



Ohio

Applying the Approved Indirect Cost Rate to the Budget

DECEMBER 2015

APPLYING THE APPROVED INDIRECT COST RATE TO THE BUDGET

Application of the Rate

Most grant awards received by school districts are for fixed amounts. Therefore, when the grantee applies for and receives an approved indirect cost rate, the award amount is not increased. The available indirect cost recovery will be included as part of the total grant award. **There is no additional monetary compensation for indirect cost recovery.** The recovery is taken from the approved grant allocation, thereby reducing the available dollars approved in other areas of the budget for program usage.

The approved indirect cost rate can only be applied to the amount of allowable expenditures, not the total grant award. To determine the appropriate amount of the indirect cost recovery, the approved indirect cost rate is applied to the net direct allowable expenditures. Net direct costs means total direct costs (salaries, fringe, supplies, travel and up to the first \$25,000 of each sub-award or subcontract) ***minus*** capital expenditures such as equipment, alterations and renovations, rental costs, flow-through funds, scholarships and fellowships, food purchases, prior indirect cost recovery, the portion of individual sub-awards exceeding \$25,000 and pass-through funds. If the budget includes any of these expenses, you must ensure that you are not applying the rate to these unallowable and excluded costs.

Determination of Recovery

Determination of recovery will require the following steps:

1. **Subtract** unallowable and exclusions from total direct costs to determine the net direct and indirect costs.
2. **Divide** the net amount by one plus the approved indirect cost rate.
3. **Multiply** the amount determined in step two by the approved indirect cost rate.

See example on next page.

EXAMPLE:

Approved grant allocation is \$1,000,000. The district has an approved Indirect Cost Rate of 5 percent.

Budget

Salaries	Fringe Benefits	Purchased Services*	Supplies	Capital Outlay	Other (flow thru funds)	Total Budget
\$100,000	\$20,000	\$275,000	\$5,000	\$100,000	\$500,000	\$1,000,000

Step 1

Total Direct Cost/Approved Allocation	\$1,000,000
Subtract:	
Capital Expenditure	\$ (100,000)
*Personal Service Contracts	\$ (150,000)
Flow-Through Funds	\$ (500,000)
Net Direct and Indirect Cost Rate Base	\$ 250,000

***Note: List of purchased service contracts included in budgeted amount above.**

Purchased services

	Amount	Applicable to rate	Excluded
Individual Contract	\$ 50,000	\$ 25,000	\$ 25,000
Contract for alterations and renovations	\$100,000	\$0	\$100,000
Individual Contract	\$ 25,000	\$ 25,000	\$ 0
Individual Contract	\$ 50,000	\$ 25,000	\$ 25,000
Individual Contract	\$ 25,000	\$ 25,000	\$ 0
Individual Contract	\$ 25,000	\$ 25,000	\$ 0
Total	\$ 275,000	\$125,000	\$150,000

Step 2

Divide:	<u>Net Direct and Indirect Cost Rate Base</u>	\$ 250,000
	1 + Approved Indirect Cost Rate	1.05
	Net Direct Cost Base	\$ 238,095

Step 3

Multiply:	Net Direct Cost Base	\$ 238,095
	<u>x Approved Indirect Cost Rate</u>	<u>x .05</u>
	Indirect Cost Recovery	\$ 11,905

In this example, \$250,000 represents the net direct and indirect costs available to the school district. The product of dividing the net direct and indirect costs by one plus the indirect cost rate, \$238,095, is the total amount available for net direct costs. The net direct costs, \$238,095, can then be multiplied by the indirect cost rate of 5 percent to determine the indirect cost recovery.

The indirect cost recovery amount of \$11,905 should be coded to Object Code 899 (Miscellaneous) and Function Code 2590 (Fiscal). A budget revision must be submitted to the Ohio Department of Education to include the indirect cost recovery amount in the appropriate field. The recovery amount is taken from the total approved grant allocation, thereby reducing the available dollars approved in another area of the program budget. If you have questions regarding this guidance, please email: Grants.Management@education.ohio.gov.