



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

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STATE SUPERINTENDENT

FOOD SERVICE

**ADMINISTRATIVE MEMO NO. 5
SCHOOL YEAR 2017-2018**

SUBJECT: Fiscal Requirements for Operating a School Meals Program

TO: Local and Intermediate School District Superintendents,
Public School Academy Directors, Lead Administrators

DATE: August 28, 2017

The purpose of this memorandum is to provide School Food Authorities (SFAs) with an overview of the expectations for operating a United States Department of Agriculture (USDA) School Nutrition Program (SNP) which meets federal requirements as well as specific instructions for SFAs to address **Excess Fund Balance Spend Down Plans** and **Equipment and Other Capital Expenditure Requests** with the Michigan Department of Education (MDE).

The United States Department of Agriculture (USDA) program regulations for SFAs are found under 7 CFR Part 210 - National School Lunch Program (NSLP) and 7 CFR Part 220 - School Breakfast Program. Federal regulations require SFAs establish a restricted account in which all revenue from all food service operations conducted by the SFA are deposited and retained in the non-profit school food service account (NSFSA). All program and nonprogram revenues that accrue to the NSFSA are considered federal funds. Federal regulations do not allow for a separate food service fund for equipment or any other purpose per 7 CFR Part 210.2; refer to Page 2 of this memorandum for revenue sources that must accrue to the NSFSA. These funds are to be used solely for the benefit of school children and only for the operation or improvement of the SNP.

Additionally, SFAs must demonstrate that all purchases from the NSFSA meet the federal cost principles (necessary, reasonable, and allocable). The SFA is charged with ensuring that only allowable costs are paid with NSFSA funds and costs are properly classified. These regulations can be found under 2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

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The USDA program regulations place restrictions on the use of NSFSA funds. As stated in 7 CFR 210.14 and 220.7, **SFAs operating a nonprofit school food service program must adhere to the following requirements:**

1. SFAs must observe the restrictions on the use of NSFSA so that all revenue is used for operating the SNP and/or improving its quality and efficiency. Revenue sources include but are not limited to:
 - Federal meal reimbursement
 - State supplemental payments (Section 31a, Section 31d, and Section 31f)
 - Student payments for paid and reduced meals
 - Adult meal payments
 - A la carte items including second entrees and individual milk sales
 - Catering
 - Concessions (where food, labor, and supplies are provided by the SNP) and vendingRevenue from the NSFSA may be used for food, supplies, equipment, and personnel to operate the meal programs. Revenue from the NSFSA can also be used to cover students' payments of [reduced price mealsⁱ](#). Revenue from the NSFSA may not be used to purchase land and/or buildings or to construct buildings.
2. SFAs must limit the net cash resources in the NSFSA not to exceed three months' average expenditures. The SNP may not build up a fund reserve in the NSFSA exceeding this three months' average.
3. If SFAs have a surplus of over three months' average expenditures in the NSFSA, they agree to:
 - Improve food quality.
 - Make other improvements to the school nutrition operations, such as purchase equipment or upgrade existing food lines.
 - Cover students' payments of [reduced price meals](#).

Excess Fund Balance Spend Down Plans

Per 7 CFR Part 210.19(a)(1) MDE requires each SFA to submit a formal [Excess Fund Balance Plan of Action Formⁱⁱ](#) to spend down excess NSFSA funds. An excess fund balance exists when net cash resources (ending fund balance) compared to the NSFSA allowable fund balance is greater than three months' average expenditures for a given school year. The calculation for an allowable fund balance is based on expenditures consisting of total program costs less capital outlay, divided by nine (9) operating months multiplied by three (3) months. Due to the timing of the Financial Information Database (FID) data being finalized, MDE's initial notification to the SFA does not occur until the Spring of the following school year.

When completing the Excess Fund Balance Plan of Action Form addressing the excess fund balance from the prior school year, the SFA is committing to spending down excess funds by June 30th of the current school year. The SFA is required to submit the Excess Fund Balance Plan of Action Form through the [MDE-GEMS/MARS applicationⁱⁱⁱ](#). If the SFA fails to submit and/or execute an Excess Fund Balance Plan

of Action Form to address the excess fund balance, MDE shall lower the rates of federal reimbursement to the SFA, per USDA program regulations under 7 CFR Part 210.19(a)(1). It is advantageous for an SFA to have a review process in place to identify an excess fund balance and have a plan in place prior to receiving MDE's initial notification.

Request for Equipment and Other Capital Expenditures

Per 2 CFR Section 200.407 (Equipment and Other Capital Expenditures), an SFA is required to obtain prior written approval from MDE before incurring the cost of equipment and other capital expenditures from the NSFSA. Equipment and other capital expenditure requests may be submitted throughout the school year. If an SFA intends to purchase equipment that is not on the USDA pre-approved list, the SFA must complete and submit the Request for Approval for Equipment and Other Capital Expenditures form and obtain MDE's approval, prior to making the purchase.

MDE's Administrative Policy #13 issued in school year 2015-2016 outlines the existing process to obtain MDE's prior approval and the USDA pre-approved equipment list. Any equipment that is selected from the USDA pre-approved list that exceed \$25,000 cumulatively per building per year requires MDE's approval, prior to incurring the cost. Additionally, the SFA must demonstrate that all equipment and capital outlay purchases meet the federal cost principles (necessary, reasonable, and allocable).

As the state agency, MDE is responsible for ensuring compliance of the NSLP Resource Management review process under 7 CFR Part 210.18 and must ensure that equipment and capital outlay purchases are allowable using funds from each SFA's NSFSA. **Failure to obtain MDE's prior approval shall result in an unallowable cost, requiring SFAs to reimburse the NSFSA with non-federal funds.**

Below are the steps to obtain prior approval from MDE:

1. All SFAs are required to follow proper procurement by obtaining quotes for purchases prior to obtaining MDE approval.
2. Once a minimum of three (3) quotes is obtained, the SFA chooses the item(s) that meets their needs for the best price.
3. The SFA should review their Procurement Policy and Procedures, and if applicable, obtain Board Approval prior to submitting each request to MDE for approval.
4. SFAs are required to complete the [Request for Approval for Equipment and Other Capital Expenditures^{iv}](#) form. The submitted form must include actual costs from quotes obtained by the SFA.
5. Each Request for Approval for Equipment and Other Capital Expenditures form should only include one (1) vendor per form.
6. Scan and email the completed Request for Approval for Equipment and Other Capital Expenditures form to MDE-SchoolNutrition@michigan.gov.
7. MDE will send an email notification from MDE-GEMS@michigan.gov when the request has been processed.

Equipment and Other Capital Outlay Expenditures

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If you have any questions regarding this memo, contact the MDE Office of School Support Services, Fiscal and Administrative Services Unit at 517-373-1073 or MDE-SchoolNutrition@michigan.gov.

ⁱ <https://www.fns.usda.gov/discretionary-elimination-reduced-price-charges-school-meal-programs>

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http://www.michigan.gov/documents/mde/Excess_Funds_Plan_of_Action_Over_5K_573241_7.pdf

ⁱⁱⁱ http://www.michigan.gov/mde/0,4615,7-140-5236_63101---,00.html

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http://www.michigan.gov/documents/mde/Request_for_Approval_for_Equipment_and_Other_Capital_Expenditures_ADA_573240_7.pdf