



Audience: National School Lunch Program Sponsors

## Office of Nutrition Services

### Allowable Funding Sources for Program Meals and Non-program Foods Understanding Why Free Food is Not Allowable

Items purchased and served without revenue to cover the cost are unallowable to the Non-profit Food Service Account (NFSA). Read below on why paid eligible meals, ala carte, adult meals, catering, and other food served cannot be covered by NSFA funds. More information is also provided on allowable options to cover reduced and paid eligible meal funding.

#### **Why are paid-eligible students required to be charged for lunches?**

The Paid Lunch Equity (PLE) regulations require paid student lunches to be paid for at an appropriate price (7 CFR Part 210.14(e)). This is why paid eligible lunch meals cannot be offered for free. Operating in the Community Eligibility Provision (CEP) and/or Michigan School Meals are the exceptions for paid-eligible meals to be covered by federal and state funding instead of student payments.

It is important to note that the cost of providing paid student lunches, without revenue for the meal, is an unallowable cost to the NFSA. Keep in mind that every paid student lunch does receive a small amount of federal reimbursement, however, that reimbursement does not cover the full cost of producing the meal. The remainder of the cost of that paid student lunch must come from a non-federal source. Those non-federal sources could be the student paying for the meal, the General Fund paying for the meal, or some other non-federal source outside of the NFSA.

#### **What are the revenue requirements?**

Food purchased by the NFSA or Food Service Fund must be covered by revenue as follows:

1. **Program meals:** must receive revenue for each meal served in the form of federal meal reimbursement, student meal payments, a combination of both, or other non-federal funds outside of the NFSA.
2. **Non-program foods:** must receive revenue in the form of payments from students or staff, the General Fund, catering payments, donations, or other non-federal funds outside of the NFSA.

Any food provided by the NFSA that is not a reimbursable meal is considered non-program food and must at least have the costs covered in full by non-federal funds (7 CFR 210.14f). These requirements are covered by the [Revenue from Non-program Foods guidance](#). It is not allowable to absorb those costs in the NFSA or Food Service Fund because then federal funds are supplementing items that they are not meant to cover (7 CFR 210.14a).

### **What about using Excess Fund Balances to provide food or meals for free?**

No, using Excess Fund Balances to provide food or meals for free is not allowable as explained above. Excess Fund Balances (EFB) must be spent on food service program improvements to benefit students (7 CFR Part 210.19(a)(1)) to:

- Improve food quality (e.g. higher quality meats or fresh produce)
- Take other actions designed to improve the nonprofit school food service (e.g. updated kitchen serving equipment)

All payments must be directed to the NFSA (7 CFR 210.14 and per [MDE Admin Memo #5 SY17-18](#)).

- Federal regulations require sponsors to establish a restricted account (NFSA) in which all revenue from food service operations conducted by the sponsor are deposited and retained in the NFSA.
- All program and non-program revenues that accrue to the NFSA are considered federal funds.

### **What is the Discretionary Elimination of the Reduced-Meal Price Charges option?**

This option allows sponsors to offer meals at no cost to students who qualify for reduced-price meal benefits. See [SP17-2014](#).

- Funds from the NFSA can be used to cover the reduced-price student payments (\$.30 for Breakfast and \$.40 for Lunch).
- School meals must still be claimed at each student's respective eligibility status, but districts do not need to collect payment from the reduced-price students for breakfast or lunch.
- With this option, only paid-eligible students will be charged for meals.

### **How does the Universal Free Breakfast program work?**

This program allows sponsors to serve breakfast meals for no cost to reduced-price and paid-eligible students. The meals are still claimed according to eligibility status (free, reduced-price, paid), but no money is collected for reduced-price and paid meals. It is allowable to absorb the lack of meal payments in the NFSA. The reduced-price and paid meals for breakfast are set up with a \$0.00 price in the Point of Sale (POS) system.

The combination of Universal Free Breakfast and the Discretionary Elimination of the Reduced Meal Price can cover meals in the NFSA, but paid lunches are where it stops.

### **What can the NFSA funds cover under the Community Eligibility Provision (CEP)?**

Federal reimbursements and any other revenue that is required to flow to the NFSA can be used to cover the costs of operating in CEP (i.e., State supplemental monies like 30d, 31a, 31d and 31f, non-program revenues, donations, etc.). Non-federal funds like the General Fund, however, would be required to cover any deficit that remains in the NFSA should all the federal reimbursements and other sources of revenue be insufficient to break even in the NFSA. See [CEP FAQ](#) page 5 question "What type of funds can cover the costs of the CEP?"

- For the CEP buildings, it is allowable to absorb the difference in the paid reimbursement portion of the claims in the NFSA.
- For the non-CEP buildings, without Michigan School Meals state funding in play, paid student lunches can never be offered free of charge due to Paid Lunch Equity (PLE) regulations. It is not allowable to absorb the lack of paid student lunch payments in the NFSA, nor can Excess Fund Balances be used to cover paid student lunches.

### **Why Adult Meals cannot be given away for free?**

USDA Child Nutrition Programs are intended to feed children/students, not adults. Federal taxpayer funds for these programs are restricted funds and cannot be used to provide food items or meals to adults for free (7 CFR 210.14a). Adults must pay for their food/meals, or the School Board or General Fund could pay for serving adult meals from a non-federal funding source outside of the NFSA or Food Service Fund.

Detailed guidance for adult meals and other non-program foods pricing requirements are found in the Revenue from Non-program Foods guidance ([SP 20-2016](#)). In addition, there is a summary of the Pricing Adult Meals in the National School Lunch Program (NSLP) and School Breakfast Program (SBP) guidance ([FNS 782-5](#)) that also applies:

- Ensure to the extent practicable, that the federal reimbursements, children's payments, and other non-designated non-profit food service revenues do not subsidize program meals served to adults.
- Breakfasts and lunches served to teachers, administrators, custodians and other adults must be priced to cover the overall cost of the lunch.
- Adult meals must be charged the full adult meal price per the current SNP Adult Pricing Guide on the [Resource Management webpage](#), or tracked per meal and covered in full by the General Fund or another non-federal funding

source. This ensures that the NFSA receives the revenue for the meal as required.

- Food Service Staff can only have their meal covered (for free) if they are directly involved in the operation and administration of the food service program. This means specifically assisting with the meal service, such as food service employees working to prepare or serve the meal. Monitoring alone in the cafeteria is not sufficient to cover those meals.

**Resources:**

For additional resources, see the quick reference chart at the end of this document. Please also refer to the Fiscal Monitoring Team's resources for "Revenue from Non-program Foods" and "Paid Lunch Equity" on the [Resource Management webpage](#) for guidance, requirements, and resources.

**For More Information:**

Questions may be directed to MDE Office of Nutrition Services (ONS), Fiscal and Administrative Services, Fiscal Monitoring Unit, by email to [MDE-Fiscal@michigan.gov](mailto:MDE-Fiscal@michigan.gov) or by calling 517-241-5380.



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# Office of Nutrition Services

## Allowable Funding Sources for Program Meals and Non-program Foods

### Quick Reference Chart

Below is a quick reference chart to assist with the funding and pricing allowability requirements for program meals and non-program foods.

	<b>Allowability to offer free of charge</b>	<b>Notes</b>	<b>Guidance/ Resource</b>
<b>Community Eligibility Provision (CEP)</b>	<p>Allowable</p> <p>Must provide breakfast and lunch to all participating students at no charge</p>	<p>It is allowable to absorb the difference in the paid reimbursement portion of the claims in the NFSA regardless of a claiming rate less than 100%.</p> <p>Non-federal funds like the General Fund, however, would be required to cover any deficit that remains in the NFSA should all the federal reimbursements and other sources of revenue be insufficient to break even in the NFSA.</p>	<p><a href="#">CEP Planning and Implementation Guidance   Food and Nutrition Service</a></p> <p>Also see <a href="#">CEP FAQ</a> page 5 question "What type of funds can cover the costs of the CEP?"</p>
<b>Paid Eligible Student Lunches</b>	<p>Unallowable</p>	<p>Except under CEP and/or Michigan School Meals, paid student lunches can never be offered free of charge due to PLE regulations.</p> <p>It is not allowable to absorb the lack of paid student lunch payments in the NFSA. Nor can Excess Fund Balances be used to cover paid student lunches.</p>	<p><a href="#">7 CFR 210.14(e)</a></p> <p><a href="#">MDE Paid Lunch Equity Communication for SY 2025-2026</a></p> <p><a href="#">USDA Paid Lunch Equity Guidance for SY 2025-2026 (SP12-2025) Paid Lunch Equity SY25-26 Tool</a></p> <p>See <a href="#">Meal Charging and Bad Debt Resources</a></p>

<b>Universal Free Breakfast</b>	Allowable	<p>It is allowable to serve breakfast meals for no cost to reduced-price and paid eligible students. Meals are still claimed according to eligibility status (free, reduced-price, paid), but no money is collected for reduced-price and paid meals. It is allowable to absorb the lack of meal payments in the NFSA.</p> <p>The reduced-price and paid meals for breakfast are set up at a \$0.00 price in the Point of Sale (POS) system. The General Fund would only need to transfer money to the NFSA if Food Service ended with a loss in the program at year end.</p>	
<b>Discretionary Elimination of the Reduced-Price Meal Price</b>	Allowable	<p>Under this option, reduced-price eligible students are not charged for their meals. Their meals are still claimed at the reduced eligible status. It is allowable to absorb the lack of reduced meal payments in the NFSA. The reduced-price meals for breakfast and lunch are set up at a \$0.00 price in the Point of Sale (POS) system.</p>	<a href="#">Discretionary Elimination of Reduced-Price Charges in the School Meal Programs   Food and Nutrition Service</a>
<b>Adult Meals</b>	Unallowable	<p>USDA Child Nutrition Programs are intended to feed children/students, not adults. Federal taxpayer funds for these programs are restricted funds and cannot be used to provide food items or meals to adults for free (7 CFR 210.14a). Alternatively, the General Fund or other non-federal funds can pay for adult meals.</p>	<a href="#">SP 20-2016</a> <a href="#">FNS 782-5</a> <a href="#">Adult Pricing Guide</a>
<b>Ala Carte Items</b>	Unallowable	<p>Nonprogram food costs must be fully covered by non-federal funds (7 CFR 210.14(f)). Federal funds cannot absorb these costs, as they are restricted to allowable program expenses (7 CFR 210.14(a)).</p>	<a href="#">SP 20-2016</a> <a href="#">MDE Ala Carte and Catering Pricing Worksheet</a>
<b>Catering, Vending, Concessions</b>	Unallowable	<p>Nonprogram food costs must be fully covered by non-federal funds (7 CFR 210.14(f)). Federal funds cannot absorb these costs, as they are restricted to allowable program expenses (7 CFR 210.14(a)).</p>	<a href="#">SP 20-2016</a> <a href="#">MDE Ala Carte and Catering Pricing Worksheet</a>

## Questions

Please contact the Fiscal and Administrative Services Fiscal Monitoring Team at:

Email: [MDE-Fiscal@Michigan.gov](mailto:MDE-Fiscal@Michigan.gov) or

Phone: 517-241-5380

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