

## **Indirect Cost Rate Questions and Answers**

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

Indirect costs represent the expenses of doing business that are not readily identified with a particular grant, contract, project function, or activity, but are necessary for the general operation of the organization and the conduct of activities it performs. In theory, costs like heat, light, accounting, and personnel might be charged directly if little meters could record minutes in a cross-cutting manner. However, this is not practical; therefore cost allocation plans or indirect cost rates are used to distribute those indirect expenditures. Typically, salaries and expenses for auditing, budgeting, payroll, personnel, purchasing, etc. are examples of costs that are considered to be indirect costs.

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

The indirect cost rate is the maximum percent of dollars the district can expend from state and federal grants for administrative costs. Indirect cost rates (limits) ensure that state and federal moneys are expended for intended uses and for allowable costs, including expenditures directly traceable to the program (direct expenditures) plus a limited allowance for overhead or indirect expenditures. A “fixed with carry-forward” indirect cost rate is calculated for each district for all of its restricted federal grants and another “fixed with carry-forward” indirect cost rate is calculated for all of its unrestricted federal grants. Rates are individually computed for each district and are unique to each district.

### **What does fixed with carry-forward mean?**

A fixed with carry-forward provision is a rate computed and fixed for a specified future period based on an estimate of that period’s level of operations. However, when the actual costs of that period become known, the difference between the estimated costs and the actual costs is carried forward as an adjustment to a subsequent period for which a rate is established. Indirect rates calculated on the 06-07 F-196 were used in 08-09 (2 year lag). Therefore, if a district’s rate on the 06-07 F-196 was 5.4%, the district could have used a maximum 5.4% indirect rate during the 08-09 school year. But, if at the end of FY 08-09, the rate calculated on the F-196 was only 4.2%, the subsequent indirect rate will be adjusted for the difference and the district will use the adjusted rate for the 2010-11 school year. The rate calculated on the 08-09 F-196 is the rate your district will use in 2010-11. This is the rate provided to *iGRANTS*.

### **How can a grantee distinguish between a direct cost and an indirect cost?**

There is no universal rule for classifying costs as direct or indirect. Generally speaking, a direct cost is one that is incurred specifically for one activity. Indirect costs are more general in nature and are incurred for the benefit of several activities. Once a grantee makes an election and treats a given cost as direct or indirect, it must apply that treatment consistently and may not change during the fiscal year.

### **What does organization-wide costs mean?**

Generally, direct administration costs differ from indirect charges in that the indirect charges are considered organization-wide costs. This means costs which are related to maintaining operations as a business concern but not costs that finance the delivery of services that provide a part of its specific mission. The regulations describe accounting, payroll, and personnel management as examples of organizational disciplines that every grantee or any organization must have. When making a determination as to whether a cost is organization-wide, the question to be answered is: “Is this cost incurred for general management purposes or does the cost further functions that are the mission of the organization?”

### **Distorting Item Inputs:**

#### **What are distorting items?**

Distorting items are activities that do not occur regularly each year, but “distort” the regular expenditures. Districts will need to determine and document expenditures they consider significant

and distorting. The distorting input item numbers on the F-196 are used in the calculation of the direct expenditure base.

**Flow-through funds:** Flow-through funds (Pass-through Grants) are grants and other financial assistance received by a governmental entity (school district) to transfer to or spend on behalf of a secondary recipient. Flow-through funds do not benefit the school district which is passing the award to the secondary recipient.

**Contingencies:** Contingencies are generally not applicable to school districts.

**Election expenses:** Election expenses are costs incurred for the purpose of an election, such as district bonds/levies and Board of Directors.

**Alterations and renovations:** Alteration and renovation expenditures are those which are significant and distort the regular expenditures of the district. Regular maintenance on buildings, HVAC systems, air conditioners, bathrooms, etc. should not be considered distorting. Districts receiving a Small Repair Grant for urgent repair and renovation projects may consider the expenditures for those repairs a distorting item, if the expenditures were recorded in the General Fund in Program 97. Unexpected storm damage to buildings and property may also be considered distorting.

**Fines and Penalties:** A one time fine or penalty resulting from violations of, or failure to comply with, Federal, State, local, or Indian tribal laws and regulations are included in the distorting items. Examples include, but are not limited to, fines or penalties imposed by OSHA, WISHA, L & I, etc. IRS fines for filing late payroll taxes may also be included as a distorting item. Late fees associated with Accounts Payable are not considered a fine or penalty for indirect purposes.

### **Indirect Expenditure Item Inputs:**

**Audit Costs recorded in Program 97, Activity 11:** Audit costs charged to Program 97, Activity 11, but not charged directly to another program may be included in the indirect expenditure pool. If the federal portion of the district audit is charged directly to a federal program, do not enter that portion of audit costs in the manual input.

**Legal Costs recorded in Program 97, Activity 11:** Legal costs are very restrictive and are generally not includible in the indirect expenditure pool. Legal costs associated with court cases or time spent on preparing for court cases are not an allowable indirect cost. Legal costs associated with interpretation of laws and regulations may be considered indirect costs. Examples of allowable legal costs are:

- Review of insurance policy to determine if a claim should be reimbursed by the insurance company.
- Review of Board policy.
- Review of termination policy.
- Interpreting bankruptcy rules when a vendor files bankruptcy.

**Costs recorded in Program 97, Activity 12, for Superintendent's and their secretary who maintain documented responsibilities in Activities, 13, 14, or 72-75:** Small districts with a percentage of Superintendent time allocated to the business office, HR office, IT, Print Center, Warehouse, or Motor Pool, may consider the time spent on those additional responsibilities as an indirect expenditure. For example, if 25% of the Superintendent's time is spent doing work in HR, calculate 25% of salary, benefits, and NERC's (not Object 9) and enter that dollar amount in the applicable indirect line item on the manual entry F-196 page. Also include 25% of the Superintendent's secretary salary, benefit, etc., in that dollar amount. These positions are

required to maintain supporting documentation if a portion of their responsibilities are allocable to these indirect cost activities.

**Costs recorded in Program 97, Activity 15:** Public Relations costs, recorded in Program 97, Activity 15, for informing the public on matters of public concern may be considered indirect costs. Allowable types of public relations are quarterly newsletters, announcing WASL scores, grant announcements, budget approval, financial issues, etc. Unallowable public relations include announcing a sport has won state title, media for bargaining or human resources issues, or public relations for student activities, etc. If the district has expenditures in Program 97, Activity 15, a manual entry for allowable indirect expenditures should be made.

**Federally Supported Staff Termination Leave:** Termination leave for federally supported staff cannot be coded to a federal program. Coding the termination leave to Activity 13 or 14 will automatically increase the indirect pool. However, if termination leave for federal staff is coded to a state or local program those costs can be considered an indirect expenditure. A manual entry for allowable indirect expenditures should be made.

**Costs recorded in Program 97, Activity 72:** Costs recorded in Activity 72 for districtwide Information Systems activities, such as fees paid to WSIPC or a 3<sup>rd</sup> party vendor for financial system applications, may be considered indirect expenditures. Costs for providing public relations or communicating with the public on matters of public concern via the internet may also be considered indirect, if those costs are charged to Activity 72. Any costs for student records, such as student records fees paid to WSIPC or a 3<sup>rd</sup> party vendor, student record software costs, or student records staff, are not allowable. Costs charged to Activity 72 for the daily operations and upkeep of computer labs or classroom computers is also not allowable. A manual entry for allowable indirect expenditures should be made. Documentation should be maintained describing how the costs entered in this item were calculated.

**Costs for organization-wide Pupil Management & Safety:** A cost allocation plan must support an entry made for indirect purposes for Pupil Management & Safety. If security staff is located in the central administration office, and dispatched each day to a building, may be considered indirect costs if a cost allocation plan has been prepared.

### **What is a space and occupancy plan?**

Occupancy and space maintenance costs associated with organization-wide service functions (accounting, payroll, personnel) may be included as general management costs if a space allocation or use study supports the allocation. As an example, if the district has done an analysis of the square footage for the business and human resources offices at the central administration building, and each office is 25% of the total square footage, that percentage of allowable expenditures may be included in the indirect pool. Therefore, 50% of the expenditures for the central administration building for supervision, grounds, operation of buildings, maintenance, utilities, security, and insurance may be included in the indirect pool.

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