Federal regulations (2 CFR 200) require a grantee or subgrantee to obtain the prior written approval of its awarding agency before incurring the cost of a capital expenditure. For purposes of this Federal prior approval requirement, the United Stated Department of Agriculture (USDA) regulations define “equipment” as any item of non-expendable personal property with a useful life of a year or longer and an acquisition cost which equals or exceeds the Federal per-unit capitalization threshold of $5,000 or a lower threshold set by State or local level regulations. (USDA Memo SP 39-2016 – State Agency Prior Approval Process for School Food Authority (SFA) Equipment Purchases)

Schools wanting to request approval for equipment exceeding the $5,000 capitalization threshold that is not listed on the current, approved Indiana Department of Education (IDOE) Equipment List, must complete and submit an IDOE Equipment Purchase Approval Request Form. SFAs completing a large renovation project must complete an IDOE Equipment Approval Request Form and attach the details of the renovation project, a breakdown of the specific expenses being paid with food service funds and documentation of the procurement process followed for the project for approval. Forms and supporting documentation can be emailed to SCNFinance@doe.in.gov to initiate the approval process and will be reviewed in the order received.

Below are guidance and information from the Federal regulations pertaining to equipment purchases, renovations, new construction, and disposition of equipment. Please make sure to review the “Building a School Kitchen” section as new construction is generally not considered an allowable expense for school food service funds.


(a) Please see Appendix A for definitions for the following: §§200.13 Capital expenditures, 200.33 Equipment, 200.89 Special purpose equipment, 200.48 General purpose equipment, 200.2 Acquisition cost, and 200.12 Capital assets, relevant to this subsection (§200.439).

(b) The following rules of allowability must apply to equipment and other capital expenditures:

(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except with the prior written approval of the Federal awarding agency or pass-through entity.

(2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of $5,000 or more have the prior written approval of the Federal awarding agency or pass-through entity.
(3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior written approval of the Federal awarding agency, or pass-through entity. See §200.436 Depreciation, for rules on the allowability of depreciation on buildings, capital improvements, and equipment. See also §200.465 Rental costs of real property and equipment.

(4) When approved as a direct charge pursuant to paragraphs (b)(1) through (3) of this section, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the Federal awarding agency.

(5) The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by continuing to claim the otherwise allowable depreciation on the equipment, or by amortizing the amount to be written off over a period of years negotiated with the Federal cognizant agency for indirect cost.

(6) Cost of equipment disposal. If the non-Federal entity is instructed by the Federal awarding agency to otherwise dispose of or transfer the equipment the costs of such disposal or transfer are allowable.

(7) Equipment and other capital expenditures are unallowable as indirect costs. See §200.436 Depreciation.

**Renovating a School Kitchen (from SP60-2016 Indirect Cost Guidance)**

2 CFR Part 200.452, Maintenance and repair costs, identifies costs of normal repairs and alterations as allowable as long as they:

• keep property in an efficient operating condition
• do not add to the permanent value of the property or appreciably prolong its intended life
• are not otherwise included in rental costs or other agreements

Based on these principles, the United States Department of Agriculture (USDA) has allowed limited renovations within the inside perimeter of a kitchen/cafeteria space with the Indiana Department of Education’s (IDOE) required prior approval.

For example, renovating a kitchen by cutting away a portion of the wall to allow room for a walk-in refrigerator and related electrical wiring would be an allowable expense if the renovation is necessary to accommodate increased participation of students in the School Nutrition Programs. However, it would be an unallowable expense if renovation of the kitchen was purely an aesthetic matter.

**7 CFR 210.14 Resource management**

(a) Nonprofit school food service. School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation
or improvement of such food service, except that, such revenues shall not be used to purchase land or buildings, unless otherwise approved by Food and Nutrition Service (FNS), or to construct buildings. Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency under § 210.19(a) of this part. School food authorities may use facilities, equipment, and personnel supported with nonprofit school food revenues to support a nonprofit nutrition program for the elderly, including a program funded under the Older Americans Act of 1965 (42 U.S.C. 3001 et seq.).

(b) Net cash resources. The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a).

(c) Financial assurances. The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section.

Building a School Kitchen (from SP60-2016 Indirect Cost Guidance)

7 CFR Part 210.14 requires that revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, except that, such revenue shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings. Historically, the FNS has not approved the cost of building purchases because program funds are made available to help support the costs of nutritional benefits for children in school settings and not to construct school related facilities. The goal is to ensure that a school food authority maintains the necessary funding to operate the program as required by the SMPs’ authorizing legislation and regulations, and that the nonprofit school food service account is not used to cover major expenses that should be paid for by the school district’s general funds (i.e., capital infrastructure costs).

The costs of building a kitchen are similar to the costs of constructing school buildings, which historically have been paid for by the school district with general or capital improvement funds. Similarly, such capital infrastructure costs should be paid for by the school district just as the school building and its contents should be.

Disposition of Equipment

§200.313 (e) Disposition – When original or replacement equipment acquired under a Federal award is no longer needed for the original project or program or for other activities currently or previously supported by a Federal awarding agency, except as otherwise provided in Federal statutes, regulations, or Federal awarding agency disposition instructions, the non-Federal entity must request disposition instructions from the Federal awarding agency if required by the terms and conditions of the Federal award. Disposition of the equipment will be made as follows, in accordance with Federal awarding agency disposition instructions:
(1) Items of equipment with a current per unit fair market value of $5,000 or less may be retained, sold or otherwise disposed of with no further obligation to the Federal awarding agency.

(2) Except as provided in §200.312 Federally-owned and exempt property, paragraph (b), or if the Federal awarding agency fails to provide requested disposition instructions within 120 days, items of equipment with a current per-unit fair-market value in excess of $5,000 may be retained by the non-Federal entity or sold. The Federal awarding agency is entitled to an amount calculated by multiplying the current market value or proceeds from sale by the Federal awarding agency's percentage of participation in the cost of the original purchase. If the equipment is sold, the Federal awarding agency may permit the non-Federal entity to deduct and retain from the Federal share $500 or ten percent of the proceeds, whichever is less, for its selling and handling expenses.

(3) The non-Federal entity may transfer title to the property to the Federal Government or to an eligible third party provided that, in such cases, the non-Federal entity must be entitled to compensation for its attributable percentage of the current fair market value of the property.

(4) In cases where a non-Federal entity fails to take appropriate disposition actions, the Federal awarding agency may direct the non-Federal entity to take disposition actions.
Appendix A – Definitions

**Acquisition Cost** (§200.2) means the cost of the asset including the cost to ready the asset for its intended use. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Acquisition costs for software includes those development costs capitalized in accordance with generally accepted accounting principles (GAAP). Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in or excluded from the acquisition cost in accordance with the non-Federal entity's regular accounting practices.

**Capital Assets** (§200.12) means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP. Capital assets include:

(a) Land, buildings (facilities), equipment, and intellectual property (including software) whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases; and

(b) Additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance).

**Capital Expenditures** (§200.13) means expenditures to acquire capital assets or expenditures to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life.

**Computing Devices** (§200.20) means machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or “peripherals”) for printing, transmitting and receiving, or storing electronic information. (See also §§200.94 Supplies and 200.58 Information technology systems.)

**Equipment** (§200.33) means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or $5,000. (See also §§200.12 Capital assets, 200.20 Computing devices, 200.48 General purpose equipment, 200.58 Information technology systems, 200.89 Special purpose equipment, and 200.94 Supplies.)

**General Purpose Equipment** (§200.48) means equipment which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles. (See also §§200.33 Equipment and 200.89 Special Purpose Equipment.)
Appendix A – Definitions (cont.)

*Information Technology Systems* (§200.58) means computing devices, ancillary equipment, software, firmware, and similar procedures, services (including support services), and related resources. (See also §§200.20 Computing devices and 200.33 Equipment.)

*Special Purpose Equipment* (§200.89) means equipment which is used only for research, medical, scientific, or other technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers. (See also §§200.33 Equipment and 200.48 General purpose equipment.)

*Supplies* (§200.94) means all tangible personal property other than those described in §200.33 Equipment. A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or $5,000, regardless of the length of its useful life. (See also §§200.20 Computing devices and 200.33 Equipment.)