



Updated November 13, 2023

Nutrition Programs and Indirect Costs

Districts are not required to capture indirect costs. Indirect cost recovery is a **federal** concept and does not apply to any non-federal source.

The Cost Classification Matrix on page nine of the [Federal Indirect Cost Rate Plan for Iowa LEAs and AEAs](#) distinguishes direct or indirect costs for a given federal program. Indirect cost recoveries are that portion of the grant funding used to support the indirect costs of the program. Examples of direct costs include salaries and benefits of food service workers, cost of purchased food (not commodities), supplies and materials not purchased with a federal equipment grant (e.g., Project 4011), and equipment repair for the nutrition program. The cost of purchased food is excluded from the direct cost base. Examples of indirect costs include business office, payroll, human resources, utilities, and custodial services.

Applying the Indirect Cost Rate

Allowable costs across all federal programs must be identified 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.

- **Restricted Indirect Cost Rate:** 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.
- **Unrestricted Indirect Cost Rate:** 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.

Each district's unrestricted indirect cost rate for the nutrition program is available on the Department's [Indirect Cost Rate](#) web page. Additional rules for recovering indirect costs are provided below.

- 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.
- 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 the direct cost base by the indirect cost rate.

Calculating the Maximum Indirect Cost Recovery for the Nutrition Program

The examples below do not provide an exhaustive list of revenue sources or expenditure types and are provided for demonstration purposes only.

Example A: Use if total expenditures exceed total federal revenues.

Example B: Use if total expenditures do not exceed total federal revenues.

Example A: Total expenditures exceed total federal revenues

Step A1: Determine total federal revenues that are based on a per meal or per student basis.

Federal Revenue Source	Amount
Project 4552, Breakfast	\$15,000
Project 4553, Lunch	\$135,000
Project 4556, Summer	\$50,000
Total Federal Revenues	\$200,000

Step A2: Determine total expenditures (excluding food, capital items, and other items (Objects 63X, 7XX, 9XX)).

Eligible Expenditures	Amount
Salaries and Benefits (Objects 1XX-2XX)	\$241,000
Equipment Repairs (Object 433)	\$500
Supplies (Objects 61X)	\$12,000
Total Expenditures	\$253,500

Step A3: Total expenditures exceed total federal revenues: use the two formulas below to determine the maximum indirect cost recovery.

Formula 1 (FA-1): Total federal revenue / (1 + unrestricted rate) = direct cost base

Formula 2 (FA-2): Direct cost base x indirect cost rate = maximum indirect cost recovery

District's unrestricted indirect cost rate = 11.34%

Apply both formulas to Project 4552 with revenue of \$15,000

FA-1: $\$15,000 / (1 + 0.1134) = \$13,472.25$ (direct cost base)

FA-2: $\$13,472.25 \times 0.1134 = \$1,527.75$ (maximum indirect cost recovery)

Apply both formulas to Project 4553 with revenue of \$135,000

FA-1: $\$135,000 / (1 + 0.1134) = \$121,250.22$ (direct cost base)

FA-2: $\$121,250.22 \times 0.1134 = \$13,749.78$ (maximum indirect cost recovery)

Apply both formulas to Project 4556 with revenue of \$50,000

FA-1: $\$50,000 / (1 + 0.1134) = \$44,907.49$ (direct cost base)

FA-2: $\$44,907.49 \times 0.1134 = \$5,092.51$ (maximum indirect cost recovery)

Reminder: Ensure the total expenditures (including indirect costs) coded to each federal program does not exceed the total federal reimbursement received for that program.

Example B: Total expenditures do not exceed total federal revenue

Step B1: Determine total federal revenues that are based on a per meal or per student basis.

Federal Revenue Source	Amount
Project 4552, Breakfast	\$15,000
Project 4553, Lunch	\$135,000
Project 4556, Summer	\$50,000
Total Federal Revenues	\$200,000

Step B2: Determine total expenditures (excluding food, capital items, and other items (Objects 63X, 7XX, 9XX)).

Eligible Expenditures	Amount
Salaries and Benefits (Objects 1XX-2XX)	\$66,000
Equipment Repairs (Object 433)	\$500
Supplies (Objects 61X)	\$5,000
Total Expenditures	\$71,500

Step B3: Total expenditures is less than total federal revenues: use the two formulas below to determine the maximum indirect cost recovery.

Formula 1 (FB-1): Total expenditures – excluded expenditures = direct cost base

Formula 2 (FB-2): Direct cost base x indirect cost rate = maximum indirect cost recovery

District's unrestricted indirect cost rate = 11.34%

Use Formula FB-1 to calculate the direct cost base

Expenditures	Amount
Total Expenditures (excluding Objects 63X, 7XX, 9XX)	\$71,500
Less: Nonprogram expenditures (Project 16XX) not already excluded in total expenditures above	(\$600)
Less: Expenditures charged to other funding sources (Project 1XXX, 3XXX, other 4XXX) not already excluded in total expenditures above	(\$900)
Direct Cost Base	\$70,000

Use Formula FB-2 to calculate the maximum indirect cost recovery

$\$70,000 \times 0.1134 = \$7,938.00$ (maximum indirect cost recovery)

After determining the maximum indirect cost recovery, allocate that amount to each project based on a reasonable method (may be based on percent of total federal revenue, percent of payroll, number of meals, etc.). This example allocates the maximum indirect cost recovery based on percent of revenue.

Allocation for Project 4552 with revenue of \$15,000

Percent of total federal revenue: $\$15,000 / \$200,000 = 7.5\%$

Maximum indirect cost recovery: $\$7,938.00 \times 0.075 = \595.35

Allocation for Project 4553 with revenue of \$135,000

Percent of total federal revenue: $\$135,000 / \$200,000 = 67.5\%$

Maximum indirect cost recovery: $\$7,938.00 \times 0.675 = \$5,358.15$

Allocation for Project 4556 with revenue of \$50,000

Percent of total federal revenue: $\$50,000 / \$200,000 = 25\%$

Maximum indirect cost recovery: $\$7,938.00 \times 0.25 = \$1,984.50$

Reminder: Ensure the total expenditures (including indirect costs) coded to each federal program does not exceed the total federal reimbursement received for that program.

Recording the Indirect Cost Recovery

Since indirect costs for the school nutrition programs are related to expenditures that are incurred in another fund, the district will record payment of the indirect costs through an intrafund transfer. Use the entries below to record indirect costs captured for the school nutrition programs.

School Nutrition Fund

Debit Function 6210, Object 910, Project 4552, 4553 or 4556

Credit cash (interfund accounts payable Account 402 if cash transferred after June 30)

General Fund

Debit cash (interfund accounts receivable Account 132 if cash transferred after June 30)

Credit Source 5261 (do not include Project 4552, 4553 or 4556)

If you have further questions, please contact Kathy Bowers at kathy.bowers@iowa.gov or 515-210-9674, Jina Brincks at jina.brincks@iowa.gov or 515-313-5942, or Song Luong at song.luong1@iowa.gov or 515-205-0259.