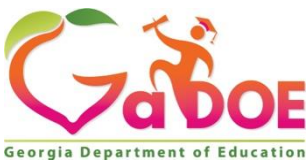


Georgia Department of Education Financial Review Division Indirect Cost Rate Guide



Revised: March 2021



**INDIRECT COSTS SUMMARY, RATES, BUDGETING AND
APPLICATION GUIDANCE – FY 2020**
**Calculating the Indirect Cost Rate for FY 2022 using DE46 Data from
Fiscal Year Ending June 30, 2020**

Overview

This indirect cost guidance provides general information on indirect cost rates, definitions, budgeting for indirect cost rates, applying indirect cost rates, and instructions to submit expenditure adjustments to the Georgia Department of Education, Financial Review Division.

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 Local Educational Agencies (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, Financial Review Division, which is calculated initially each fiscal year using the Annual Financial Report (DE046) submitted by each LEA in accordance with State Board Rule 160-5-2-.21.

However, Federal guidelines require the indirect cost rates to be calculated with final, audited expenditure data. Therefore, it is incumbent upon LEAs to provide all expenditure adjustments posted to the DE 46 Actual report after the final DE 46 submission. To assist the LEAs with this requirement, after the audit is completed and during the Audit Clearance Letter correspondence to the districts, the Financial Review Division will provide LEAs with a worksheet to list all expenditure adjustments posted to the general ledger after the final submission of the DE 46 either when:

- (1) Completing the prepared financial statements for audit or
- (2) Proposed by the auditor and accepted by the school system.

Please see the complete instructions and details on pages 7-10 for completing and submitting the expenditure adjustments.

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 of 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 =	$\frac{\text{LEA's indirect cost pool (the total of all the indirect costs)}}{\text{LEA's Modified Total Direct Cost (MTDC) base (total of the LEA's Direct costs plus Unallowable costs)}}$
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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 (<i>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.)</i>) 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 <u>before</u> the indirect rate can be applied; this prevents paying indirect costs on indirect costs).	(82,919)
TOTAL BUDGET AMOUNT FOR INDIRECT COST: $\$82,918.74 \times .0251 = \$2,081.26$	<u>\$2,081</u>

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								
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	
<p>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.).</p> <p>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) Capital 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.</p> <p>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.</p>	<p>4. COLUMN D - Calculates the net expenditures to which the approved indirect cost rate for the fiscal year can be applied.</p> <p>5. COLUMN E - Input the approved indirect cost rate for the fiscal year provided from the Georgia Department of Education.</p> <p>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: <i>DR: Indirect expense (i.e. 4XX-2300-880) and CR: Indirect revenue (i.e. 100-1990-000).</i></p>

REQUIRED DATA SUBMISSIONS FOR LEAs – Instructions for Comparison of DE046 Annual Financial Report to Final Audited Data

The initial calculation of the indirect cost rates for LEAs is determined from the submissions of the LEAs' Actual Financial Analysis Report (DE 46). GaDOE computes the initial indirect cost rates based on the DE 46. However, Federal guidelines require the indirect cost rate to be calculated with final, audited expenditure data.

Therefore, to ensure the Indirect Cost Rates are calculated utilizing the final, audited rates, **each LEA will be required to provide updated expenditure data based on adjustments to the final annual audit.** The adjustments required are those that were either made to the DE 46 when completing the prepared financial statements for audit, or proposed by the external auditor and accepted by the LEA. The adjustments must be provided by fund, function, and object account codes. and submitted to the Financial Review **only after the audit is completed.**

It is the LEA's responsibility to provide all adjustments to the expenditure amounts reported on the Annual Financial Report (DE 46) that are reflected on the final audit for the fiscal year. The expenditure adjustments will be analyzed to determine if the initial Indirect Cost Rate should be re-calculated and modified.

The following pages provide the steps to submitting the expenditure adjustments to the Financial Review Division, and the template that will be provided to LEAs to submit expenditure adjustments.

Expenditure Adjustments Worksheet Completion

- When the Audit Clearance Letter is sent to the LEA from the Financial Review Division, districts will receive a spreadsheet template labeled, “*Expenditure/Expense Adjustments Posted After Submission of DE 46 Actual Financial Analysis Report*”.
- The LEAs are required to list on the template only the data for the expenditures that have been adjusted and posted to the general ledger after the final submission of the DE 46 from the LEA or from the external auditors.
- The adjustments required on the spreadsheet are the following:
 - Expenditure adjustments posted to the prepared financial statements presented for audit after the submission of the final DE 46 Actual Financial Report (including ELIMINATION ENTRIES). AND
 - Expenditure adjustments proposed by the external auditors and accepted by the LEA to be included in the final audit report.
- Other Spreadsheet Requirements:
 - **FUNDS 8XX:** Include adjustments for Depreciation Expense in Funds 8XX series for Capital Assets; they are required.
 - **FUNDS 9XX:** Do not include any expenditure adjustments for Funds 900 (Long-Term Debt amortization), 902 (Pension), 904 (OPEB), 959 (Local Charter Long-Term Debt). Those expenditures are excluded from the Indirect Cost Rate calculations.
 - The expenditure adjustments should be disaggregated by fund, function, and object on the spreadsheet.

The following page shows an example of the expenditure adjustment worksheet.

Expenditure Adjustment Worksheet Example:

Georgia Department of Education - Financial Review Division						
Expenditure/Expense Adjustments Posted After Submission of DE 46 Actual Financial Analysis Report						
FISCAL YEAR	2020					
SYSTEM NAME						
SYSTEM ID #						
INSTRUCTIONS:						
1. This worksheet is to record the following by Fund, Function, and Object: <ul style="list-style-type: none"> • Expenditure/Expense adjustments posted to the prepared financial statements presented for audit after the submission of the final DE 46 Actual Financial Report (including ELIMINATION ENTRIES). • Expenditure/Expense adjustments proposed by the external auditors and accepted by the school system that are included in the final audit report for FY 2020. 						
2. Adjustments for Depreciation Expense in Funds 8XX are required.						
3. Do <u>not</u> include any expenditure adjustments for Funds 900, 902, 904, or 959.						
4. Check one option, electronically sign below, and return to the sender.						
						CHECK ONE
OPTION 1	By checking this line, and signing this document, I certify that our school system has listed all the specified adjustments posted to the final financial statements after the final submission of the DE 46 Actual Financial Analysis Report, including auditor-proposed adjustments accepted.					<input type="checkbox"/>
OPTION 2	By checking this line, and signing this document, I certify that our school system did not have any adjustments posted to the financial statements after the final submission of the DE46 Actual Financial Analysis Report, including auditor-proposed adjustments accepted by the district.					<input type="checkbox"/>
Signature:						
Title:						
Date:						
						ADJUSTMENTS
FUND DESCRIPTION	FUNCTION DESCRIPTION	OBJECT DESCRIPTION	Per DE 46 FINAL Submission - Total	DEBIT (Increase)	CREDIT (Decrease)	ADJUSTED EXPENDITURES/ EXPENSES
Example: 100 - GENERAL FUND	1000 - INSTRUCTION	610 - SUPPLIES				0.00

THE ADJUSTED EXPENDITURES WILL BE USED TO DETERMINE IF RE-CALCULATIONS ARE NEEDED FOR THE RESTRICTED AND UNRESTRICTED INDIRECT COST RATES.

The expenditure adjustments should be disaggregated by fund, function, and object.

NOTE: Input adjustments for only those expenditure line items that had adjustments during the preparation of the financial statements for audit, AND from the adjustments proposed by the external auditors and accepted by the district.

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, and will be used to determine if recalculations are needed for the Restricted and Unrestricted Indirect Cost Rates

Options

There are two options to select prior to providing the electronic signature of the preparer:

Option 1: By checking this line, and signing this document, I certify that the our school system has listed all the specified adjustments posted to the final financial statements after the final submission of the DE 46 Actual Financial Analysis Report, including auditor-proposed adjustments accepted.

Option 2: By checking this line, and signing this document, I certify that our school system did not have any adjustments posted to the financial statements after the final submission of the DE46 Actual Financial Analysis Report, including auditor-proposed adjustments accepted by the district.

Submission

Once the excel file is updated, and electronically signed by the preparer, please send the file to the staff members in the Financial Review Division at the Georgia Department of Education:

Chris Toles: chris.toles@doe.k12.ga.us

Saranna Charping: saranna.charping@doe.k12.ga.us