Procedure 910  Program Cost Accounting

Program cost accounting provides a standardized method of identifying all costs of a particular program, including its instructional, support, and central administration costs. Such cost identification is integral to a meaningful cost-reporting system for use by state and local decision makers in assessing the fiscal impact of programs and projects.

In the standardized account code structure (SACS), the goal field provides the framework for program cost accounting. Throughout this section, the terms goal and program are virtually interchangeable.

**Direct-Charged Versus Allocated Costs**

When costs are being assigned to programs, many costs are easily identifiable with a specific program and can be charged to that program’s goal at the time of expenditure, especially costs that apply to a single program (e.g., an elementary classroom teacher’s salary). But certain types of costs, such as support services, are often harder to identify with an individual program. LEAs may accumulate these costs in an “undistributed” cost pool (Goal 0000) for later distribution to programs.

Costs may be charged to a program using two methods:

- **Direct-Charged Costs.** Costs that are charged to a program at the time of expenditure or that are distributed from Goal 0000 to the program on the basis of specific documentation (e.g., time sheets or work orders) are referred to as direct-charged costs.

- **Allocated Costs.** Costs that are accumulated in a Goal 0000 cost pool and are subsequently distributed to programs on the basis of standard allocation factors (full-time-equivalents, classroom units, or pupils transported) are referred to as allocated costs. This usually applies to costs of support-type activities, such as instructional or school administration, pupil transportation, and plant maintenance and operations.

Although not required, LEAs may distribute the allocated costs to program goals in their general ledgers. *Note:* For state-wide reporting and comparisons of LEA program cost data, Goal 0000 costs will be distributed to programs based on LEA-supplied allocation factors (see “Allocating Support Costs Using Allocation Factors,” page 910-4).

**Categories of Costs**

Identifying costs for program cost accounting follows a stair-step model, starting with those closest to the classroom. The categories of costs are as follows:

- Instructional costs
- Support costs
- Central administration costs
- Other costs
**Procedure 910     Program Cost Accounting**

**Instructional costs** relate directly to instructional programs. Examples include the salaries and benefits of teachers and instructional aides, payments for textbooks and instructional supplies, travel and conference expenses for all employees in the instructional programs, and payments for the repair, maintenance, acquisition, and replacement of instructional equipment. Instructional costs are always direct-charged to a specific goal.

**Support costs** relate to the peripheral services necessary to maintain the instructional programs, including supervision of instruction, library, classroom technology, school administration, pupil support services, plant maintenance and operations, facilities rentals and leases, and pupil transportation. Support costs may be direct-charged to a goal if proper documentation exists; but, more commonly, they are accumulated in Goal 0000, Undistributed, and subsequently allocated to programs on the basis of standardized program cost allocation factors.

**Central administration costs** are farthest removed from the classroom but are still necessary for programs to operate. These agency-wide costs, including budgeting, personnel, accounting, centralized data processing, school board, and superintendent, are collected in Goal 0000, Undistributed, and then distributed proportionately to all programs on the basis of a central administrative ratio (percentage).

**Other costs**, such as debt service, transfers between agencies, and facilities acquisition and construction, are not associated with individual programs for cost accounting purposes.

Each category of costs is necessary for instructional programs to exist and therefore should be considered when total program costs are identified. The following pages include explanations of the different cost categories and any steps necessary to distribute the costs to specific programs.

**Instructional Costs**

Instructional costs are identifiable with a specific goal indicating the instructional setting or group of students receiving the services. Instructional costs must always be direct-charged to a specific goal. Expenditures in the instructional functions (1000s), ancillary functions (4000s), and community service functions (5000s) are always classified as an instructional cost and must always be direct-charged to a specific goal.

Charging costs directly to a goal requires consistent and verifiable supporting documentation that indicates how the costs relate to the goal. Examples of supporting documentation for charging salaries and wages to a specific goal include identification with a position in the personnel/payroll system, time sheet information, language in a contract, or a class schedule with assigned student enrollment (see “Documenting State Salaries and Wages to a Goal,” page 905-14).

**Support Costs**

Support costs are costs of activities conducted in support of instructional programs. They are typically charged to a common pool of costs by using Goal 0000, Undistributed, or Goal 9000, Other Local Goals. (For ease in reading the remainder of this section, goals 0000 and 9000 are
Procedure 910  Program Cost Accounting

intended whenever Goal 0000 is referenced.) Support costs may be direct-charged to a specific goal at the time of expenditure or may be subsequently transferred to a specific goal, provided that sufficient documentation exists (see “Documenting State Salaries and Wages to a Goal,” page 905-14, and “Documenting Nonpersonnel Costs to a Goal,” page 910-9). Before total program costs can be determined, any costs remaining in the “undistributed” goal must be allocated to the LEA’s programs.

Costs in the following support functions may be accumulated in Goal 0000:

- Instruction-Related Services (functions 2000–2999)
- Pupil Services (functions 3000–3999, except 3700)
- Plant Services (functions 8000–8999, except 8500)

To provide consistent, comparable LEA program cost information, a specific allocation methodology is used to distribute support costs remaining in Goal 0000. (See “Allocating Support Costs Using Allocation Factors,” page 910-4.) Use of this allocated method provides a systematic way of distributing costs from Goal 0000 to programs without requiring the supporting documentation needed when the documented method is used.

Central Administration Costs

Central administration costs (CACs) are those business and administrative costs that are agency-wide (e.g., accounting, budgeting, personnel, purchasing). CAC functions include:

- Board and Superintendent (functions 7100–7180)
- External Financial Audit (functions 7190–7191)
- Other General Administration (functions 7200–7600)
- Centralized Data Processing (Function 7700)

Because of the agency-wide nature of central administration costs, they are neither documented to specific goals nor allocated using the factors. Rather, they are accumulated in CAC functions using Goal 0000, Undistributed, and then proportionately distributed to each program on the basis of a central administrative cost ratio.

It should be noted that central administration costs in program cost accounting are similar, but not identical, to the indirect cost pool used for calculation of the indirect cost rate. Differences include (1) counting board and superintendent costs in the CAC pool for program cost accounting but excluding it from the indirect cost pool; (2) including a minor portion of administrative maintenance and operations costs in the indirect cost pool but not in the CAC for program cost accounting; and (3) including all types of external financial audits in the CAC pool for program cost accounting but only single audit costs in the indirect cost pool.
Procedure 910  Program Cost Accounting

The CAC ratio, expressed as a percentage, represents total central administration costs divided by direct-charged and allocated costs from all funds that historically benefit from the administrative services. The resulting ratio, or percentage, can then be multiplied by a program’s total direct-charged and allocated costs to arrive at the amount of central administration costs applicable to that program.

Other Costs

Other costs refers to those costs that are not associated with a specific goal. They include the food service, enterprise, facilities acquisition and construction, and other outgo functions. For purposes of program cost accounting, these costs are kept separate, even if the agency direct-charges the costs to a specific goal in its accounting records.

Allocating Support Costs Using Allocation Factors

The benefit provided to instructional programs by a support service function varies with the type of support provided. The benefit to programs from certain support services varies in relation to the number of instructional staff receiving the support. The benefit to programs from other support services varies in relation to the amount of space occupied by the instructional program or the number of students being served.

Three cost allocation factors provide the basis for allocating to programs the different types of support service costs:

1. Full-Time-Equivalent Teachers (FTEs)
2. Classroom Units (CUs)
3. Pupils Transported (PTs)

Through a determination of the counts of each factor by program, Goal 0000 costs can be proportionately distributed to each goal.

Allocation Factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-Time-Equivalent (FTE) Teachers</td>
<td>The full-time-equivalent (FTE) teacher allocation factor is the number of full-time-equivalent teachers serving (assigned) in each instructional program (goal). An assignment is a specific responsibility, classroom assignment, or course section taught. Teachers or assistant teachers (certificated or classified) should be included in the FTE count if they carry active student registers and their services generate average daily attendance (ADA). Certificated and classified employees providing special education designated instruction</td>
</tr>
</tbody>
</table>

Procedure Revised January 2019
Factor | Definition
---|---
services and carrying active student registers should also be included in the FTE count.

Full-time equivalency is determined on the basis of the number of hours (i.e., of actual instruction of students) that constitutes a full-time teaching assignment for the agency. Taking the ratio of assignment hours to the number of hours that constitutes a full-time assignment calculates the FTE.

The four common categories for assignments are:

1. **Single assignment**: A full-time teacher assigned to a single goal is counted as 1.0 FTE for that goal.
2. **Split assignment**: A full-time teacher assigned to two or more goals is split between the goals on the basis of the proportionate share of hours in each assignment. For purposes of determining the number of FTEs to be allocated to each assignment, preparation periods, supervision, noon duty, individualized educational program (IEP) assessments, and other ancillary assignments are to be disregarded in the FTE calculation. Study halls are considered a regular class assignment.
3. **Semester assignment**: A full-time teacher assigned to programs of one semester or less is counted as a 0.5 FTE. Full-time teachers assigned to programs of more than one semester are counted as 1 FTE.
4. **Part-time assignment**: Prorate, using the preceding basic definition. For example, a teacher instructing in a program on a one-fourth time basis would be counted as a .25 FTE.

Totaling the computed number of FTE teacher units determines the FTE teacher count for each instructional goal. If applicable, FTE teacher counts may also be calculated for the community services and child care and development services goals.

Include in the count those teachers who are assigned to programs operated in the district but who are not employed by the district (e.g., those in special education or regional occupational center/program classes in which the teachers are paid by the county office). These FTE counts are to be recorded in the nonagency activities educational program.

For consistency, the FTE teacher count may be developed at any time after classes have been established for the second semester. In a large district, an efficient way to compile the total FTE units may be to have each...
### Procedure 910  Program Cost Accounting

<table>
<thead>
<tr>
<th>Factor</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>administrator complete a count and then to combine the information into a composite worksheet. Care must be taken to ensure that more than one site administrator does not report the same FTE units.</td>
</tr>
<tr>
<td>FTE Functions: FTE factors are used to allocate costs in instruction-related functions (2100, 2420, 2490, and 2700) and pupil services functions (3110, 3120, 3130, 3140, 3150, 3160, and 3900).</td>
<td></td>
</tr>
<tr>
<td>Classroom Units (CU)</td>
<td>The classroom unit (CU) allocation factor is the number of units of space occupied by each program. The CU provides a method of converting each program’s square footage into a standardized allocation factor. Although the term <em>classroom unit</em> was derived from using an “average” classroom as the basis for the measurement, all types of space are included in the CU count, not just classrooms.</td>
</tr>
<tr>
<td></td>
<td>When calculating CUs, count space that is occupied by an identifiable function or activity. If multiple programs share an area, the CU is allocated to each program on the basis of the percentage of hours the room is used by each program. Report noninstructional programs that occupy space in district administration facilities as part of the district administration program.</td>
</tr>
<tr>
<td></td>
<td>Common-use areas are considered to benefit all programs and are not included in the calculation of CUs. They include areas such as school offices, media centers, libraries, corridors, restrooms, faculty rooms, unoccupied rooms, and outdoor areas (swimming pools, ball fields).</td>
</tr>
<tr>
<td></td>
<td><em>Instruction and office areas.</em> For “people-occupied” areas, such as instruction or office space, a room that falls within the general range of 800 to 1,100 square feet counts as one (1.0) CU. Areas that fall outside this range are converted to CUs by dividing the actual square footage by 960, which is the size of a typical classroom. For example, a room occupying 1,200 square feet is 1.25 CU (1,200 divided by 960). Examples of areas converted to CUs by using 960 might include large areas, such as science labs, computer labs, multipurpose rooms, and gymnasiums; small areas, such as cubicles for speech therapy; and agency-wide administration facilities.</td>
</tr>
<tr>
<td></td>
<td><em>Operational areas.</em> Buildings such as maintenance shops, warehouses, and transportation facilities generally require approximately one-third the amount of maintenance and upkeep required for spaces used for students and other services. Convert these operational areas to CUs by dividing</td>
</tr>
</tbody>
</table>
## Procedure 910  Program Cost Accounting

<table>
<thead>
<tr>
<th>Factor</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Square Footage by 2,880 (960 x 3)</td>
<td>Partially enclosed spaces, such as sheds or patios, may be excluded from the calculation.</td>
</tr>
<tr>
<td><strong>Food services.</strong></td>
<td>In the area of food services, only the kitchen and serving areas are counted as CUs. The eating area is considered common space and is omitted from the calculation unless other activities occur in this area. If a multipurpose room is used for part of the day for classes and part of the day as the eating area, the CUs for the portion of the day attributable to classes are assigned to the appropriate program, and the portion attributable to food services is omitted.</td>
</tr>
<tr>
<td><strong>CU Functions:</strong></td>
<td>CU factors are used to allocate costs in the plant services functions (8100 and 8700).</td>
</tr>
<tr>
<td>Pupils Transported (PT)</td>
<td>The pupils transported (PT) allocation factor is the number of students transported in the year, which is determined by counting the number of students in each program transported from home to school. This factor represents the number of students, not the number of trips. Special education pupils receiving home-to-school transportation may be counted in the special education program only if their IEPs require home-to-school transportation. Otherwise, these children will be counted as regular students. Pupils who receive home-to-school transportation to attend schools other than their neighborhood schools because of requirements of their IEPs should also be counted as special education PTs.</td>
</tr>
<tr>
<td><strong>PT Function:</strong></td>
<td>PT factors are used only to allocate costs in Function 3600, Pupil Transportation.</td>
</tr>
</tbody>
</table>

**Note:** Effective 2004–05, the workstation allocation factor used during earlier stages of SACS implementation is no longer a part of program cost accounting. Costs reported in Function 7700, Centralized Data Processing, by definition should be agency-wide and are a central administrative cost for program cost reporting and indirect cost purposes. Data processing costs that support instructional programs (e.g., computers in the classroom, instructional computer labs, instructional networks, library computers) should be charged to Function 2420, Instructional Library, Media, and Technology, or Function 1000, Instruction. If all data processing costs are accumulated in Function 7700 (for example, because one data processing person provides technology services for all functions), any instruction-related costs must be reclassified using Object 5710, Transfers of Direct Costs, to Function 2420 or 1000, as appropriate. The amount of instruction-related costs to transfer may be determined by work orders or a count of workstations.
Developing Allocation Factor Counts

Because the allocated method applies to costs that did not qualify to be distributed using the documented method, and the purpose of the allocated method is to distribute Goal 0000 costs in a standardized manner, it is important to compile complete factor counts for each instructional setting operated by the LEA. If a function (or group of functions) has costs in Goal 0000, unless specific exclusion conditions have been met, the factor counts for the function(s) must represent all programs operated by the LEA.

For each type of factor, the count should represent a point-in-time to prevent double counting. For instance, if FTE teacher counts were taken for some programs in the fall and for others in the spring, teachers who were reassigned in the interim could be inadvertently counted in more than one program.

Factor counts (FTE, CU, or PT) should be taken at a time that best represents each factor and that can correspond with other uses of the same factor, such as pupil transportation counts taken for reports on the transportation program.

Excluding Factors from the Count

The allocated method of distributing support costs is based on the premise that all programs benefit to some degree from the services provided by the support programs. If a program does not benefit from a support service program or if the program has already been direct-charged for its share of the support service costs, the specific factor count (FTE, CU, PT) that corresponds to the nonbenefiting program is to be excluded (subtracted) from the factor count for that program. For example, if the Continuation Schools program was already direct-charged for costs of school administration, or if it did not benefit at all from the Goal 0000 school administration costs, then the FTE count for the Continuation Schools program would be excluded under the school administration function.

Excluding factors from the count is an exception to the standardized allocation process and requires documentation to substantiate the exclusion. If an instructional program did not benefit from the services of a support program and is being excluded from a factor count, both the instructional program administrator and the administrator of the support service program should confirm the exclusion. If the exclusion is being made because the instructional program has already been direct-charged for a particular support service cost, documentation verifying the exclusion should be kept as backup to the count of allocation factors.

Transferring Allocated Costs

Once allocation factors have been calculated, the allocated support costs can be distributed from Goal 0000, Undistributed, to each benefiting program as part of the program cost report process. LEAs are not required to record this transfer of allocated costs in their accounting ledgers.
For those LEAs that choose to record the distribution of these costs, the following is an example where total Goal 0000 costs in Function 3140, Health Services, are distributed to specific goals on the basis of the number of FTE teachers in each instructional goal. A ratio for each instructional setting is determined by dividing the total FTEs in each goal by the total of all FTEs. In this example, this ratio is then applied to the costs in Function 3140, Health Services, and the prorated costs are distributed using Object 5710, Transfers of Direct Costs. (Note: The schedule of allocated costs in the program cost report shows, by goal, the amount of support costs allocated to each program. LEAs may wish to use the figures provided by their completed program cost report as the basis for their accounting entries.)

<table>
<thead>
<tr>
<th>Dr/Cr</th>
<th>SACS Account String</th>
<th>Amount</th>
<th>Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr</td>
<td>01-0000-0-1110-3140-5710</td>
<td>$500,000</td>
<td>Regular Ed, K–12</td>
</tr>
<tr>
<td>Dr</td>
<td>01-0000-0-6000-3140-5710</td>
<td>$100,000</td>
<td>ROCP</td>
</tr>
<tr>
<td>Dr</td>
<td>01-0000-0-3200-3140-5710</td>
<td>$100,000</td>
<td>Continuation Schools</td>
</tr>
<tr>
<td>Dr</td>
<td>01-0000-0-5001-3140-5710</td>
<td>$150,000</td>
<td>Special Education</td>
</tr>
<tr>
<td>Cr</td>
<td>01-0000-0-0000-3140-5710</td>
<td>$850,000</td>
<td>Undistributed</td>
</tr>
</tbody>
</table>

In the example, costs have been credited to Goal 0000, Undistributed, and debited to specific goals but not to specific resources, which matches the level of detail in the program cost report.

**Documenting Salaries and Wages to a Goal**

Salaries and wages charged to a specific goal require supporting documentation indicating how the costs relate to the goal. For federal funds or state restricted funds, personnel activity reports, activity worksheets, or equivalent documentation are generally necessary. For state unrestricted funds charged to a specific goal, a reduced level of documentation may be allowable as long as it is consistent and verifiable, such as costs documented to a goal by identification with a position in the personnel/payroll system, an individual’s contract, or a class schedule with assigned student enrollment.

For a complete discussion of salary and wage documentation requirements, see Procedure 905.

If supporting documentation is not available for support costs charged to activities (functions) other than instruction, ancillary services, and community services, the costs should be charged to Goal 0000, Undistributed, and subsequently distributed to specific goals on the basis of appropriate program cost allocation factors (see “Allocating Support Costs Using Allocation Factors,” page 910-4).

**Documenting Nonpersonnel Costs to a Goal**

Nonpersonnel costs charged to a specific goal should be substantiated by documentation that identifies the program(s) that received the service, supply, or equipment. The dated signature of a
program administrator on a tracking document acknowledging receipt of the service, supply, or equipment is usually sufficient to validate the charge.

**Program Cost Reporting**

Reporting program costs to CDE involves a series of worksheets that use general ledger data from the general fund and the charter schools funds, by goal and function, plus allocation factors (FTEs, CUs, PTs) for the distribution of support costs to specific goals. These worksheets are largely automated in the SACS financial data collection software.

The following is a brief description of each worksheet:

- **Schedule of Direct-Charged Costs:** Summarizes, by goal and function, costs direct-charged to a goal.

- **Schedule of Allocation Factors for Support Costs:** Provides for entering allocation factors (full-time-equivalent teachers, classroom units, pupils transported) by goal for functions with costs in Goal 0000, Undistributed, or Goal 9000, Other Local Goals. The factors entered provide the basis for allocating support costs to programs.

- **Schedule of Allocated Support Costs:** Uses information from the allocation factor worksheet to assign a proportionate share of costs in goals 0000 and 9000 to each goal that has factors.

- **Schedule of Central Administration Costs:** Summarizes central administration costs (CACs) and shows the ratio, expressed as a percentage, of CAC costs to non central administration costs. This CAC ratio is similar but not identical to an LEA’s indirect cost rate (see Procedure 915).

- **Schedule of Other Costs:** Summarizes food service, enterprise, facilities acquisition and construction, and other outgo function costs, which for program cost accounting purposes are not associated with a particular goal.

- **The Program Cost Report:** Compiles information from the previous schedules to display total costs from the general fund and charter schools funds by goal and category (e.g., direct-charged, allocated support, central administration). Also includes an “other costs” section.
Summary of Program Cost Guidelines

The following are summarized guidelines that show for each group of functions the program cost category, guidelines for charging to goals, and program cost allocation rules.

<table>
<thead>
<tr>
<th>Function</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000–1999</td>
<td>Instruction</td>
</tr>
<tr>
<td></td>
<td>• Direct instructional cost.</td>
</tr>
<tr>
<td></td>
<td>• Must be direct-charged to a specific goal; may not be charged to Goal 0000, Undistributed; Special Education instruction functions may not be charged to Goal 5001, Special Education—Unspecified.</td>
</tr>
<tr>
<td></td>
<td>• Costs may not be allocated.</td>
</tr>
<tr>
<td>2100–2999</td>
<td>Instruction-Related Services</td>
</tr>
<tr>
<td></td>
<td>2100 Instructional Supervision and Administration</td>
</tr>
<tr>
<td></td>
<td>2420 Instructional Library, Media, and Technology</td>
</tr>
<tr>
<td></td>
<td>2490 Other Instructional Resources</td>
</tr>
<tr>
<td></td>
<td>• Support cost.</td>
</tr>
<tr>
<td></td>
<td>• May be direct-charged to a specific goal when documentation exists; or may be accumulated in Goal 0000, Undistributed.</td>
</tr>
<tr>
<td></td>
<td>• May be reclassified to a specific goal or more appropriate function when documentation exists.</td>
</tr>
<tr>
<td></td>
<td>• Allocation basis is FTE (full-time-equivalent teachers).</td>
</tr>
</tbody>
</table>

2700 School Administration

• Support cost.
• May be direct-charged to a specific goal when documentation exists and the school site offers only one type of program; or may be accumulated in Goal 0000, Undistributed.
• Allocation basis is FTE (full-time-equivalent teachers).

3000–3999 Pupil Services

3110 Guidance and Counseling Services
3120 Psychological Services
3130 Attendance and Social Work Services
3140 Health Services
3150 Speech Pathology and Audiology Services
3160 Pupil Testing Services

• Support cost.
• May be direct-charged to a specific goal when documentation exists; or may be accumulated in Goal 0000, Undistributed.
• May be reclassified to a specific goal or more appropriate function when documentation exists.
• Allocation basis is FTE (full-time-equivalent teachers).
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<table>
<thead>
<tr>
<th>Function</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>3600</td>
<td>Pupil Transportation</td>
</tr>
<tr>
<td></td>
<td>• Support cost.</td>
</tr>
<tr>
<td></td>
<td>• May be direct-charged to a specific goal when documentation exists; or may be accumulated in Goal 0000, Undistributed.</td>
</tr>
<tr>
<td></td>
<td>• May be reclassified to a specific goal or more appropriate function when documentation exists.</td>
</tr>
<tr>
<td></td>
<td>• Allocation basis is PT (pupils transported).</td>
</tr>
<tr>
<td>3700</td>
<td>Food Services</td>
</tr>
<tr>
<td></td>
<td>• Other cost (not associated with a particular goal for program cost accounting).</td>
</tr>
<tr>
<td></td>
<td>• Generally direct-charged to a specific goal if proper documentation exists; otherwise, costs are accumulated in Goal 0000, Undistributed.</td>
</tr>
<tr>
<td></td>
<td>• Costs may not be allocated.</td>
</tr>
<tr>
<td>3900</td>
<td>Other Pupil Services</td>
</tr>
<tr>
<td></td>
<td>• Support cost.</td>
</tr>
<tr>
<td></td>
<td>• May be direct-charged to a specific goal when documentation exists; or may be accumulated in Goal 0000, Undistributed.</td>
</tr>
<tr>
<td></td>
<td>• May be reclassified to a specific goal or more appropriate function when documentation exists.</td>
</tr>
<tr>
<td></td>
<td>• Allocation basis is FTE (full-time-equivalent teachers).</td>
</tr>
<tr>
<td>4000–4999</td>
<td>Ancillary Services</td>
</tr>
<tr>
<td></td>
<td>• Direct instructional cost.</td>
</tr>
<tr>
<td></td>
<td>• Must be direct-charged to one of the following goals: 1110–Regular Education; 3100–Alternative Schools; 3200–Continuation Schools; 3400–Opportunity Schools; 3700–Specialized Secondary Programs; 7100–Nonagency.</td>
</tr>
<tr>
<td></td>
<td>• Costs may not be allocated.</td>
</tr>
<tr>
<td>5000–5999</td>
<td>Community Services</td>
</tr>
<tr>
<td></td>
<td>• Direct instructional cost.</td>
</tr>
<tr>
<td></td>
<td>• Must be direct-charged to one of the following goals: 7100–Nonagency; 8100–Community Services; 8500–Child Care and Development Services.</td>
</tr>
<tr>
<td></td>
<td>• Costs may not be allocated.</td>
</tr>
<tr>
<td>6000–6999</td>
<td>Enterprise</td>
</tr>
<tr>
<td></td>
<td>• Other cost (not associated with a particular goal for program cost accounting).</td>
</tr>
<tr>
<td></td>
<td>• Costs are accumulated in Goal 0000, Undistributed.</td>
</tr>
<tr>
<td></td>
<td>• Costs may not be allocated.</td>
</tr>
<tr>
<td>Function</td>
<td>Title</td>
</tr>
<tr>
<td>----------</td>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>7000–7999</td>
<td><strong>General Administration</strong></td>
</tr>
<tr>
<td>7100</td>
<td>Board and Superintendent</td>
</tr>
<tr>
<td>7190</td>
<td>External Financial Audit—Single Audit</td>
</tr>
<tr>
<td>7191</td>
<td>External Financial Audit—Other</td>
</tr>
<tr>
<td>7200</td>
<td>Other General Administration</td>
</tr>
<tr>
<td>7700</td>
<td>Centralized Data Processing</td>
</tr>
<tr>
<td></td>
<td>• Central administration cost.</td>
</tr>
<tr>
<td></td>
<td>• Generally accumulated in Goal 0000, Undistributed.</td>
</tr>
<tr>
<td></td>
<td>• Distributed proportionally to programs on the basis of the total amount of direct costs (i.e., direct-charged together with allocated) in each goal.</td>
</tr>
<tr>
<td>8000–8999</td>
<td><strong>Plant Services</strong></td>
</tr>
<tr>
<td>8100</td>
<td>Plant Maintenance and Operations</td>
</tr>
<tr>
<td>8500</td>
<td>Facilities Acquisition and Construction</td>
</tr>
<tr>
<td></td>
<td>• Other cost (not associated with a particular goal for program cost accounting).</td>
</tr>
<tr>
<td></td>
<td>• Generally accumulated in Goal 0000, Undistributed.</td>
</tr>
<tr>
<td></td>
<td>• Costs may not be allocated.</td>
</tr>
<tr>
<td>8700</td>
<td>Facilities Rents and Leases</td>
</tr>
<tr>
<td></td>
<td>• Support cost.</td>
</tr>
<tr>
<td></td>
<td>• May be direct-charged to a specific goal when documentation exists; or may be accumulated in Goal 0000, Undistributed.</td>
</tr>
<tr>
<td></td>
<td>• May be reclassified to a specific goal or more appropriate function when documentation exists.</td>
</tr>
<tr>
<td></td>
<td>• Allocation basis is CU (classroom units).</td>
</tr>
<tr>
<td>9000–9999</td>
<td><strong>Other Outgo</strong></td>
</tr>
<tr>
<td>9100</td>
<td>Debt Service</td>
</tr>
<tr>
<td>9200</td>
<td>Transfers Between Agencies</td>
</tr>
<tr>
<td>9300</td>
<td>Interfund Transfers</td>
</tr>
<tr>
<td></td>
<td>• Other cost (not associated with a particular goal for program cost accounting).</td>
</tr>
<tr>
<td></td>
<td>• Generally accumulated in Goal 0000, Undistributed.</td>
</tr>
<tr>
<td></td>
<td>• Costs may not be allocated.</td>
</tr>
</tbody>
</table>
Procedure 915  Indirect Cost Rate

Costs of a local educational agency (LEA) may be categorized as direct or indirect. A cost’s related activity (e.g., instruction, school administration, pupil transportation, fiscal services) rather than its type (e.g., salaries, benefits, books, supplies) is what determines if it is a direct or indirect cost. Direct costs can be identified with a particular instructional program or support service necessary to maintain the program, whereas indirect costs are more global in nature.

Indirect costs are those costs of general management that are agency-wide. General management costs consist of expenditures for administrative activities necessary for the general operation of the LEA (e.g., accounting, budgeting, payroll preparation, personnel management, purchasing, centralized data processing). The standardized method to recover indirect costs from federal and state programs without having to time-account for the general administrative support provided to each program is referred to as the indirect cost rate process.

The indirect cost rate process in California is based on the California Department of Education’s (CDE’s) federally approved indirect cost plan for K–12 LEAs, which include school districts, joint powers agencies, county offices of education, and charter schools. California’s plan includes specific guidelines on indirect cost components, including the indirect cost pool, base costs, and the carry-forward adjustment.

The United States Department of Education has approved the fixed-with-carry-forward restricted rate methodology for calculating indirect cost rates for California LEAs. CDE has been delegated authority to calculate and approve indirect cost rates annually for LEAs. The delegation agreement number and effective period are available on CDE’s Frequently Asked Questions about Indirect Costs web page at https://www.cde.ca.gov/fg/ac/ic/icrfaq.asp.

Definitions of key indirect cost terms are provided beginning on page 915-12.

Components of the Indirect Cost Rate Calculation

In simple terms, an indirect cost rate is determined by dividing an agency’s indirect costs by the majority of its other expenditures, or base costs. However, the realities of the calculation are much more complex. Compliance with federal indirect cost guidelines requires that specific rules must be followed when expenditures are categorized as indirect or base costs. Fortunately for California, the majority of these rules are built into the function code within the standardized account code structure (SACS).

An LEA’s general ledger data, in combination with a minimal amount of supplemental data, are used to categorize the LEA’s expenditures as indirect costs, base costs, or excluded costs. The indirect costs become the numerator of the calculation, and the base costs are the denominator. Certain costs, such as debt service and facility construction, are excluded entirely from the calculation.
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Numerator of the Calculation

The numerator of the indirect cost rate calculation—the indirect cost pool—is the cornerstone of the calculation. Costs in the pool come from the general fund and the charter school special revenue and/or charter school enterprise fund. There are three components to the numerator: indirect costs, general administration’s share of certain plant services costs (e.g., maintenance and operations, facilities rents and leases), and the carry-forward adjustment.

Indirect costs consist of agency-wide expenditures for general management (administrative) activities that are not readily identifiable with a particular program but are necessary for the overall operation of the LEA (e.g., accounting, budgeting, payroll preparation, personnel management, purchasing, warehousing, centralized data processing). Generally, only administrative costs charged to an unrestricted funding source (resources 0000–1999) are included in the indirect cost pool. An exception is made for joint powers agencies, which are often funded from a single restricted source.

Certain plant services costs (e.g., heating, lighting, custodial services) are also included in the indirect cost pool, but only the portion attributable to the general administrative offices. (See “Supplemental Data” on page 915-3 for further information on determination of the administrative portion of plant services costs.)

The carry-forward adjustment is an after-the-fact adjustment for the difference between the indirect cost rate approved for use in a given year and the actual percentage (amount) of indirect costs incurred in that year. The carry-forward adjustment eliminates the need for LEAs to file amended federal reports when their actual indirect costs vary from estimated indirect costs. (See “Calculating the Rate” on page 915-4 for an example that illustrates the use of the carry-forward adjustment.)

Denominator of the Calculation

Once indirect costs have been identified, most of the LEA’s remaining costs in the general fund and charter school funds constitute the denominator of the calculation, referred to as base costs. Examples of base costs include:

- Instructional salaries and benefits.
- Program supplies.
- Contracts for instructional and support services.
- Board and superintendent services.
- Facility costs (plant maintenance and operations and facilities rents and leases), except for the minimal portion associated with the general administrative offices.

Base costs also include similar expenditures from four special revenue funds (adult education, cafeteria, child development, and foundation), the foundation permanent fund, and the cafeteria enterprise fund, because the activities in these funds generally benefit on an ongoing basis from the services provided by the LEA’s general administrative offices.
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Excluded Costs

Certain types of costs are distorting in nature or require relatively minimal general administrative support compared with the amount of dollars spent. Because these costs would distort the indirect cost process, they are excluded from both the numerator and denominator of the calculation of the indirect cost rate. Following are the notable categories of costs excluded from the calculation:

- **Subagreements for Services** (Object 5100), which include expenditures for subagreements and subawards pursuant to certain contracts, subcontracts, and subgrants.

- **Capital Outlay** (objects 6000–6999), which includes expenditures for items such as the acquisition of land; improvements to sites; construction or purchase of new buildings; books and media for new schools; major expansions of school libraries; and capitalized equipment.

- **Other Outgo** (objects 7000–7499) and **Other Financing Uses** (objects 7600–7699), which include expenditures for items such as tuition, excess cost payments, pass-through funds, transfers out, debt service, and transfers between funds.

- **Other Funds**, which include expenditures of certain governmental funds (e.g., deferred maintenance, capital facilities), the proprietary funds other than cafeteria, and the fiduciary funds.

For the same reasons that these costs are excluded from the calculation of the indirect cost rate, they are also excluded from pools of eligible program expenditures on which to charge indirect costs (see “Amount of Indirect Costs to Charge,” page 915-6).

Supplemental Data

In some circumstances, supplemental data may be required to accurately identify all indirect costs and to fully comply with federal indirect cost guidelines.

**Percent of administrative salaries and benefits.** Most facility costs (plant maintenance and operations and facilities rents and leases) are categorized as base costs in a restricted indirect cost rate calculation. However, the portion of facility costs attributable to the general administrative offices may be included in the indirect cost pool.

To ensure that LEAs use a standardized method of attributing facility costs associated with the general administrative offices, a “percentage of administrative salaries and benefits” factor is used in the indirect cost rate calculation. This ratio of salaries and benefits for administration is used as a proxy for the ratio of space used by administration, which spares LEAs the necessity of annually calculating the space used by administration compared with each of their other programs and activities.
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When the ratio is calculated, an adjustment may be required in those occasional circumstances where costs for administrative salaries and benefits are understated because certain administrative services, although performed on site, are provided by contract rather than by the LEA’s own employees. If this occurs, LEAs may provide supplemental data to adjust the ratio for costs relating to such services.

The ratio of administrative salaries and benefits to other salaries and benefits is then multiplied by the costs of plant maintenance and operations and facilities rents and leases to assign to the indirect cost pool an “administrative offices” share of these facility costs.

**Employment separation costs.** Some costs relating to employees’ separation from service may have restrictions on how they can be charged (see Procedure 655, Employment Separation Costs).

“Normal” separation costs are unallowable as direct costs to most federal programs and possibly to some state programs. When unallowable as direct costs, they are allowed as indirect costs. Normal separation costs that are unallowable as direct costs to a restricted program are charged to the same goal, function, and object as the employee’s regular salary, but they are charged to an unrestricted resource. The LEA may then provide supplemental data to include these costs in the indirect cost pool.

“Abnormal or mass” separation costs, such as retirement incentives or contract buyouts, are normally unallowable either as direct costs or indirect costs to most federal programs and possibly to some state programs. Abnormal or mass separation costs that are unallowable as direct costs to a restricted program are charged to the same goal, function, and object as the employee’s regular salary, but they are charged to an unrestricted resource. Where an LEA has incurred abnormal or mass separation costs for employees charged to the indirect cost pool (Function 7200, Other General Administration, or Function 7700, Centralized Data Processing), the LEA must provide supplemental data to exclude these costs from the pool.

**Calculating the Rate**

The actual calculation of the indirect cost rate includes components from both the current year plus the second prior year (two years before the current period). The rate based on these data will then be used in the second subsequent fiscal year (two years after the current period). This span of time is characteristic of the fixed-with-carry-forward type of rate calculation.

The following example uses 2013–14 as the current reporting period and illustrates the fiscal years affected by the indirect cost rate calculation.

In 2013–14, indirect costs are charged to programs using an indirect cost rate that was calculated and approved using 2011–12 data as an estimate of the indirect costs that would be incurred in 2013–14. The calculated difference between the indirect costs that theoretically could be charged to programs in 2013–14 based on this approved rate, and
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the indirect costs actually incurred in that year (i.e., the theoretical over- or underrecovery of indirect costs), is called a carry-forward adjustment.

Then, based on the actual indirect costs and base costs incurred in 2013–14 and the carry-forward adjustment, a new indirect cost rate will be calculated for use in 2015–16.

The carry-forward adjustment for overrecovered costs is calculated using either the lesser of the LEA’s approved rate for that year, or the highest rate that the LEA actually used to recover costs from any program in that year, if the rate used was less than the approved rate. The carry-forward adjustment for underrecovered costs is calculated using the LEA’s approved rate.

Where an LEA’s carry-forward adjustment is negative, and where the negative carry-forward adjustment would cause the proposed rate to fall below zero or would reduce the rate at which the LEA could recover indirect costs to such an extent that the LEA would sustain significant fiscal harm, the LEA may request that the carry-forward adjustment be allocated over more than one year.

LEAs submit their preliminary proposed indirect cost rates annually to CDE along with their unaudited actual financial statement data. An automated worksheet (Form ICR) in the financial reporting software calculates LEA indirect cost information. (See page 915-9 for an excerpt from the worksheet.) The worksheet uses both general ledger data (for indirect and base costs) and minimal amounts of supplemental data (see page 915-3).

These general ledger and supplemental data, along with certain second prior year indirect cost information, produce both a straight percentage of indirect costs (the indirect cost pool divided by base costs) and the fixed-with-carry-forward restricted indirect cost rate (the indirect cost pool, adjusted by the carry-forward calculation, then divided by base costs). The straight percentage of indirect costs is only for informational purposes and not for use in recovering indirect costs from programs. The fixed-with-carry-forward restricted indirect cost rate, once approved by CDE, is the rate that should be used to recover indirect costs.

Using the Rate

Approved indirect cost rates for K–12 LEAs, including charter schools, are posted online annually on CDE’s Indirect Cost Rates web page at https://www.cde.ca.gov/fg/ac/ic, usually in early spring. The rates may be used, as appropriate, to budget, allocate, and recover indirect costs for federal programs, grants, and other assistance governed by the Education Department General Administrative Regulations (EDGAR), Title 34 of the Code of Federal Regulations (CFR), and the uniform guidance for administration of federal grants in Title 2 of the CFR, Part 200 (the Uniform Guidance). The rates may also be used for state programs, subject to any restrictions that may govern the individual programs.
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Indirect Cost Rates for Individual Schools

Individual schools may use an indirect cost rate not to exceed their school district’s rate (or county office of education’s rate, if applicable). An exception to this is charter schools, which have separate indirect cost rate guidelines. The website given earlier includes a list of rates for school districts and county offices of education that should be used by noncharter schools, together with a separate list of charter school rates.

Guidelines for Claiming Indirect Costs

Specific guidelines for charging indirect costs may vary by program. The following are general guidelines for using the indirect cost rate.

- **Budgeting.** An estimate of indirect costs may be used for budgeting purposes. If a program has a set award amount, it is important to budget indirect costs that fit within the award amount rather than add them to the award amount. To do this, and assuming for this example that none of the award amount will be spent on excluded costs (see page 915-3), divide the award amount by 1.xx, where xx equals the decimal equivalent of the approved indirect cost rate, then subtract the result from the original award amount to arrive at the amount of budgeted indirect costs. For example, using 8 percent as the approved rate and $10,000 as the award amount, divide $10,000 by 1.08, equaling $9,259.26, and then subtract $9,259.26 from $10,000, equaling $740.74, which is the amount that may be budgeted for indirect costs ($9,259.26 + $740.74 = $10,000).

- **Amount of Indirect Costs to Charge.** The claiming of indirect costs must be done based on actual program expenditures rather than budget estimates. The maximum amount of indirect costs that may be charged to an award in a year is determined by multiplying the total direct costs of the award, less any excluded costs (see page 915-3), by the restricted indirect cost rate. In terms of SACS, this generally equates to totaling the program expenditures in objects 1000–5999, except Object 5100, and multiplying that total by the indirect cost rate approved for use with the program. Expenditures in objects 5100, 6000, and 7000 are excluded from the indirect cost process (both when the rates are calculated and indirect costs are claimed) because they receive only a minimal amount of general administrative support compared with the amount of dollars spent, and to include them would distort the process.

LEAs have the option of charging less than the approved rate when recovering indirect costs. However, indirect costs not claimed under one award may not be shifted to another award unless specifically authorized by legislation or regulation.

- **Program Limitations on Charging Indirect Costs.** The approved indirect cost rate provides the starting point for charging indirect costs to a program. Funding applications or award letters should be consulted to determine whether programs limit or prohibit the claiming of indirect costs. Some of the more common limitations include:
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1. Limiting the indirect cost rate to the lesser of the LEA’s approved rate or a program’s capped rate.

2. Limiting the indirect cost rate to the lesser of the LEA’s approved rate or a statewide average rate, such as for the food service program. Information on statewide average rates is available on CDE’s California Statewide Average Indirect Cost Rates web page at https://www.cde.ca.gov/fg/ac/ic/icrfsae.asp.

3. Having an administrative cost cap that limits the combination of direct program administration and indirect costs charged to the program.

4. Not allowing indirect costs (i.e., requiring that the entire award amount be spent on direct costs).

As a help in identifying the indirect cost rules for most programs, a SACS resource code query system is available on CDE’s SACS Query web page at https://www2.cde.ca.gov/sacsquery/querybyresource.asp.

The data provided for each resource code (i.e., funding source) include the general guidelines for claiming indirect costs.

- **Administrative Cost Caps.** Indirect costs are usually a subset of the broader category of administrative costs (see page 915-12). A program with an administrative cost cap should be reviewed to determine what limitations there might be on the recovery of indirect costs. For example, in a program that has a 15 percent administrative cost cap that encompasses both direct program administration and indirect costs, if the LEA has already spent amounts equal to 11 percent of eligible program costs on direct program administration, then it can claim only an additional 4 percent of eligible program costs for indirect costs even if the LEA’s approved indirect cost rate is higher than 4 percent.

- **Multiple-Year Awards.** For program awards that cover more than one year, a single rate may not be used to recover indirect costs for the entire award; the indirect cost rate used must change as the year changes. For programs that follow the federal fiscal year (October 1 to September 30), the rates are applied using the state fiscal year as the basis. For example, the approved rate for the initial year is used for expenditures made October 1 through June 30, and the approved rate for the next year is used for expenditures made July 1 through September 30.

- **Eligible Funds and Costs.** The indirect cost rate is appropriate for use with only those operating funds and costs that are part of the calculation. For instance, costs in objects 1000–5999 (except Object 5100), in Fund 01 (general), funds 09 and 62 (charter schools), Fund 11 (adult education), Fund 12 (child development), funds 13 and 61 (cafeteria), and funds 19 and 57 (foundation) are part of the indirect cost rate calculation; therefore, expenditures in these fund and object combinations may generally have indirect costs charged against them. Costs in objects that are excluded from the calculation of the rate
Indirect and direct cost transfers are illustrated in Procedure 615.
Indirect Cost Rate Worksheet: Sample Calculation

Unless otherwise specified, expenditures are for the General Fund and Charter Schools Funds and include all goals that also contain objects 1000–5999 (certificated salaries, classified salaries, employee benefits, books and supplies, and services and other operating expenditures). Excluded from the calculation are costs of subagreements for services, capital outlay (sites and improvement of sites, buildings and improvements of buildings, capitalized equipment) and other outgo (tuition, transfers out to other LEAs, debt service).

A. Indirect Costs (numerator)

1. Other General Administration (fiscal services, personnel/human resources, central support) (functions 7200–7600, except for portion charged to restricted resources or specific goals)

2. Centralized Data Processing (Function 7700, except for portion charged to restricted resources or specific goals)

3. External Financial Audit–Single Audit (Function 7190, except for portion charged to restricted resources or specific goals)

4. Staff Relations and Negotiations (Function 7120, except for portion charged to restricted resources or specific goals)

5. Plant Maintenance and Operations, portion relating to general administrative offices only (functions 8100–8400, times the percentage of total salaries and benefits attributable to other general administration and centralized data processing [salaries and benefits are used as proxy for square footage attributable to general administration])

6. Facilities Rents and Leases, portion relating to general administrative offices only (Function 8700, times the percentage of total salaries and benefits attributable to other general administration and centralized data processing [salaries and benefits are used as proxy for square footage attributable to general administration])

7a. Employment Separation Costs: Normal separation costs paid from unrestricted resources on behalf of positions charged to restricted resources may be included in the indirect cost pool

7b. Employment Separation Costs: Abnormal or mass separation costs paid from unrestricted resources on behalf of general administrative positions charged to functions 7200–7700 must be eliminated from the indirect cost pool

8. Total Indirect Costs (sum of lines A1 through A7a, minus line A7b)

9. Carry-Forward Adjustment for over- or underrecovery of indirect costs (overrecovery is subtracted, underrecovery is added)

10. Total Adjusted Indirect Costs (line A8 plus line A9)
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B. Base Costs (denominator)

1. Instruction (functions 1000–1999)
2. Instruction-Related Services (functions 2000–2999)
3. Pupil Services (functions 3000–3999)
4. Ancillary Services (functions 4000–4999)
5. Community Services (functions 5000–5999)
6. Enterprise (Function 6000)
7. Board and Superintendent (functions 7100–7180, including portion of Function 7120 not included on line A4)
8. External Financial Audit—Other (Function 7191) and Single Audit (Function 7190, portion not included on line A3)
9. Other General Administration, portion charged to restricted resources or specific goals (functions 7200–7600, portion not included on line A1)
10. Centralized Data Processing, portion charged to restricted resources or specific goals (Function 7700, portion not included on line A2)
11. Plant Maintenance and Operations, except portion relating to general administrative offices (functions 8100–8400, except for portion included on line A5)
12. Facilities Rents and Leases, except portion relating to general administrative offices (Function 8700, except for portion included on line A6)
13a. Employment Separation Costs: Normal separation costs paid from unrestricted resources on behalf of positions charged to restricted resources, included in the indirect cost pool on line A7a
13b. Employment Separation Costs: Abnormal or mass separation costs paid from unrestricted resources on behalf of general administrative positions charged to functions 7200–7700, eliminated from the indirect cost pool on line A7b
14. Adult Education (Fund 11, functions 1000–6999, 8100–8400, and 8700)
15. Child Development (Fund 12, functions 1000–6999, 8100–8400, and 8700)
16. Cafeteria (funds 13 and 61, functions 1000–6999, 8100–8400, and 8700)
17. Foundation (funds 19 and 57, functions 1000–6999, 8100–8400, and 8700)
18. Total Base Costs (sum of lines B1 through B12 and B13b through B17, minus line B13a)
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C. **Straight Indirect Cost Percentage** (before carry-forward adjustment) (line A8 divided by line B18)

D. **Indirect Cost Rate** (fixed-with-carry-forward rate for use in second subsequent fiscal year, subject to CDE approval) (line A10 divided by line B18)

*Note:* The following expenditures are excluded from the indirect cost rate calculation and therefore cannot have indirect costs charged against them when indirect costs are claimed: Subagreements for Services (Object 5100); Capital Outlay (objects 6000–6999); Other Outgo (objects 7000–7499); Other Financing Uses (objects 7600–7699); Facilities Acquisition and Construction (Function 8500); and Debt Service, Transfers Between Agencies, and Interfund Transfers (functions 9000–9999) (see page 915-6, Amount of Indirect Costs to Charge).
Definitions of Indirect Cost Terms

Administrative costs. Any costs, indirect or direct, that are administrative in nature and support the management of a program. Costs of program administration may encompass both direct costs (e.g., salaries of program administrators, costs of program monitoring and preparing program plans) and indirect costs (e.g., personnel/human resources, accounting, and procurement).

Pursuant to the U.S. Department of Education’s Cost Allocation Guide for State and Local Governments, some education programs have statutory or regulatory limitations on the costs of administration, which can encompass both personnel and non-personnel costs and both direct and indirect costs. Therefore, the statutory or regulatory limitation applies to the combined charges for indirect costs and direct program administration costs.

Approved rate. Same as indirect cost rate.

Base costs. Pool of direct costs from the general, charter schools, adult education, cafeteria, child development, and foundation funds minus any excluded costs, such as subagreements for services, major equipment purchases, facility construction, debt service, and transfers to other agencies.

Carry-forward adjustment. An adjustment used in calculating the indirect cost rate where the difference between the estimated indirect costs and the actual indirect costs is “carried forward.” The adjustment takes into account (1) the LEA’s approved indirect cost rate for the year, (2) the original carry-forward amount used to calculate that rate, and (3) that year’s estimated indirect costs (i.e., base costs times the approved rate).

Consistent cost treatment. Costs incurred for the same purpose in like circumstances should be treated as only direct or only indirect. A cost may not be charged to a program as a direct cost if other costs incurred for the same purpose are allocated to programs as an indirect cost.

For example, if an employee provides services that would normally be performed by the business office, the cost should be charged as an indirect cost activity (Function 7200) even if the employee spends 100 percent of his or her time working on a particular program. This consistent cost treatment prevents a program from being charged for business office services as a direct cost and then again when indirect costs are charged to the program. However, if an employee provides supplemental services above the level provided by the business office or if he or she provides services normally required of program managers, the cost would be considered a project-related administration cost (Function 2150) rather than an indirect cost.

Direct costs. Costs that provide measurable, direct benefits to particular programs, including costs for instructional programs, and support costs that relate to the peripheral services necessary to maintain the instructional programs. Examples of direct costs include salaries and benefits of teachers and instructional aides, payments for textbooks, instructional supply purchases, and pupil service costs (e.g., counseling, health services, pupil transportation).
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**Estimated indirect costs.** The amount of indirect costs arrived at by multiplying the base costs by the approved rate for that year.

**Excluded costs.** Costs excluded from the indirect cost rate calculation because the activities are distorting in nature or require relatively minimal general administrative support compared to the amount of dollars spent. For example, subagreements for services, capital outlay (sites, improvement of sites, buildings, improvement of buildings, new or major expansions of school libraries, capitalized equipment), and other outgo (tuition, transfers to other agencies, debt service, financing uses).

**Fixed-with-carry-forward.** For California LEAs, the restricted indirect cost rate is computed and “fixed” for a specific period on the basis of an estimate of that period's level of operations. Once the actual costs of that period are known, the difference between the estimated and actual indirect costs is “carried forward” as an adjustment to the new calculation.

**Form ICR.** A worksheet within CDE’s financial data collection software that calculates the LEA’s percentage of indirect costs and its fixed-with-carry-forward indirect cost rate.

**Function code.** The field in the standardized account code structure that identifies a cost’s general operational area and distinguishes whether it is an indirect or base cost.

**Indirect cost percentage.** A percentage arrived at by dividing the current period’s indirect costs by the base costs.

**Indirect cost pool.** The indirect costs of the agency together with the portion of plant maintenance and operations and facilities rents and leases spent in support of indirect cost activities (i.e., general administration offices).

**Indirect cost rate (ICR).** An allocation technique used to distribute indirect costs to federal, state, and local programs. The indirect cost rate is the ratio (expressed as a percentage) of the adjusted indirect costs to the direct base costs. For California LEAs, the indirect cost rate represents a fixed-with-carry-forward restricted indirect cost rate used to recover indirect costs from federal and state programs.

**Indirect costs.** Agency-wide general management costs not readily identifiable with a particular program but necessary for the overall operation of the agency (e.g., costs of accounting, budgeting, payroll preparation, personnel management, purchasing, warehousing, centralized data processing).


**Restricted rate.** Same as *indirect cost rate*. 
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