

**Practice Exercise**

**Directions to Use the Simplified Method to Calculate Indirect Administrative Support (IAS) – 2/13/2020**

These instructions may be used to practice completing the IAS calculation using the excel practice template and to prepare your final practice submission to CPB online.

The calculation of IAS using the simplified method must be done using fiscal year (FY)2018 financial information.

The simplified method has 5 steps.

1. Compute the rate.
2. Identify the base.
3. Apply rate to base to calculate IAS.
4. Compute occupancy value, if any, and add it to IAS.
5. Deduct fees paid to licensee.

**Step 1: Compute the rate.**

To compute the rate, divide your licensee’s indirect costs by its direct costs. These costs are found in your licensee’s FY2018 audited financial statement (AFS). Enter the costs and provide the AFS page number(s) where you obtained these amounts on the appropriate lines. When you prepare and submit your final practice calculation online to CPB, you must also attach the licensee’s FY2018 AFS.

*Licensee indirect costs ÷ Licensee direct costs = the rate.*

<i>Licensee’s Indirect Costs*</i> <i>(Numerator)</i>	<i>Licensee’s Direct Costs**</i> <i>(Denominator)</i>
<b>Institutional support + Physical plant support</b>	<b>Total operating expenses minus both institutional support and physical plant support</b>

\*Regarding the licensee’s indirect costs (numerator):

- If your station benefits from both *institutional support* and *physical plant support*, you include both in the numerator above.
- If not, you include only the one that benefits your station in the numerator. Not all stations benefit from both *institutional support* and *physical plant support*.
- Indirect costs functional categories for *institutional support* may also be called *general administration*.
- Indirect costs functional categories for *Physical plant support* may also be called *plant and services, operation and maintenance of plant or facilities, or plant services*.
- Do not add amounts from multiple expense categories to obtain this number; **only one** institutional support and **one** physical plant support expense category should be included in calculation.

\*\*Regarding the licensee’s direct costs (denominator):

- Grantees will need to deduct both indirect costs i.e. *institutional support* and *physical plant support* - from the licensee’s total operating expenses, whether your station benefits from both or only one.
- In your licensee’s audited financial statement, you are looking for only the two major functional categories discussed above (institutional support and physical plant support).
- Note: Do not deduct any auxiliary services expenses like Medical/Health System or Housing expenses or Auxiliary Enterprises from Total Operating Expenses of the licensee.

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Note: If you are a university licensee and part of a multiple campus system you must complete this calculation using the system's financial statement. Do not extract and then add together costs from multiple campus financial statements.

#### Step 2: Identify the Base.

You will be applying the rate you calculated in Step 1 to a base consisting of your station's net direct expenses. These costs are found in your station's 2018 AFS. Enter these amounts and provide the AFS page number(s) where you obtained them on the appropriate lines. You will not be required to provide CPB with the station's AFS since it was already submitted with FY2018 AFR reporting.

After entering the station's total operating expenses found on Schedule E Line 8, deduct the following indirect expenses (if these expenses were included in your total operating expenses):

- total depreciation and amortization per AFS,
- in-kind contributions and donated property and equipment reported as expenses per AFS,
- indirect administrative support (if included in the total operating expenses) – per AFS,
- expenses for non-broadcasting activities and unrelated business income taxes you paid (UBIT)\*\*\* per AFS, and
- expenses not supported by your licensee per AFS – example, some consolidated entities like Friend's Group, foundations, and component units if they are included on Schedule E Line 8 or AFS total operating expenses. (Most stations do not have a consolidated AFS)

The total of net direct expenses, as computed above, is your base.

\*\*\* Note: Some grantees operate subsidiary enterprises or engage in activities unrelated to public broadcasting. According to the IRS, for most organizations (CSG recipients included) an activity is an unrelated business if it meets three criteria: (1) it is a trade or business; (2) it is regularly carried on; and (3) it is not substantially related to furthering the tax exempt purpose of the organization.

#### Step 3: Apply the Rate to the Base.

The formula will automatically multiply the rate (from Step 1) by the base (from Step 2).

#### Step 4: Compute Occupancy Value.

If your station operates in space provided at no cost by your licensee, you may complete a calculation to determine the occupancy value. Occupancy value is the value of a station's pro-rata share of the annual depreciation of a licensee- owned building or land associated with tower facilities that is fully or partially occupied by the station.

- If you computed occupancy value on your FY2018 AFR Schedule B, enter this amount.
- If not, do not include an amount for occupancy value.

#### Step 5: Deduct Fees Paid to the Licensee

Enter any fees that you have paid directly to the licensee for overhead recovery, assessment, use fees, or management fees.

Once you complete Steps 4 and 5, the formula automatically adjusts your IAS total.

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#### Recording IAS as NFFS in your AFR:

Please note, you won't complete this step for this practice, but as a reminder, when completing future financial reporting, IAS must be included in the AFS to be eligible as NFFS. The final amount that you calculate using this method may be reported as NFFS to the extent that it does not exceed the IAS reported in your station's AFS. If it does, you will be required to make an adjustment in the AFR so that it does not exceed the amount audited in your financial statement.