Georgia Department of Education
Financial Review Division
Indirect Cost Rate Guide

December 2, 2019

INDIRECT COSTS SUMMARY, RATES, BUDGETING AND APPLICATION GUIDANCE For Year Ending June 30, 2021

GaDOE Financial Review Division has provided an additional document for the FY 2021 Restricted and Unrestricted cost matrix for the local education agencies (LEAs) in Georgia. The cost matrix details the classification of each account included in the indirect cost rate calculation.

The U.S. Department of Education (USDE) has given the Georgia Department of Education (GaDOE) authority to review, calculate, approve, and issue both the Restricted and Unrestricted indirect cost rates to be used in Georgia for the following types of LEAs: School Districts, Charter Schools, and Regional Educational Service Agencies (RESAs).

To recover any indirect costs for the administration of federal grants, an LEA must have an approved rate from GaDOE, which is calculated each fiscal year using the Annual Financial Report submitted by each LEA in accordance with State Board Rule 160-5-2-.21.

Indirect Cost Rate - Definition

The **indirect cost rate** is a means of determining, in a reasonable manner, the percentage of allowable indirect costs that each federal program or activity should bear for organization-wide, centralized administrative costs of managing federal grants, such as costs related to accounting, auditing, budgeting, human resources, payroll processing, and purchasing. Federal laws or grant conditions may limit the amount of indirect costs or may require use a different rate than the negotiated indirect cost rate or may prohibit any recovery of indirect costs.

Recovery of indirect costs from grants is determined by the terms and conditions of the applicable grants and is subject to the availability of funds. Indirect cost rates may also be used to recover the district-wide indirect costs of managing state grants, if applicable.

With an approved indirect cost rate, LEAs can transfer a certain percentage of funds from each applicable grant to the district's General Fund (Fund 100) as compensation for the indirect costs incurred in managing the federal grants.

NOTE: The LEAs are not required to recover indirect costs from any of the federal grants and contracts; this is a local LEA decision. In addition, the LEA may elect to claim indirect cost at a rate less than that calculated and approved; however, in no instance can a rate be applied that exceeds the maximum calculated rate.

Indirect Cost Rate Types

GADOE issues two types indirect cost rates to LEAs - a Restricted rate and an Unrestricted rate.

- Restricted Rate - The restricted indirect cost rate is used for grant programs where the 'supplement, not supplant' requirement applies. Under supplement-not-supplant, grant funds must only be used to *enhance* or *support* existing state and local funding activities; grant funds must not be used to *replace* state or local funds. LEAs are expected to have tax revenue or other financial resources to finance the educational expenditures prior to utilizing the federal funding. Many federal grants that GADOE administers are subject to the supplement-not-supplant requirements and the Restricted indirect cost rate must be used with these programs.

- Unrestricted Rate - The unrestricted indirect cost rate allows for full recovery of indirect costs. It is used for federal and state grants not subject to the federal supplement-not-supplant statutory requirement. The Child Nutrition cluster through the United States Department of Agriculture is an example of a federal grant not subject to supplement-not-supplant.

  The following expenditures are classified as Indirect Costs for the **Unrestricted rate,** but not for the Restricted rate:
  - Office of the superintendent, the assistant/associate superintendents, heads of component units, executive administration, etc.
  - Maintenance and Operations of the LEA
  - Costs relating to general administration and direction of the local government such as audit/management services, legal services and business services.

Modified Total Direct Costs (MTDC) - Definition

As per 2 CFR §200.68, *Modified Total Direct Costs are all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each sub-award/sub-contract (regardless of the period of performance).*

The Restricted and Unrestricted indirect cost rates are calculated based upon a simple ratio of the LEA's Indirect Cost to the **Modified Total Direct Cost (MTDC)** base. The MTDC base is the total of the LEA's Direct costs plus Unallowable costs.

Indirect Cost Calculation =	LEA's indirect cost pool *(the total of all the indirect costs)* LEA's Modified Total Direct Cost (MTDC) base *(total of the LEA's Direct costs plus Unallowable costs)*

The indirect cost rate determined on the MTDC basis exempts some costs in the calculation as listed below:

- Equipment
- Capital expenditures
- Food purchases and other distorting items
- Rental costs (i.e. Object Codes 441, 442, etc.)
- Tuition remission, scholarships and fellowships
- Pass-Through Payments to Charter Schools (Object Code 594)
- Pass-Through Payments to Residential Treatment Centers (Object Code 596)
- The portion of each sub-award and sub-contract in excess of $25,000 (regardless of the period of performance of the sub-award).
- Actuarially calculated pension and other-post employment benefit expenditures recognized only at the district-wide level of the gaap-basis financial statements (not a true expense of the district).

Budgeting Indirect Costs in Fixed Grant Awards

Once the indirect cost rate has been determined, the maximum that may be budgeted in the federal award for indirect costs should be computed as outlined in the example below. This example shows how to calculate the maximum amount of indirect costs that could be claimed against a grant to be included in the budget, and assumes the following:

- Total grant award = $100,000
- Excluded expenditures in the amount = $15,000
- An approved Indirect Cost Rate = 2.51%

DESCRIPTION	AMOUNT
GRANT AWARD AMOUNT	$100,000
LESS EXCLUSIONS: Subtract excluded costs *(items of equipment, debt service, capital expenditures, funds and the portion of each subcontract or sub-grant above $25,000 (each award; each year etc.))* from the grant award.	(15,000)
SUB-TOTAL: Modified Total Direct Cost (MTDC) Base	85,000
LESS AMOUNT SUBJECT TO INDIRECT COSTS: $85,000.00 / (1 + .0251) = $82,918.74. (NOTE: The indirect costs must be removed from the balance before the indirect rate can be applied; this prevents paying indirect costs on indirect costs).	(82,919)
TOTAL BUDGET AMOUNT FOR INDIRECT COST: $82,918.74 X .0251 = $2,081.26	$2,081

Applying Indirect Cost Rates to Expenditures Incurred

As expenditures are incurred in the LEA's general ledger on a monthly basis in the applicable grants, it is recommended that the approved indirect cost rate is applied monthly to the grant expenditures less the exclusions.

Please note: Indirect Cost Rates are established by fiscal year for the period of July 1 – June 30. Therefore, the calculated rate can only be applied to the grant award expenditures following that same time frame. If a federal program is operating on a 15-month grant period, the LEA must budget for and apply the applicable indirect cost rate for each period separately. Alternatively, the LEA has the option of amending the budget and applying the lower rate to the entire grant period.

Below is an example of an indirect cost rate charged monthly against the federal award based on actual expenditures. This example assumes an indirect cost rate of 8%. The instructions are listed below the chart.

Sample Monthly Calculations of Indirect Cost Charges

				COLUMNS					
				A	B	C	D	E	F
Fund	Program #	Description	Month	Month-End Expenditures (Per G/L)	Less: Equipment & Other Exclusions	Less: Federal Indirect Costs from Previous Month/Period	Net Expenditures (Column A minus Columns B and C)	Indirect Cost Rate	Monthly Indirect Cost Calculation (Columns D*E)
402	1750	Title I-A Improving Academic Achievement	July	100,000.00	8,000.00		92,000.00	8.00%	7,360.00
			August	94,000.00	10,760.00	7,360.00	75,880.00	8.00%	6,070.40
			September	98,000.00	3,000.00	6,070.40	88,929.60	8.00%	7,114.37
			October				-		0.00
			November				-		0.00
			December				-		0.00
			January				-		0.00
			February				-		0.00
			March				-		0.00
			April				-		0.00
			May				-		0.00
			June				-		0.00
			Final Total	**292,000.00**	**21,760.00**		**270,240.00**		**20,544.77**

Example

DIRECTIONS / INSTRUCTIONS

1. **COLUMN A** - Input the final month-end expenditures per the LEA's general ledger (G/L) for the federal program (i.e. Title I-A, Title II-A, Title VI-B, etc.).

2. **COLUMN B** - Input the month-end expenditures for Objects 730, 732, 734 and 735 per the G/L to record the excluded expenditures. Other exclusions are: (1) Captial expenditures (2) Rental costs (3) Tuition remission, scholarships and fellowships (5) Payments to Charter Schools (6) The portion of each sub-award in excess of $25,000 (regardless of the period of performance of the sub-award). These expenditures must be deducted prior to applying the indirect cost rate.

3. **COLUMN C** - The Indirect Costs (IDC) expenditures must be removed from the balance before the indirect rate can be applied (this prevents paying indirect costs on indirect costs). **NOTE: Only remove the IDC expenditures that have been recorded on the district's General Ledger**. These expenditures must be deducted prior to applying the indirect cost rate.

4. **COLUMN D** - Calculates the net expenditures to which the approved indirect cost rate for the fiscal year can be applied.

5. **COLUMN E** - Input the approved indirect cost rate for the fiscal year provided from the Georgia Department of Education.

6. **COLUMN F** - This column calculates the indirect cost amount to be charged to the federal program. The offsetting revenue will be recorded in General Fund, Revenue Source 1990. A journal entry should be prepared to: *DR: Indirect expense (i.e 4XX-2300-880) and CR: Indirect revenue (i.e. 100-1990-000)*.

Comparing Annual Financial Report to Audited Data

The initial calculation of the indirect cost rates for LEAs is determined from the submissions of the LEAs' annual financial report (DE 46), which is submitted electronically each year. GaDOE computes the indirect cost rates based on the actual expenditures reported on the DE 46. The DE 46 reports used in the calculation of the rates is derived from two years before. For example, the indirect cost rate calculations for FY 2020 were derived from the FY 2018 actual financial data.

Beginning with Fiscal Year 2019 financial data which will be used to calculate the Fiscal Year 2021 Indirect Cost Rates, each LEA will be required to provide updated expenditure data based on adjustments to the final financial statements prepared for the annual audit.

Most LEAs utilize an off-line, excel template to post adjustments necessary for the final, GAAP-basis financial statements. These final statements are submitted to Department of Audits and Accounts and the GaDOE Financial Review Division no later than December 31st each year.

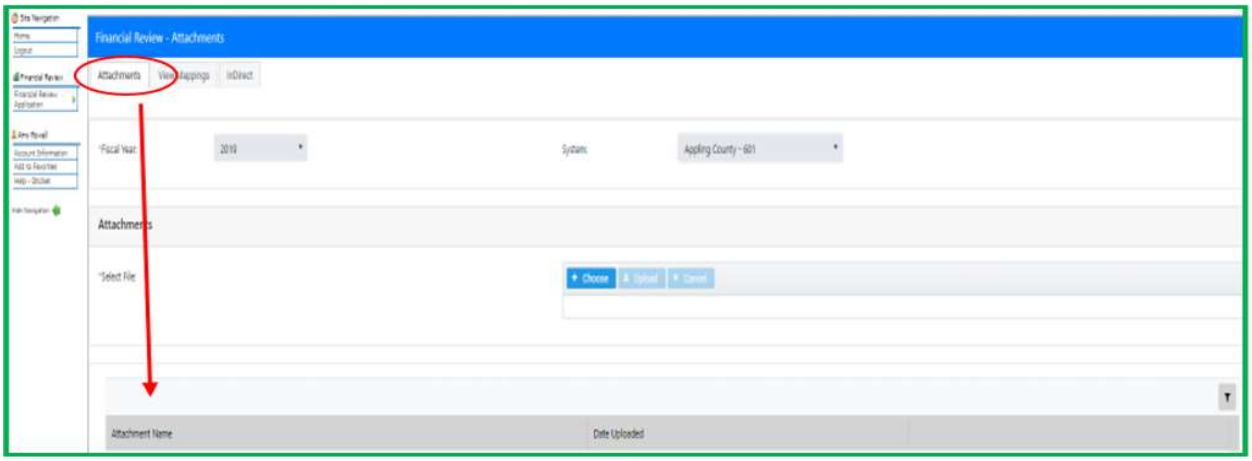
Instructions for Comparison of Annual Financial Report to Final Financial Statements

To ensure the Indirect Cost Rates are calculated utilizing the final, audited, rates, each LEA is responsible for providing the proposed expenditure adjustments to the Annual Financial Report to the GaDOE Financial Review Division by January 15th. The only adjustments that must be provided are those that are made to the expenditure accounts. The adjustments must be provided by fund, function, and object account codes.

The adjustment forms that should be completed are downloadable in the Financial Review section of the password-protected MyGaDOE portal.

1. To download the file, select **Financial Review Application,** then **Financial Review.** The Financial Review tab will direct you to an **Attachment** tab. (NOTE: This is the same location that Financial Review uploads the Special Education Excess Cost Data Files, Salary Survey Responses, and other Documentation that is entity-specific).

2. Select **Fiscal Year 2019** to access the file. While the information will be used to calculate the Indirect Cost Rate for Fiscal year 2021, the data used is Fiscal Year 2019 data. Therefore, the Indirect Cost Rate Adjustment Worksheet is added to that location.



Adjustment Worksheet Example:

Electronic Signature:
Title:
Date:

AMOUNTS USED TO CALCULATE INDIRECT COST RATES

ADJUSTMENTS For LEA Input Only

FUND DESCRIPTION	FUNCTION DESCRIPTION	OBJECT DESCRIPTION	Total	DEBIT	CREDIT	ADJUSTED EXPENDITURES
100 - General Fund	1000 - INSTRUCTION	110 - TEACHERS	98,843,156.48			
100 - General Fund	1000 - INSTRUCTION	113 - SUBSTITUTE/TEMPORARY EMPLOYEE	1,247,039.88			
100 - General Fund	1000 - INSTRUCTION	114 - SUBSTITUTE/TEMPORARY EMPLOYEE	248,824.22			
100 - General Fund	1000 - INSTRUCTION	115 - EXTENDED DAY - TEACHERS	250,917.41			
100 - General Fund	1000 - INSTRUCTION	117 - EXTENDED YEAR	133,215.41			
100 - General Fund	1000 - INSTRUCTION	118 - ART,MUSIC,PE	11,710,225.31			
100 - General Fund	1000 - INSTRUCTION	140 - AIDES AND PARAPROFESSIONALS	5,483,856.08			
100 - General Fund	1000 - INSTRUCTION	142 - Salary Of Clerical Staff	133,395.44			
100 - General Fund	1000 - INSTRUCTION	172 - ELEMENTARY COUNSELOR	1,572,308.25			
100 - General Fund	1000 - INSTRUCTION	173 - SECONDARY COUNSELOR	2,849,869.67			
100 - General Fund	1000 - INSTRUCTION	178 - Graduation Coach	70,353.96			
100 - General Fund	1000 - INSTRUCTION	191 - OTHER ADMINISTRATIVE PERSONNEL	44,885.68			
100 - General Fund	1000 - INSTRUCTION	199 - Other Salaries and Compensation	4,410.00			
100 - General Fund	1000 - INSTRUCTION	210 - State Health Insurance	18,036,905.97			
100 - General Fund	1000 - INSTRUCTION	220 - FICA	8,816,478.26			
100 - General Fund	1000 - INSTRUCTION	230 - Teachers Retirement System	25,409,850.67			
100 - General Fund	1000 - INSTRUCTION	250 - Unemployment Compensation	1,872.00			
100 - General Fund	1000 - INSTRUCTION	260 - Workmen Compensation	999,998.00			

To add adjustments, download the excel file. The excel file includes each expenditure reported on the FY 2019 Annual Financial Report (DE 46) for your district, as well as the dollar amount reported, disaggregated by fund, function, and object codes.

Any adjustments to the prepared financial statements that affect expenditures should be reported on the worksheets. The worksheets include a **debit** column for increases in expenditures, and a **credit** column for decreases in expenditures. The **adjusted expenditures** column will populate the final expenditure amounts presented for audit that will be utilized to calculate the Indirect Cost Rates for FY 2021.

NOTE: Expense adjustments for Activity in Funds 900 (Long-Term Debt amortization), 902 (Pension), 904 (OPEB), 959 (Local Charter Long-Term Debt) do not need to be added to the worksheet. Those expenditures are excluded from the Indirect Cost Rate calculations.

Any expense adjustments in the Fund 8XX series for Capital Assets **DEPRECIATION** do need to be included on the worksheet. Adjustments for capital asset and deletions can be excluded.

There are three options to select from the Drop-down menu, prior to providing the electronic signature of the preparer:

Option 1: By signing this document, I certify the information provided is accurate and complete, and the expenditures/expenses provided in the adjusted column are in agreement with the final financial statements presented for audit that are due on or before December 31 of each year to the Georgia Department of Education and the Department of Audits and Accounts.

Option 2: By signing this document, I certify there are no adjustments to the DE 46 FY 2019 Financial Report transmitted to the Georgia Department of Education.

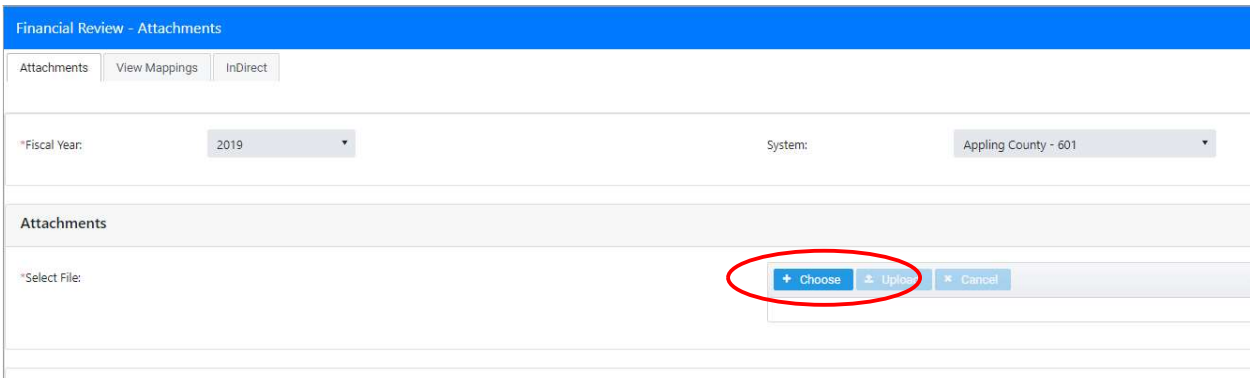
Option 3: By signing this document, I certify that the our school system will not utilize Indirect Cost in FY 2021 and therefore will not provide information in order to calculate a negotiated Restricted and Unrestricted Indirect Cost rate.

If providing Option 3, each Federal Program Office will be notified that the LEA will not utilize Indirect Cost Recovery in FY 2021, and the rate calculated with the Annual Financial Report (DE 46) will not be valid.

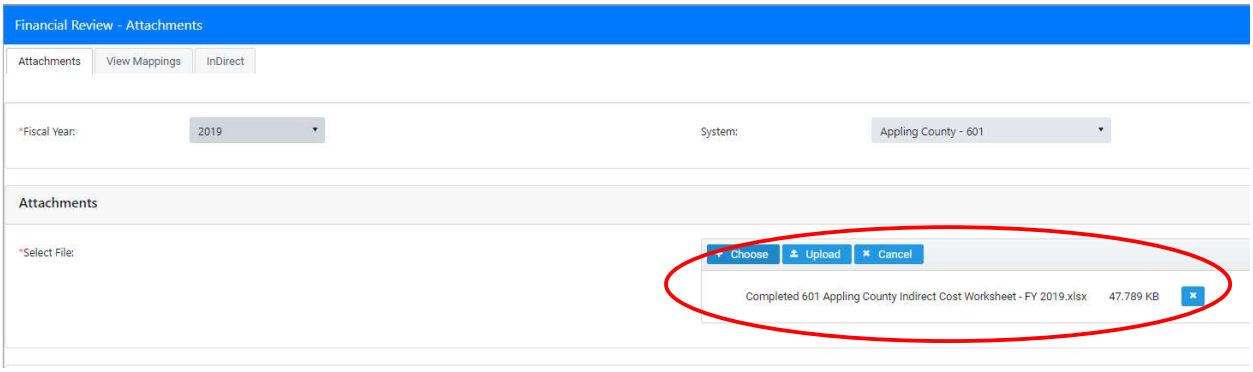
Once the excel file is updated, and electronically signed by the preparer, please save the file with the following added to the name of the file: Completed

Example: Completed 601 Appling County Indirect Cost Worksheet - FY 2019

The file should be reuploaded in the MyGaDOE Portal, using the Attachment tab for FY 2019. To upload a file in the MyGaDOE Portal, select **Financial Review Application**, then **Financial Review**. Select **FY 2019**. Under the **Attachments** section, select **+Choose.**



The Windows Explorer menu will then open so you can select a file from your computer to upload. Once you have selected the file to upload, select the **Upload** button.



These adjustments are needed no later than January 15th in order to calculate the FY 2021 Indirect Cost Rate in advance of the budget approval process for FY 2021, which must be finalized prior to July 1st. Because the FY 2019 audit may not be completed by January 15th, the FY 2019 Audit Clearance letters provided to the Superintendent will include the following statement:

*Federal guidelines require the indirect cost rate to be calculated with final, audited financial data. The FY 2021 indirect cost rate is calculated using the financial data provided for fiscal year ended June 30, 2019. **It is the school system's responsibility** to ensure any proposed and accepted audit adjustments to all expenditure accounts are provided to the Financial Review Division, disaggregated by fund, function, object.*

It is the LEA's responsibility to provide any adjustments proposed by the auditors and accepted by the LEA that include adjustments to the expenditure amounts reported on the Annual Financial Report (DE 46). These adjustments will be analyzed to determine if the Indirect Cost Rate should be modified. RESAs are also responsible for providing any discrepancies noted in the expenditures to the GaDOE Financial Review Division, although the information will be in the form of misstatements noted, not adjustments since RESAs are included in the Georgia CAFR.