

## Schedule H: Indirect Cost Methodology

### Indirect Costs General Information

Indirect costs include two broad categories: Facilities & Administration (F&A). Facilities indirect costs include depreciation on buildings and equipment, capital improvement, interest on debt, maintenance expenses, etc. Administration indirect costs include general administration, accounting department, director, and secretary salaries and benefits, etc. not directly related to a program. Certain programs may specify other allowable indirect and direct cost requirements within the award letter.

The US Department of Education has reviewed the Utah State Board of Education's (USBE) procedures and methodology policy for indirect costs and has granted the USBE to be a cognizant agent for calculating indirect cost rates for Local Education Agencies (LEAs). This means that USBE is negotiating and approving the LEAs indirect cost rate based on a plan approved by the Department of Education. (See *Local Education Agency (LEA) Delegation Agreement*.)

Indirect cost rates for Federal and State unrestricted and restricted programs will be calculated from Annual Financial Report (AFR) data and other data gathered through the Utah Public Education Financial System's (UPEFS) Indirect Cost Tool. The data from a given fiscal year is used to determine the rates for the second following year, e.g., Fiscal Year (FY) 2018 data determines FY 2020 rates; FY 2019 data determines FY 2021 rates, etc.

LEAs must determine if they want to recover indirect costs for a fiscal year. LEAs cannot decide to claim indirect costs on a program-by-program basis, it is all or nothing. If the LEA determines that they want to claim indirect costs, USBE will calculate a rate for the LEA from information entered in the UPEFS by the LEA. The negotiated rate calculated by USBE, once approved, will be utilized for the specified period in the agreement signed by the LEA.

An LEA may elect to use rates lower than the negotiated rates, with approval from their local governing board. An LEA that uses rates lower than negotiated is not required to notify USBE. Program sections may request further detail, as necessary. An LEA that electing to use lower rates must use the same rate for all program types. *Example:* LEA negotiated unrestricted rate is 12%, LEA elects to use 10%. The LEA must use the 10% for all programs where the unrestricted rate is required. The same is required for the restricted rate.

An LEA shall not use rates above the negotiated rates approved by USBE.

State programs will use the unrestricted rate, unless specified in state code or board rule to use the restricted rate or not allow the use of indirect costs.

### Modified Total Direct Costs (MTDC)

Direct costs are identifiable with a cost objective and are displayed when the subrecipient enters their budget in Utah Grants as part of the application process. These costs are directly assigned and include items such as: salaries for employees working on the program, professional services directly related to the program, supplies that are exclusively for the program, and the first \$25,000 of each subaward and/or contract. The MTDC excludes equipment, capital expenditures, construction, excess of \$25,000 of each subaward and/or contract, and other items that would cause inequity.

**Direct Costs** – Items included as direct costs consist of costs that can be directly traced to the performance of the grant award or contract. There is no universal regulation to determine direct or

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indirect costs. One program may treat some costs as direct, while another program may treat those costs as indirect. (2 CFR 200.413)

USBE has indicated the following chart of account codes as direct costs, in relation to calculating the rate. See the *Excluded Costs* and *Indirect Costs* for specific codes that are not considered direct costs.

Funds	Functions	Objects
10- General Fund	1000- Instructions	1xx- Salaries
20- Special Revenue Fund	2xxx- Support Services	2xx- Employee Benefits
21- Student Activity Fund	3xxx- Non-Instruction Services	3xx- Purch. Prof. Services
23- Non K-12 Program Fund		4xx- Purch. Property Services
31- Debt Service Fund		5xx- Other Purch. Services
32- Capital Projects Fund		6xx- Supplies & Materials
40- Building Reserve Fund		
49/51- Food Service Fund		
50- Enterprise Fund		

**Indirect Costs** – Items that are considered indirect costs cannot be directly traced to the performance of the grant award or contract. Indirect Costs include two broad categories, Facilities and Administration. (2 CFR 200.414)

USBE indicates the following as indirect Costs:

- **Restricted Rate:** Function 26xx- Operation & Maintenance of Plant
- **Unrestricted Rate:** Function 25xx- Central Support Services and 26xx- Operation & Maintenance of Plant
- Refer to the *Adjustment* section below for further movement of specific items

**Excluded Costs** – Items excluded from AFR uploads in UPEFS when calculating the Indirect Cost Rate, both restricted and un-restricted (*See Excluded Cost Review Tab within the Indirect Cost Tool in UPEFS*):

Funds	Functions	Objects
26- Tax Increment Fund	4xxx- Facilities & Constr. Services	349- Legal Services
60- Internal Service Fund	5xxx- Debt Service	450- Construction Services
71- Trust Fund		540- Advertising
76- Custodial Fund		630- Food
		7xx- Property
		8xx- Debt & Misc.

For transparency purposes, the following are also excluded costs, as applicable:

- 5xxx- Other Financing Sources & Uses
- 52xx – Transfers in/out of funds and programs
- All other extraordinary items

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**Adjustments** – Adjustments in UPEFS must be filled out and certified by LEAs by December 15<sup>th</sup>. These adjustments help to assist in further identifying exclusions, indirect, and direct costs. Adjustments include the following and are provided by LEAs as required supplemental combined with the AFR data:

- **Unallowable Cost** – The one item each LEA shall report is the general governance. This includes Superintendent, Business Administrator, Secretary to Superintendent, and local governing board. Other items included in this section may include bad debt, contingencies, entertainment, fines/penalties, donations to outside organizations
- **Square Footage by Building** – Optional; Must provide breakout of square footage of all buildings within the LEA by use or function.
- **Unused Leave Paid at Termination** – The LEA enters the amounts paid to employees after termination of employment. Typically, this would be PTO or vacation time employee has earned and ‘cashes out’ after termination. The amounts entered here cannot be charged to federal programs.
- **Contract & Subawards** – First \$25,000 is considered indirect/direct depending on the function the LEA has coded to; Remaining balance is excluded/indirect depending on the function the LEA has coded to. (In UPEFS, LEAs should include the full amount of the contract/subaward as UPEFS will calculate the necessary exclusions for the LEA.)

**Calculation** – The MTDC formula is based on 3 years of previous data. For example, to calculate FY20 rates, FY 2014, 2016, and 2018 amounts from the AFR and Adjustments entered within the Indirect Cost Tool in UPEFS. (Charters in their non-operational year(s) receive a zero as their rate and an adjustment is made in the calculation process.)

The basic calculation takes total Indirect Costs (indirect cost pool + carryforward amount) divided by Direct Costs (after exclusions and adjustments). Upon completion of the process and calculation of the Indirect Cost Rate, USBE contacts the Business Administrator with an agreement. Once signed, the agreement will provide the LEA unrestricted and restricted indirect cost rates for the succeeding year. The indirect cost rate type for each program (restricted or unrestricted) is specified in the award letter and may also be found on a program’s “Budget” tab in Utah Grants.

Calculation “simplified” Example:

- Unrestricted Rate = Unrestricted Indirect Cost / Direct Cost
- Restricted Rate = Restricted Indirect Cost / Direct Cost
- Note- both calculations use carryforward amounts and 3-year averages

Indirect Cost Computation Example:

- Negotiated Indirect Unrestricted Rate: 15%
- Regular Program (Total Grant): \$205,000
- Formula:
  - Direct Costs [205,000 / 1.15 = 178,261]
  - Max Indirect Costs [0.15 x 178,261 = 26,739]
  - Total Grant [178,261 + 26,739 = 205,000]

Indirect Cost Guidance comes from the following regulations, codes, or rules:

- *2 CFR 200; 34 CFR 76; R277-424*