

Indirect Cost Rate Questions and Answers

What is an indirect cost?

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

What is the indirect cost rate?

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

What does fixed with carry-forward mean?

A fixed with carry-forward provision is a rate computed and fixed for a specified future period based on an estimate of that period's level of operations. However, when the actual costs of that period become known, the difference between the estimated costs and the actual costs is carried forward as an adjustment to a subsequent period for which a rate is established. Indirect rates calculated on the 03-04 F-196 were used in 05-06 (2 year lag). Therefore, if a district's rate on the 03-04 F-196 was 5.4%, the district could have used a maximum 5.4% indirect rate during the 05-06 school year. But if at the end of 05-06 the rate calculated on the F-196 was only 4.2%, the subsequent indirect rate for FY 07-08 will be adjusted for the difference and the district will use the adjusted rate for the 07-08 school year. The rate calculated on the 04-05 F-196 is the rate your district will use in 06-07. This is the rate provided to *iGRANTS*.

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

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

What does organization-wide costs mean?

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

What are distorting items?

Distorting items are activities that do not occur regularly each year, but “distort” the regular expenditures. Districts will need to determine and document expenditures they consider significant and distorting. The distorting input item numbers on the F-196 are used in the calculation of the direct expenditure base.

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

Contingencies: Contingencies are generally not applicable to school districts.

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

Alterations and renovations: Alteration and renovation expenditures are those which are significant and distort the regular expenditures of the district. Regular maintenance on buildings, HVAC systems, air conditioners, bathrooms, etc. should not be considered distorting. Districts receiving a Small Repair Grant for urgent repair and renovation projects in FY 05-06 may consider the expenditures for those repairs a distorting item, if the expenditures were recorded in the General Fund in Program 97.

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

What audit and legal costs are allowed in the F-196 indirect calculation?

Audit costs charged to Program 97, Activity 11, but not charged directly to another program may be included in the indirect expenditure pool.

Legal costs are generally not includible in the indirect expenditure pool. Legal costs associated with interpretation of laws and regulations may be adjusted indirect costs. Legal costs associated with court cases or time spent on preparing for court cases is not an allowable indirect cost.

What is a space and occupancy plan?

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