

Course Materials



Indirect Cost LEA/External Users



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Definition

- Indirect costs: “costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved” (§200.56).
 - Grantees must have a current, approved federal indirect cost rate to recover indirect costs from grant.
 - Examples of indirect costs *may* be payroll processing, accounting, human resources, maintenance, and utilities. **Grantees must be consistent in treating costs as direct or indirect. Once a cost is treated as direct or indirect, it must be treated that way for all projects and activities, regardless of the source of funding.**
- Direct costs: “costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs” (§200.413).
 - Examples of direct costs are Special Education Teacher salaries and materials and equipment for Special Education.

Types of Indirect Cost Rates

Restricted	Unrestricted
•Used for grant programs to which the supplement, not supplant provision applies.	•Used for grant programs to which supplement, not supplant, does not apply.

- Supplement, not supplant provisions: require that grantees use state or local funds for all services required by state law, State Board of Education (SBOE) rule, or local policy and prohibit those funds from being diverted for other purposes when federal funds are available. Federal funds must supplement—add to, enhance, expand, increase, extend—the programs and services offered with state and local funds. Federal funds are not permitted to be used to supplant—take the place of, replace—the state and local funds used to offer those programs and services.
- A supplement, not supplant provision applies to all federally and state-funded grant programs administered by ADE, unless specifically stated in the request for application. Therefore, grantees will most commonly use the restricted rate.

Limitations on Indirect Costs

Regardless of the restricted or unrestricted indirect cost rate that has been approved for a grantee, the amount of indirect costs that may be claimed is limited. ADE’s restricted cost rate is limited to 12% and ADE’s unrestricted cost rate is limited to 25%. Keep in mind that these rates may change year to year.

Example:

A grantee’s negotiated rate for restricted is 13.4%; however, it is greater than the maximum rate (12%).

Therefore, the negotiated rate will be automatically changed in GME to the maximum rate allowed, which in this example, will be at 12%.

Calculation

The indirect cost rate represents the calculated benefit of indirect costs to all associated revenues from both Federal and State sources. It should be used for indirect cost claims under all Federal programs that permit reimbursement. This is true whether the grant is received from a State Education Agency, another State Agency or directly from a Federal agency. *The rate must be current, however, meaning it is approved and covers the period coincident with grant activities.*

With respect to the indirect application base, restricted rates require using what we call a "Modified Total Direct Cost Base" (MTDC). This means applying indirect cost claims to allowable expenditures which exclude capital outlay costs and (emphasis ours) sub-awards and debt services.

The following formula should be used to determine the amount that could be budgeted for indirect cost reimbursement.



An example of using the formula is to assume your award amount is \$258,000, Capital Outlay is \$5,000, Sub-awards are \$4,000, and Debt services are \$3,000. Since your rate is 3.1%:

$$\frac{0.031}{1.031} \times (\$258,000 - \$5,000 - \$4,000 - \$3,000)$$

$$\frac{0.031}{1.031} \times (\$246,000)$$

$$0.030067895 \times \$246,000$$

The product of these two figures is 7396.702231, or \$7,396.70 rounded.

For a grant of \$258,000, the following results are indicated:

Grant Amount:	\$ 258,000
Exclusions:	
Capital Outlay:	\$ 5,000
Sub awards:	\$ 4,000
Debt services:	\$ 3,000
Indirect Costs:	\$ 7,396.70
Base of Application:	\$ 238,603.30
Sum:	\$ 258,000

Recovering Indirect Cost

Once your Indirect Cost Rate has been negotiated, you will need to know how to recover indirect costs when requesting reimbursement. You cannot claim all your indirect costs on your first reimbursement request, as you can only claim the percentage of direct costs per your expenditures.

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Example:

	Function Code	1000 - Instruction	2100,2200,2600,2700 - Support Services (Students, Instr., Operation, Transport.)	0000 - Other	Total
Direct Cost	6100 - Salaries		377,952.18		377,952.18
	6200 - Employee Benefits		81,122.91		81,122.91
	6300 - Purchased Professional Services		0.00		0.00
	6400 - Services		8,205.00		8,205.00
	6500 - Other Purchased Services		628.20		628.20
Excluded Cost	6600 - Supplies	112,302.38			112,302.38
	6731 - Supplies (Under \$5,000)			83,759.27	83,759.27
	6733 - Capital (\$5,000 or Above)	80,000.00			80,000.00
	6910 - Indirect Cost Recovery			63,143.54	63,143.54
	Total	192,302.38	467,908.29	146,902.81	807,113.48

Requesting an Indirect Cost Rate

To request an Indirect Cost Rate from the Arizona Department of Education, initiate the Indirect Cost section of the Grants Management Enterprise (GME) system. Please review the Indirect Cost Quick Reference Guide located in the Grants Management Resource Library (under GME User Reference Guide > Indirect Cost).

Submission Deadline

To secure a rate prior to July 1st of the upcoming fiscal year, you must submit your request in GME by June 1st of the current fiscal year. Requests received after this date could result in a delay for receiving an indirect cost rate. GME will show rates as 0% until updated and will be retroactive at that point. Rates are effective July 1 through June 30 of the fiscal year. *An indirect cost rate must be requested every year.*

Indirect Cost District and Charter Guides

The District and Charter Guides provide information on the classification costs to be utilized when completing the District and Charter Indirect Cost Report, respectively. They are located in the Grants Management Resource Library (under GME User Reference Guide > Indirect Cost). Please note these are guides.

Circumstances may exist where certain costs are allocable as Direct or Indirect based on their nature and relation to certain programs or grants. Additional employee benefits may also be charged as Direct or Indirect based on how the employee is generally classified.