMENT DEPRECIATION WORKSHEET

INSTRUCTIONS: Use this form to summarize data collected on ISBE Form 50-57, Equipment Depreciation Schedule.

NAME OF SCHOOL FOOD SPONSOR _____

AGREEMENT NUMBER _____

ACCOUNTABLE EQUIPMENT SCHEDULE VALUE BY PAGE

TYPE	TOTAL ACQUISITION COST	DEPRECIATION FACTOR	DEPRECIATION AMOUNT
Equipment	_____	X .100	= _____
Vehicles	_____	X .200	= _____
Computers	_____	X .333	= _____

TOTAL DEPRECIATION _____
 (To be recorded on Line 9 of the annual financial report)
 TOTAL DEPRECIATION IS THE SUM OF THE THREE LINES ABOVE

INDIRECT COSTS

Each school food authority has the option to use the direct cost method for costing all expenditures related to the food service program or the indirect cost method for reporting program expenditures on the Annual Financial Report. These two methods of costing cannot be used at the same time for the same expenditures. If the school food authority chooses to use the direct cost method, all costs directly associated with food service program are reported on the Annual Financial Report. Direct costs include salaries and employee benefits, equipment depreciation, other costs, food and/or contracted food service, and any food service management fees.

Additional costs that can be included with the direct cost method include custodial salaries, custodial supplies, utilities, communication, and salaries for purchasing and warehouse personnel. In order to include these costs, the school food authority must allocate all costs and maintain documentation showing the exact usage or time spent charged to the food service program. If the direct cost method is used, the amount reported for Indirect Costs (line 12) on the Annual Financial Report would be zero.

When the indirect cost method is used, costs will be expensed to the food service program by using an approved, unrestricted, indirect cost rate times an indirect cost pool of expenses. The indirect cost pool of expenses is composed of only the direct costs related to accounts for labor, fringe benefits, equipment depreciation, and other costs.

Indirect Cost Rate

Indirect costs applicable to a food service operation can easily be determined through the use of an unrestricted indirect cost rate. This is an approved percentage which determines the portion of your general indirect costs expendable to the food service program. The unrestricted indirect cost rate will be provided and must be used when computing indirect costs on the Child Nutrition Annual Financial Report for the appropriate year.

How to Calculate Indirect Costs

Indirect costs are computed by multiplying the unrestricted indirect cost rate times the indirect cost base. The indirect cost base is the sum of the Salaries and Employee Benefits (line 8) **plus** Equipment Depreciation (line 9) **plus** Other Costs (line 10). This total is the Subtotal (line 11) as reported on the Child Nutrition Annual Financial Report. If equipment has been scrapped or sold, **subtract** the loss on disposal or sale of equipment (Other Costs) from the Subtotal (line 11). See the examples below:

On line 12, Indirect Costs, enter the unrestricted indirect cost rate in the blank provided.

EXAMPLE: No Disposal or Sale of Equipment

School District #1 has chosen to use the indirect cost method of reporting expenses. Salaries and Employee Benefits (line 8) is \$30,000, Equipment Depreciation (line 9) is \$7,000, Other Costs (line 10) is \$3,000, and the unrestricted indirect cost rate is 17.43 percent.

The indirect cost base in this example is calculated as follows:

Salaries and Employee Benefits (line 8)	\$30,000
Equipment Depreciation (line 9)	7,000
Other Costs (line 10)	<u>3,000</u>
Subtotal (line 11)	\$40,000

In this example, the indirect cost base is equal to the Subtotal (line 11).

If equipment has not been scrapped or sold, \$40,000 would be the indirect cost base. Indirect costs would be calculated as follows:

$$.1743 \text{ (Indirect Cost Rate)} \times \$40,000 \text{ (Indirect Cost Base)} = \$6,972$$

In this example, the school food authority would report \$6,972 as an Indirect Cost (line 12) on the Annual Financial Report. Sponsors choosing to use the indirect cost method must also report Food and/or Contracted Food Service Costs and any Food Service Management Fees on the Annual Financial Report. However, these costs cannot be included in the indirect cost base.

EXAMPLE: Disposal or Sale of Equipment

School District #1 has chosen to use the indirect cost method of reporting expenses. The unrestricted indirect cost rate is 17.43 percent. The costs are as follows:

Salaries and Employee Benefits (line 8)	\$30,000
Equipment Depreciation (line 9)	7,000
Other Costs (line 10)	3,000
Loss on Disposal or Sale of Equipment (Other Costs)	1,510

The indirect cost base in this example is calculated as follows:

Salaries and Benefits (line 8)	\$30,000
Equipment Depreciation (line 9)	7,000
Other Costs (line 10)	<u>3,000</u>
Subtotal (line 11)	\$40,000

In this example, an item of equipment was scrapped or sold. The book value was \$1,510 and reported as Other Costs as a loss on disposal or sale of equipment. In order to calculate the indirect cost base for this example, subtract the loss from the disposal or sale of equipment from the Subtotal (line 11).

Subtotal (line 11)	\$40,000
Loss on Disposal or Sale of Equipment	<u>1,510</u>
Indirect Cost Base	\$38,490

Since equipment was scrapped or sold, the indirect cost base is \$38,490. Indirect costs would be calculated as follows:

$$.1743 \text{ (Indirect Cost Rate)} \times \$38,490 \text{ (Indirect Cost Base)} = \$6,709$$

In this example, the school food authority would report \$6,709 as Indirect Cost (line 12) on the Annual Financial Report. School food authorities choosing to use the indirect cost method must

also report Food and/or Contracted Food Service Costs and any Food Service Management Fees on the Annual Financial Report. However, these costs cannot be included in the indirect cost base.

DEFINITION OF TERMS

Accrual Accounting—system of keeping records which shows income earned even though the income has not been received.

Acquisition Cost—purchase price of an item plus any installation and/or freight charges.

A la Carte—all food services provided to children and adults not reimbursed as a lunch, breakfast, or after-school snack, or milk served through the Special Milk Program as defined by federal regulations.

Allowable Costs—costs which are chargeable to the food service program. Such costs must be essential and consistent with the objectives of the Child Nutrition Programs as well as allowable under state and local laws and regulations.

Book Value—amount of depreciation that was not expensed when equipment was scrapped, sold, or traded-in.

Cost Accounting—system of keeping records in a manner which shows expenses when paid, not when incurred.

Depreciable Equipment—food service equipment with a useful life expectancy of more than one year and a cost of more than \$500. (Also called non-expendable equipment.)

Depreciation—a reasonable allowance for the use, deterioration, wear and tear, and obsolescence of non-expendable equipment.

Direct Costs—costs which are readily identifiable to the food service program. Examples include salaries and fringe benefits of full-time employees; food used and costs of storing, handling, transporting, and processing food; purchases such as repairs, equipment rentals, special services, supplies, or expendable equipment specifically for the program; depreciation on non-expendable equipment used specifically for the program; value of donated services; etc.

Eligible Costs—costs which may be included as part of the food service program and included on the Annual Financial Report.

Expenditures—costs incurred for services or goods purchased.

Indirect Costs—costs incurred by the support service areas of a food service program and are not readily assignable to any single area or program.

Life Expectancy—length of time an item of equipment will be depreciated.

Non-Depreciable Equipment—equipment costing less than \$500 per item or any equipment with a life span of less than one year.

Program—type of feeding program offered by a Child Nutrition Program sponsor (National School Lunch, School Breakfast, and Special Milk) which identifies a source of revenue or expense.

Revenue—income the food service program receives from cash sales, reimbursements, and value of donated food, supplies, and other services received from federal, state, and local sources.

Unallowable Costs—food service costs which may not be charged to the Child Nutrition Program.

Unrestricted Indirect Cost Rate—indirect cost rate applicable to the school food program in Illinois. The rate is determined by the Illinois State Board of Education from data submitted on the school district's Annual Financial Report.