



West Virginia DEPARTMENT OF
EDUCATION

INDIRECT COSTS

July 8, 2025

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What Federal Regulations Govern?

- Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards – also known as **2 CFR Part 200**.
- Requires federally assisted programs to bear, in addition to direct costs, their fair share of indirect costs.



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What Are Indirect Costs?

- Indirect costs are costs:
 - Incurred for a common or joint purpose benefiting more than one cost objective.
 - Not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.



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What Is An Indirect Cost Rate?

- Indirect cost rate – a device for determining, in a reasonable manner, the proportion of indirect costs each program should bear.
- It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.



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Different Types Of Cost Rates

- Provisional Rates – temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement and reporting indirect costs on federal awards pending the establishment of a “final rate” for that period.
- Final Rates – an indirect cost rate applicable to a specified past period, which is based on the actual allowable costs of the period. A final rate is not subject to adjustment.



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Different Types Of Cost Rates (Cont.)

- Predetermined Rates – an indirect cost rate applicable to a specified current or future period, usually the governmental unit's fiscal year. It is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment.
- Fixed Rates – an indirect cost rate which has the same characteristics as a predetermined rate, except the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.



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What Type Of Rate Do LEAs In WV Use?

- County Boards use a fixed rate with a carry-forward provision.
- MCVCs use the rates of their fiscal agents.
- ESCs also use a fixed rate with a carry-forward provision.



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Restricted vs. Unrestricted Rates

- **Unrestricted** indirect cost rates are those calculated for use on programs without limitations on indirect costs.
- **Restricted** indirect cost plans are used for programs with a statutory requirement prohibiting the use of federal funds to supplant non-federal funds.
 - The restricted indirect cost calculation results in a lower percentage.



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Approvals

- The West Virginia Department of Education is authorized by the US Department of Education to approve the indirect rates for LEAs in WV.



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What Factors Affect The Allowability Of Costs?

- Per 2 CFR §200.403, costs must meet the following general criteria in order to be allowable under Federal awards:
 - **Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.**
 - Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
 - Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.



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What Factors Affect The Allowability Of Costs (Cont.)?

- **Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstance has been allocated to the Federal award as an indirect cost.**
- Be determined in accordance with GAAP.
- Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- Be adequately documented.



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Examples Of Unallowable Costs

- The items listed below are generally deemed unallowable under 2 CFR Part 200. This list is not intended to be a comprehensive list of all unallowable costs. Further, some of the items listed may have exceptions, so the specific sections have been provided for further review.
 - Certain types of advertising and public relation costs (§200.421)
 - Alcoholic beverages (§200.423)
 - Bad debt expense (§200.426)
 - Contingency provisions (§200.433)
 - Contributions or donations (§200.434)
 - Entertainment costs (§200.438)
 - Fines and penalties (§200.441)
 - Fundraising and investment management costs (§200.442)
 - General costs of government (salaries of the chief executive, salaries of the board, etc.) (§200.444)
 - Goods or services for personal use (§200.445)
 - Lobbying (§200.450)
 - Selling and marketing (§200.467)



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Unallowable Costs

- Link to 2 CFR Part 200
- <https://ecfr.io/Title-2/Part-200>.
- Go to Subpart E
- Sections §200.420 through §200.475 discuss unallowable costs in detail.



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Terminal Leave

- Terminal leave is the payment for unused leave made to employees who retire or terminate employment during the year. According to USDE, terminal leave for all employees is supposed to be part of the indirect cost pool. It is not an allowable direct cost under federally-funded programs.
- In WV, terminal leave is a part of fringe benefits and follows direct labor in the rate calculation process. There is no separate object code for terminal leave in the National Center for Education Statistics (NCES) *Financial Accounting for Local and State School Systems: 2014 Edition*, so capturing terminal leave to add to the indirect cost pool is impractical.
- **If a federally-funded employee is paid out for accrued leave upon termination or retirement, the federal program CANNOT be charged for the expense. The leave payout should be charged to an unrestricted project instead.**



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Sub-Awards

- Sub-awards include sub-grants and subcontracts.
- Major sub-awards do not incur or benefit from indirect costs to the same degree as other activities.
 - A major sub-award is one that exceeds \$25,000 in expenditures per year.
 - LEAs must exclude any sub-award costs in excess of \$25,000 per sub-award per year.
 - Essentially, the indirect cost rate can only be applied to the first \$25,000 of each sub-award each year.
- Generally, sub-awards are prohibited by WVDE.



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Excluded Costs

- Projects
 - Total expenditures in Student Body Activities (Project 00Y89)
- Program/Functions (not included in above projects)
 - Total expenditures in Facilities Acquisition & Construction (Program Function X4XXX)
 - Total expenditures in Interfund Transfers (Program Function X61XX)
 - Total expenditures in Other Transfers (Program Function X62XX)
 - Total expenditures in Reserved (Program Function X63XX)
- Objects (not included in above projects or program/functions)
 - Total expenditures in Capital Assets (Object 73X)
 - Total expenditures in Bus Replacement (Object 74X)
 - Total expenditures in Food & Food Supplies (Object 63X)
 - Total expenditures for Other Post Employment Benefits related to the unfunded liability (Object 217)



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Limitations On Recovery Of Indirect Costs

- Federal law may limit the amount of indirect costs which may be recovered.
 - Example - the maximum indirect cost allowable by law for a particular program may be less than the amount allowable under 2 CFR Part 200
 - Indirect costs are considered “administrative costs” so LEAs may not be able to recover the full amount of indirect costs that would normally be calculated due to those restrictions.



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Limitations On Recovery Of Indirect Costs (Cont.)

- Recovery of indirect costs is subject to availability of funds. If a combination of direct and indirect costs exceeds funds available, then the LEA will not be able to recover the total cost of the project or programs.
- Indirect costs may be recovered only to the extent that direct costs were incurred. The indirect cost rate is applied to actual direct expenditures, not to the total grant award, in order to determine the amount for indirect costs.



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Determining The Amount Of Indirect Costs

Assuming that there are no additional restrictions related to indirect costs on a particular grant, a sample calculation is below:

Total Amount of Grant \$20,000

Approved Indirect Cost Rate 2.23%

Project Direct Cost Amount = Total Grant Award / (Indirect Rate plus 100%)

$\$20,000 / (2.23\% + 100\%) = \$19,564$

Project Indirect Cost Amount = Project Direct Costs * Indirect Cost Rate

$\$19,564 * 2.23\% = \436

****Please note that when actually charging indirect costs to the grant, you multiply the actual direct expenditures by the approved indirect cost rate. For example, if only \$15,000 of direct expenditures were incurred, an LEA could only claim \$335 ($\$15,000 * 2.23\%$) of indirect costs.**



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Required To Charge Indirect Costs

- LEAs are required to charge indirect costs to all federal programs that they administer at the full rate approved by WVDE, unless the amount charged is restricted by specific provisions of a particular program.
- Indirect costs are **not** to be charged against state grant programs.



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Indirect Costs

- The Federal government recognizes the fact that State and local governments are entitled to recover the cost of administering federal programs by charging the additional costs incurred proportionally to the programs that are being administered.
- The reason indirect cost plans were developed by the federal government is to create an approved methodology for local governments to recover these incremental costs by charging the appropriate programs a proportional share of the additional costs without having to maintain detailed cost accounting records.



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Indirect Costs

- The Office of School Finance is charged with the statutory responsibility, under WVC §18-9B-9, of prescribing the requirements of a uniform system of management accounting.
- To ensure that the financial condition of each entity can be assessed accurately, all expenditures, including indirect costs, must be charged and reported in an accurate and consistent manner.



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On-Line Forms

- WVDE has developed a website for calculating each county's restricted and unrestricted indirect cost rate.
- The website contains pre-populated data from each county's financial data file so it is essential that LEAs classify expenditures uniformly, consistently, and in accordance with the Chart of Accounts, published by the WVDE, Office of School Finance.



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Indirect Costs – Risk Of Not Charging

- By not charging indirect costs, an LEA's program costs are understated and the LEA's administrative costs are overstated. This is especially of concern in situations where a county board incurs a deficit unrestricted fund balance in its General Current Expense Fund. By not charging indirect costs, the deficit balance is overstated.



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Indirect Costs And Budgeting

- All federal program directors are required to calculate indirect cost charges against all applicable program expenditures at the full rate approved by the WVDE for the year and include the cost as a separate expenditure in the program budget submitted to the WVDE for approval, unless specific approval has been granted by the WVDE Office of School Finance to do otherwise.
- If an approved indirect cost rate is not yet available for the upcoming fiscal year, the indirect cost rate that should be temporarily used for budgeting purposes is the most recently approved rate. Once the indirect cost rate for the upcoming year is approved, the budget should be updated to reflect the approved rate. WVDE program directors will review LEA budgets to ensure that adequate funds are budgeted for indirect costs each year.



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Which Rate To Use?

- If you carry-over part of your grant funds into a new fiscal year, use the new indirect cost rate for the new fiscal year on those carry-over funds.
- **DO NOT** continue to use the prior year indirect cost rate that was approved in your original budget since it is beyond the effective date of that approved rate.
- When you do the carry-over entry, adjust to the new indirect cost rate.



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QUESTIONS?



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Thank You

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