



STATE OF MICHIGAN  
DEPARTMENT OF EDUCATION  
LANSING

RICK SNYDER  
GOVERNOR

MICHAEL P. FLANAGAN  
STATE SUPERINTENDENT

**FOOD SERVICE**

**ADMINISTRATIVE POLICY NO. 17  
SCHOOL YEAR 2014-2015**

**SUBJECT:** Loans to and from the Nonprofit School Food Service Account

**DATE:** April 7, 2015

Nonprofit school food service accounts within the National School Lunch Program must be restricted accounts. All revenue from all food service operations conducted by the School Food Authority (SFA) principally for the benefit of school children is retained and used only for the operation or improvement of the nonprofit school food service per 7 CFR Part 210.14(a). This policy is to provide clarification on the requirements for loans to and from the nonprofit school food service account and the general fund.

**Loans to the General Fund from the Nonprofit School Food Service Account**

SFAs participating in the National School Lunch Program (NSLP) may loan funds from its nonprofit school food service account to the general fund, as long as the loan does not jeopardize the integrity of its food service program to children, and the balance of the nonprofit school food service account fund is not reduced below operational costs for a three-month period. The loan must also meet the following criteria:

- The loan must be for no more than one year and must be repaid within the fiscal year the loan was made. Multi-year obligations are not permissible.
- The loan must be treated as a commercial loan with a formal loan agreement signed by the school board, food service director, and superintendent.
- The loan agreement must include stipulations such as purpose, interest rate (simple or compounded), the repayment schedule for the principal and interest, and any penalties for late payment.
- The rate of interest charged on the loan must be equal to the rate that would have been paid if the loan were obtained from a commercial source, and no less than the amount of interest the SFA would have earned by keeping the money deposited in an interest-bearing account.

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608 WEST ALLEGAN STREET • P.O. BOX 30008 • LANSING, MICHIGAN 48909  
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- The loan documentation must be on file for the duration of the loan plus the retention period required for NSLP records.

If the Michigan Department of Education (MDE) determines a loan from the nonprofit school food service account has occurred without meeting all of the conditions outlined above and/or without proper documentation, the loan will be considered an unallowable transfer or expenditure, and the funds must be immediately restored to the nonprofit food service account, along with any lost interest earnings.

### **Loans to the Nonprofit School Food Service Account from the General Fund to cover Indirect Costs**

It is unallowable to retroactively bill the nonprofit food service account for indirect costs that were paid from the general fund in prior years unless a loan agreement was executed to show that the district had been "loaning" the nonprofit school food service account funds to cover the indirect costs in one or more prior years.

This would require that an official inter-fund transaction had been posted to the accounting records of the general fund and the school food service each year that such a loan had been made. Such entries would consist of a receivable *Due From* nonprofit school food service account in the general fund and an account payable *Due To* general fund in the nonprofit school food service account. Without such documentation evidencing prior-year inter-fund loans, the nonprofit school food service account should not be charged for prior year indirect costs. There is no Federal requirement that prohibits an SFA from changing its internal fiscal policy regarding the recovery of indirect costs by those organizational units within the SFA that actually incur the costs. Absent a documented inter-fund loan as outlined above, however, an SFA may only change its policy to charge the nonprofit school food service account for indirect costs prospectively (that is, going forward for the next school year).

Questions regarding this Administrative Policy may be directed to the School Nutrition Programs unit by email to [MDE-schoolnutrition@michigan.gov](mailto:MDE-schoolnutrition@michigan.gov).