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Linda McCulloch
Superintendent

March 22, 2002

TO: School Administrators and Business Managers

FROM: Jim Oberembt
Fiscal Officer Supervisor

RE: Application for FY2003 Indirect Cost Rate

Enclosed are forms to request an indirect cost rate for fiscal year 2002-2003. Completion of this form is **optional**. The form is required only if your district plans to charge indirect costs (e.g., general administration, accounting services, and personnel services) to federal and state grant awards using an indirect cost rate. Application for an indirect cost rate **does not** increase the amount of your federal grant awards.

There are no changes between FY2002 and FY2003.

The "preliminary rate" shown on Schedule A was calculated using expenditures reported on your FY01 Trustees' Financial Summary. You may either request to use this preliminary rate, or submit an adjusted rate (see enclosed instructions).

If your elementary and high school districts will be submitting separate grant applications as separate prime applicants, each district must apply for its own indirect cost rate. Unless otherwise restricted by the terms of a grant, the indirect cost rate approved by OPI will apply to all of your federal and state grants, regardless of whether the grant is administered by OPI, another state agency, or received directly from a federal agency.

Reminders for FY 2002-2003:
Fixed Rate with Carry Forward Adjustment and Termination/Severance Pay
The U.S. Department of Education (USDE) had two concerns which were addressed during the renewal of our indirect cost agreement last year. The first concern was use of predetermined rates and the second was termination/severance pay. The USDE requested we use a fixed rate with carry forward adjustment instead of the predetermined rate method. The new method accounts for timing differences in the costs used to determine an indirect cost rate. In the past, we used costs from two preceding fiscal years to determine the rate for the current year. No adjustment was made when actual costs became known. In the future, we will adjust the rate when actual costs are known and carry the adjustment forward in the current indirect cost rate calculation. OMB Circular A-87 requires termination and severance pay be paid as general administrative costs and not as a direct cost to any grant. Note this change is not limited to school district personnel paid from federal funds. Any termination and severance pay should be reclassified from direct costs to indirect costs. Please see the enclosed instructions to reclassify these expenditures.

Grant Writer Costs
OMB Circular A-87 requires grant writing costs charged directly to a grant be approved IN ADVANCE by the granting agency. Otherwise, grant writing costs must be included in the indirect cost calculation. This means a grant writer may be paid from the General Fund and then shown as an indirect cost when the indirect cost rate is calculated. As indirect costs are recovered during the grant period, a grant writer may be paid from these recoveries. Grant writers may not receive a percentage fee or flat fee DIRECTLY from a grant (i.e. 5% of the grant award) unless prior approval has been given by the granting agency.

Cost of Superintendent's Office for Districts with less than 2,600 students
A portion of the cost of the Superintendent's Office for districts with less than 2600 tudents may be classified as indirect costs. The Superintendent will have to keep a time sheet for the last week of the old quarter and first week of the new quarter to estimate how much time is spent on indirect activities. The percent of time spent on indirect activities may be used to prorate up to 30% the cost of the Superintendent's office as indirect costs.

Building Maintenance Costs
A small portion of building operation and maintenance cost related to indirect activities can be classified as an indirect cost. School districts must 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.

Audits and Insurance Costs
According to the federal Single Audit Act, auditing costs may be reclassified as indirect only if the district is spending more than $300,000 in federal funds. U.S. Dept of Education regulations allow all employee benefits related to indirect functions and property and liability insurance to be considered as indirect costs.

Rates approved in the middle of a grant period
An Indirect Cost Rate approved in the middle of a grant period may only be applied to expenditures made after the approval date of the rate. An indirect cost rate may not be applied retroactively.

By May 31, 2002, please send the enclosed Certification form signed by the school board chairperson or superintendent and a copy of Schedule A to our office. Include any worksheets, schedules, and other supporting documentation, which might expedite the approval of your proposal. The completed application should be sent to:

School Accounting and Budgeting Division
Office of Public Instruction
P.O. Box 202501
Helena, MT 59720-2501

If you have any questions or need additional information, please call me at 444-1257. My email address is joberembt@state.mt.us. The fax number is 444-0509.

RECORDING INDIRECT COST RECOVERIES

By Joan Anderson, OPI Fiscal and Accounting Manager

Here's an example of how to record indirect cost recoveries and how to spend the amounts recovered:

1) You must have a rate already approved by OPI. In February and March you apply for a rate for the following school year's projects. Apply only if you intend to take IDC recoveries on your grants.

2) Indicate on the project budget submitted with your grant application that you intend to take IDC recoveries. You can budget to take any rate from zero up to your approved rate. The rate is applied on the budget to the planned expenditures not including capital expenditures and equipment (over $5,000).

Example: Assume the grant award is $100,000. You have budgeted $90,000 salaries & benefits, $2,223 of operating expenses, and $5,000 of equipment. Assume your approved IDC rate is 3.00%. That means you could have budgeted [(3%/103%) X (100,000-5,000)] = $2766.99 as IDC recoveries.

3) Receive the grant revenue as usual. The indirect cost recoveries are included in the amount. OPI does not split the payment out for indirects. The project reporter code used in this example is 123, but you could assign any three digit number (other than the 900's) you choose.

<u>Fund 15</u>

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

<u>Revenue Subsidiary Ledger</u>

Credit:	XXXX-123 (Use whatever grant revenue code applies)	$100,000

4) Paying normal program expenditures: (assume only $91,000 of award was spent for the program)

<u>Fund 15</u>

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

<u>Expenditure Subsidiary Ledger</u>

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

5) When expenditures have been made, transfer the indirect cost recoveries out of the project into the direct cost project in fund 15. **REMEMBER: The IDC rate can only be applied to actual expenditures less equipment expenditures.** In this example, that would be $86,000 X .03 = $2,580.

Fund 15

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

Subsidiary accounts:

Expenditures:

Debit:	X15-XXX-6200-**940**-123 Indirect Cost Recovery	$2,580

Revenues:

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

This transaction records indirect cost recovery taken as an expenditure in the grant project and as revenue in the Aggregate of Reim/Indirect Cost Reim project. Notice a unique project reporter code (222 in this example) is used for the indirect cost recovery project.

To record expenditures of the indirect cost recovery monies:

Fund 15

Debit:	802 Expenditure Control	$100
Credit:	101 Cash or 601 Warrants Payable	$100

Subsidiary Accounts:

Debit:	X15-271-XXXX-XXX-222	$100

(where XXXX-XXX is any appropriate function and expenditure object and 222 is whatever 3-digit project reporter code assigned to the indirect cost recovery project.)

Used appropriately, this money is intended to pay for costs of administration and operations which cannot be reasonably allocated directly to one particular program or grant (i.e., indirect costs). However, there is no specific legal restriction addressing what it can be used for or time limit on its use.

6) In this example, $6,420 of the grant was not spent and would have to be refunded to OPI. That is: $100,000 award - $91,000 of direct expenditures - $2,580 IDC recoveries = $6,420 was unspent.

7) Reminder: IDC recoveries are not required. Claiming IDC recoveries reduces the amount available for direct expenditures on the grant.

Questions? Call Joan Anderson at 444-1960 or Jim Oberembt at 444-1257.

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