

KENTUCKY DEPARTMENT OF EDUCATION STAFF NOTE

Topic: School District Indirect Cost Rates for Fiscal Year 2025-2026

Date: June 2025

Action Requested: ☐ Review ☒ Action/Consent ☐ Action/Discussion

Held In: ☒ Full Board ☐ State Schools ☐ United We Learn

SUMMARY OF ISSUE BEFORE THE BOARD:

To take action on the School District Indirect Cost Rates for Fiscal Year 2025-2026. This approval allows districts to charge indirect costs against federal programs, subject to program limitations. 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 federal regulation (2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards) to approve the rates for school districts since the delegation agreement is executed between the United States 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.

COMMISSIONER'S RECOMMENDATION:

The Commissioner recommends the approval of the indirect cost rates calculated by the KDE in accordance with the indirect cost allocation plan approved by the USED.

APPLICABLE STATUTE OR REGULATION:

2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

BACKGROUND:

Existing Policy:

Each district's Audited Annual Financial Report (AFR) is used to calculate indirect cost rates. It is essential that local education agencies (LEAs) classify expenditures uniformly, consistently and in accordance with the Chart of Accounts maintained on the KDE website. Districts are responsible for understanding the requirements of 2 CFR Part 200 and must verify the accuracy of the data used in the indirect cost rate calculation by completing the Indirect Cost Rate Adjustment form.

Summary of Issue:

The federal regulation outlines in detail how the Cost Principles for State, Local and Indian Tribal Governments is to be utilized by the state educational agency (SEA) and 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 at a high level below.

Indirect costs are costs of a general nature which 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. In other words, they are the administrative overhead or expenses necessary for an organization's smooth and efficient administration, but they are not tied to any one grant, contract or program. Some examples of indirect costs are accounting, auditing, payroll, personnel, budgeting and purchasing services. Direct costs are those incurred specifically for one activity and can be identified specifically with that activity. For example, if a federal grant provides funding for special education, a direct cost could be the salary for a special education teacher. These costs may be charged directly to grants, contracts or other programs. Excluded costs identified in 2 CFR Part 200 are 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 a device 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). Two rates are calculated and 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.

GROUPS CONSULTED AND BRIEF SUMMARY OF RESPONSES:

Indirect Cost Rates are calculated pursuant to a formula set out in federal regulation. Local school districts verify the accuracy of the data used in the calculation.

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Commissioner of Education

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