

KENTUCKY DEPARTMENT OF EDUCATION

STAFF NOTE

Action/Consent Item:

Request for Approval of School District Indirect Cost Rates for Fiscal Year 2016-2017

Commissioner's Recommendation:

The Commissioner recommends the approval of the indirect cost rates as presented.

Rationale:

To allow each district to charge indirect costs against federal programs, subject to program limitations, during the 2016-2017 fiscal year. Approval of the rates, however, does not commit districts to charge any amount of indirect costs. The Kentucky Board of Education (KBE) is required by OMB Circular A-87 Subject: Cost Principles for State, Local, and Indian Tribal Governments to approve the rates for school districts since the delegation agreement is executed between the U. S. Department of Education (USED) and the Kentucky Department of Education (KDE). Each school district is then recommended (not required) to have local board approval of their individual rates.

Action Question:

Should the KBE approve the indirect cost rates for school districts for 2016-2017, (see attachment), as calculated by KDE in accordance with the indirect cost allocation plan approved by the USED?

Applicable Statute or Regulation:

Federal Office of Management and Budget Circular A-87 Subject: Cost Principles for State, Local, and Indian Tribal Governments, Attachment E, Section D

History/Background:

Existing Policy: Each district's audited Annual Financial Report (AFR) is used to calculate indirect cost rates. Therefore, it is essential that Local Education Agencies (LEAs) classify expenditures uniformly and consistently and in accordance with the Chart of Accounts maintained on the KDE website. Districts are responsible for understanding the requirements of OMB Circular A-87 and must verify the accuracy of the data used in the indirect cost rate calculation by completing the Indirect Cost Rate Adjustment form.

Summary: The OMB Circular A-87 outlines in detail how the cost principles for state, local, and Indian Tribal Governments are to be utilized by the state education agency and the LEA. The approval of these rates will allow school districts to recover the allowable amount of general management costs that benefit federal programs, which should result in increased unrestricted

resources to expend toward instructional activities. Some of the highlights for this process are explained below.

Indirect costs are costs of a general nature that are not readily identifiable with the activities of the grant but are, nevertheless, incurred for the joint benefit of those activities and other activities or programs of the organization. Direct costs are those incurred specifically for one activity and can be identified specifically with that activity. These costs may be charged directly to grants, contracts, or to other programs. Excluded costs were identified in OMB Circular A-87 as those items which must be excluded from the indirect cost rate determination because they require minimal administrative support. Excluded costs include but are not limited to: pass-through funds, sub-awards exceeding \$25,000, on-behalf payments, capital outlay, debt service, certain transfers, and food purchases. The same costs are excluded when applying the indirect cost rate to actual expenditures.

Indirect cost rates are used for determining, in a reasonable manner, the proportion of indirect costs each program should bear. The indirect costs are included in the numerator (the indirect cost pool) and the direct costs are included in the denominator (along with unallowed costs under the Kentucky methodology). The result is expressed as a percentage (rate) of the indirect costs to direct costs (and unallowed costs). Kentucky utilizes the Predetermined Indirect Cost Rate methodology whereby indirect costs are reduced by 10 percent to account for reasonable fluctuations in costs from year to year. Two rates are calculated and are used as follows: the non-restricted indirect cost rate is for use with food service and the restricted indirect cost rate is for use with grants.

Budget Impact: There is no budget impact at the state level.

Contact Person:

Robin F. Kinney, Associate Commissioner
Office of Administration and Support
502/564-1976
Robin.Kinney@education.ky.gov

Donna E. Duncan, Director
Division of District Support
502/564-3930
Donna.Duncan@education.ky.gov



Commissioner of Education

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