



Department of Education

**Iowa Department of Education
Local Education Agency
Federal Indirect Cost Rate
Proposal**

Effective July 1, 2025

State of Iowa
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Profile of Local Education Agencies (LEAs) in Iowa

1. Number of LEAs in the State.

328 FY23; 327 FY24; 329 FY25

2. Which basis of accounting is used by the LEAs?

Iowa LEAs use the accrual basis (Modified Accrual per GAAP).

3. Number of LEAs requesting indirect cost rates.

Iowa LEAs do not request indirect cost rates; the indirect cost rates are automatically calculated by the Iowa Department of Education (Department) and provided for all LEAs.

4. Number of LEAs utilizing the indirect cost rates.

Iowa LEAs all have access to the indirect cost rates for use.

5. Describe Rates calculated.

The state calculates both restricted and unrestricted rates.

6. Type of rate calculated.

Predetermined.

7. If predetermined, is the rate discounted?

Yes; the discount percent is 90%.

8. Frequency of indirect cost rates calculated.

Indirect cost rates are calculated annually.

9. Are unused leave payments in the indirect cost pool for calculation of the unrestricted indirect cost rate?

N/A for Iowa.

10. Are the salaries and related costs of Superintendents, Deputy Superintendents, and Heads of components, adjusted in the Restricted Rate calculation?

No; including these costs is not required per the Code of Federal Regulations.

11. Are unused leave payments charged directly to federal awards?

No; N/A.

12. Are the building related expenditures in the direct cost base for calculation of the restricted indirect cost rate?

General Fund operating (maintenance) costs are included in the calculation of the restricted indirect cost rate. However, construction costs and repair or remodeling costs are accounted for in other funds and therefore are not included in the calculation.

13. Does the base include only the first \$25,000 of subaward expenditures?

No.

14. Are food costs excluded from the direct cost base as a distorting item? The only allowable costs that may remain in the direct cost base are the cafeteria workers.

Yes, food costs are excluded from the direct cost base.

15. Are any types of retirement incentives included in the proposal or planned in the next fiscal year? If yes, describe the expenditures.

No; retirement incentives are paid from a different fund (Management Fund).

16. Describe technical assistance, (2 CFR §200.332 (e) (1)) workshops, trainings, or opportunities provided to Local Education Agencies to learn more about their responsibilities as it pertains to indirect costs.

- Provide indirect cost resources on the Department's website.
- Provide training and updates to LEAs at the Iowa Association of School Business Officials conferences.
- Provide updates to LEAs via the Department's School Business Alert (SBA) monthly newsletter.

17. Describe the plan for monitoring indirect cost rates (frequency and procedures)?

- Indirect cost rates are recalculated and reviewed annually. The rate criteria below are analyzed.
 - Restricted Indirect Cost rates (RICR) over 5%
 - Increase/Decrease RICR over 1% from the previous year
 - Unrestricted Indirect Cost rates (URICR) over 15%
 - Increase/Decrease in URICR over 2% from the previous year

18. Delegation agreement expiration date? If your plan is expired, have you contacted the United States Department of Education's Indirect Cost Division to receive technical assistance.

Delegation agreement expires June 30, 2025.

19. How are negotiated indirect cost rates distributed, and what time of the year are they published? Website, Indirect Cost Rate Agreements, etc.

The Indirect Cost Rate Agreement and the negotiated indirect cost rates on the Department's website are published by the start of the new fiscal year (July 1). Announcement of this update is distributed to all LEAs via the Department's SBA newsletter.

Introduction

The Iowa Department of Education (Department), in cooperation with the U.S. Department of Education has developed an indirect cost rate proposal to be used by its Local Education Agencies (LEAs) and its area education agencies (AEAs). Iowa defines an LEA as a public board of education or other public authority legally constituted within a state for either administrative control or direction of, or to perform a service function for, public elementary or secondary schools in a city, county, township, school district, or other political subdivision of a state, or for a combination of school districts or counties as are recognized in a state as an administrative agency for its public elementary schools or secondary schools (281 IAC 41.28). The primary responsibility of an LEA is to provide the instructional program for Iowa's prekindergarten through grade 12 students. In Iowa, charter schools may either be part of a public school district or independent from a public school district. Charter schools operated under a public school district do not have a separate indirect cost rate; charter schools operated independently from a public school district will have an indirect cost rate.¹ Iowa has 329 LEAs as of the fiscal year ending June 30, 2025.

Iowa defines an AEA as a political subdivision of the state (281 IAC 41.4). An AEA's primary responsibilities are to provide support and other programs and services to children from birth to age 21 who require special education services, provide media services, and to provide other support services to the students and staff in Iowa's LEAs. Iowa has 9 AEAs as of the fiscal year ending June 30, 2025.

The Department has chosen to follow the simplified method of calculating predetermined indirect cost rates for its LEAs and AEAs. Individual projects and activities benefit from the indirect costs to approximately the same degree. The allocation of indirect costs is accomplished by classifying each agency's costs as direct, indirect, or excluded and unallowed. Total costs are reduced to reflect expenditures that benefited other LEAs or AEAs and that have been offset by reimbursement from other LEAs or AEAs. The allowable indirect costs are then divided by the modified total direct costs (MTDC). This approach applies to both restricted and unrestricted indirect cost rates.

The information necessary to complete the calculation of indirect cost rates is taken from each agency's completed Certified Annual Report (CAR), which is submitted as an upload of their chart of accounts and submitted each year no later than September 15. The Department's Bureau of School Business Operations uses a Statistical Analysis Software (SAS) program to calculate the LEA and AEA restricted and unrestricted indirect cost rates each fall. If the initial calculated rate(s) have a large variance from the prior year, data behind the rate(s) are reviewed to determine 1) if there were infrequent or unusual items that should be excluded or 2) if there were local coding errors that need to be corrected. Once the initial review process is complete and any necessary corrections are made, the federal reports are filed with the federal department. The SAS program is run again to calculate the final indirect cost rates, which are posted on the Indirect Cost Rate page of the Department's website for use by the agencies.

Total costs, net of excluded and unallowed costs, are classified as direct or indirect. Direct costs are accumulated into a direct cost base. The direct cost base is modified to reflect reimbursable expenditures for services provided to other LEAs or AEAs, such as shared personnel contracts, tuition, transportation, data processing, cooperating purchasing, and consulting. Indirect costs are accumulated into an indirect cost pool. The indirect cost pool is modified to reflect applicable credits. An indirect cost rate is calculated by dividing the modified indirect cost pool by the modified direct cost base. The

¹ During the 2024-2025 school year, there were seven public charter schools in Iowa, three operating as part of an LEA and four operating independently from an LEA.

information provided in the following sections of this document further describes the methodology employed in the calculation of Iowa's indirect cost rates.

General Overview

Each LEA and AEA is required to follow financial accounting practices as promulgated in the Uniform Financial Accounting for Iowa LEAs and AEAs, which is based on the Financial Accounting for Local and State School Systems federal handbook and associated guidance, and Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Data for the calculation of Iowa's indirect cost rates are derived from the data collected annually and uniformly through the certified annual report (CAR) application, which includes unaudited financial data for each year ending June 30. Each LEA and AEA is statutorily required to submit their CAR to the Department by September 15 annually following the close of the fiscal year. Each CAR is accompanied by a certification that the data in the CAR are true, correct, complete, and prepared in compliance with state and federal statutes.

Cost data used in the calculation of indirect costs are taken from the General Fund detail by function and object in the CAR. Function describes the activity for which a service or object is required. Object describes the type of service or commodity purchased. In accordance with 2 CFR 200, costs for worker compensation, unemployment, severance pay, retirement incentives, and insurance are reclassified as general administration costs and included as indirect costs.

Revenue data used to offset costs are taken from the General Fund detail by source on the CAR. Cost is adjusted for reimbursements received from other LEAs or AEAs for shared personnel contracts, tuition, transportation, and other services such as data processing, purchasing, maintenance, cleaning, and consulting. This adjustment is necessary to accurately reflect the cost incurred by each LEA and AEA. Doing so prevents a double accounting of costs, as the service would appear as an expenditure of funds in both the providing and the benefiting LEA or AEA.

2 CFR 200.68 limits inclusion of subawards in the MTDC to the first \$25,000. The subaward treatment to the first \$25,000 does not apply to purchased services, such as tuition payments, which are generally a rate per student times the number of students. Based on review, and a conference call involving the Indirect Cost Group, federal department, it was determined these items (e.g., tuition payments) are purchased services, and are accordingly exempt from the subaward \$25,000 limitation. These purchased services are included in the direct cost base of the paying agency, but excluded from the direct cost base in the receiving agency. Removal of the subawards exceeding \$25,000 does not impact the indirect cost rate calculated for the agencies.

Since subawards for Iowa agencies are minimal, subawards remain in the direct cost base for the indirect cost rate calculation. However, the Department communicates to the LEAs and AEAs that only the first \$25,000 of subawards is included when calculating indirect costs charged to each grant using the indirect cost rate provided by the Department.

The board, superintendent and principal offices are not part of the restricted indirect cost pool, but are included in the direct cost base. Since the school business official (SBO) may be the only employee to perform all duties of the business office in many Iowa agencies, or have minimal impact on the rate for larger agencies if the costs are removed, costs for this position are included in the restricted and unrestricted indirect cost pools. LEA and AEA occupancy and space-related costs are also not part of the restricted indirect cost pool, but are included in the direct cost base. Statewide occupancy and space related costs are not included in LEA and AEA restricted or unrestricted indirect cost rates, so the Statewide Cost Allocation Plan (SWCAP) does not apply.

Classification of Costs

Costs reported in the CAR are classified as direct, indirect, or excluded and unallowed. Table A: Cost Classifications Matrix shows Iowa's classification of costs by function and object.

"Direct costs" are allowable costs of the LEA or AEA that benefit particular functions or programs. Direct costs can be identified specifically with a particular final cost objective. Examples of direct costs include compensation of program personnel, professional development, supplies and materials, equipment, equipment repair, and travel.

"Excluded costs" are those by which the nature of the expense, or because the nature of the costs require minimal administrative support, must be excluded from both the direct and indirect classification. Examples of excluded costs include food purchases, property-related expenditures, taxes, long-term interest, pass-through funds, and refunds of prior year revenues.

"Unallowed costs" are similar to excluded costs in that they must be excluded from both the direct and indirect classification. Examples of unallowed costs include capital expenditures, debt service, fines and penalties, and contingencies. Iowa LEAs and AEAs use a \$500 capitalization threshold for equipment purchases. Unused leave is not included in the plan since it is reported on the balance sheet and not an expenditure until used.

"Indirect costs" are costs that have been incurred for common or joint purposes and that benefit more than one function or program of the agency. These costs cannot be readily and specifically identified with a particular final cost objective without effort disproportionate to the results achieved. Indirect costs are further identified as either "restricted" or "unrestricted." Restricted indirect costs may only be claimed for certain federal programs. Unrestricted indirect costs may be claimed for federal programs that are not specifically declared as restricted; in other words, do not contain a supplement, not supplant clause. Examples of indirect costs include data processing, purchasing, accounting, personnel, and other central services.

Total costs, net of excluded and unallowed costs, are classified as direct or indirect. Direct costs are accumulated into a direct cost base. The direct cost base is modified to reflect reimbursable expenditures for services provided to other LEAs or AEAs, such as shared personnel contracts, tuition, transportation, data processing, cooperating purchasing, and consulting. Indirect costs are accumulated into an indirect cost pool. The indirect cost pool is modified to reflect applicable credits. An indirect cost rate is calculated by dividing the modified indirect cost pool by the modified direct cost base.

Table A: Cost Classification Matrix

| Function | Salaries 100-199 | Benefits 200-299 | Purchased Services 300-599 | Supplies 600-699 (not 630- 639) | Property 700-799 | Other Objects 800-899 (not 820- 899) | Other Uses 900-999 |
|--|---|---|---|--|---------------------|--|--------------------------|
| 1000 – Instruction | Direct | Direct | Direct | Direct | Excluded | Direct | Excluded |
| 2100 – Student Services | Direct | Direct | Direct | Direct | Excluded | Direct | Excluded |
| 2200 – Staff Services | Direct | Direct | Direct | Direct | Excluded | Direct | Excluded |
| 2310 – Board Services | Direct | Direct | Direct | Direct | Excluded | Direct | Excluded |
| 2320 – Executive Administration | Direct | Direct | Direct | Direct | Excluded | Direct | Excluded |
| 2330 – Special Area Services | Direct | Direct | Direct | Direct | Excluded | Direct | Excluded |
| 2400 – Building Admin Services | Direct | Direct | Direct | Direct | Excluded | Direct | Excluded |
| 2500-2539, 2550- 2559, 2570-2573, 2575, 2577-2599 – Business Services | Indirect- Restricted Unrestricted | Indirect- Restricted Unrestricted | Indirect- Restricted Unrestricted | Indirect- Restricted Unrestricted | Excluded | Indirect- Restricted Unrestricted | Excluded |
| 2540, 2560, 2574, 2576 – Business Services | Direct | Direct | Direct | Direct | Excluded | Direct | Excluded |
| 2610-2639, 2650- 2699 – Operations & Maintenance (O&M) | Indirect- Unrestricted | Indirect- Unrestricted | Indirect- Unrestricted | Indirect- Unrestricted | Excluded | Indirect- Unrestricted | Excluded |
| 2640 – O&M Equipment Repair | Direct | Direct | Direct | Direct | Excluded | Direct | Excluded |
| 2700 – Student Transportation | Direct | Direct | Direct | Direct | Excluded | Direct | Excluded |
| 2900 – Other Support Services | Indirect- Restricted Unrestricted | Indirect- Restricted Unrestricted | Indirect- Restricted Unrestricted | Indirect- Restricted Unrestricted | Excluded | Indirect Restricted Unrestricted | Excluded |
| 3100 – Food Service | Direct | Direct | Direct | Direct | Excluded | Direct | Excluded |
| 3200 – Enterprise Operations | Excluded | Excluded | Excluded | Excluded | Excluded | Excluded | Excluded |
| 3300-3400 – Community Services | Excluded | Excluded | Excluded | Excluded | Excluded | Excluded | Excluded |

| Function | Salaries 100-199 | Benefits 200-299 | Purchased Services 300-599 | Supplies 600-699 (not 630- 639) | Property 700-799 | Other Objects 800-899 (not 820- 899) | Other Uses 900-999 |
|---|---------------------|---------------------|----------------------------------|--|---------------------|--|--------------------------|
| 4000 – Facility Acquisition | Excluded | Excluded | Excluded | Excluded | Excluded | Excluded | Excluded |
| 5000-6999 – Debt Service and Other Uses | Excluded | Excluded | Excluded | Excluded | Excluded | Excluded | Excluded |

Calculation of Indirect Cost Rates

After classifying costs, the indirect cost rate is determined. Indirect cost rates, both restricted and unrestricted, are calculated by the Department's Bureau of School Business Operations annually for each LEA and AEA from expenditures delineated in the agency's CAR. Expenditures from the second preceding year are used to complete the indirect cost rates for the current fiscal year. For example, expenditures from fiscal year 2023 are used to calculate the indirect cost rate for fiscal year 2025 programs. By means of the SAS application, the matrix is applied and data for each LEA or AEA is brought into the appropriate calculation. Total indirect costs are divided by the total direct costs after exclusions and adjustments, and the indirect cost rate is determined.

Table B: Unrestricted Indirect Cost Rate displays the method used to calculate an unrestricted indirect cost rate, while Table C: Restricted Indirect Cost Rate displays the method used to calculate a restricted indirect cost rate.

The direct cost base for the restricted and unrestricted indirect cost rates includes functions 1000-2799 and 3100-3199, and objects 100-629, 640-699, and 810-819. This excludes equipment, food, and selected other objects. This direct cost base is reduced by the total of sources 1320-1329, 1420-1429, and 1950-1959, which are reimbursements from other LEAs and AEAs.

For the restricted indirect cost rate, the direct cost base is reduced by the restricted indirect cost pool. The restricted indirect cost pool includes functions 2510-2539, 2550-2559, 2570-2599, 2900-2999, and objects 100-629, 640-699, 810-819 (does not include functions 2574, 2576 or projects 4000-4999), also reduced by revenue received for shared business office staff.

For the unrestricted indirect cost rate, the direct cost base is reduced by the unrestricted indirect cost pool. The unrestricted indirect cost pool includes the functions and objects used in the restricted indirect cost pool as well as functions 2610-2639 and 2650-2699.

The board, superintendent, and principal offices are not included in the indirect cost pool; however, they are included in the direct cost base. Since the school business official may be the only employee to perform all duties of the business office in many Iowa agencies, or have minimal impact on the rate for larger agencies if the costs are removed, costs for this position are included in the restricted and unrestricted indirect cost pools. LEA and AEA occupancy and space-related costs are also not part of the restricted indirect cost pool, but are included in the direct cost base. Statewide occupancy and space-related costs are not included in LEA and AEA restricted or unrestricted indirect cost rates, so the Statewide Cost Allocation Plan (SWCAP) does not apply.

Infrequent or unusual items initially included in either the restricted or unrestricted indirect cost pool are excluded from the final rate calculations. Historically, expenditures by function and object in LEAs and AEAs have remained consistent, giving the Department reasonable assurance that the indirect cost rates calculated on expenditures in a base year will not exceed the indirect cost rates based on actual costs in the second succeeding year. As agreed by the federal department, in lieu of utilizing a carryover calculation Iowa will further restrict the predetermined indirect cost rates, both restricted and unrestricted, by multiplying the rate by 90 percent. This results in final rates calculated as follows:

Final Indirect Cost Rate = (Indirect Cost Pool/Direct Cost Base) x .90

Further, the Department has established a maximum restricted indirect cost rate of 7 percent and a maximum unrestricted indirect cost rate of 17 percent.

Table B: Unrestricted Indirect Cost Rate

| Function | Total Expenditures | Direct Costs (A) | Indirect Costs (B) | Food Costs 630-639 (Excluded) | Property 700-799 (Excluded) | Other Objects 820-899 (Excluded) | Other Uses 900-999 (Excluded) |
|--|--------------------|------------------|--------------------|-------------------------------|-----------------------------|----------------------------------|-------------------------------|
| 1000 – Instruction | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2100 – Student Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2200 – Staff Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2310 – Board Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2320 – Executive Admin Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2330 – Special Area Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2400 – Building Admin Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2500-2539, 2550-2559, 2570-2573, 2575, 2577-2599 – Business Services | \$ | | \$ | \$ | \$ | \$ | \$ |
| 2540, 2560, 2574, 2576 – Business Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2610-2639, 2650-2699 – O&M | \$ | | \$ | \$ | \$ | \$ | \$ |
| 2640 – O&M Equipment Repair | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2700 – Student Transportation | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2900 – Other Support Services | \$ | | \$ | \$ | \$ | \$ | \$ |
| 3100 – Food Service | \$ | \$ | | \$ | \$ | \$ | \$ |
| 3200 – Enterprise Operations | \$ | \$ | | \$ | \$ | \$ | \$ |
| 3300-3400 – Community Services | \$ | \$ | | \$ | \$ | \$ | \$ |

| Function | Total Expenditures | Direct Costs (A) | Indirect Costs (B) | Food Costs 630-639 (Excluded) | Property 700-799 (Excluded) | Other Objects 820-899 (Excluded) | Other Uses 900-999 (Excluded) |
|---|--------------------|------------------|--------------------|-------------------------------|-----------------------------|----------------------------------|-------------------------------|
| 4000 – Facility Acquisition | \$ | \$ | | \$ | \$ | \$ | \$ |
| 5000-6999 – Debt Service and Other Uses | \$ | \$ | | \$ | \$ | \$ | \$ |
| Total | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Less Other LEA/AEA Reimbursements | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Net Costs | \$ | \$ | \$ | \$ | \$ | \$ | \$ |

Column: Direct Costs (A)

Column: Indirect Costs (B)

Unrestricted Indirect Cost Rate = (B) / (A)

Table C: Restricted Indirect Cost Rate

| Function | Total Expenditures | Direct Costs (A) | Indirect Costs (B) | Food Costs 630-639 (Excluded) | Property 700-799 (Excluded) | Other Objects 820-899 (Excluded) | Other Uses 900-999 (Excluded) |
|--|--------------------|------------------|--------------------|-------------------------------|-----------------------------|----------------------------------|-------------------------------|
| 1000 – Instruction | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2100 – Student Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2200 – Staff Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2310 – Board Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2320 – Executive Admin Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2330 – Special Area Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2400 – Building Admin Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2500-2539, 2550-2559, 2570-2573, 2575, 2577-2599 – Business Services | | | \$ | \$ | \$ | \$ | \$ |
| 2540, 2560, 2574, 2576 – Business Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2610-2639, 2650-2699 – O&M | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2640 – O&M Equipment Repair | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2700 – Student Transportation | \$ | \$ | | \$ | \$ | \$ | \$ |
| 2900 – Other Support Services | \$ | | \$ | \$ | \$ | \$ | \$ |
| 3100 – Food Service | \$ | \$ | | \$ | \$ | \$ | \$ |
| 3200 – Enterprise Operations | \$ | \$ | | \$ | \$ | \$ | \$ |

| Function | Total Expenditures | Direct Costs (A) | Indirect Costs (B) | Food Costs 630-639 (Excluded) | Property 700-799 (Excluded) | Other Objects 820-899 (Excluded) | Other Uses 900-999 (Excluded) |
|---|--------------------|------------------|--------------------|-------------------------------|-----------------------------|----------------------------------|-------------------------------|
| 3300-3400 – Community Services | \$ | \$ | | \$ | \$ | \$ | \$ |
| 4000 – Facility Acquisition | \$ | \$ | | \$ | \$ | \$ | \$ |
| 5000-6999 – Debt Service and Other Uses | \$ | \$ | | \$ | \$ | \$ | \$ |
| Total | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Less Other LEA/AEA Reimbursements | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Net Costs | \$ | \$ | \$ | \$ | \$ | \$ | \$ |

Column: Direct Costs (A)

Column: Indirect Costs (B)

Unrestricted Indirect Cost Rate = (B) / (A)

Application of Indirect Cost Rates

After the indirect cost rates are determined, the Department notifies each LEA and AEA of the maximum restricted and unrestricted indirect cost rates it may use. Applying the maximum restricted or unrestricted indirect cost rate against the direct costs of the award generates the maximum indirect costs that may be recovered from the award. Indirect cost recoveries are that portion of the grant funding that are used to support the indirect costs of the program. The maximum restricted or unrestricted indirect cost rate calculated for a program year is applied to expenditures from the award in that year.

The restricted indirect cost rate represents the maximum amount that an LEA or AEA may apply to federal grant programs that have a statutory requirement prohibiting the use of federal funds to supplement non-federal funds.

The unrestricted indirect cost rate represents the maximum amount that an LEA or AEA may apply to federal grant programs that do not have a statutory requirement prohibiting the use of federal funds to supplement non-federal funds.

If the grant award contains costs that are excluded from the direct cost base or indirect cost pool, the direct costs of the award are modified to reflect the elimination of these costs from inclusion in the indirect cost reimbursement calculation. The indirect cost recovery is calculated by multiplying direct cost base by the indirect cost rate as shown below.

Indirect Cost Rate x Direct Cost Base = Indirect Cost Recovery

State managers of federal programs have the option to assign LEAs or AEAs a more restricted level of direct costs for application of the rate, thereby reducing total indirect cost recovery. This is for the purpose of accomplishing administrative expediency, increasing the flow of federal funds for direct project purposes, and meeting the reasonable assurance criteria described in 2 CFR 200, Appendix VII, Part E, Item 2. Additionally, the LEA or AEA may elect to apply a rate that is less than the approved rate, including a rate of zero.

Conclusion

The methodology proposed by the Department conforms to the guidelines established by the federal department for the preparation of indirect cost rates. These guidelines have been provided in the publication U.S. Department of Education Cost Allocation Guide for State and Local Government Agencies.

Costs incurred by each LEA and AEA are identified as direct, indirect, or excluded and unallowed. This information is obtained from the CAR for each agency. The direct cost base is modified to adjust for revenues which offset expenditures incurred on behalf of other LEAs or AEAs and which will be reported in the CAR as an expenditure by the benefiting LEA or AEA. The indirect cost pool is accumulated and divided by the modified direct cost base to determine the indirect cost rate, then multiplied by 90 percent to determine the final indirect cost rate.

Appendix A – Glossary of Accounting Functions, Objects, and Major Revenues

Major Expenditure Functions

- 1000 Instruction.** Instruction includes the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location such as a home or hospital, and in other learning situations such as those involving cocurricular activities. It may also be provided through some other approved medium—such as television, radio, computer, the Internet, multimedia, telephone, and correspondence—that is delivered inside or outside the classroom or in other teacher-student settings. Included here are the activities of aides or classroom assistants of any type (graders, teaching machines, etc.) who assist in the instructional process.
- 2100 Support Services—Students.** Activities designed to assess and improve the well-being of students and to supplement the teaching process. These include, but are not limited to activities such as attendance and social work services, guidance services, health services, psychological services, speech pathology and audiology services, and occupational therapy related services.
- 2200 Support Services—Instruction.** Activities associated with assisting the instructional staff with the content and process of providing learning experiences for students. These include, but are not limited to activities such as improvement of instruction services, library/media services, instructional related technology services, and academic student assessment.
- 2310 Board of Education.** Activities of the board that has been created according to state law and vested with responsibilities for educational activities in a given administrative unit.
- 2320 Executive Administration.** Activities associated with the overall general administration or executive responsibility of the entire school district.
- 2330 Special Area Administration Services.** Activities associated with special area responsibilities of the entire school district.
- 2400 Support Services—School Administration.** Activities concerned with overall administrative responsibility for a school.
- 2500 Central Services.** Activities that support other administrative and instructional functions, including fiscal services, human resources, planning, and administrative information technology.
- 2510 Fiscal Services.** Activities concerned with the fiscal operations of the school district. This function includes budgeting, receiving and disbursing, financial and property accounting, payroll, inventory control, internal auditing, and investments and funds management. Fiscal services are inclusive of supervision of fiscal services, budgeting services, and payroll, internal audit, and general accounting functions. Board secretary, clerk, and board treasurer services should be reported in 2510 if the positions serve the district and do not provide services directly to board members.
- 2520 Purchasing, Warehousing, and Distributing Services.** Activities concerned with purchasing, receiving, storing, and distributing supplies, furniture, equipment, and materials used in schools or school system operations.
- 2530 Printing, Publishing, and Duplicating Services.** The activities of printing and publishing administrative publications such as annual reports, school directories, and manuals. Activities here also include centralized services for duplicating school materials and instruments such as

school bulletins, newsletters, and notices. (Duplicating services directly related to instruction should be reported in function 1000.)

- 2540 Planning, Research, Development, and Evaluation Services.** Activities associated with conducting and managing systemwide programs of planning, research, development, and evaluation for a school system.
- 2560 Public Information Services.** Activities concerned with writing, editing, and other preparation necessary to disseminate educational and administrative information to students, staff, managers, and the general public through direct mailing, the various news media, e-mail, the Internet and websites, and personal contact. The information services function code includes related supervision and internal and public information services.
- 2570 Personnel Services.** Activities concerned with maintaining efficient personnel for the school system. This code includes such activities as recruitment and placement, noninstructional staff training, staff transfers, in-service training, health services, and staff accounting.
- 2574 Noninstructional Personnel Training.** Activities associated with the professional development and training of noninstructional personnel. These include such activities as in-service training, seminars and conferences, continuing professional education, courses for college credit (tuition reimbursement), and other activities related to the ongoing growth and development of noninstructional personnel. The incremental costs associated with providing temporary employees to perform job duties while regular employees attend training should be captured in this function code. All costs should be charged to this code regardless of whether training services are provided internally or purchased from external vendors.
- 2580 Administrative Technology Services.** Activities concerned with supporting the school district's information technology systems, including supporting administrative networks, maintaining administrative information systems, and processing data for administrative and managerial purposes. These activities include expenditures for internal technology support as well as support provided by external vendors using operating funds. These activities include costs associated with the administration and supervision of technology personnel, systems planning and analysis, systems application development, systems operations, network support services, hardware maintenance and support services, and other technology-related administrative costs.
- 2590 Other Support Services—Central Services.** Other support services to business not classified elsewhere in the 2500 series.
- 2600 Operation and Maintenance of Plant.** Activities concerned with keeping the physical plant open, comfortable, and safe for use and with keeping the grounds, buildings, and equipment in effective working condition and state of repair. These include the activities of maintaining safety in buildings, on the grounds, and in the vicinity of schools. In-service training related to operations and maintenance, including safety and security, should be reported in function 2574 Personnel Services.
- 2610 Supervision of Operation & Maintenance of Plant Services.** The activities involved in directing, managing and supervising the operation and maintenance of school plant facilities.
- 2620 Operation and Maintenance of Buildings.** Operation includes activities concerned with keeping the physical plant clean and ready for daily use. They include operating lighting and heating, ventilating, and air conditioning (HVAC) systems and doing minor repairs. Also included are the costs of building rental and property insurance. Maintenance includes activities associated with keeping buildings at an acceptable level of efficiency through repairs and preventative maintenance.
- 2630 Care and Upkeep of Grounds.** Activities involved in maintaining and improving the land (but not the buildings). These include snow removal, landscaping, and grounds maintenance.

- 2640 Care and Upkeep of Equipment.** Activities involved in maintaining equipment owned or used by the school district. They include such activities as servicing and repairing furniture, machines, and movable equipment.
- 2650 Vehicle Operation and Maintenance (Other Than Student Transportation Vehicles).** Activities involved in maintaining general-purpose vehicles such as trucks, tractors, graders, and staff vehicles. These include such activities as repairing vehicles; replacing vehicle parts; and cleaning, painting, greasing, fueling, and inspecting vehicles for safety (i.e., preventive maintenance). Expenditures for driver's education programs should be coded to function 1000 Instruction.
- 2660 Security.** Activities concerned with maintaining a secure environment for students and staff, whether they are in transit to or from school, on a campus or in an administrative facility, or participating in school-sponsored events. These include costs associated with security plan development and implementation, installation of security monitoring devices (e.g., cameras, metal detectors), security personnel (e.g., campus police, security guards), purchase of security vehicles and communication equipment, and related costs. Costs associated with in-service training related to school safety, drug and violence prevention training, and alternative schools should be accounted for under function code 2574.
- 2670 Safety.** Activities concerned with maintaining a safe environment for students and staff, whether they are in transit to or from school, on a campus or in an administrative facility, or participating in school-sponsored events. These include costs associated with installing and monitoring school fire alarm systems and providing school crossing guards, as well as other costs incurred in an effort to ensure the basic safety of students and staff. Costs associated with in-service training related to school safety, drug and violence prevention training, and alternative schools should be accounted for under function code 2574.
- 2690 Other Operation and Maintenance of Plant.** Operation and maintenance of plant services that cannot be classified elsewhere in the 2600 series.
- 2700 Student Transportation.** Activities concerned with conveying students to and from school, as provided by state and federal law. These include trips between home and school and trips to school activities. The Transportation Director should be coded here. Expenditures for driver's education programs should be coded to 1000 Instruction.
- 2900 Other Support Services.** All other support services not classified elsewhere in the 2000 series.
- 3100 Food Services Operations.** Activities concerned with providing food to students and staff in a school or school district. This service area includes preparing and serving regular and incidental meals, lunches, or snacks in connection with school activities and food delivery.
- 3200 Enterprise Operations.** Activities that are financed and operated in a manner similar to private business enterprises, where the stated intent is to finance or recover the costs primarily through user charges. The school district bookstore, for example, could be charged to this code. Instruction should not be charged here, but rather to function 1000. Food services should not be charged here, but rather to function 3100.
- 3300 Community Services Operations.** Activities concerned with providing services to the community. Examples of this function would be offering parental training or operating a community swimming pool, a recreation program for the elderly, or a child care center for working parents. Counseling for the parents of students, where the objective is to improve the education and well-being of the student, should be reported in function 2120 Guidance Services
- 4000 Facilities Acquisition and Construction.** Activities concerned with acquiring land and buildings; remodeling buildings; constructing buildings and additions to buildings; initially installing or extending service systems and other built-in equipment; and improving sites.

- 5000 Debt Service.** Activities related to servicing the long-term debt of the school district, including payments of both principal and interest. This function should be used to account for bond interest payments, retirement of bonded debt (including current and advance refundings), capital lease payments, and other long-term notes.
- 6000 Other Uses.** Activities related to interagency flow through, interfund transfers, special items, extra ordinary items, loss on disposition of capital assets, and downward adjustments to fund balance.

Major Object Expenditures

- 100 Personal Services—Salaries.** Amounts paid to both permanent and temporary school district employees, including personnel substituting for those in permanent positions. This includes gross salary for personal services rendered while on the payroll of the school district.
- 200 Personal Services—Employee Benefits.** Amounts paid by the school district on behalf of employees (amounts not included in gross salary, but in addition to that amount). Such payments are fringe benefit payments and, although not paid directly to employees, nevertheless are part of the cost of personal services.
- 300 Purchased Professional and Technical Services.** Services that by their nature can be performed only by persons or firms with specialized skills and knowledge. Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided. Included are the services of architects, engineers, auditors, dentists, medical doctors, lawyers, consultants, teachers, and accountants
- 400 Purchased Property Services.** Services purchased to operate, repair, maintain, and rent property owned or used by the school district. These services are performed by persons other than school district employees. Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.
- 500 Other Purchased Services.** Amounts paid for services rendered by organizations or personnel not on the payroll of the school district (separate from professional and technical services or property services). Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.
- 600 Supplies.** Amounts paid for items that are consumed, are worn out, or have deteriorated through use or items that lose their identity through fabrication or incorporation into different or more complex units or substances. Refer to appendix E for the criteria for distinguishing between a supply item and an equipment item. Equipment that has a cost lower than the school district's capitalization threshold (\$500) should be coded in this series instead of to a 700 series code.
- 630 Food.** Expenditures for food used in the school food service program. Food used in instructional programs is charged under object 610. Commodities are recorded at fair value and are the same amount as was recorded as revenue.
- 700 Property.** Expenditures for acquiring capital assets, including land, existing buildings, existing infrastructure assets, and equipment.
- 800 Debt Service and Miscellaneous Objects.** Amounts paid for goods and services not otherwise classified above. Examples include dues and fees, judgments against the school district, debt related expenditures/expenses, fines and penalties, taxes and assessments, and refunds of prior year revenue.
- 900 Other Items.** Used to classify transactions that are not properly recorded as expenditures/expenses but require control and reporting by the school district. Examples include interfund and intrafund transfers (including indirect costs), payments to escrow agents for defeasance of debt and discounts on the issuance of debt, net decreases in the fair value of investments, losses on the sale of capital of capital assets, flow through payments to other agencies, special items, extra ordinary items, and downward adjustments to fund balance.

Major Revenues

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|------|------------------------------------|
| 1000 | Revenue From Local Sources. |
| 2000 | Revenue From Intermediate Sources. |
| 3000 | Revenue From State Sources. |
| 4000 | Revenue From Federal Sources. |