

*Additional Information:*

United States Department of Agriculture Uniform Federal Assistance Regulations, 7 CFR Parts 3016, 3019, and 3052.

[www.gpo.gov/nara/cfr/index.html](http://www.gpo.gov/nara/cfr/index.html)

United States Department of Agriculture, Child and Adult Care Food Program Regulation, 7 CFR Part 226.

[www.usda.gov/cnd](http://www.usda.gov/cnd)

United States Department of Agriculture, Food and Nutrition Service, Instruction 796-2, Rev. 3, Financial Management -Child and Adult Care Food Program.

Office of Management and Budget Circulars: A-87, August 29, 1997; A-102, March 11, 1988; A-110, November 29, 1993; A-122, June 1, 1998; and A-133, June 24, 1997.

[www.whitehouse.gov](http://www.whitehouse.gov)

United States General Services Administration, Federal Acquisition Regulations, 48 CFR Part 31.

[www.gsa.gov](http://www.gsa.gov)

Contact State administering agencies or United States Department of Agriculture, Food and Nutrition Service Regional Offices for a copy of FNS Instruction, 796-2, Rev. 3, Financial Management -Child and Adult Care Food Program.



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**CACFP**  
*Building for  
the Future*

**CHILD and ADULT  
CARE FOOD  
PROGRAM**

**FNS INSTRUCTION  
796-2, Rev. 3**

**# 15  
DIRECT COSTS,  
INDIRECT COSTS and  
COST ALLOCATION**

*This is the fifteenth in a series of brochures on  
FNS Instruction 796-2, Revision 3.*

Costs are either direct or indirect. Due to differences in activities and accounting practices, a cost may be direct in one institution and indirect in another.

### **What are direct costs?**

Direct costs benefit allowable and unallowable activities and can be easily identified with a specific function or activity.

### **What are some examples of allowable direct costs?**

In the Child and Adult Care Food Program (CACFP), allowable direct costs benefit administrative or operating functions or a combination. Examples include:

- Operating and administrative nonprofit food service employee salaries;
- Depreciation or use allowances on equipment used in the nonprofit food service program; and
- Food purchased for use in the nonprofit food service program.

### **What are indirect costs?**

Indirect costs benefit more than one function or activity but cannot be easily identified or assigned. Indirect costs can benefit both allowable and unallowable activities. Examples include:

- Depreciation and use allowances on buildings and equipment used for common purposes;
- Costs of operating and maintaining facilities; and
- Salaries for an office receptionist and central accounting staff.

### **How are direct and indirect costs assigned to the CACFP?**

Direct costs are assigned to the activity that receives benefit from the cost, while indirect costs are allocated on a consistent and rational basis to assign a share of the costs to each activity that benefits from the cost.

### **How is a direct cost that benefits more than one activity assigned?**

***When more than one activity benefits from a direct cost, the cost must be allocated. The allocation method assigns a share of the direct cost to each activity based on the benefits received, not the source of funds available to pay for the cost. The institution must provide the State agency with the method it will use to assign these shared costs and the State agency must provide specific prior written approval of the allocation method.***

### **How are indirect costs assigned?**

Indirect costs are assigned on a consistent and rational basis according to the State agency's financial management system and are subject to review by FNS. Indirect costs are frequently assigned through an indirect cost rate.

### **What is an indirect cost rate?**

An indirect cost rate is a mathematical relationship between indirect costs and direct costs.

### **How is an indirect cost rate calculated?**

An indirect cost rate is developed through a cost allocation plan (CAP). Using audited cost information, the CAP identifies and assigns the costs as direct and indirect. The indirect cost rate is computed by dividing the indirect costs by a direct cost base.

### **What is a direct cost base?**

A direct cost base is the sum of all allowable and unallowable direct costs that receive benefit from the indirect costs.

### **Can a predetermined amount such as 10% be used as the indirect cost rate?**

No. The indirect cost rate must be computed usually a CAP developed from actual audited cost data. Either the cognizant Federal agency or the State agency must approve the CAP and the rate.

### **When does a Federal agency approve the CAP and indirect cost rate?**

Federal agency approval is generally limited to public organizations receiving Federal funds from more than one source. Federal agency approval is also available on a very limited basis for certain very large not-for-profit organizations.

### **Where can an institution obtain information on how to prepare a CAP?**

The institution must use OMB Circulars A-87 and A-122 and Federal Acquisition Regulations 48 CFR Part 31, as applicable, when developing a cost allocation plan. An institution should contact its State agency for additional guidance.

### **Where can an institution learn more about direct and indirect costs in the CACFP?**

An institution should contact its State agency for additional information and consult FNS Instruction 796-2, Rev. 3.

***NOTE: Additional requirements may apply. Consult 796-2, Rev. 3 and the appropriate administering agency for more information.***