

Indirect Costs Overview

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 non-restricted 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.

Indirect items include Function 2500 – Central Services and 2600 – Operation & Maintenance. Certain objects within these functions may exist and should be excluded for the calculation. Please see below for full exclusions and adjustments details.

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 into the UPEFS by the LEA. The rate provided by USBE, once approved, will be in place for the entire fiscal year and indirect costs, when allowable, must be claimed.

Refer to the Utah Office of Administrative Rules [R277-424: Indirect Costs for State Programs](#).

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.

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*):

- Objects: 349 – Legal, 450 – Construction, 540 – Advertising, 630 – Food Supplies, 7XX – Property, 8XX – Debt & Miscellaneous
- Funds: 26 – Tax Incrementing Financing Fund, 60 – Internal Service Fund, 72 – Trust Funds, 76 – Agency Funds
- Revenue: 5200 Series – Transfers
- All other extraordinary items

Adjustments – Adjustments in UPEFS must be filled out and certified by LEAs by December 15th. These adjustments help to assist in further identifying exclusions, indirect, and direct costs. Adjustments to MTDC include:

- Unallowable Cost – Provided by LEA in Indirect Cost Tool. This includes general governance. An organizational chart must be submitted (via email) to USBE which helps to validate the general governance adjustment amounts submitted to UPEFS.
- 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 – Provided by the LEA in Indirect Cost Tool.
- 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 FY 2020 rates, FY 2014, 2016, and 2018 amounts are used. (Charters in their non-operational year(s) receive a zero as their rate and an adjustment is made in the calculation process.) UPEFS will automatically calculate the Indirect Cost Rate based on the data provided in the AFR plus the additional information LEAs provide within the Indirect Cost Tool. 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.

If you are an LEA user, please refer to *UPEFS Indirect Cost Tool* for more information or to use the tool. More links and information may also be found on the USBE Indirect Costs Tab:

<https://www.schools.utah.gov/financialoperations/reporting?mid=2159&tid=5>