

***Instructions for Submitting***

***Certification and Request for an Approved Indirect Cost Rate***

***For Local Education Agencies***



***Prepared by: Alaska Department of Education & Early Development***

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## General Information

The U.S. Office of Management and Budget (OMB), 2 CFR 200 Uniform Guidance, sets forth the cost principles and standards for determining the allowable costs of federally funded grants administered by state and local governments. The objectives of the circular are:

1. *Establish uniform standards of allowability*. All federal agencies agree to recognize the central service costs that benefit grant programs as allowable costs of those programs

2. *Establish uniform standards of allocation*. All federal agencies accept the method of allocation agreed to by the “cognizant” federal agency. Costs are allocated to the benefiting departments regardless of the funding source or the ability of that source to pay.

3. *Identify the full cost of federal programs.* By identifying, accumulating, and allocating all allowable direct and indirect costs to the program for which the cost was incurred, the exact costs of all federal programs may be determined.

4. *Ensure federal programs bear their fair share of costs.* Only by identifying and allocating all direct and indirect costs within a central service cost allocation plan, will agencies be reimbursed for the total cost of federal programs.

5. *Simplify intergovernmental relations.* Under the Uniform Guidance concept of the “cognizant” agency, one agency with one group of reviewers approves a cost plan. All other agencies accept the plan. Thus, uniform methods of allocation and allowability are applied to all federal grants.

6. *Encourages consistency of treatment.* Grantee organizations are encouraged to process all grant applications through a central office that is also aware of the basis of which an indirect cost rate was developed to minimize inconsistent treatment.

Applications for grants usually involve a request for reimbursement of both direct and indirect costs. Uniform Guidance contains provisions for determining indirect cost rates for grantees and sub grantees of federal grants.

Local education agencies (LEAs) are not required to develop an indirect cost proposal, however, if they fail to do so, they will not be allowed to recover any indirect costs related to federal grants. To recover any indirect costs for the administration of federal grants, a LEA must have an approved indirect cost rate.

Alaska’s charter schools are a part of the LEAs, not separate entities, and so they do not apply for individual rates.

## Indirect Cost Proposals

The advantage of submitting an indirect cost proposal and rate is that it is a simplified means for determining a fair share of indirect costs for federal grants, which are acceptable to federal grantor agencies. The Alaska Department of Education & Early Development (DEED) has, in cooperation with the U.S. Department of Education, developed an indirect cost plan to be used by local education agencies in Alaska. The Alaska Department of Education & Early Development has been delegated the authority by the U.S. Department of Education to review indirect cost proposals and to approve indirect cost rates for local education agencies (LEAs). LEAs in Alaska use the fixed rate with carry-forward for indirect costs.

DEED is the cognizant agency to the LEAs. The LEA is responsible to submit the indirect cost proposals annually to the DEED for approval of a new rate. LEAs are not required to submit rate proposals. However, without an approved rate, indirect costs will not be allowed on grants.

An indirect cost rate is a means of determining in a reasonable manner the percentage of allowable general administrative expense that each federal grant should bear. Generally, an indirect cost rate is the ratio of total indirect costs to total direct costs, based on the LEAs actual expenditure, exclusive of any extraordinary or distorting expenditures such as capital outlay and major subcontracts. *Expenditures for the second preceding fiscal year* are to be used when completing the Indirect Cost Proposals for a given fiscal year. For example, expenditures for FY 2003 will be used to complete the Indirect Cost Proposals for FY 2005. Uniform Guidance requires that all expenditures of a LEA be included in the preparation of an indirect cost plan. These costs are derived from the general fund, special revenue funds, and any other applicable funds used for the administration of the district.

The sources of information utilized to determine indirect cost rates are the LEAs audited Annual Financial Report and the detail accounts that make up that report. *The Uniform Chart of Accounts for School Districts* is the reference document to be used in classifying transactions.

Types of expenditures, which are identified as indirect costs, shall also not be included as direct costs. All expenditures detailed on the financial report must be actual expenditures, not encumbrances, and the LEA must maintain records supporting them.

Generally, records and documentation supporting the indirect cost allocation plan must be retained for a period of five years after the last day of the fiscal year to which the proposal applies or until audited, whichever occurs sooner. If audit exceptions have been noted, records must be retained until those expenditures have been resolved.

## Classification of Expenditures and Audit

The classification of expenditures must be in conformance with *The Uniform Chart of Accounts for School Districts.* Failure to comply with the classification of expenditures as required may result in questioned costs related to cost recovery.

Detailed records are required to support any indirect costs attributed to function 600 Operations and Maintenance of Plant. These records should contain a detailed analysis of costs classified as indirect, which should include a justification or explanation as well as other pertinent information. Failure to provide adequate documentation may result in questioned costs related to indirect cost recovery.

Expenditures recorded in functions 510 District Administration (less 511 and 512) and 550 District Administration Support Services do not require additional documentation in support of the classification as indirect costs.

Schedules or other records should be maintained that document the reporting of all expenditures recorded as excluded costs.

## Type of Plan and Rate: Restricted

The U.S. Department of Education approved this methodology, for the Alaska Department of Education & Early Development, for approving restricted indirect cost proposals. As defined in the Education Department General and Administrative Regulations (EDGAR) at 75.563 and 76.563, restricted rates apply to grants that are made under federal programs with supplement and in no case 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 the LEA obtains through the Alaska Department of Education & Early Development are of the “restricted” type. Restricted grants include only indirect costs of administrative and fixed charges as defined below. Alaska Department of Education & Early Development does not issue unrestricted rates to LEAs.

## Definitions

1. **Indirect Costs** - Costs of a general nature which are not readily identifiable with the activities of the grant but are, nevertheless, incurred for the joint benefit of those activities and other activities or programs of the organization.

As prescribed by Uniform Guidance, indirect costs are costs meeting the following criteria:

***Definitions - continued***

a. Incurred for a common or joint purpose benefiting more than one cost objective; and

b. Not readily assignable to the cost objectives specifically benefited.

Administrative indirect costs consist of the salaries and expenses for staff that are engaged in administrative activities from which the entire LEA benefits. Those activities that are limited to one school, subject, or phase of operation, are not indirect costs.

Generally, salaries and expenses for auditing, budgeting, payroll, personnel, purchasing, and employee relations are examples of services that typically benefit several activities and programs for which costs can be attributed by means of an indirect cost proposal. In theory, all such costs can be charged directly. However, practical limitation and consideration of efficiency in accounting preclude such an approach. Salaries and expenses related to the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services, and student services are not indirect costs. These costs are considered as direct costs. For example: costs of the business manager, accounting manager, and accounting section are included as administrative indirect costs but costs for the director of transportation would be classified as a direct cost.

Other costs which are not indirect costs include, but are not limited to, all expenditures for the school board, contributions and donations, bad debts, contingencies, debt service and interest, stipends, capital outlay, entertainment, lobbying, fines and penalties.

The superintendent, the superintendent’s secretary, and expenses related directly to the operation of the superintendent’s immediate offices are considered disallowed costs. An individual principal, a principal’s secretary, and the expenses related to the operation of these immediate offices are considered to be direct costs.

Fixed charges classified as indirect costs are limited to those amounts that are associated with administrative indirect costs. The fixed charges can be viewed as appended to those administrative functions, and the classification rules are the same as those applied to salaries. No other items of expenditures of a fixed charge type are to be classified as indirect fixed charges.

The expenditures identified as indirect costs are exclusively identified as:

a. Employee retirement;

b. Social security;

c. Pension fund payments; and

d. Premium expenditures for

(1) Employee insurance, and

(2) Liability insurance

***Definitions - continued***

According to Uniform Guidance Termination Pay and Post-Retirement Health Benefits may not be charge as a direct cost on federal awards. They may be treated only as “general and administrative” (i.e. indirect) costs.

2. **Direct Costs** - a direct cost is one that is incurred specifically for one activity and can be identified specifically with that activity. These costs may be charged directly to grants, contract, or to other programs against which costs are finally lodged.

3. **Disallowed Costs** - Uniform Guidance classifies certain items of cost as disallowed, which means that the federal funds cannot be used for these purposes. These are costs directly attributable to governance. For indirect rate computation purposes, these costs are combined with direct costs.

4. **Excluded Costs** - Certain items are classified in Uniform Guidance as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate. Excluded costs in this category include capital outlay, debt service, transfer of expenditures, internal funds, raw food supplies in Function 790 Food Service and equipment. For indirect rate computation purposes, these costs are excluded.

## Limitations on the Recovery of Indirect Costs

Three major limitations affect how much indirect cost the LEA may recover. These limitations are described below.

1. The rate negotiated with and approved by the Alaska Department of Education & Early Development is the maximum allowable indirect cost rate. Indirect cost rates from zero to the maximum rate may be negotiated and approved for a specific program or project by the program administrator with the Alaska Department of Education & Early Development. Federal law or grant conditions may limit the amount of indirect costs allowed for a particular grant. For example, if the LEA has a restricted rate of five percent and the law allows only a three percent of the direct costs, then the LEA can recover only indirect costs equal to three percent of the direct costs. Grant terms and conditions may also exist on some grants that prohibit recovery of any indirect costs.
2. Recovery of indirect costs on grants is subject to the availability of funds. Most restricted grants are allocated to the state as a block grant in which each LEA is entitled to a maximum entitlement.
3. Indirect costs are recovered only to the extent of direct costs incurred. The indirect cost rate is applied to the direct cost amount expended, not to the grant award.

## Period of Which Rates are Applicable

An indirect cost rate certification issued by the Alaska Department of Education & Early Development is established for a specific state fiscal year. The rate is valid from July 1 through June 30 of the applicable fiscal year of approval. To recover indirect costs, the LEA applies the indirect cost rate in effect for a given fiscal year to the grant expenditures during that fiscal year. Indirect cost rates approved for fiscal year 2008 apply to all disbursements made within that fiscal year that are eligible for earning indirect cost, including any disbursements made on project balances that are brought forward.

## Application of Rate

Once the Alaska Department of Education & Early Development has approved the proposal, the district may elect to:

1. Apply the approved and applicable rate to all projects; or

2. Apply the approved and applicable rate only to specific eligible projects.

The rate may be applied at the maximum rate or at less than the maximum rate. If the rate applied is less than the maximum rate, it is not necessary that the reduced rate be applied uniformly to all projects. However, a district may not average the indirect cost charges to projects; that is, if the approved rate is six percent, a LEA may not charge one project at three percent and another project at nine percent for an average of six percent.

In the application process, the district must be consistent with the development of the rate. For example, if depreciation cost is not included in the development of the rate, depreciation cost cannot be included in the base when applying the rate. This same principle applies to all elements of the indirect cost rate developed.

## Additional Information

1. An organizational chart must accompany the proposal. The organizational chart must be applicable to the second preceding fiscal year because expenditures for the proposal are taken from that year.
2. All employee benefits including workers compensation and unemployment compensation must be charged to the same function as salaries. Termination Pay and Post-Retirement Health Benefits should be treated as general and administrative costs.
3. Uniform Guidance details the handling of Severance Pay as:
4. Payments in addition to regular salaries and wages made to workers whose employment is being terminated are allowable to the extent that, in each case, they are required by (a) law, (b) employer employee agreement, or (c) established written policy.
5. Severance payments (but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.
6. Abnormal or mass severance pay will be considered on a case by case basis and is allowable only if approved by the cognizant Federal agency.
7. Unused leave is addressed in Uniform Guidance stating that with cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.
8. Judgments, fines, interest, and penalties should be considered as exclusions, not as indirect, and considered as reconciling items.

## Development of the Indirect Cost Proposal

As noted above, the proposal is based on total expenditures of all General Fund and Special Revenue Funds and must be traceable to those accounts of record that report these amounts. The other two governmental funds, debt service and capital projects funds, are excluded because the expenditures of these funds would be removed from the calculation to arrive at direct costs. A reconciliation to total LEAs expenditures should be completed as part of the LEA rate proposal submitted. The Schedule of Expenditures is a special expenditure report, combining General Fund and Special Revenue Funds. Note that certain costs are to be excluded, namely all judgments, fines & penalties, all transfers, Debt Service, Capital Outlay and the cost of raw foods in Function 790 Food Service.

## Submitting the Indirect Cost Proposal

The completed application will consist of:

1. The signed certification sheet,
2. Schedule A Worksheet,
3. Schedule C,
4. An organizational chart, and
5. Other supporting documentation that would enhance and expedite the approval of the proposal,

And be forwarded to:

Alaska Department of Education & Early Development

Division of School Finance

P.O. Box 110500

Juneau, AK 99811-0500

And are due by December 31st of each year.

## Use of Rates

Once the applicable rate has been determined, the amount available to earn indirect cost dollars can be computed by using the following formula:

I = S ÷ (1+R) I = Amount available to be assessed the indirect cost rate

R = Applicable indirect cost rate

S = Net Available for indirect and direct costs

1. The amount available to earn indirect cost is determined for an entitlement type grant or project, such as Chapter I, by subtracting excluded costs (items of equipment, subcontracts in excess of $25,000 and any flow-through funds). The remaining amount is the net available for both indirect and direct costs. The net amount is divided by the combined percentage of 100.00 percent plus the applicable indirect cost rate percentage. For example: rate (R) is 5.45%, the total entitlement for a Chapter I project is $945,000.00, and the project included $1,395.00 for capital outlay.

Fixed Grant or Project Amount $945,000.00

Less: Capital Outlay $1,395.00

Net Available for Indirect and Direct Costs $943,605.00

Using Formula: Then:

I = S ÷ (1+R) I × R = Indirect Cost Dollar Amount

I = $943,605 ÷ 1.0545 $894,836 × .0545 = Indirect Cost Dollar Amount

2. Should the project or grant be one of an add-on type, direct costs plus allowable indirect costs, simply subtract those costs that are excludable in nature and multiply the remainder (S) by the applicable approved indirect cost rate (R). Add the result to (S) and the amount subtracted (excludable cost) to arrive at the total cost for that grant or project.

Total Direct Costs $5,000.00

Less: Capital Outlay -2,200.00

Net available to earn indirect costs (S) $2,800.00

Times: Applicable Indirect Cost Rate (R) ×5.45%

Estimated indirect cost 152.60

**Total cost for project:**

Net available (S) $2,800.00

Estimated indirect cost 152.60

Excluded costs - Capital Outlay 2,200.00

Total cost for project $5,152.60

## Certification and Request for Authorized Indirect Cost Rate

**XYZ School District**

**School District Certification and Request for Authorized Indirect Rates**

**As submitted to the** **Alaska Department of Education & Early Development**

**FY20XX Federal Indirect Rate**

I certify that the information contained herein has been prepared in accordance with the instructions issued by DEED and conforms to the criteria in 2 CFR 200, Uniform Guidance, and is correct to the best of my knowledge and belief. No costs other than those incurred by this agency have been included in the indirect cost rate application. The same costs that have been treated as indirect costs have not been and will not be claimed as direct costs, and similar types of costs have been accorded consistent treatment. All expenditures detailed on the application form have been made, and records supporting them have been maintained and are available for review and/or audit.

We hereby apply for the following indirect cost rate:

Federal Programs - Restricted with Carry Forward       %

Superintendent’s Certification:       Date:

**DEED USE ONLY**

Your proposal has been accepted and the following rate approved:

Federal Programs - Restricted with Carry Forward       %

This rate becomes effective July 1, 20XX and remains in effect until June 30, 20XX and will apply to all eligible federally assisted programs as appropriate.

Federal law or grant conditions may limit the amount of indirect cost or the indirect cost rate. For example, if the approved restricted rate is five percent and the law allows only a three percent rate of recovery, then only indirect cost equal to three percent of the direct costs for that program may be recovered.

Alaska Department of Education & Early Development:

Date:

## INDIRECT COST MATRIX

The following matrix classifies expenditures by category and is provided as a guide in preparing indirect cost proposals. The matrix identifies by function and object when expenditures are appropriate for classification in a specific category.

| Function Code | Description | Direct/Disallowed Costs | Indirect Costs1 | Excluded Costs2 |
| --- | --- | --- | --- | --- |
| 100 | Instruction | YES | NO | NO2 |
| 200 | Special Education Instruction | YES | NO | NO2 |
| 220 | Special Education Support Services - Students | YES | NO | NO2 |
| 300 | Support Services - Students | YES | NO | NO2 |
| 350 | Support Services - Instruction | YES | NO | NO2 |
| 400 | School Administration | YES | NO | NO2 |
| 450 | School Administration Support Services | YES | NO | NO2 |
| 510 | District Administration Board of Education | YES | NO | NO2 |
| 510 | District Administration Office of the Superintendent | YES | NO | NO2 |
| 510 | District Administration (less 511 and 512) | NO | YES | NO2 |
| 550 | District Administration Support Services | NO | YES | NO2 |
| 600 | Operation & Maintenance of Plant | YES | YES1 | NO2 |
| 700 | Student Activities | YES | NO | NO2 |
| 760 | Student Transportation Services (Fund Only) | YES | NO | NO2 |
| 770 | Adult & Continuing Education | YES | NO | NO2 |
| 780 | Community Services | YES | NO | NO2 |
| 790 | Food Service (Fund Only) | YES | NO | NO2 |
| 850 | Debt Service | NO | NO | NO2 |
| 860 | Expendable Trust | NO | NO | NO2 |
| 880 | Construction & Facilities Acquisition | NO | NO | NO2 |
| 000 | Undesignated | YES | NO | NO2 |

**Descriptions of codes can be found in the Uniform Chart of Accounts for School Districts.**

**1** Detailed documentation should be maintained to explain any classification of expenditures as indirect for these functions.

**2** All functions may contain excluded costs, i.e. capital outlay. Identify all excluded costs by function and maintain documentation for reporting on Schedule A.

## Guide to Schedule A – Expenditures for Computation of Indirect Costs

Schedule A distributes expenditures into direct costs and indirect costs. Using the following guide for the analysis and allocation of the functions and objects between direct and indirect, complete Schedule A and Schedule A Reconciliation. *All Expenditures of the Special Revenue Funds are to be considered as direct, disallowed, or excluded costs.*

| Code | Code Description | Type of Expenditure |
| --- | --- | --- |
| 100 | Instruction | Expenditures are direct costs |
| 200 | Special Education Instruction | Expenditures are direct costs |
| 220 | Special Education Support Services - Students | Expenditures are direct costs |
| 300 | Support Services – Students | Expenditures are direct costs |
| 350 | Support Services - Instruction | Expenditures are direct costs |
| 400 | School Administration | Expenditures are direct costs |
| 450 | School Administration Support Services | Expenditures are direct costs |
| 510 | District Administration | Expenditures recorded in this function such as payroll, internal auditing, accounting, budgeting, purchasing and personnel are indirect costs. |
| 510 | Board of Education | Expenditures are direct costs |
| 510 | Office of the Superintendent | The superintendent, the superintendent’s secretary, and expenses related directly to the operation of the superintendent’s immediate offices are considered disallowed costs. |
| 510 | District Administration (less 511 and 512) | Expenditures are indirect costs |
| 550 | District Administration Support Services | Expenditures are indirect costs |
| 600 | Operation & Maintenance of Plant | Expenditures are direct costs |
| 700 | Student Activities | Expenditures are direct costs |
| 760 | Student Transportation | Expenditures are direct costs |
| 770 | Adult & Continuing Education | Expenditures are direct costs |
| 780 | Community Service | Expenditures are direct costs |
| 790 | Food Service (Fund Only) | Expenditures are direct costs except raw food cost, which is excluded |
| 850 | Debt Service | Expenditures are excluded costs |
| 860 | Expendable Trust | Expenditures are excluded costs |
| 880 | Construction & Facilities Acquisition | Expenditures are excluded costs |
| 000 | Undesignated | Expenditures are direct costs |

## Expenditures Worksheet for Computation of Indirect Cost

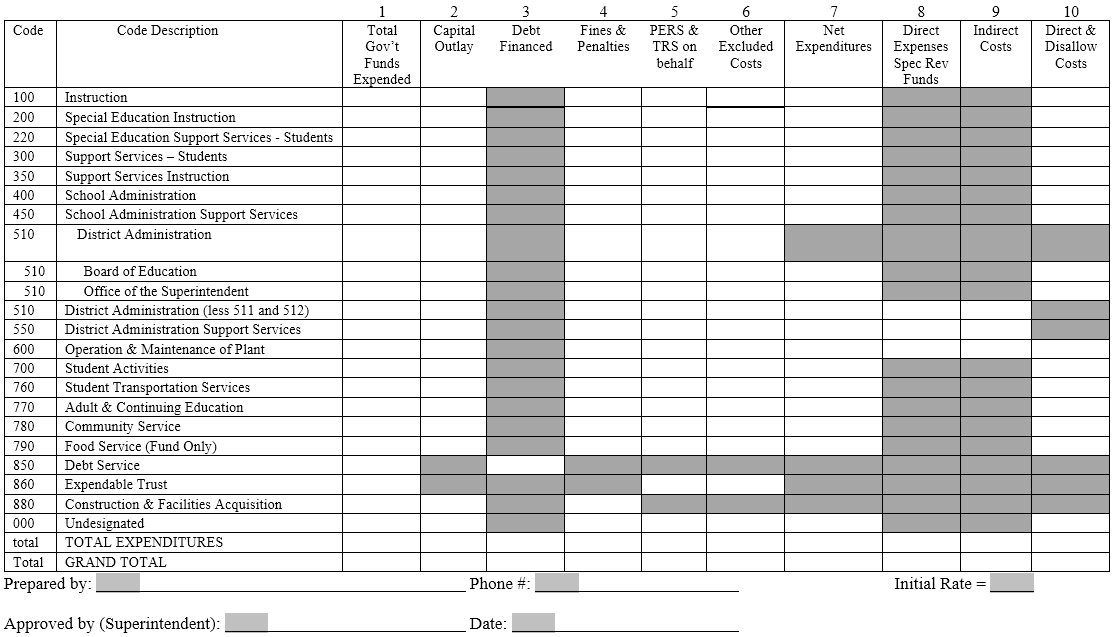
XYZ School District

SCHEDULE A WORKSHEET

Expenditures for Computation of Indirect Cost Restricted Rate

As submitted to the Department of Education & Early Development

EXCLUDABLE COSTS



**Alaska Department of Education & Early Development**

**Restricted Indirect Cost Rate**

## Schedule C – Carry Forward Computation

A fixed rate with carry forward provision has characteristics of both a provisional rate, which is a temporary rate subject to adjustment, and a predetermined rate, which is a permanent rate not subject to adjustment. A rate is computed and fixed for a specific future period based on an estimate of that future 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. The adjustment cannot be made in the fiscal period immediately following because the fixed rate for the immediately following fiscal period will already have been determined. An adjustment generally will be carried forward to the second fiscal period following the period being adjusted. A fixed rate should be selected that will closely approximate the actual rate expected to be incurred. An accurate forecast will confine carry forward amounts to minimal differences. The computation of a fixed rate with carry forward at the department level should include any provisions made for central service costs.

The format to be used for the Local Education Agency (LEA) restricted rate carry forward computations can be found on page 16. A disk with the forms for indirect rate computations formatted to EXCEL 5.0 is available from the Department of Education & Early Development, Division of School Finance, upon request.

Restricted Indirect Cost Rate

As Submitted to the Department of Education & Early Development

## Sample Schedule C – Carry Forward Computation

