



Nutrition Programs and Indirect Costs

Districts have continued to ask questions about capturing indirect costs for the Nutrition Fund. Districts are not required to capture indirect costs. Indirect cost recovery is a **federal** concept and does not apply to any non-federal source.

Direct costs include salaries and benefits of food service workers, cost of purchased food (not commodities), equipment repair, and supplies and materials (not federal equipment grant) for the nutrition program. Indirect costs include business office, payroll, human resources, utilities, custodial services trash, etc. When applying the indirect cost rate, the district must first identify allowable costs across all federal programs in a consistent manner. Criteria for this determination include the following: are necessary, reasonable, allocable, legal under state and local law, conform with federal law, regulation and grant terms, consistently treated as direct or indirect, determined in accordance with Generally Accepted Accounting Principles (GAAP), not included as a cost or matching contribution of any other grant (except where allowed by federal regulations), net of applicable credits, and adequately documented. Allowable direct costs plus any indirect costs captured cannot exceed the amount of federal reimbursement the district has received.

The restricted indirect cost rate is the maximum rate an area education agency (AEA) or local education agency (LEA) may apply to federal grant programs that allow indirect cost recovery, and require that federal funds are used to supplement, not supplant non-federal funds.

The unrestricted indirect cost rate is the maximum rate an LEA or AEA may apply to federal grant programs that allow indirect cost recovery and do not have the supplement, not supplant provision.

The LEA may use up to the unrestricted indirect cost rate found on the Department’s [Indirect Cost Rates spreadsheet](#) for nutrition programs. Applying the maximum unrestricted rate against the direct costs of the award will generate the maximum indirect costs that may be recovered from the award. Indirect cost recoveries are that portion of the grant funding used to support the indirect costs of the program. The maximum unrestricted rate calculated for a program year will be applied to expenditures from the award in that year. If the grant award contains costs that are excluded from the direct or indirect cost base, the direct costs of the award will be modified to reflect the elimination of these costs from inclusion in the indirect cost reimbursement calculation. The indirect cost recovery is calculated by multiplying direct cost base by the indirect cost rate.

Federal expenditures (not to exceed federal reimbursement) / (1 + unrestricted rate) = direct cost base
Direct cost base x indirect cost rate = indirect cost recovery

Example 1:

| | |
|--|------------------|
| District revenue for project 4552, School Breakfast Program | \$ 14,000 |
| District revenue for project 4553, National School Lunch Program | <u>\$128,000</u> |
| Total federal revenues | \$142,000 |
| | |
| District expenditures for salary and benefits | \$241,000 |
| Equipment Repair | \$ 500 |
| Supplies | <u>\$ 12,000</u> |
| Total expenditures, excluding food and capital items | \$253,500 |

Expenses exceeds revenues – use revenues to determine the direct cost base

Iowa Department of Education guidance should be viewed as advisory unless it's specifically authorized by state statute, according to Iowa Code section 256.9A. This does not apply to administrative rules, declaratory orders, or materials required by federal law or courts.

District's unrestricted indirect cost rate 11.34 percent

Federal expenditures (not to exceed federal reimbursement) /
(1 + unrestricted rate) = direct cost base for project 4552 \$14,000/ (1 + .1134) = \$12,574.10
Direct cost base x indirect cost rate = maximum indirect cost
recovery for project 4552 \$12,574.10 x .1134 = \$1,425.90

Federal expenditures (not to exceed federal reimbursement) /
(1 + unrestricted rate) = direct cost base for project 4553 \$128,000/ (1 + .1134) = \$114,963.18
Direct cost base x indirect cost rate = maximum indirect cost
recovery for project 4553 \$114,963.18 x .1134 = \$13,036.82

Actual indirect cost amount cannot exceed calculated maximum indirect cost recovery amount for each project

Example 2:

District revenue for project 4552, School Breakfast Program \$ 15,000
District revenue for project 4553, National School Lunch Program \$135,000
Total federal revenues \$150,000

District expenditures for salary and benefits \$66,000
Equipment Repair \$ 500
Supplies \$ 5,000
Total expenditures, excluding food and capital items \$71,500

Revenue exceeds expenses – use expenses to determine the direct cost base

Determine direct federal expenses applicable to Indirect Cost Rate
Total expenditures, excluding food and capital items \$71,500
Excludes expenses charged to nonprogram costs, project 16XX (\$600)
Excludes expenses charged to other funding included in total expenditures
(fed, state, local), project 1XXX, 3XXX, other 4XXX (\$900)
Total direct cost base \$70,000

District's unrestricted indirect cost rate 11.34 percent

Direct cost base x indirect cost rate = maximum indirect
cost recovery \$70,000 x .1134 = \$7,938

Actual indirect cost amount cannot exceed calculated maximum indirect cost recovery amount

Determine a reasonable split and allocate the indirect cost between project 4552 & 4553. Could be based on revenue, percent of payroll, percent of food served, number of meals, etc.

Project 4552 (10% of total) (\$7,938 x .10) \$ 793.80
Project 4553 (90% of total) (\$7,938 x .90) \$7,144.20
Total indirect costs \$7,938.00

Ensure each project expenses (including indirect cost) doesn't exceed revenue.

Since functions 25XX are used to compute the unrestricted indirect cost rates, these cannot be recorded as direct costs for any federal program, including the Nutrition Fund programs. If the district has been reporting these as direct costs in the nutrition fund, they need to be coded as expenditures in the General Fund and then recorded in the Nutrition Fund as indirect costs, not exceeding the maximum allowable amount.

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Since indirect costs are related to expenditures in another fund, the district will record this through interfund transfers rather than intrafund transfers. Following are entries to record the indirect costs captured for the school nutrition programs.

School Nutrition Fund

Debit function 6210, object 910, project 4552 or 4553

Credit cash (interfund accounts payable account 402 is transferred after 6-30)

General Fund

Debit cash (interfund accounts receivable account 132 if cash transferred after 6-30)

Credit source 5261 in the General Fund (don't include project 4552 or 4553)

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