

APPENDIX 6

Appendix 6

Indirect Cost Calculation

Indirect costs for federally funded grants are a form of administrative cost incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. **Costs must be consistently treated either as direct or indirect among all funding sources.**

The LEA must have a TEA-approved indirect cost rate in order to claim indirect costs. Indirect cost rates change annually and are effective from July 1 of the current year to June 30 of the following year. "Restricted" indirect cost rates must be used to calculate indirect costs. For assistance with the LEA's indirect cost rate, contact the Division of Financial Audits at 512-463-9095.

The following formula may be used to determine the maximum amount that an LEA may claim for indirect costs, based on the total amount that the LEA has available to budget:

Total amount budgeted divided by (1 + the restricted indirect cost rate); multiplied by the restricted indirect cost rate.

EXAMPLE: An LEA has a total budget of \$250,000. If the LEA's restricted indirect cost rate is 1.975%, then the maximum that the LEA could possibly claim is as follows:

$$\$250,000 \div 1.01975 = \$245,158.12$$

$$\$245,158.12 \times 1.975\% = \mathbf{\$4841.88}$$

To check the amount of indirect costs that may be claimed based on items budgeted, follow these instructions:

1. Take the total costs entered on BS6001—Budget Summary: \$ _____

Deduct the following costs (exclusions) (Refer to Table A for applicable exclusions.)

— Tuition Remission (61XX)	\$ _____
— Rental or lease of buildings, space in buildings, or land (62XX)	\$ _____
— Scholarships and Fellowships (62XX)	\$ _____
— Portion of each subcontract in excess of \$25,000 (62XX)	\$ _____
— Subgrants (62XX)	\$ _____
— Debt Service (65XX)	\$ _____
— Capital Outlay (66XX)	\$ _____

→ **Result** \$ _____

2. Multiply the result by the Agency-certified restricted rate to arrive at the maximum indirect costs that may be claimed based on the amounts budgeted. Drop the cents. **Do not round up.**

Indirect cost may be claimed, based on actual expenditures, through ER (Expenditure Reporting).

Indirect Costs

Quick Tips

- You must have a federal indirect cost rate in order to charge indirect costs to a federal grant or to a state grant.
- You are not required to budget indirect costs in the grant application in order to charge indirect costs to the grant.
- If indirect costs are claimed, they are part of the total grant award amount. They are not in addition to the grant award amount.
- All applicants other than school districts, ESCs, and open enrollment charter schools that have an approved rate from TEA, must submit a copy of their indirect cost rate agreement specifying the approved rate for the current period to TEA along with the application. Indirect costs will not be permitted in the absence of a copy of this agreement.
- Costs included in the calculation of the indirect cost rate (i.e., as specified in your organization's indirect cost plan) may not be charged as direct costs to a grant.
- Unless otherwise indicated for individual programs, you may charge **federally funded programs** for 'indirect costs' incurred by using the 'restricted indirect cost rate' or 8%, whichever is less. You may charge **state-funded programs** for indirect costs by using the 'restricted indirect cost rate', or 15%, whichever is less.
- Indirect costs are part of administrative costs. If administrative costs are limited to a certain percentage for a particular program, for example 5%, then the total direct administrative costs, plus indirect costs, cannot exceed 5%.

To Calculate Indirect Costs

Step 1

School Districts, Education Service Centers, and Charter Schools Operated by an LEA

Compute the amount of 'indirect cost' to be claimed by deducting the following 'cost exclusions' from 'total direct costs':

- Subgrants (6290)
- Debt Service (6500)
- Capital Outlay (6600)
- Building Purchase, Construction, or Improvements (6620).

Colleges/Universities and Charter Schools Operated by a College/University

Calculate the modified total direct cost base by deducting:

- Tuition remission (6100)
- Rental or Lease of Buildings, Space in Buildings, or Land (6269)
- Scholarships and Fellowships (6200)
- Portion of each subcontract in excess of \$25,000 (6219)
- Subgrants (6290), regardless of dollar amounts
- Debt Service (6500)
- Capital Outlay (6600)
- Building Purchase, Construction, or Improvements (6620)

Nonprofit Organizations and Charter Schools Operated by a Nonprofit Organization

Calculate the modified total direct cost base by deducting:

- Rental or Lease of Buildings, Space in Buildings, or Land (6269)
- Scholarships and Fellowships (6200) (Not allowable for Federal grants)
- Portion of each subcontract in excess of \$25,000 (6219)
- Subgrants (6290), regardless of dollar amounts
- Debt Service (6500)
- Capital Outlay (6600)
- Building Purchase, Construction, or Improvements (6620)

Appendix 6—continued

Step 2

For **federally funded grants** regardless of who the grantee is, multiply the modified total direct costs by **8%** or the restricted indirect cost rate approved by your cognizant agency, whichever is less. **Drop the cents. Do not round up.** If administrative costs are limited to a certain percentage, the total direct and indirect costs cannot exceed the specified percentage.

For **state-funded grants** regardless of who the grantee is, multiply the modified total direct costs by **15%** or the restricted indirect cost rate approved by your cognizant agency, whichever is less. **Drop the cents. Do not round up.** If administrative costs are limited to a certain percentage, the total direct and indirect costs cannot exceed the specified percentage.

Step 3

The maximum allowable is the total direct cost minus exclusions multiplied by the grantee's approved restricted indirect cost rate or the rate specified in Step 2, whichever is less. The grantee may enter, in the appropriate field on the *Budget Summary*, an amount not to exceed the maximum allowable.

Indirect costs may be claimed based upon actual expenditures declared on mid-year or final expenditure reports (whether or not indirect costs were budgeted in the original application or amendment). The amount spent on indirect costs is part of the total amount awarded and not in addition to the total amount awarded.

**Texas Education Agency
Table A
Costs That Must Be Excluded from the Indirect Cost Calculation**

Items of Cost	School districts, ESCs, and open enrollment charter schools operated by a governmental entity (OMB Circular A-87)	Nonprofit Organizations, including open enrollment charter schools operated by a nonprofit organization (OMB Circular A-122)	Educational Institutions i.e., institutions of higher education including open enrollment charter schools operated by a college/university (OMB Circular A-21)
6100—Payroll Exclude: Tuition Remission	Not applicable	Not applicable	X
6200—Professional and Contracted Services Exclude: Rental or lease of buildings, space in buildings, or land		X	X
Scholarships and Fellowships		X (Unallowable for Federal Grants)	X
The portion of each subcontract in excess of \$25,000		X	X
Subgrants, regardless of dollar amounts	X	X	X
6500—Debt Service All costs in this category must be excluded prior to calculating indirect costs	X	X	X
6600—Capital Outlay All costs in this category must be excluded prior to calculating indirect costs	X	X	X
6620—Building Purchase, Construction, or Improvements All costs in this category must be excluded prior to calculating indirect costs	X	X	X