



Local Education Agency  
Indirect Cost Plan  
Montana Office of Public Instruction  
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**LEA Profile: Montana Office of Public Instruction**  
**Data references are as of February 2021**

1. Number of LEAs in the State-  
**421 Total (400 School Districts (LEA's), 21 Educational Regional School District)**
2. Which basis of accounting is used by the LEAs? -  
**Modified Accrual**
3. Number of LEAs requesting indirect cost rates -  
**92 LEAs requested (91 School Districts (LEA's), 1 Educational Regional School District)**
4. Number of LEAs utilizing the indirect cost rates -  
**32 LEAs utilizing the indirect cost rates (32 School Districts)**
5. Describe Rates calculated - **Restricted**
6. Type of Rate calculated - **Predetermined 5 year rolling average with the 5% discount**
7. If Predetermined, is the rate discounted? - **Yes**
8. Frequency of indirect cost rates calculated –  
**Annually, (All LEA indirect cost rates because of the volatility must negotiate indirect cost rates annually)**
9. Are unused leave payments in the indirect cost pool for calculation of the unrestricted indirect cost rate? -  
**Yes, however Montana only issues restricted indirect cost rates.**
10. Are the salaries and related costs of Superintendents, Deputy Superintendents, and Heads of components, adjusted in the Restricted Rate calculation? –  
**Yes, for superintendents and deputy superintendents.**
11. Are unused leave payments charged directly to federal awards? – **No**
12. Are all building related expenditures in the direct cost base for calculation of the restricted indirect cost rate? - **Yes**
13. Does the base include only the first \$25,000 of subaward expenditures? –  
**Yes, subawards are included for the districts that this treatment is applicable to.**
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**

15. Are any types of retirement incentives included in the proposal or planned in the next fiscal year? – **No**
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.  
**Information pertaining to indirect cost rates are provided on the Montana office of public instruction website. An annual official e-mail is provided, as well as notice in the OPI monthly newsletter. Additional training is provided with the Montana association of school business officials and OPI staff provides assistance when requested.**
17. Describe the plan for monitoring indirect cost rates (frequency and procedures)?  
**A review of indirect costs is part of the local district audit process. Districts fall into one of three categories those who spend the threshold for a federal single point audit, those who receive an annual “yellow book” audit and those who receive a review.**
18. Delegation agreement expiration date? **Previous agreement - June 30, 2021**
19. How are negotiated indirect cost rates distributed, and what time of the year are they published?  
**Annual requests for applications for ensuing year indirect cost rates typically begin each year in February. Negotiated rates are acted on individually between the start date and a close day of April 30. Approvals are sent to each district with the close of negotiation and approved rates are published to the OPI website with an ongoing process between the February opening and April 30 dates.**

## **Introduction**

The Montana Office of Public Instruction (OPI) has, in cooperation with the U.S. Department of Education (ED), have developed an indirect cost proposal to be used for local education agencies (LEA's) in Montana. The State Education Agency (SEA) has been delegated authority by ED to calculate indirect costs rates for LEA's. To recover any indirect costs for the administration of federal or state grants an LEA must have an approved indirect cost rate. Rates will be calculated annually based on the annual Trustees' Financial Summary (TFS) in accordance with this plan.

## **Indirect Cost Rate Information**

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. An indirect cost rate is the ratio of total indirect costs to total direct and unallowable costs, exclusive of any extraordinary or distorting expenditures such as capital outlay, debt service, and food costs that are not associated with salary or benefits. An indirect cost rate does not increase the grant. It allows a portion of the total grant to reimburse the school district for indirect costs such as accounting, payroll, personnel, etc. Expenditures for the second preceding fiscal year are used when completing the indirect cost proposal for a given fiscal year. For example, expenditures for FY 2021 will be used to complete the Indirect Cost Proposal for FY 2023. Montana will calculate restricted indirect cost rates using a predetermined rate.

Applications for grants usually involve a request for reimbursement of both direct and indirect costs. OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards contains provisions for determining indirect cost rates for grantees and sub-grantees of Federal grants. LEA's are not required to accept the calculated indirect cost rate. However, to recover any indirect costs for the administration of federal grants, a LEA must have an approved indirect cost rate.

Three major limitations affect how much indirect cost may be recovered:

1. The rate negotiated with the OPI is the maximum allowable indirect cost for any federal program in which the school district participates. Federal law or grant conditions may further limit the amount of indirect costs or the indirect cost rate. For example, if the LEA has a restricted rate of 5 percent and the law allows only a 3 percent rate of recovery for that program, then the LEA can recover only indirect costs equal to 3 percent of the direct costs. Some grants may prohibit any recovery of 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 grant amount. The total direct costs plus indirect costs cannot exceed the 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 less capital outlay and subgrants, not to the grant award. Refer to 2 CFR 200.1 Modified Total Direct Cost (MTDC) means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward more than \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

### **Classification of LEAs**

Four types of LEAs exist in Montana: Independent Elementary Schools, Independent County High Schools, Joint Board Districts, and K-12 Districts. Independent Elementary Schools range in grades served from PK through 8 and are governed through an independent board of trustees. Independent County High Schools range in grades served from 9 through 12 and are governed through an independent school board. Joint Board Districts are made up of two LEAs, an elementary and high school which operate independently however a single board of trustees governs both LEA's, and K-12 Districts are single LEA's serving grades K-12 guided under a single board of trustees. The budgets of special school districts are approved by their board of education—their highest governing body. Special school districts enroll students from within the defined boundaries of their district. Any LEA that wants to obtain an indirect cost rate has two options.

**Option 1:** The OPI provides the option to accept a preliminary rate calculated from reported TFS expenditures. This process involves review of the provided Schedule A, acceptance of the preliminary rate as calculated by the OPI. Obtain approval from the board or superintendent and submit the Certification form to the OPI.

Links to these two forms are provided below:

[Schedule A](#)

[Certificates](#)

**Option 2:** The OPI does not collect all expenditures by line item detail, often there are expenditures that can be claimed as indirect costs that are reported to the base and may be reclassified as indirect. In these situations, a district may request an adjusted rate based on the

adjusted ratio of base and indirect expenditures after the reclassification of expenditures. In these situations, the district needs to retain documentation justifying the reclassification for audit purposes (see audit requirements section).

The OPI has prepared a calculator for districts interested in reclassifying expenditures, the calculator is posted on the OPI website titled Reclassification Calculator.

[FY24 Reclassification Calculator](#)

### **Items That May be Considered to Reclassify**

-The preliminary rate calculated from the district's TFS classifies all costs accounted for in function 23XX General Administration and the Miscellaneous Program Fund (15) as direct. If the district is, in fact, accounting for some of these costs as indirect costs, they should be reclassified on the form from column (B) direct to column (C) indirect. Review expenditures in function code 23XX General Administration for the General (01), Retirement (14), Metal Mine Tax Reserve (24), State Mining Impact (25), Impact Aid (26), Technology (28), and Flexibility (29) funds to determine if any of the following costs currently classified as direct costs should be classified as indirect costs.

-Audit fees may be reclassified as indirect if spending more than \$750,000 in Federal funds.

-Costs of operation and maintenance (O&M) of plant may be claimed as indirect costs. School districts may include the percentage of building operations and maintenance costs that pertains to indirect functions such as payroll, accounting, etc. The USED requires the school district to conduct a study or other measured basis such as square feet occupied by indirect functions as it relates to the total square feet of space used by the school district. For example, if the business office occupies 100 square feet out of 20,000 total square feet and O&M costs are \$25,000 per year, the school district can reclassify .5% (0.005) of \$25,000 or \$125 per year from direct costs to indirect costs.

-Additional costs that may be classified as indirect costs may include the following: accounting, budgeting, payroll, personnel management, purchasing, employee relations, labor negotiation contracts, termination or severance pay, mailrooms, word processing pools, computer networks, or data processing operations (administrative indirect costs consist of the salaries and other expenses, other than the superintendent's office, which benefit the entire LEA, activities that are limited to one school subject, or phase of operation, are not indirect cost) see 2 CFR 200.414.

-Federal grants may not be charged directly for termination or severance (retirement bonus) pay. As provided in OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, termination or severance pay is an allowable cost if it is allocated as a general administrative expense to all activities of the governmental unit. The USED requires termination pay be paid from non-federal funds and included as part of the indirect cost rate calculation. Accordingly, termination or severance pay may be paid from the general, school food, impact aid, compensated absences (non-teaching staff only) or other appropriate non-federal fund and be included in the indirect cost rate calculation.

Notes:

-Salaries and expenditures related to the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services, and student services are not indirect costs. The costs of these functions are direct costs. For example, the business manager (in LE's with less than 2,600 students enrolled), accounting manager, and accounting section are included as administrative indirect costs, but the director of transportation would be classified as a direct cost.

-Expenditures identified as indirect costs cannot also be classified as direct costs.

### **Rate Calculation Process**

By April 30 LEAs submit a signed Certification form and a copy of Schedule A if requesting adjusted rate. Include worksheets, schedules, and other supporting documentation which would expedite the approval of the proposal.

Other financial records necessary to document the classification of expenditures classified as indirect or excluded costs (see Audit Requirements).

The completed application should be mailed to: School Finance Division, Office of Public Instruction, PO Box 202501, Helena, Montana 59620-2501 or scanned and sent to [Amanda.zigan@mt.gov](mailto:Amanda.zigan@mt.gov).

### **Calculation of a Preliminary Indirect Cost Rate**

#### 1. Schedule A - Restricted Indirect Cost Rate Expenditures by Column

Column A	Total expenditures are determined by summing the general fund and special revenue funds (fund numbered less than 50) excluding object 910 operating transfers and 971 residual equity transfers. The debt service, capital projects, trust, enterprise, and internal service funds are excluded. Columns B, C, D, E, and F must total to column A.
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- Column B Direct and Unallowable Costs include all expenditures in the general and special revenue funds (funds numbered less than 50) except for capital outlay, debt service, school foods expenditures function 31XX object 1XX or 2XX, resource transfers/sub-grants, sub-contracts in excess of \$25,000 with educational vendors and functions 25XX Business Services.
- Column C Indirect Costs include all expenditures in functions 25XX Business Services except for capital outlay and debt service for the General (01), Retirement (14), Miscellaneous Programs (15) for programs coded to "1XX" or "271", Metal Mine Tax Reserve (24), State Mining Impact (25), Impact Aid (26), Technology (28), and Flexibility (29) funds.
- Column D,E,F Excluded Costs include all expenditures in the general and special revenue funds (funds numbered less than 50) for function code 4XXX Facilities Acquisition, 5XXX Debt Service and object codes 7XX Capital Outlay and Equipment, 31XX School Foods that are not object 1XX or 2XX, 840 Principal, 850 Interest, 860 Agent Fees, and Resource Transfers/Sub-Grants (62XX-930), and sub-contracts in excess of \$25,000 with educational vendors.

2. All reported TFS qualifying expenditures are totaled by function and categorized by Direct and Unallowable (B), Indirect Costs (C), or Excluded Costs (D)(E)(F).

3. A current year Calculated Rate is determined for each LEA:

Expenditures by function, as reported on the TFS in columns (B) and (C) of the schedule A, are divided to determine the current year Calculated Rate.

$$\text{Calculated Rate} = \frac{\text{Indirect (C)}}{\text{Direct \& Unallowable (B)}}$$

4. A Preliminary Rate is then determined:

The current Calculated Rate is averaged with the final approved rates from the prior four years then 5% discount is applied:

$$\text{LEA Preliminary Rate} = (((\text{Approved Rate Prior Years 1 through 4} + \text{Calculated Rate}) / 5) * .95)$$

In situations where 1 or more of the prior years have no approved rate, the Preliminary Rate as determined in that year, is applied to the calculation for the year(s) where there was no approved rate.

## 5. Preliminary Rate by school system:

In cases where a school system is composed of two LEAs (Joint School Board Districts) the resulting values determined in step 4 are averaged to determine the Preliminary Rate by school system. Should a district choose to reclassify expenditures the current year's calculated rate will adjust and the same process outlined for the Preliminary Rate will be used to determine the reclassified rate.

### **Approval Process**

An indirect cost rate certification approved by the OPI is applied for one year. The rate is valid from July 1 through June 30 of the applicable fiscal year of approval or the term of the grant award. To recover indirect costs, the LEA applies the indirect cost rate in affect for a given fiscal year or the term of the grant award to the direct expenditures less capital outlay during that fiscal year or the term of the grant award.

An indirect cost rate approved during the middle of a grant period may only be applied to grant expenditures made after the approval date. The rate may not be applied retroactively.

The sources of information used to develop an indirect cost rate are the LEA's official annual TFS and the detail accounts that make up that report. It is essential school districts classify expenditures uniformly and consistently in accordance with the Montana School Accounting Manual. The OPI will prepare a "preliminary restricted indirect cost rate" for school districts requesting an indirect cost rate and may be requested for certification under option 1 outlined below. School districts may use this rate or submit an adjusted rate for OPI approval and may be requested for certification under option 2 outlined below. Generally, records and documentation supporting the indirect cost proposal must be retained for a period of three years from the date of submission to the OPI. If audit exceptions have been noted, records must be retained until those exceptions have been resolved.

#### Option 1:

Print the Schedule A for the school district located on OPI's website at this link:

[Schedule A](#)

Next, print the Certification form for the school district located on OPI's website at this link:

[Certification Form](#)

Enter the OPI Preliminary Rate from Schedule A on the Certification form, obtain signature of the Superintendent or Board Chairman, then fax to (406) 444-0509, or mail to School Finance Division, Office of Public Instruction PO Box 202501 Helena Montana 59620-2501.

Option 2:

Increase the Preliminary Rate by reclassifying costs from direct to indirect using Schedule A.

Enter the district Adjusted Rate from Schedule A on the Certification form, obtain signature of the Superintendent or Board Chairman and fax with Schedule A to (406) 444-0509, or mail to School Finance Division, Office of Public Instruction PO Box 202501 Helena Montana 59620-2501

### **Recording Indirect Cost Recoveries**

Example: The Title I grant award is \$100,000. You have budgeted \$90,000 for salaries and benefits, \$2,233 for operating expenses, and \$5,000 for equipment. The indirect cost rate is 3.00%. That means you budget  $[(3\%/103\%) \times (100,000-5000)] = \$2,766.99$  as indirect cost rate recoveries. The project reporter code used here is 123, but you could assign any three-digit number (other than the 900's) that you choose.

1. Receive the grant revenue in as usual. The indirect cost recoveries are included in the amount. The OPI does not split the payment out for indirect costs.

Miscellaneous Programs Fund (15)

Debit: 101 Cash	\$100,000
Credit: 402 Revenue Control	\$100,000

#### Revenue Subsidiary Ledger

Credit: 4200-123 (Use whatever grant revenue code applies)	\$100,000
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2. Pay normal program expenditures: (assume only \$91,000 of award was spent)

Miscellaneous Programs Fund (15)

Debit: 802 Expenditures Control	\$91,000
Credit: 101 Cash or 601 Warrants Payable	\$91,000

#### Expenditure Subsidiary Ledger

Debit: X15-420-1XXX-XXX-123 Use exp. coding as appropriate	\$86,000
Debit: X15-420-1XXX-7XX-123 Equipment	\$ 5,000

3. When expenditures have been made, transfer the indirect cost recoveries out of the project into the indirect cost project in fund 15. REMEMBER: The indirect cost rate can only be applied to actual expenditures less equipment expenditures and sub-grants. In this example, that would be  $\$86,000 \times .03 = \$2,580$ .

Miscellaneous Programs Fund (15)

Debit:	802	Expenditure Control	\$2,580
Credit:	402	Revenue Control	\$2,580

Subsidiary accounts

Expenditures:

Debit:	X15-420-62XX-940-123	Indirect Cost Recovery	\$2,580
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Revenues:

Credit:	X15-4930-222	Indirect Cost Revenue	\$2,580
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Notes:

- This transaction records indirect cost recovery taken as an expenditure in the grant project and as revenue in the Indirect Cost Recovery project. Notice a unique project reporter code is used for the indirect cost recovery "pool." Used appropriately, this money is intended to pay for costs of administration and operations which cannot be reasonably allocated directly to one program or grant (i.e., indirect costs). However, there is no legal restriction addressing what it can be used for.
- In the example, \$6,420 ( $\$100,000 - \$91,000 - \$2,580 = \$6,420$ ) was not spent and would have to be reimbursed.
- INDIRECT COST RATE recoveries are not required. Claiming INDIRECT COST RATE recoveries reduces the amount available for direct expenditures on the grant

## Audit Requirements

1. General Requirements

The classification of expenditures must be in conformance with the Montana School Accounting Manual. Failure to comply with the classification of expenditures as required may result in Single Audit questioned costs related to indirect cost recovery. In addition, Schedule A must reconcile in total with the district's TFS for the appropriate fiscal year. The school accounting manual is published on the OPI Web site at: [Chart of Accounts](#)

2. Additional Documentation - Indirect Costs

Detailed records are required to support any indirect costs attributed to function 23XX General Administration, 25XX Business Services. These records should include a

justification or explanation as to why a cost has been classified as indirect. Indirect costs are usually only found in the General (01), Retirement (14), Metal Mine Tax Reserve (24), State Mining Impact (25), Impact Aid (26), Technology (28), and Flexibility (29) funds or an indirect cost pool established in the Indirect Cost Recovery (Aggregate of Reimbursements/Program "1XX" or "271") project in Miscellaneous Program Fund (15). Costs to consider classifying as indirect costs rather than as direct costs include: auditing if spending more than \$750,000 in federal funds, accounting, budgeting, payroll, personnel management, purchasing, employee relations, labor negotiation contracts, termination or severance pay, mailrooms, word processing pools, computer networks, or data processing operations. Once a cost item has been classified as indirect, it should be classified consistently from year to year as indirect. Costs which are charged directly to a particular program may not be classified as indirect. For example, if the business manager's salary is allocated to the general, transportation, or other funds, only the general fund portion may be considered indirect since the remaining salary has been directly charged to other programs. Costs classified as indirect should be supported by worksheets and retained for audit. Inadequate documentation may result in an audit finding requiring repayment of indirect costs incorrectly recovered by a school district.

### 3. Additional Documentation - Excluded Costs

Schedules or other records should be maintained that document the reporting of all expenditures classified as excluded costs. Excluded costs include capital outlay, debt service and interest, and other expenditures, such as contributions and donations, bad debts, contingencies, entertainment, fines and penalties, judgments, operating transfers, residual equity transfers, and resources transfers/sub-grants to other districts or cooperatives, and sub-contract amounts in excess of \$25,000 with educational vendors. Inadequate documentation may result in an audit finding requiring repayment of indirect costs incorrectly recovered by a school district.

## **Classification of Costs**

### **Modified Total Direct Costs (2 CFR 200.1)**

Modified Total Direct Costs means all direct salaries and wages, applicable fringe benefits, materials, and supplies, services, travel, and sub-awards and subcontracts up to the first \$25,000 of each sub-award or subcontract.

### **Sub-awards in Excess of \$25,000 (2 CFR 200.1)**

The portion of sub-awards or subcontracts more than \$25,000 is excluded from Modified Total Direct Costs. The indirect cost rate may only be applied to the first \$25,000 of a sub-award or subcontract.

### Excluded Costs (2 CFR 200.1)

Certain items of costs are classified as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate. Excluded costs include capital outlay, debt service, judgments against the school district, transfers to other funds, and food supply costs within child nutrition. Indirect cost recoveries are also categorized as excluded costs.

### Direct Costs (2 CFR 200.413)

Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally assigned. Typical direct costs chargeable to a grant include, but are not limited to:

- (a) Compensation of employees for the time devoted and identified specifically to the performance of those programs;
- (b) Cost of materials acquired, consumed, or expended specifically for the purpose of those programs;
- (c) Travel expenses incurred specifically to carry out the program; etc.

### Indirect Costs (2 CFR 200.414)

Indirect costs are those not readily identifiable with the activities of the grant but incurred for the joint benefit of those activities and other activities of the organization. In accordance with Uniform Grants Guidance, 2 CFR 200, indirect costs are:

- Incurred for a common or joint purpose benefiting more than one cost objective; and
- Not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.

A cost may not be allocated to a federal program as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a federal program as a direct cost. Typical examples of indirect costs may include procurement, payroll, personnel functions, maintenance and operations of space, data processing, accounting, auditing, budgeting, etc.

### Unallowable Costs (2 CFR 200.410)

2 CFR 200.410 classifies certain items of cost as unallowable. Unallowable costs cannot be charged to federal awards. For rate computation purposes, unallowable costs may be included in the allocation base if such costs benefit from allowable indirect activities. Examples of unallowable costs are bad debts; contingencies; entertainment; fines/penalties; general governance; and contributions/donations to outside organizations.

Note: Direct costs (B) are combined with Unallowable costs (C) to make up the base (denominator) in the rate computation.

## Rate Type

### Restricted Rates (34 CFR 75.563 through 75.569)

As defined in the Education Department General and Administrative Regulations (EDGAR) at 34 CFR 75.563 through 76.569, restricted rates apply to grants that are made under federal programs with supplement-not-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 department are of supplement-not-supplant requirements and a restricted indirect cost rate must be used on the programs. The restricted indirect cost rate pool (numerator) includes only expenditures of **general management costs** and **fixed charges** as defined below:

**General Management Costs:** Consist of the salaries and expenses for employees performing accounting, payroll preparation, or personnel management activities. Those activities that are limited to one school, subject, or phase of operation, are not general management costs such as the salaries and expenditures related to the direction and supervision of such functions as instruction, guidance, transportation, community services, and student services. The costs of these functions are considered direct costs.

Generally, salaries and expenses for auditing, budgeting, payroll, personnel, purchasing, and employee relations are examples of services which typically benefit several activities and programs for which costs may be attributed by means of an indirect cost proposal. For LEA's this would include most of the costs recorded in Fiscal Services (function 72510) and Human Services/Personnel (function 72520). In theory, all such costs can be charged directly. However, practical limitation and consideration of efficiency in accounting preclude such an approach and therefore these costs are considered indirect.

As stated in EDGAR 76.565, "general management costs mean the costs of activities that are for the direction and control of the grantee's affairs that are organization-wide. An activity is not organization-wide if it is limited to one activity, one component of the grantee, one subject, one phase of operations, or other single responsibility. General management costs include the costs of performing a service function, such as accounting, payroll preparation, or personnel management, that is normally at the grantee's level even if the function is physically located elsewhere for convenience or better management."

When calculating a restricted indirect cost rate, the term "General Management Costs" does not include expenditures for:

1. The governing body (members of the board of education) of the grantee;
2. Compensation of the chief executive officer (superintendent of a school district) of the grantee and heads of component offices; and
3. The operation of the immediate offices of these officers.

The superintendent's and board of education's salary, benefits, communications/telephone charges and other expenditures related directly to the operation of the Superintendent's and board of education offices, specifically, are not included in indirect costs and are considered, for rate computation purposes, to be disallowed costs in the calculation of the restricted indirect cost rate. These costs will be considered direct for calculation of the restricted rate.

The salaries and benefits of the business manager will be moved to direct costs when calculating the restricted rate for those districts with enrolled students greater than 2,600.

Charges for individuals whose time is divided between district-wide management responsibilities and specific program or administrative activities will be based on Personal Activity Reports prepared at least monthly in compliance with 2 CFR 200.430 Compensation (C)(4).

An individual principal's salary, benefits and expenditures related to the operation of the principal's immediate offices are also not considered indirect costs. These costs are unallowable and are considered to be direct costs for the restricted rate computation purposes.

**Fixed charges:** Fixed charges classified as indirect costs are limited to those amounts which are associated with general management 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.

These expenditures are exclusively identified as:

1. Employee retirement
2. Social Security
3. Medicare
4. Premium expenditures for:
  - a. Employee insurance
  - b. Liability insurance
5. Unemployment and workers compensation, and
6. All similar costs normally considered being employee fringe benefits.



Note that per 2 CFR 200.431, payments to separating employees for termination benefits and/or unused leave (terminal leave costs) are treated as indirect costs when computing the Restricted and Unrestricted indirect cost rate with one exception. When computing the restricted indirect cost rate, unused leave costs to employees who are indirect for the Unrestricted Rate, but direct for the Restricted Rate (i.e. superintendent and their office), are considered direct cost payments for rate calculation purposes only. Payments to separating employees for unused leave are NOT charged as direct costs to any federal awards. All Post-Retirement Health Benefits (“PRHB”) will be treated as indirect costs for both the Restricted and Unrestricted rate regardless of where the employees’ salary is recorded with one exception. For purposes of calculating the restricted rate, PRHB costs associated with Superintendent, Chief Executive Officer (CEO) of components (as defined by EDGAR 76.565(d)(2)) and their immediate offices will be treated as direct. PRHB costs associated with the Chief Financial Officer, Human Resources Director, and Technology Director for applicable large districts will be treated as direct costs.

## Certification and Request for Authorized Indirect Cost Rate Examples

**Example #1:**

ABC Elem  Expenditure Function	Total Expenditures (A)	Direct and Unallowable Costs (B)	Indirect Costs (C)	Excluded Costs		
				Capital Outlay (D)	Debt Financing (E)	Foods/ Other (F)
1XXX Instruction	2,526,105.26	2,526,105.26	0.00	0.00	0.00	0.00
21XX Support Services - Students	334,926.51	334,926.51	0.00	0.00	0.00	0.00
221X Improvement of Instruction Services	27,666.94	27,666.94	0.00	0.00	0.00	0.00
222X Educational Media Services	61,644.74	61,644.74	0.00	0.00	0.00	0.00
23XX Support Services - General Administration	55,834.01	55,834.01	0.00	0.00	0.00	0.00
24XX Support Services - School Administration	158,117.97	158,117.97	0.00	0.00	0.00	0.00
25XX Support Services - Business	78,010.33	0.00	78,010.33	0.00	0.00	0.00
26XX Operation and Maintenance of Plant Services	384,685.69	384,685.69	0.00	0.00	0.00	0.00
27XX Student Transportation Services	146,790.13	146,790.13	0.00	0.00	0.00	0.00
31XX Food Services	222,764.74	141,953.69	0.00	0.00	0.00	0.00
35XX Extracurricular - Athletics	31,829.77	31,829.77	0.00	0.00	0.00	0.00
52XX Capital Leases or Long Term Notes with Board of Investments	39,958.84	0.00	0.00	0.00	39,958.84	0.00
62XX Resources Transferred to Other School Districts or Cooperatives	10,603.50	0.00	0.00	10,603.50	0.00	0.00
9999 Undistributed	3,671.64	3,671.64	0.00	0.00	0.00	0.00
<b>Totals</b>	<b>4,082,610.07</b>	<b>3,873,226.35</b>	<b>78,010.33</b>	<b>10,603.50</b>	<b>39,958.84</b>	<b>0.00</b>
Direct Costs Reclassified Indirect Costs	XXXXXXXXXX			XXXXXXXX	XXXXXXXX	XXXXXX
Direct or Indirect Costs Reclassified as Excluded	XXXXXXXXXX					
<b>Adjusted Totals</b>	<b>4,082,610.07</b>					

**Example # 2:**

ABC HS Expenditure Function	Total Expenditures (A)	Direct and Unallowable Costs (B)	Indirect Costs (C)	Excluded Costs		
				Capital Outlay (D)	Debt Financing (E)	Foods/ Other (F)
1XXX Instruction	1,154,132.51	1,154,132.51	0.00	0.00	0.00	0.00
21XX Support Services - Students	40,803.67	40,803.67	0.00	0.00	0.00	0.00
221X Improvement of Instruction Services	12,061.82	12,061.82	0.00	0.00	0.00	0.00
222X Educational Media Services	61,629.72	61,629.72	0.00	0.00	0.00	0.00
23XX Support Services - General Administration	39,466.55	39,466.55	0.00	0.00	0.00	0.00
24XX Support Services - School Administration	106,324.57	106,324.57	0.00	0.00	0.00	0.00
25XX Support Services - Business	41,285.64	0.00	41,285.64	0.00	0.00	0.00
26XX Operation and Maintenance of Plant Services	191,437.89	191,437.89	0.00	0.00	0.00	0.00
27XX Student Transportation Services	60,916.26	60,916.26	0.00	0.00	0.00	0.00
34XX Extracurricular - Activities	6,321.88	6,321.88	0.00	0.00	0.00	0.00
35XX Extracurricular - Athletics	97,338.43	95,949.03	0.00	1,389.40	0.00	0.00
52XX Capital Leases or Long Term Notes with Board of Investments	15,985.01	0.00	0.00	0.00	15,985.01	0.00
62XX Resources Transferred to Other School Districts or Cooperatives	4,544.35	0.00	0.00	4,544.35	0.00	0.00
<b>Totals</b>	<b>1,832,248.30</b>	<b>1,769,043.90</b>	<b>41,285.64</b>	<b>5,933.75</b>	<b>15,985.01</b>	<b>0.00</b>
Direct Costs Reclassified Indirect Costs	XXXXXXXXXX			XXXXXXXX	XXXXXXXX	XXXXXX
Direct or Indirect Costs Reclassified as Excluded	XXXXXXXXXX					
Adjusted Totals	1,832,248.30					

**Example #3:**

Line A			2016 Calculated Rate	2016 Reclassified Rate*	Requested Reclassified Rate**		
	ABC Elem	Indirect/Direct	78,010.33 / 3,873,226.35	1.97%			
	ABC HS	Indirect/Direct	41,285.64 / 1,769,043.90	2.33%			
<b>Line B Preliminary Indirect Cost Rates</b>	<b>LE</b>		<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	ABC Elem		0.0287	0.0312	0.0277	0.0264	1.97%
	ABC HS		0.0317	0.0312	0.0277	0.0264	2.33%
<b>Line C Approved Indirect Cost Rates</b>	<b>LE</b>		<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	ABC Elem		0.0000	0.0312	0.0277	0.0000	
	ABC HS		0.0000	0.0312	0.0277	0.0000	
<b>Line D Higher of Preliminary or Approved Indirect Cost Rates</b>	<b>LE</b>		<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	ABC Elem		0.0287	0.0312	0.0277	0.0264	
	ABC HS		0.0317	0.0312	0.0277	0.0264	
<b>Line E Five Year Average with 5% Discount</b>	<b>LE</b>					<b>2016</b>	<b>LE Reclassified Rate</b>
	ABC Elem					2.54%	
	ABC HS					2.67%	
<b>Line F Average of LE's contained under one School System Code (SS)</b>						<b>2016</b>	<b>SS Reclassified Rate</b>
<b>ABC Public Schools</b>		<b>Your Preliminary Rate by School System (SS) is:</b>				<b>2.61%</b>	
		<b>This same rate is applied to both EL and HS in the same SS</b>					

\* Reclassified Rate Line A: Calculate the Reclassified Rate by reclassifying allowable expenditures from direct to indirect. Then calculate by applying the following formula to each LE. Indirect/Direct.

\*\* "Requested Reclassified Rate" column is intended as space to calculate the adjusted indirect cost rate due to reclassification of expenditures.

Line B: This is a copy of the Calculated Rate using TFS expenditures.

Line C: Enter the requested Reclassified Rate (based on reclassifying TFS expenditures) by LE from Line A.

Line D: Copy the higher value by LE from Lines B or C.

Line E: Apply the following formula: Average (all values by LE in Line D) \* .95. Do this once for the Elem and once for the HS.

Line F: Average together the results from Line E.

## **Glossary of Accounting Functions and Objects**

### **Major Expenditure Functions**

#### ***Instruction (1000)***

Instruction includes the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom or in another location such as a home or hospital. It may also be provided through some other approved medium such as television, radio, telephone, and correspondence. Included here are the activities of aides or assistants of any type (clerks, graders, teaching machines, etc.) which assist in the instructional process. Expenditures for assemblies and activities such as the Missoula Children's Theater should also be included here. If proration of expenditures is not possible for department chairpersons who also teach, include these expenditures in instruction. Full-time special education directors and department chairpersons should be recorded only in function 2490. This function should only be used only with Programs 100-700.

#### ***Support Services—Students (21XX)***

Activities designed to assess and improve the well-being of students and to supplement the teaching process. This function includes aides for day care, playground, study hall, student escorts, and crosswalk guards. Bus aides required by the Individualized Education Plan, (IEP) for special education students should be recorded here. Includes student insurance except for athletics which should be recorded using function 3400 or 3500.

#### ***Educational Media Services (222X)***

Activities concerned with the use of all teaching and learning resources, including hardware, and content materials excluding Library Services. For Library Services, use Function 2225. Educational media are defined as any devices, content materials, methods, or experiences used for teaching and learning purposes. These include printed and non-printed sensory materials.

#### ***Support Services—General Administration (23XX)***

Activities concerned with establishing policy by the board of trustees and administering policy by the superintendent in connection with operating the school district. The chief business official should not be included here, but in function 2500, Support Services - Business.

#### ***Support Service—School Administration (24XX)***

Those activities concerned with overall administrative responsibility for a single school or a group of schools.

#### ***Support Services—Business (25XX)***

Activities concerned with paying for, transporting, exchanging, and maintaining goods and services for the school district. Included are the fiscal and internal services necessary for operating the school district. Include the chief business official here. Also include all costs of warrant blanks, purchase order/requisition forms, and other materials and supplies used by the business office. Charge costs of the district superintendent using 2300.

### ***Operation and Maintenance of Plant Services (26XX)***

The activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, buildings, and equipment in effective working condition and state of repair. This includes the activities of maintaining safety in buildings, on the grounds, and in the vicinity of schools.

### ***Student Transportation Services (27XX)***

Those activities concerned with the conveyance of students to and from school, as provided by state and federal law. It includes trips between home and school. Also includes student transportation relating to extracurricular activities or athletics.

### ***Food Services (31XX)***

Those activities concerned with providing food to students and staff in a school or school district. This service area includes the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities and the delivery of food. This function is usually used with Program 910.

### ***Community Services (33XX)***

Those activities concerned with providing community services to students, staff, or other community participants. Examples of this function would be the operation of a community swimming pool, a recreation program for the elderly, a childcare center for working mothers, etc. This function is used only with Program 800.

### ***Extracurricular – Activities (34XX)***

School sponsored activities for students that are not part of the regular instructional programs and for which students do not receive educational credit. Use with program 710 only. Expenditures for athletic programs should be recorded using Function 3500. Use program 710 and function 2700 for extracurricular travel.

### ***Extracurricular – Athletics (35XX)***

School sponsored athletics that allow student participation in sports programs, normally involving competition between schools. Use with program 720 only. Expenditures for non-athletic activities should be recorded using Function 3400. Use program 720 and function 2700 for extracurricular travel.

### ***Facilities Acquisition and Construction Services (4XXX)***

Those activities concerned with the acquisition of land and buildings; remodeling buildings; the construction of buildings and additions to buildings; initial installation or extension of service systems and other built-in equipment; and improvements to sites. All expenditures charged to the 4000 series except for land improvement are to be capitalized. GAAP allows governments the option of not recording “infrastructure” assets such as sidewalks, streets, parking lots, fences, etc. as fixed assets.

## ***Capital Leases or Long-Term Notes with the Board of Investments (52XX)***

### **Resources Transferred to Other School Districts or Special Education Cooperatives/Indirect Cost Pool (62XX)**

Used to account for resources recorded as revenue by one district or cooperative but transferred to another for district or cooperative for expenditure. Examples of such transfers are lump sum contributions to a host district for a prorated share of a particular program budget or payments between school districts and special education cooperatives relating to each participant's share of IDEA Part B federal funds. See Topic 5 for discussion of inter-district transactions. See revenue source 5700 and 5710. Used with object 920 or 930. Resources transferred from grants to Indirect Cost Pool: Used to record the transfer of indirect cost recoveries from grants to the indirect cost pool in Miscellaneous Fund 15. Also used to record indirect cost recoveries. See 9.0200.40. Used with objects 920, 930, or 940. Also see Topic 9 for discussion on indirect costs.

### ***Undistributed (9999)***

-- Used for:

Residual Equity Transfers Out (XXX-999-9999-971)

For closing obsolete funds to the general fund, transferring bus depreciation fund moneys to another fund on a vote of the people, or transferring an excess balance from the least rental fund or compensated absences fund back into the general fund. Use revenue source 9710 in the receiving fund.

Material Prior Period Expenditure Adjustments (XXX-999-9999-892) never negative.

Undistributed Benefits (X14-999-9999-2XX for retirement fund benefits, X01-999-9999-2XX for general fund workers' comp. benefits.)

## **OBJECT CODES CATEGORIES**

### ***100 Personal Services***

Amounts paid to employees of the school system.

### ***200 Employee Benefits***

Amounts paid on behalf of employees that are a part of the cost of employing staff. Benefits are to be identified with the function in which the salaries were recorded.

### ***300 Contracted Services***

Amounts paid for services rendered by individuals and/or companies. These activities would include utility services, communication services, repair and maintenance services, rentals, cleaning services, etc.

### ***400 Purchased Property Services***

Services purchased to operate, repair, maintain, and rent property owned and/or used by the school district. These services are performed by persons other than school district employees.

### ***500 Other Purchased Services***

Amounts paid for services rendered by organizations or personnel not on the payroll of the school district other than Professional and Technical Services or Property Services.

### ***600 Supplies and Materials***

Amounts paid for items of an expendable nature that are consumed, worn out, or deteriorated in use; or items that lose their identity through fabrication or incorporation into different or more complex units or substances.

### ***700 Capital Outlay***

Equipment accounts should reflect expenditures for the initial, additional, and replacement items of equipment. This would include such items as computers, desks, chairs, machinery, and playground equipment. The useful life of items recorded in these accounts should exceed one year, and dollar levels should be established by the board for inclusion in inventory or General Fixed Asset Categories.

### ***800 Other Objects***

Amounts paid for goods and services not otherwise classified above. Object 800 may not be used with functions 5100, 5200, 5300, 6100, 6200, or 6300. Use objects below wherever appropriate.



## Cost Classification Matrix

Program/Function	100 Personal Services	200 Employee Benefits	300 Contracted Services	400 Purchased Property Services	500 Other Purchased Services	600 Supplies and Materials	700 Capital Outlay	800 Other Objects
Instruction (1000)	Direct	Direct	Direct	Direct	Direct	Direct	Excluded	Direct
Support Service Students (21XX)	Direct	Direct	Direct	Direct	Direct	Direct	Excluded	Direct
Educational Media Services (222X)	Direct	Direct	Direct	Direct	Direct	Direct	Excluded	Direct
Support Services General Administration (23XX)	Direct	Direct	Direct	Direct	Direct	Direct	Excluded	Direct
Support Services - School Administration (24XX)	Direct	Direct	Direct	Direct	Direct	Direct	Excluded	Direct
Support Services Business (25XX)	Indirect	Indirect	Indirect	Indirect	Indirect	Indirect	Excluded	Direct
Operation and Maintenance of Plant Services (26XX)	Direct	Direct	Direct	Direct	Direct	Direct	Excluded	Direct
Student Transportation Services (27XX)	Direct	Direct	Direct	Direct	Direct	Direct	Excluded	Direct
Food Services (31XX)	Direct	Direct	Excluded	Excluded	Excluded	Excluded	Excluded	Direct
Community Services (33XX)	Direct	Direct	Direct	Direct	Direct	Direct	Excluded	Direct
Extracurricular Activities (34XX)	Direct	Direct	Direct	Direct	Direct	Direct	Excluded	Direct
Extracurricular Athletics (35XX)	Direct	Direct	Direct	Direct	Direct	Direct	Excluded	Direct

## Cost Classification Matrix

Program/Function	100 Personal Services	200 Employee Benefits	300 Contracted Services	400 Purchased Property Services	500 Other Purchased Services	600 Supplies and Materials	700 Capital Outlay	800 Other Objects
Facilities Acquisition and Construction Services (4XXX)	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
Capital Leases or Long-Term Notes with the Board of Investments (52XX)	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
Resources Transferred to Other School Districts or Special Education Cooperatives/Indirect Cost Pool (62XX)	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
Undistributed (9999)	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded