



Public Schools of North Carolina

Indirect Costs

Legislative Task Force on Childhood
Obesity (2009)

February 11, 2010

What Are Indirect Costs?

- Indirect costs represent the expenses of doing business that are not readily identified with a particular grant, contract, project function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs.



What Are Indirect Costs?

- In theory, costs like heat, light, accounting and personnel might be charged directly if meters could record minutes in a cross-cutting manner. Practical difficulties preclude such an approach. Therefore, cost allocation plans or indirect cost rates are used to distribute those costs to benefiting revenue sources.



What Is An Indirect Cost Rate?

- An indirect cost rate is simply a mechanism for determining fairly and conveniently within the boundaries of sound administrative principle, what proportions of Departmental/organization administration costs each program should bear.



What Is An Indirect Cost Rate?

- An indirect cost rate represents the ratio between the total indirect costs and benefiting direct costs, after excluding and or reclassifying unallowable costs, and extraordinary or distorting expenditures. (i.e., capital expenditures and major contracts and subgrants).



What Is An Indirect Cost Rate?

- The indirect costs in the numerator of the equation should bear a reasonable relationship to the direct costs from the denominator. This will allow for each program or activity represented in the direct costs base to assume its fair share of indirect costs when the rate is applied.



How Are Indirect Cost Rates Determined?

- The cognizant Federal agency is responsible for approving indirect cost rates for recipients based on an indirect cost proposal submission.
 - The cognizant Federal Agency for NC DPI is the Department of Education (where we get the most federal money)
 - NC DPI has been delegated the authority to approve LEA rates (formula is federally approved)
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Are public school systems under the same guidelines as state and local governments and subject to OMB Circular A-87?

- The standards for public schools are included in OMB Circular A-87.



Two Types of Indirect Cost Rates

- Restricted: for grants that require that the federal funds be used to "supplement and not supplant"
- Nonrestricted: no "supplement and not supplant" requirement



Restricted: "supplement and not supplant"

- ... this term means that state and local agencies have tax revenue or other financial resources of their own to finance the education program. Without the "supplement not supplant" provision, states could simply reduce their support of educational service to the extent of the newly available federal funding or could substitute federal money for tax revenue already generated to fund schools.



Calculating Indirect Cost Rate

- Per federal guidelines, all expenditures are classified into 4 categories:
 - Indirect (general costs of operations – finance, personnel, and purchasing)
 - Direct (specific delivery costs – classroom instruction)
 - Unallowed (high level administration – local board, superintendent)
 - Excluded (one-time costs like equipment)



Calculating Indirect Cost Rate

- Calculation:
 - Indirect is divided by direct + unallowed
- Rates vary by LEA (different expenditure patterns)
- LEAs can charge “up to” the approved rate



What Can Indirect Cost Funds be Used for Once Collected

- Indirect cost are reimbursements for costs already incurred. Once receipted, the indirect costs take on the identity of the agencies non-federal funding (can be expended under the same rules as):
 - DPI – State Funds
 - LEA – local funds



Where do Indirect Cost Receipts Go?

- DPI
 - OSBM receives all Indirect Cost receipts
 - DPI can request that some of the receipts be budgeted in the agency to support services
 - Collected/DPI expended
 - FY 2007-08: \$5,201,733/\$3,227,338
 - FY 2008-09: \$4,571,265/\$3,578,104



Where do Indirect Cost Receipts Go?

- LEAs
 - Maintained @ LEA
 - Can be expended in the same manner as local funds



Child Nutrition

- Non-Restricted Rate:
 - Child Nutrition funds do not have to supplement an existing program
 - Operation and Maintenance of Plant is considered a general cost for the program and is included in the numerator



Child Nutrition

- State Funding:
 - School Breakfast Program
 - Expenditures 2007-08 \$2,017,761 and 2008-09 \$1,948,728. Budget for FY 2009-10 \$2,017,761
 - \$7.1 million Required Match
 - House Bill 6 (1995-96) consolidated Child Nutrition Directors (\$13 million) into Central Office Administration



Child Nutrition

- Match (cont).
 - Currently we expend \$5.4 million from Central Office Administration for Child Nutrition Directors
 - We have met the match by identifying additional State expenditures that directly relate to the program:
 - \$2 million for school breakfast



Child Nutrition

- All other costs for the Child Nutrition Program are covered with Federal, receipts, or local funds.
- Any shortage between revenue and expenditures must be covered by local funds



Child Nutrition

- Examples: How LEAs use indirect cost receipts:
 - Personnel operations to hire/manage child nutrition personnel
 - Financial operations (payroll, bills)
 - Energy costs to heat/cool cafeterias
 - Energy costs to cook/prepare/store food



Recap

- Indirect Cost is a Federally defined formula
 - LEAs are authorized to charge up to the Non-Restricted rate to Child Nutrition expenditures
 - LEAs use the funds to cover the general costs to support the program
 - Any cost in excess of revenue must be covered by local funds – a decrease in indirect cost charges increases local charges
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Response to Some Submitted Questions

- Collected Indirect Costs from the Child Nutrition Program
 - FY 2007-08 \$31,416,316.99
 - FY 2008-09 \$27,763,310.16
 - FY 2009-10 Budget: not known



Response to Some Submitted Questions

- How Does DPI Spend Federal Child Nutrition Funds?
 - FY 2007-08 \$2,576,900
 - Salaries: \$1,418,054
 - Travel: \$ 225,320
 - IT Support: \$ 317,218
 - Training: \$ 356,370
 - Other: \$ 259,938



Response to Some Submitted Questions

- How Does DPI Spend Federal Child Nutrition Funds?
 - FY 2008-09: \$2,690,571
 - Salaries: \$1,564,736
 - Travel: \$ 230,752
 - IT Support: \$ 323,252
 - Training: \$ 216,020
 - Other: \$ 355,811

