

GUIDE FOR PREPARING AN INDIRECT COST PROPOSAL
FOR LOCAL EDUCATION AGENCIES IN THE DISTRICT OF COLUMBIA

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INTRODUCTION

The Government of the District of Columbia Office the State Superintendent of Education (OSSE) has, in cooperation with the U.S. Department of Education (DOE), developed an indirect cost proposal to be used by local education agencies (LEAs) in the District of Columbia. OSSE has been delegated the authority by DOE to review indirect cost proposals and to approve indirect cost rates for LEAs. The Office of Management and Budget (OMB) Uniform Grant Guidance (UGG), Title 34, 2 CFR 200 Uniform Administrative Requirements, Cost Principles, And Audit Requirements for Federal Awards, and the Education Department General Administrative Regulations (EDGAR), contain provisions for determining indirect cost rates for grantees and subgrantees of federal grants.

Indirect costs are generally administrative costs such as the salaries and expenses for LEA personnel who are engaged in administrative activities from which the entire LEA benefit. In theory, all such costs can be charged directly. However, practical limitation and consideration of efficiency in accounting preclude such an approach. Developing an indirect cost proposal and rate is a means of determining in a reasonable manner the percentage of allowable indirect costs that each federal grant should bear, subject to limitations in grant awards and the availability of funding. The approved indirect cost rate provides LEAs with a standardized mechanism to recover indirect costs from federal programs that is acceptable to federal grantor agencies.

LEAs must obtain OSSE's approval of the indirect cost rate for the fiscal year by submitting an indirect cost proposal and applicable support documentation to OSSE for review and approval. A new indirect cost rate must be obtained for each fiscal year. LEAs are not required to develop an indirect cost proposal; however, LEAs which fail to do so will not be allowed to recover any indirect costs related to federal programs.

INDIRECT COST RATE PROCESS – OVERVIEW

1. LEA costs can be categorized as direct or indirect costs. Direct costs can be identified with a specific cost objective, activity or function such as instruction, food service, pupil transportation, etc. Indirect costs are management and general costs which benefit the entire organization such as payroll, accounting, personnel and budgeting. An indirect cost rate is the ratio of allowable indirect costs (numerator) to the base or modified total direct costs (denominator) as a percentage, based on the LEAs actual expenditures.
2. The indirect cost rate proposal is prepared in advance of the period it is used; therefore, it is an estimate of the direct and indirect costs. The calculation uses the expenditures *for the second preceding fiscal year*. For example, expenditures for FY 2013-14 will be used when calculating the rates for FY2015-16.

3. LEAs are required to use the fixed with carry-forward rate methodology for the indirect cost rate proposal. This means that the rate for the second following year fiscal period will be reduced or increased for under - or over- application of indirect costs in the current year.
4. There are two types of indirect rates. A restricted indirect cost rate is calculated for use for with restricted grants. Most funding from OSSE is restricted grants which have a supplement but not supplant requirement and require using the restricted indirect cost rate. An unrestricted indirect cost rate is calculated for use with other grants (e.g. Medicaid).
5. Indirect costs are recovered only to the extent of direct costs incurred for the federal award or program. Once the indirect rate is received it is applied to the net direct cost amount expended (total direct costs less excluded costs e.g. equipment purchases, capital outlays, pass-through, the portion of individual subagreements exceeding \$25,000, flow-through funds and indirect cost recoveries.)
6. The approved indirect rate is the maximum allowed rate for charging to the federal award program subject to other grant limitations and availability of funding. The indirect cost rate can be applied at less than the maximum.
7. The source of information utilized to determine indirect cost rates are the LEA's:
 - official audited annual financial statements
 - detail accounts that comprise the audited financial statements
 - records supporting the expenditures maintained by LEA

Total costs used in the indirect rate proposal must be reconciled to the audited financial statements.

COMPONENTS OF INDIRECT COST RATE CALCULATION

In order to prepare an indirect cost rate proposal, LEAs total expenditures regardless of the funding source are classified as direct, indirect, unallowable and excluded costs.

Direct Costs

Direct costs are those that can be identified specifically with a particular cost objective. For LEAs, cost objectives are generally the instructional programs and services provided.

The direct costs of a federal award can be specifically identified to the program and may be charged directly to the program. Examples of the types of direct costs that may be charged to a federal program include compensation of the employees who work on the program; supplies and materials used for the program; equipment purchased and used for the program; and travel expenses incurred specifically to carry out the program.

Indirect Costs

Indirect costs are costs of general management that are “organization – wide”. Indirect costs are incurred for a common or joint purpose benefiting more than one cost objective. Examples of indirect costs may include salaries and expenses for the following:

- Data Processing
- Accounting
- Auditing
- Budgeting
- Personnel
- Payroll
- Purchasing

LEAs must be consistent in the treatment of costs incurred for the same purpose in like circumstances as direct or indirect under federal award programs. Once a cost is treated as direct or indirect, it should be treated that way for all programs and activities, regardless of the source of funding. This consistent treatment prevents similar costs from being charged as a direct cost to a federal program and then charged again as an indirect cost. For example, the business manager who spends nearly 100% of his/her time working on a grant which is charged directly to a grant; however, business manager costs are also in indirect expenses. Thus the total costs charged to grant would have business manager costs in direct and indirect expenses.

Unallowable costs

Uniform Guidance identifies certain costs as disallowed (unallowable) costs; this means that federal funds cannot be used for these purposes. These costs cannot be included in the indirect costs for the LEAs.

Unallowable costs include, but are not limited to:

- Bad debt
- Entertainment, alcoholic beverages
- General governance costs
- Contribution/donations to outside organizations
- Fundraising
- Fines and penalties
- Lobbying
- Contingencies, claims and judgements
- Election expenses
- Goods and services for personal use

These costs are excluded from the indirect cost pool when calculating the rate and are not permitted per 34 CFR Part 76. Likewise, the unallowable costs should be eliminated when calculating the indirect cost recovery for the same rationale. If any of these costs required more than minimal administrative support, they should be added to the allocation base

(denominator). For example, if fundraising was a department of the organization that had been included in the indirect cost pool, the amount of costs eliminated from the indirect cost pool would be added to the allocation base (denominator) if there were personnel and other costs associated with the department which would have required administrative support. Unallowable costs like bad debt would not be added to the base because bad debt usually requires minimal administrative support.

Any unallowable costs that are included as direct costs remain in the denominator.

Excluded costs

Certain items of costs are classified as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate and are not permitted under 34 CFR Part 76. The indirect cost rate calculation should exclude:

- Capital outlay
- Equipment items > \$5,000
- Debt service
- Judgments against the LEA
- Pass-through funds (funds provided to the prime recipient for specific secondary recipients)
- Subawards expenditures exceeding \$25,000
- Food purchases
- Certain transfers, Internal service fund expenditures
- Indirect cost recoveries
- Tuition remission
- Participant support cost

Such costs are excluded when calculating the rate and claiming indirect cost reimbursement when the activities require minimal administrative support.

Subawards/Subagreements. Subawards usually require the performance, production and/or delivery of specified goods or services by a third party rather than by the LEA. Major subawards do not incur (or benefit from) indirect costs to the same degree as other activities. LEAs must exclude the amount of subaward costs exceeding \$25,000 per subaward. As such, the indirect cost rate will be applied only to the first \$25,000 of each subaward.

Note: Subcontracts for professional services providing an auxiliary expertise normally provided in-house would not be treated as a subaward and are not subject to the exclusion of amounts over \$25,000. Costs to a vendor to provide organization-wide support is an indirect cost and not subject to the exclusion of amounts over \$25,000. Identification of agreements as subagreements or vendor contracts can be difficult.

RATE TYPES

The two types of indirect cost rates that are determined for use for federal awards are restricted rate and an unrestricted rate.

Restricted Rate

The restricted rate is calculated to be used for federal awards that are made under federal programs with supplement but not supplant requirements. This means that the funds are for support in addition to state and local funding. Such amounts are intended to supplement, but in no way replace, local funds. Most of the federal grants that LEAs obtain through OSSE are grants that must use the restricted indirect cost rate for recovery of the indirect costs.

Requirements

Restricted grants include certain general management costs and fixed charges.

General management costs include the costs of performing a service function, such as accounting, auditing, budgeting, payroll, or personnel management, purchasing and employee relations. 34 CFR 75.565 defines general management costs as “costs of activities that are for the direction and control of the grantee’s affairs that are organization –wide. An activity is not organization-wide if it is limited to one activity, one component, one phase of operations, or other single responsibility. General management costs include the costs of performing a service function, such as accounting, payroll preparation, or personnel management, that is normally at the grantee’s level even if the function is physically located elsewhere for convenience or better management. The term also includes certain occupancy and space maintenance costs as determined under 34CFR 76.568.”

“34CFR 76.568 Occupancy and space maintenance costs

a. As used in the calculation of a restricted indirect cost rate, occupancy and space maintenance costs means such costs as:

- 1) Building costs whether owned or rented;
- 2) Janitorial services and supplies;
- 3) Building, grounds and parking lot maintenance;
- 4) Guard services;
- 5) Light, heat, and power;
- 6) Depreciation, use allowances, and amortization;
- 7) All other related space costs.

b. Occupancy and space maintenance costs associated with organization-wide service functions (accounting, payroll, personnel, etc.) may be included as general management costs if a space allocation or use study supports the allocation.

c. Occupancy and space maintenance costs associated with functions that are not organization-wide must be included with other expenditures in the indirect cost formula. These costs may be charged directly to affected programs only to the extent that statutory supplanting prohibitions are not violated. This reimbursement must be approved in advance by the Secretary.”

When calculating the restricted indirect cost rate, the general management cost excludes costs for the:

- LEA’s governing body (members of the board of education);
- Compensation, related fringe benefits, travel, space costs and other associated costs of Chief Executive Officers (Superintendent, Deputies or similar offices) and immediate staff
- Component officers and immediate staff

Once excluded, these costs are then reclassified from indirect (numerator) to the base allocation with direct costs (denominator).

Fixed charges classified as indirect costs are limited to those amounts which are associated with general management costs. These expenditures are exclusively identified as employee retirement, Social Security/Medicare, pension fund payments, premium expenditures for employee insurance and liability insurance, unemployment and worker’s compensation, and all similar costs normally considered being employee fringe benefits.

Other Rate Considerations

Normal Severance Payments. Normal separation costs (severance payments, unused leave, terminal leave costs) are unallowable as direct costs to federal awards. Payments to separating employees for termination benefits and/or unused leave are treated as indirect costs when computing both the restricted and unrestricted indirect cost rate with one exception. Unused leave costs paid to employees who are indirect for the unrestricted rate, but direct for the restricted rate (Superintendent, Deputies, etc.) are considered direct cost payments for the rate calculation purposes only.

Payments to separating employees for unused leave are NOT charged as direct costs to any federal awards.

Mass or Abnormal Severance Costs. All costs associated with mass or abnormal severance will be treated as direct/disallowed costs for purposes of calculation of the restricted and unrestricted indirect cost rates. The costs are unallowable as direct costs to a restricted program and charged to the same goal and function as the employee's regular salary, but they are charged to an unrestricted resource.

Post-Retirement Health Benefits. LEA paid Post-Retirement Health Benefits (“PRHB”) are treated as indirect costs for both the restricted and unrestricted, except for purposes of calculating the restricted rate, PRHB costs associated with Superintendent, Chief Executive Officer (CEO) of components and their immediate offices will be treated as direct.

Unrestricted Rate

The unrestricted rate is used for any federal award or program which is not subject to the supplement but in no case supplant legislative restriction.

The calculation of the unrestricted rate is similar to the restricted rate except as follows:

1. These expenditures are included as indirect costs for the unrestricted rate calculation (which were removed for the restricted rate calculation):
 - Superintendent, Deputies or similar offices) of the LEA;
 - Costs of Component officers and
 - Operation of the immediate offices (support staff) of these officers which includes applicable fringe benefits, travel, space costs and other associated costs.
2. Occupancy and space maintenance costs that are classified as an indirect cost when calculating an unrestricted rate will be adjusted to only include costs associated with allowable indirect positions when calculating the restricted rate.

All other costs are classified the same as the restricted rate calculations.

CALCULATING THE INDIRECT COST RATE

Carry-Forward Methodology

LEAs are required to use the fixed with carry-forward rate for indirect costs.

Since an indirect cost rate proposal is prepared in advance of the period it is used, the indirect rate calculated and approved for use for any given year is an estimate of direct and indirect costs. When the actual costs of that period become known, the difference between the estimated costs and actual costs are included as an adjustment in a subsequent proposal.

When the amount allowable under a limitation is less than the amount otherwise allowable as indirect costs per OMB Circular A-87, the amount unrecoverable as indirect cost may not be shifted to another federal award. ED regulations further stat the recovered indirect cost cannot be used for matching or cost sharing purpose or charge as direct costs to other awards.

Numerator of the Calculation

The numerator of the calculation is allowable indirect costs plus the carry-forward adjustment which together comprise the indirect cost pool.

Allowable indirect costs are total indirect costs less unallowable costs. Examples of unallowable costs are fines, penalties, bad debts, general governance costs, etc. The superintendent, deputies, component officers and their immediate offices (support staff) and expenses related directly to the operation of the offices, are also not included in indirect costs for rate computation purposes.

The carry-forward adjustment is the after-the-fact reconciliation adjustment for the difference between the indirect cost rate approved for use in a given year and the actual percentage (amount) of indirect costs incurred in that year.

The carry-forward adjustment eliminates the need for LEAs to file amended federal reports when their actual indirect costs vary from estimated indirect costs.

Denominator of the Calculation

The denominator of the calculation is base costs or modified total direct costs. It is direct costs less excluded costs plus unallowable indirect costs. Examples of excluded costs include subaward costs > \$25,000, debt service, capital outlays, debt service.

Indirect Cost Percentage

B. Application of Indirect Cost Rates

The indirect cost rate is derived by dividing the indirect cost by the applicable base costs or

<u>Indirect Costs</u>	<u>\$352,000</u>	= 8%
Modified Total Direct Costs	\$4,400,000	

SUBMITTING THE INDIRECT COST PROPOSAL

LEA indirect cost rates are submitted annually to the District of Columbia Office of the State Superintendent of Education (OSSE). The completed application will consist of the original and one copy of the signed certification of indirect costs, an electronic copy of schedules and other requested documentation that would enhance and expedite the approval of the proposal. All plans must be received by OSSE by March 1, before the fiscal year for which the rate is being requested. The completed indirect proposal should be forwarded to:

Nancy Mahon, Director
Office of Grants Management and Compliance
Office of the State Superintendent of Education (OSSE)
Government of the District of Columbia
810 First Floor, NE, 9th Floor
Washington, DC 20002
osse.grantscompliance@dc.gov
(202) 741-1886 office
(202) 676-6990 cell

Period for Which Rates Are Applicable

An indirect cost rate certification issued by OSSE is established for a specific fiscal year. The rate is valid from July 1 through June 30, or as applicable, of the specific fiscal year of approval.

Other Requirements

Records and documentation supporting the indirect cost allocation plan must be retained for a period of three years after the last day of the fiscal year to which the proposal applies or until approved by OSSE, whichever occurs sooner. If comments or exceptions have been noted during OSSE's review of the application, records must be retained until those comments or exceptions have been resolved.

GENERAL GUIDELINES FOR CLAIMING INDIRECT COSTS

LEA indirect cost rates may be used, as appropriate, to budget, allocate, and recover indirect costs for federal programs, grants, and other assistance governed by the 2 CFR 200, Title 34, and EDGAR. Although the specifics for charging indirect costs may vary by program, the following are general guidelines for using the indirect cost rate:

- **Budgeting.** An estimate of indirect costs may be used for budgeting purposes, but the claiming of indirect costs must be done using the approved rate and actual program expenditures. If a program has a set award amount, budget indirect costs that will fit within the award amount rather than add them to the award amount. To accomplish this, and assuming that none of the award amount will be spent on costs that do not qualify for indirect costs, divide the award amount by 1.xx, where xx equals the decimal equivalent of the approved indirect cost rate. Then, subtract the result from the original award amount to arrive at the amount of budgeted indirect costs.

For example, using 8% as the approved rate and \$100,000 as the award amount:

Divide \$100,000 by 1.08, equaling \$92,592.59, and then subtract \$92,592.59 from \$100,000, equaling \$7,407.41, which is the amount that may be budgeted for indirect costs (\$92,592.59 + \$7,407.41 = \$100,000)

$$\frac{\$100,000 \text{ (Award Amount)}}{1.08} = \$92,592.59 \text{ (budgeted direct costs)}$$

$$\$100,000 - \$92,592.59 = \$7,407.41 \text{ (budgeted indirect costs)}$$

- **Amount of Indirect Costs to Charge.** The maximum amount of indirect costs that may be charged in a year to an award is determined by multiplying the restricted indirect cost rate by the total direct costs of the award less any excluded costs, such as sub-agreements for services, capital outlay, and other distorting or unallowable costs.

LEAs have the option of charging less than the approved rate when recovering indirect costs. However, whether the approved rate or a lesser rate is used, the fixed-with-carry-forward adjustment is calculated using the LEA's approved rate.

The following is an example of the application of the indirect rate for a grant.

Total allowed costs incurred for grant during fiscal year = \$91,500

Approved indirect cost rate = 8%

Allowed indirect costs for recovery = \$91,500 x .08 = \$7,320

- **Program Limitations on Charging Indirect Costs.** The indirect cost rate provides a starting point for charging indirect costs to a program. Funding applications or award letters should be consulted to determine whether programs limit or prohibit the claiming of indirect costs. Some of the more common limitations include:
 1. Limiting the indirect cost rate to the lesser of the LEA's approved rate or a predetermined capped rate
 2. Having an "administrative cap" that limits a combination of direct administrative costs and indirect costs
 3. Not allowing indirect costs (i.e., requiring that the entire award amount be spent on direct costs)

- **Administrative Cost Caps.** Indirect costs are usually a subset of the broader category of administrative costs. A program that has an administrative cost cap should be reviewed to determine whether the cap encompasses both direct administrative costs (e.g., salaries of program administrators, costs of program monitoring and preparing program plans) and indirect costs (e.g., personnel/human resources, accounting, and procurement). For example, if an LEA claims indirect costs for a program that has an administrative cap of 15 percent and the LEA has already spent 11 percent on direct administrative costs, then it can claim only 4 percent for indirect costs even if the approved indirect cost rate is higher than 4 percent.

- **Multiple-Year Awards.** For program awards that cover more than one year, a single rate may not be used to recover indirect costs for the entire award; the indirect cost rate must be the rate approved for each year.

- **Qualifying Funds.** The indirect cost rate is appropriate for use with only those operating funds and costs that are part of the calculation. Costs in objects that are excluded from the calculation of the rate (e.g., subagreements for services, capital outlay,) and in funds not included in the calculation should not have indirect costs charged against them.

DEFINITIONS

Administrative costs – Any costs, indirect or direct, that are administrative in nature and support the management of a program. Costs of program administration may encompass both direct costs (e.g., salaries of program administrators, costs of program monitoring and preparing program plans) and indirect costs (e.g., personnel/human resources, accounting, and procurement).

Approved rate – Same as indirect cost rate.

Base costs – Pool of direct costs from the general and special revenue funds, minus any cost categories considered one-time or distorting in nature, such as subagreements for services, major equipment purchases, facility construction, debt service, and transfers to other agencies.

Carry-forward adjustment – An adjustment used in calculating the indirect cost rate where the difference between the estimated indirect costs and the actual indirect costs is "carried forward." The adjustment takes into account: (1) the LEA's approved indirect cost rate for the year; (2) the original carry-forward amount used to calculate that rate; and (3) that year's estimated indirect costs (i.e., base costs times the approved rate).

Consistent cost treatment – So that programs are not charged for similar services as both a direct cost and an indirect cost, costs incurred for the same purpose in like circumstances should be treated as only direct or only indirect. For example, staff members who provide services normally done by the business office should be charged to the indirect cost pool even if they spend 100 percent of their time working on items for a particular program. This consistent cost treatment prevents that program from being charged for business office services as a direct cost and then again as an indirect cost.

Direct costs – Costs identified with a specific goal or objective. These costs may be charged directly to grants. In education, cost objectives are generally the instructional programs and services provided by the agency.

Excluded costs – Certain items of costs are classified in 2 CFR 200 to be one-time, extraordinary or distorting in nature and are excluded from the computation of the indirect cost rate. Excluded costs in this category include subagreements for services, capital outlay (sites, improvement of sites, buildings, improvement of buildings, new or major expansions of school libraries, capitalized equipment), tuition, transfers to other agencies, debt service, financing uses, internal funds, food service, food supplies, equipment, and indirect cost charged against federal projects. For formula computational purposes, these costs are excluded from the rate computation.

Fixed-with-carry-forward – The restricted indirect cost rate is computed and "fixed" for a specific period on the basis of an estimate of that period's level of operations. Once the actual costs of that period are known, the difference between the estimated and actual indirect costs

is "carried forward" as an adjustment to the new calculation. Also see definition for carry-forward adjustment.

Indirect costs – Agency wide general management costs not readily identifiable with a particular program but necessary for the overall operation of the agency (e.g., costs of accounting, budgeting, payroll preparation, personnel management, purchasing, warehousing, and centralized data processing).

Indirect cost percentage – A percentage derived by dividing the current period's indirect costs by the base costs.

Indirect cost pool – The indirect costs of the agency spent in support of indirect cost activities (i.e., general administration offices).

Indirect cost rate – An allocation technique used to distribute indirect costs to federal programs. The indirect cost rate is the ratio (expressed as a percentage) of the adjusted indirect costs to the direct base costs. The indirect cost rate represents a fixed-with-carry-forward restricted indirect cost rate used to recover indirect costs from federal programs.

Modified total direct costs (MTDC) – 2 CFR 200.68 describes MTDC as all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

Restricted rate – an indirect cost rate that's applied to grants that are made under federal programs with supplement and in no case supplant requirements.

Unallowed costs – 2 CFR 200 classified certain items of cost as unallowed which means that the federal funds cannot be used for these purposes. These are costs directly attributable to governance. For formula computational purposes, these costs are combined with direct cost.

Unrestricted rate – an indirect cost rate that's applied to grants that allow an unrestricted rate.

2 CFR 200 – Title 2 – Grants and Agreements, Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

APPENDIX

SAMPLE
District of Columbia
Office of the State Superintendent of Education

INDIRECT COST RATE AGREEMENT

TO: LEA

FROM: Appropriate Contact
Office of Grants Management

RE: 20XX Indirect Cost Proposal Certification

DATE: MMMM DD, 20XX

The purpose of this Agreement is to establish indirect cost rates for use in awarding and managing of Federal contracts, grants, and other assistance arrangements to which Office of Management and Budget (OMB)

2 CFR 200 *Cost Principles, and Audit Requirements for Federal Awards* applies. This agreement is issued by the U. S. Department of Education pursuant to the authority cited in Office of Management and Budget (OMB) 2 CFR 200 *Cost Principles, and Audit Requirements for Federal Awards*.

Attached you will find your LEA's 20XX Indirect Cost Proposal Certification, the Restricted Indirect Cost Rate (ICR) Agreement, and the Unrestricted Indirect Cost Rate (ICR) Agreement, if applicable.

This agreement consists of three parts: Section I – Rates and Bases, Section II – Particulars, and Section III – Special Remarks.

Based on our delegated authority from the U. S. Department of Education, the approved indirect cost rate may be applied to eligible program expenditures that occur between X/X/20XX and X/X/20XX. You are reminded that use of this rate must be in accordance with the OSSE ICR Plan instructions and the proposal submitted by your agency.

Deviations from the approved scope, purpose, or regulations may subject your agency to repayment of any or all indirect cost recoveries made by your organization. This indirect cost rate is subject to change due to U.S. Department of Education revisions.

Thank you for your cooperation. If you have any questions, please contact XXXXX.

SAMPLE INDIRECT COST RATE AGREEMENT

LEA Name _____ Year _____

IRN _____ Date _____

The indirect cost rate contained herein is for use on grants with the Federal Government to which the Office of Management and Budget (OMB) 2 CFR 200 Cost Principles, and Audit Requirements for Federal Awards and the Education Department General Administrative Regulations (EDGAR) apply subject to the limitations contained in Section II, A. of this agreement. The OSSE approved the rate in accordance with the authority contained in section 76.561 of EDGAR.

Section I – Rates and Bases

Type	From	To	Restricted Rate ⁽¹⁾	Unrestricted Rate ⁽²⁾ (if applicable)	Applicable to
Fixed	X/X//XX	X/X/XX	X.XX%	X.XX%	All Federal Education Programs ⁽¹⁾⁽²⁾

Base: Total modified direct costs per 2 CFR 200 (direct costs less excluded costs such as capital expenditures, alterations and renovations, food purchases, subawards in excess of \$25,000 per subaward, previously charged indirect costs and flow-through funds, etc.)

⁽¹⁾ All Federal programs which require the use of a restricted rate per 34 CFR 76.563

⁽²⁾ All Federal programs which do not require the use of a restricted rate per 34 CFR 76.563

Section II – Particulars

- A. **Limitations:** Use of the rates contained in this agreement is subject to any statutory or administrative limitations and is applicable to a given grant or contract only to the extent that funds are available. Acceptance of the rates agreed to herein is predicated upon the conditions: (1) that no costs other than those incurred by the grantee/contractor or allocated to the grantee/contractor via an approved central service cost allocation plan were included in its indirect cost pool as finally accepted, and that such incurred costs are legal obligations of the grantee/contractor and allowable under the governing cost principles, (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs, (3) that similar types of costs have been accorded consistent accounting treatment, and (4) that the information provided by the grantee/contractor which was used as a basis for acceptance of the rates agreed to herein is not subsequently found to be materially inaccurate.
- B. **Audit:** Adjustment to amounts resulting from audit of the plan will be compensated for in a subsequent agreement.
- C. **Changes:** The fixed rates contained in this agreement are based on the organizational structure and the accounting system in effect at the time the proposal was submitted. Changes in the organizational structure or changes in the method of accounting for costs that affect the amount of reimbursement resulting from use of the rate in this agreement require the prior approval of the authorized representative of the responsible approving agency. Failure to obtain such approval may result in subsequent audit disallowance.

- D. **Fixed Rate:** The fixed rates contained in this agreement are based on an estimate of the costs that will be incurred during the period for which the rates apply. When the actual costs for such period have been determined, an adjustment will be made in the agreement following such determination to compensate for the difference between that cost used to establish the fixed rates and that which would have been used were the actual costs known at the time.

Section III – Special Remarks

- A. This Agreement is effective on the date of approval by OSSE.
- B. Questions regarding this Agreement should be directed to the Director, Office of Grants Management and Compliance.
- C. Approval of the rates contained herein does not establish acceptance of the LEA's total methodology for the computation of indirect cost rates for years other than the year herein cited.

INDIRECT COST RATE PROPOSAL APPLICATION

LETTERHEAD

Date

Director, Office of Grants Management and Compliance
Office of the State Superintendent of Education
810 1st Street NW, 9th Floor
Washington, DC 20002

Enclosed, please find our actual indirect cost rates for the period (**identify period covered by rate**) and the related (**insert type of supporting documentation provided e.g. audited financial statements, approved budgets, expenditure reports**) for your review

Sincerely,

Signature

(Signed by an LEA representative at a level no lower than Vice Present or Chief Financial Officer)

**NAME OF LEA
INDIRECT COST PROPOSAL**

INDIRECT COST RATE PROPOSAL (ICRP) CHECKLIST

(Check Off Boxes Below)

1. The ICRP is supported by (insert type of financial support provided e.g. audited financial statements and the 2 CFR 200 Subpart F Single Audit Report, approved budgets, expenditure reports.) (The ICRP, including this checklist and other required certifications, should be e-mailed as an attachment titled Proposal.pdf, and the financial suppose should be attached as Financial Statements.pdf).
2. A reconciliation of item 1 (above) to the ICRP has been made and is included in this proposal.
3. Any previous understandings with the Office of the State Superintendent of Education have been incorporated into this ICRP.
4. Unallowable expenses have been eliminated from the indirect cost pool (e.g., contributed salaries and services, contributions, entertainment, bad debts, fundraising, advertising, depreciation on Federally funded assets and lobbying costs).
5. The indirect cost rate computation base is complete (i.e., it includes all activities that benefit from the indirect cost pool). Additionally, the computation base does not include equipment, capital expenditures, patient care, rental costs, tuition remission, scholarships and fellowships, participant, support costs and sub-award costs in excess for \$25,000.
6. Items of costs that are categorized as extraordinary or distorting expenditures and cost that are not permitted under 34 CFR Part 76 have been excluded from the computation of the indirect cost rates, as applicable. These costs are excluded from the rate calculation because the activities require minimal administrative support.
7. Indirect cost and lobbying certifications are included in the proposal
8. Trend Analysis that itemizes both direct and indirect expenses for the past three years.
9. The indirect rate calculation detailing total direct and indirect expense, by function and cost category, subsidiary worksheets and carry-forward calculations have been provided. The following schedules, with support documentation, have been included in the ICRP:

_____	Schedule A	Statement of Total Costs
_____	Schedule B	Unrestricted Rate Calculation
_____	Schedule C	Restricted Rate Calculation
_____	Schedule D.1	Schedule of Salary and Fringe Benefits
_____	Schedule D.2	Schedule of Fringe Benefits
_____	Schedule E	Unused Terminal Leave
_____	Schedule F	Schedule of Sub-awards
_____	Schedule G	Schedule of Pass-through awards
_____	Schedule H	Schedule of Occupancy Costs
_____	Schedule I	Schedule of Excluded Costs
_____	Schedule J	Schedule of Indirect Costs
_____	Schedule K	Schedule of Adjustments to Salary and Other Related Costs for Restricted Rate Calculation
_____	Schedule L	Schedule of Carry Forward Adjustments – Unrestricted Rate
_____	Schedule M	Schedule of Carry Forward Adjustments – Restricted Rate

10. Please provide the following information:
 Official Name: _____ Email: _____
 Contact Name: _____ Email: _____
 Phone Number: _____ Fax Number: _____

Explanation of any numbered boxes not checked above:
 .

Signature Date

Title

LEA

Indirect Cost Rate Plan

LEA Name
LEA Address
LEA City and State Zip

Tel: LEA Telephone Number
Fax: LEA Fax Number

Website: LEA Website Address

Contact Person: Name of Contact Person

Email: Email of Contact Person

A. INTRODUCTION

(Insert overview of the nature of the LEA. Usually can be an excerpt from the audited financial statements.)

B. TYPE OF RATE AND TIME PERIOD

We are requesting to negotiate the following indirect cost rate:

Fixed Rate with Carryforward for the fiscal year ending _____.

C. NEGOTIATION HISTORY

(a) We have received an official written approval of our indirect cost rate from Office of the State Superintendent of Education.

(b) This is our initial request for the approval of our indirect cost rate. None of the federal agencies have ever officially approved of our rate through a signed negotiation agreement. *(If policies are different in any of the following categories, please specify.)*

D. COST ALLOCATION METHODOLOGY

The cost allocation methodology included in **Section II of the Cost Policy Statement** addresses all elements of cost incurred by **Name of LEA** and identifies shared costs that require allocation.

E. DIRECT COSTS

Direct costs are costs that can be identified specifically with a project and therefore are charged to that project. The accounting system records these costs as they are incurred within the series of accounts assigned for that purpose. Further distribution is not required. **Name of LEA** maintains adequate internal controls to ensure that no cost is charged both directly and indirectly to Federal contracts or grants.

F. INDIRECT COSTS

Indirect costs are costs incurred for common or joint objectives and therefore cannot be readily and specifically identified with a particular direct project or activity. These costs are grouped into common pool(s) and distributed to benefiting activities by a cost allocation process. **See Schedule A**

G. COST POOLS AND DISTRIBUTION BASE

Name of the LEA has created a Fringe Benefit Cost Pool consisting of FICA, pension, health/dental insurance, disability and life insurance, worker's compensation and unemployment tax. The Indirect Cost Pool consists of certain salaries, fringe benefits, and other indirect costs. The pools are distributed to program activities on the following basis:

(Insert Year) Actual Costs (numerators, denominators and calculations should reflect information displayed on the referenced schedules)

<input type="text"/>	<u>Fringe Benefit Cost Pool</u> Base (Salaries & Wages)	<u>\$XXXXX</u> \$XXXXXX	= XX%	See Schedule D.2
<input type="text"/>	<u>Unrestricted Indirect Cost Pool</u> Base (Modified Total Direct Costs)	<u>\$XXXXX</u> \$XXXXXX	=XX%	See Schedule B
<input type="text"/>	<u>Restricted Indirect Cost Pool</u> Base (Adjusted Modified Total Direct Costs)	<u>\$XXXXX</u> \$XXXXXX	= XX%	See Schedule C

H. SUPPORTING FINANCIAL STATEMENTS

The Statement of Total Costs (**See Schedule A**) contained in this indirect cost rate plan agrees with **Name of LEA's** (indicate type of support provided) for fiscal year **Insert Year**. (The Statement of Total Costs must be reconciled to audited financial statements, expenditure reports or approved budgets upon which the rate is based. The source document must also be included in the indirect cost rate submission for OSSE's review.)

I. DESCRIPTION OF ACCOUNTING SYSTEM

These financial statements are prepared using the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded as incurred. We have not made any significant changes during the plan fiscal year (1) to our accounting system, or (2) to the definition or to the accounting treatment of any expense category (Details on any significant accounting changes or planned changes that may impact the rate should be documented above. e.g. a change in building/equipment costing methodology, capitalization level, or a change in charging an expense from direct to indirect or vice versa).

J. INDIRECT SALARIES

See Schedule D.1 for a listing of the positions that comprise the Indirect Cost Pool. **Name of the LEA** maintains payroll records, which are approved by responsible officials of the LEA, to support the distribution of salaries and wages to awards whether the charges are direct or indirect in nature.

K. UNALLOWABLE/EXCLUDABLE COSTS AND ALLOCABLE COSTS

Direct and indirect costs have been adjusted, as appropriate, for unallowable and/or excludable costs in accordance with the Office of Management and Budget (OMB) Uniform Grant Guidance (UGG), Title 34, 2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the Education Department General Administrative Regulations (EDGAR), 34 CFR Part 76.

L. CAPITAL THRESHOLD AND DEPRECIATION SCHEDULE

We did not change the equipment capitalization threshold during fiscal year **Insert Year**. The established capital threshold for capitalizing equipment is **\$ Insert amount**. Capital threshold is the dollar value above which asset acquisitions are added to the capital asset accounts and depreciated over the period of useful service (useful life). (Detailed depreciation schedules, inclusive of asset location, description, acquisition cost, useful life, funding source, depreciation method and current year depreciation should be submitted.)

M. ORGANIZATION CHART

See Attached for **Name of LEA's** organization chart(s) which displays the structure of the LEA during the plan year. (The organization chart(s) should clearly illustrate the governing body and executive officer of the LEA as well as the operation of immediate offices (components) under their oversight either directly or indirectly.)

N. CERTIFICATION OF INDIRECT COSTS AND LOBBYING COST CERTIFICATE

See Attached for **Name of LEA's** Certificate of Indirect Costs and Lobbying Cost Certificate (certificates must be signed by individuals at a level no lower than Vice President or Chief Financial Officer.)

COST POLICY STATEMENT
Name of the LEA

I. GENERAL ACCOUNTING POLICIES

(If policies are different in any of the following categories, please specify.)

- A. Basis Accounting – Accrual basis
- B. Fiscal Period July 1, 20XX through June 30, 20XX
- C. Allocation Basis – Simplified Allocation Method
- D. Indirect Cost Allocation Base – Modified Total Direct Costs (MTDC) includes all direct salary and wages and related fringe benefit costs, materials and supplies, services, travel and the first \$25,000 of each subaward (regardless of the period of performance). MTDC excludes equipment, capital outlays, rental costs, tuition remissions, scholarships, participant support costs, pass-through funds, and the portion of each subaward in excess of \$25,000.
- E. Fringe benefits are specifically identifiable to individual employees. *(If LEA uses a fringe benefit rate, describe fringe benefit allocation base here.)*

II. DESCRIPTION OF COST ALLOCATION METHODOLOGY

A. Salaries and Wages

Direct Salaries:

Name of LEA's employees may charge their salary costs to both direct and indirect activities. Employees directly charge their salary costs which are specifically identifiable to federal awards; nonfederal awards; LEA activities such as instruction, student services, and food services; and unallowable activities such as fundraising.

When an individual employee works on more than one cost objective, time distribution records are maintained that reflect the mix of direct/indirect charges for actual activities worked. **Name of LEA** charges employee compensation based on these records. The time distribution records coincide with the pay periods, and are signed by the employees and the employee's supervisor.

Released time costs (vacation leave earned, sick leave used and paid holidays) *(specify which ones)* are considered part of salary costs *(if they are treated as fringe benefits, please so state)*. Since such costs are part of salary, the **Name of LEA** does not claim release time costs as separate charges. **Name of LEA's** accounting system records release time as a direct or indirect cost in the same manner that salary costs are recorded. Vacation leave earned but not used during each fiscal year is treated as a cost incurred during the period the leave is earned.

Indirect Salaries:

The distinction between direct and indirect is primarily based on functions. For example, when the employees are performing functions that are necessary and beneficial to all programs they are indirect. When functions are specific to one or more programs they are direct because they do not benefit all.

Salary and wages associated with functions that are necessary and beneficial (e.g. accounting, procurement, data processing, human resources, payroll, executive offices) to all cost objectives are charged to Location 01- Central Office (**Insert department, cost code, division, as applicable**). Employees in the following offices have incurred salaries and wages which are general and administrative in nature: (**Please identify by department name as well as department or object class codes**)

<u>Department</u>	<u>Department No.</u>
List	List

A listing of employees, by position and department are illustrated in **Schedule D.1** – Indirect Salary and Fringe Benefits (**List schedule reference**).

Restricted Indirect Salaries:

Indirect salaries, fringe benefits and other related operating costs (e.g., travel, supplies, and occupancy costs) for the restricted indirect rate calculation only include organizational-wide general management costs for **Name of LEA**. Costs of Chief Executive Officers and immediate direct reports and officers are excluded from the indirect cost pool and included in the base when computing the restricted indirect cost rate. Restricted employees are identified in **Schedule D.1**. – Indirect Salary and Fringe Benefits (**List schedule reference**) and adjustments associated with restricted employees are denoted in **Schedule K** – Schedule of Adjustment to Salary and Other Related Costs for Restricted Rate Calculation (**List schedule reference**).

B. Fringe Benefits

Name of LEA contributes the following fringe benefits for its employees: (**specify each fringe benefit provided**)

- Federal Insurance Contributions Act (Social Security).
- 403B Employer Contribution.
- Unemployment insurance.
- Health insurance
- Dental insurance
- Vision insurance
- Group insurance

Since **Name of LEA**'s accounting system tracks fringe benefit costs by individual employee and charges those costs directly or indirectly in the same manner as salary and wage costs are recorded, **Name of LEA** does not need to have a fringe benefit rate established. (**Indicate whether the LEA utilizes a fringe benefit rate to apply fringe benefit costs to salaries or does it specifically identify fringe benefit costs to individual employees. If costs are not tracked by individual employee, describe how fringe benefit cost are accumulated in a pool for the fringe benefit rate calculation.**) The fringe benefit rate calculation is illustrated in **Schedule D.2** – Schedule of Fringe Benefits.

Payments to separating employees for unused leave at the time of retirement or termination are treated as indirect costs and are shown at **Schedule E – Unused Terminal Leave**. The restricted indirect cost rate calculation includes such payments to restricted employees in the calculation as direct (base) costs. Payments to separating employees for unused leave are not charged as direct costs to any federal awards.

C. Travel

Travel costs are charged either as direct or indirect depending upon the predominant purpose of the trip. Auditable travel vouchers support all claimed travel costs. Travel costs are normally limited to those allowable under the Federal Travel Regulations. **Name of LEA** identifies unallowable travel cost (e.g., most first class airfare, excessive lodging costs, and alcoholic beverages) and does not charge them as direct to federal awards or as indirect to any indirect cost pool.

D. Supplies and Materials

Office Supplies and materials are charged as direct costs to the individual awards that use the supplies and/or materials. Supplies and materials used by staff engaged in allowable indirect activities are treated as indirect costs.

E. Occupancy

Occupancy costs included office and/or facility space rental, depreciation, utilities, custodial services, buildings and grounds services, security services, and other costs related to occupancy of the space. **Name of LEA** charges occupancy costs to direct and indirect activities based on benefiting activities and locations. Occupancy costs for the central office are allocated to School Support and Central Administration departments based on personnel costs. Depreciation expense are distributed to benefitting locations based on actual expense incurred for the period. Interest on debt service is allocated based on a percentage of direct and indirect personnel. (specifically identify and describe the methodology used for charging occupancy costs. Ensure that the methodology provides for an equitable distribution). Below are examples of methodologies.

- *One methodology is to place all occupancy costs in the “Unrestricted” indirect cost pool. If so, no occupancy costs are charged as direct on any federal awards. When converting from an unrestricted to a restricted setting, the only allowable indirect occupancy costs for the Restricted Rate are those allocable to employees treated as indirect when computing the Restricted Rate. These costs must be supported by a space usage study or equivalent documentation per EDGAR 76.568 (b). The remaining occupancy costs are treated as Direct for Restricted Rate computation purposes. In a Restricted Rate setting, none of the “disallowed” occupancy costs are charged as direct to federal awards.*
- *Another methodology charges occupancy costs to direct and indirect activities based on a distribution such as square footage occupied by the employees. The areas occupied by direct employees are charged as direct costs to the employees’ respective activities, and are treated as base costs when computing the indirect cost rate. The areas occupied by allowable indirect employees are part of the indirect cost pool. The exception would be “Restricted Rate” awards in which direct occupancy costs are not allowed as direct charges to Federal programs unless the recipient needs the additional space to conduct the project.*

F. Communications

Expenses that can be identified to a specific Federal award or cost objective are charged directly. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

Telephone, fax and other related costs – (Specify treatment of fax, telephone, and related costs).

Photocopying and Printing – (Specify treatment.) Outside Professional Services

Outside Professional Services cost are charged as follows: (modify listing of professional service costs as necessary)

- Annual audit and OMB Circular A-133 compliance costs are charged as indirect.
- Legal fees for specific activities are assigned to the benefiting activities.
- Legal fees pertaining to the management of the **Name of LEA** (e.g., advice on personnel relations issues) are treated as indirect costs.
- Professional (including consulting) services costs are charged to the benefiting activities.

G. Insurance (modify description, as appropriate)

Insurance costs are charged either directly or indirectly based on benefiting activity.

H. Conference and Meetings (modify description, as appropriate)

Conference and meeting expenses are charged either directly or indirectly based on the benefiting activity.

I. Dues and subscriptions (modify description, as appropriate)

Dues and subscriptions are charged either directly or indirectly based on the benefiting activity.

J. Unallowable Cost

Name of LEA recognizes that unallowable charges, either direct or indirect, cannot be charged to federal awards. **Name of LEA** has internal controls in place to identify unallowable costs, as specified in 2 CFR 200 Subpart E, and segregate them into a separate cost objective. The following costs have been omitted from the indirect cost pool (List all unallowable costs removed from the composition of the indirect pool):

- Fund raising
- Alcoholic beverages
- Public relations
- General governance activities
- Advertising, except for staff recruitment or property disposal
- Contributions
- Lobbying
- Under recovery of cost under grant agreements
- Interest and other financial costs

Bad debts

K. Excluded Costs

Name of LEA recognizes that the following costs are excluded costs for the indirect cost rate calculation:

Subaward amounts > \$25,000

Food purchases

Capital outlays

Equipment and rental costs

Debt service

Pass-through funds

(Place document on Corporate letterhead)

Certificate of Indirect Costs

This is to certify that I have reviewed the indirect cost proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this **(date of proposal)** proposal to establish billing or final indirect cost rates for **(identify period covered by rate)** are allowable in accordance with the requirements of the Federal award(s) to which they apply and with the provisions of the 2 CFR 200.Subpart E – Cost Principles. Unallowable costs have been adjusted for in allocating costs as indicated in the indirect cost proposal

- (2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

LEA: _____

Signature: _____

Name of Official (printed): _____

Title: _____

(Must be signed by an individual at a level no lower than VP or CFO)

Date of Execution: _____

(Place on Corporate Letterhead)

Lobbying Cost Certificate

I hereby certify that the **(Name of LEA)** has complied with the requirements and standards on lobbying costs in 2 CFR Part 200 for the following period **(identify period covered by rate)**.

LEA: _____

Signature: _____

Name of Official (printed): _____

Title: _____

(Must be signed by an individual at a level no lower than VP or CFO)

Date of Execution: _____