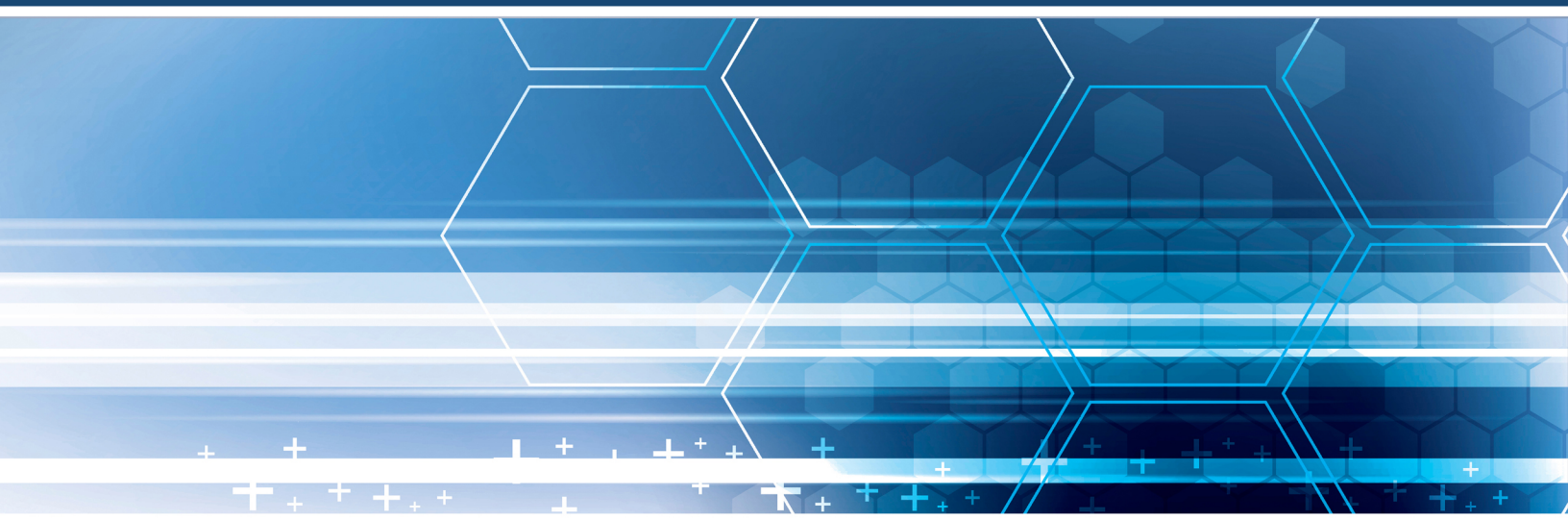
Indirect Cost Rates For Federal Grants



Missouri
DEPARTMENT OF ELEMENTARY & SECONDARY
EDUCATION™

Indirect Cost Rates - Federal Government

An indirect cost rate is a means of determining in a reasonable manner the percentage of allowable general administrative expense (indirect costs) that each federal grant should bear. Generally, an indirect cost rate is the ratio of total indirect costs to total direct costs, based on the LEA's actual expenditures, exclusive of any extraordinary or distorting expenditures (e.g., capital outlay and major subcontracts).

The indirect costs of a program are costs that have been incurred for common or joint purposes (i.e. operation and maintenance of buildings, utility costs, and some salaries). Indirect costs benefit more than one cost area or grant and cannot be readily identified with a particular cost area or grant. Executive administration costs (object code 2321) such as superintendent's salary and costs relating to that office, as well as any assistant superintendent's costs, are generally excluded from the total. School districts should ensure that expenditures are properly recorded to either executive administration or business central services. If expenditures are misclassified and recorded in executive administration instead of business central services, the improper recording will affect the indirect cost rate calculation.

There are two rates calculated, Unrestricted and Restricted. These rates are calculated annually by the Department of Elementary and Secondary Education according to agreements between the Department and the U.S. Department of Education and sent to each school district.

Unrestricted Rate

The unrestricted rate is calculated first and then adjusted to the restricted rate. The un-restricted rate is used for all federal programs without limitations or indirect costs. Expenditures for the office of the superintendent in addition to operations and maintenance of the plant are classified as indirect costs when calculating an unrestricted rate. The unrestricted rate may include those costs relating to general administration and direction of the local government. These costs include audit/management services, legal services, executive administration (including the costs of the superintendent and the assistant/associate superintendents), operation of the plant, and business services.

Restricted Rate

The restricted rate is used for all federal programs with a statutory requirement prohibiting the use of federal funds to supplant non-federal funds. The restricted rate may only include the general administration costs associated with audit/management services, legal services, and business services. The superintendent, assistant/associate superintendents', the superintendent's secretary, and expenses directly related to the operation of the superintendent's immediate offices, as well as operation of the plant costs are considered disallowed costs for the restricted rate and are not included in the restricted rate calculation.

Recovery of Indirect Costs

Recovery of indirect costs is subject to availability of funds, statutory or administrative restrictions, and the extent that direct costs were incurred. The approved rates are applied to project direct expenditures, class/object codes 6100 through 6400, to determine the allowance for indirect cost for overhead expenditures. When the receipt of indirect cost is recorded in the General (Incidental) Fund from the federal program, these funds lose their identity as federal revenue. The district can add it to all other general revenues, carry it over in the General (Incidental) Fund balance, or appropriate it to be expended as a general operating (non-categorical) expense.

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