

Applying the Approved Indirect Cost Rate to the Budget & Final Expenditure Report



Revised:

February 2024



**Department of
Education &
Workforce**

Utilizing the Indirect Cost Rate

Application of the Rate

Most grant awards received by school districts/grantees are for fixed amounts. Therefore, when a grantee utilizes an approved indirect cost rate, the award amount is not increased. The approved indirect cost amount is taken from the total grant award, thereby reducing the dollars available for use in other areas of the grant program. **There is no additional monetary compensation for utilizing an indirect cost rate.**

To utilize an indirect cost rate and request recovery of indirect expenses, the grantee must apply the grants applicable rate in the budget and subsequently report allowable expenditures on the Final Expenditure Report (FER). To determine the amount of allowable expenditures during the budgeting and final reporting process, grantees must calculate the Modified Total Direct Cost (MTDC).

MTDC are 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 subawards exceeding \$25,000, and pass-through funds. If the budget and/or expenditures include any of these expenses, you must ensure that you are not applying the rate to these unallowable and excluded costs. ([2 CFR 200.1](#) gives pass-through fund definitions for [subawards](#) or [subrecipients](#).)

An indirect cost calculation [worksheet](#) has been prepared to assist with steps outlined below.

Budget Process – Maximum Budget Amount

When budgeting for indirect costs, you must determine establish your organization’s Modified Total Direct Costs or MTDC by using the approved indirect cost rate (ICR) to calculate the [net direct base](#). When multiplying the ICR by the net direct base, the product is the maximum available to budget for indirect cost.

Determination of the maximum indirect costs to budget based on the allocation amount will require the following steps:

1. **Subtract** unallowable and exclusions from the total grant allocation/budget to determine the MTDC.
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.

EXAMPLE:

Approved grant allocation and budget is \$1,000,000. The approved Indirect Cost Rate is 5 percent.

<i>Allocation/Budget</i>						
Salaries	Fringe	*Purchased Services	Supplies	Capital Outlay	Other (Flow thru/object 800)	Total Budget
\$ 100,000.00	\$ 20,000.00	\$ 275,000.00	\$ 5,000.00	\$ 100,000.00	\$ 500,000.00	\$ 1,000,000.00

<i>Step 1 - Determine MTDC based on allocation/budget amount</i>			
Grant Budget/Allocation	\$ 1,000,000.00		
Subtract:			
Capital Expenditure	\$ (100,000.00)		
*Subaward/Sub-agreements	\$ (150,000.00)		
Flow-Through Funds/Object 800	\$ (500,000.00)		
Modified Total Direct Costs (MTDC)	\$ 250,000.00		
*Subaward/Sub-agreements			
	Contract Amount	Applicable to Rate	Excluded
Individual Contract	\$ 50,000.00	\$ 25,000.00	\$ 25,000.00
Contract for alterations and renovations	\$ 125,000.00	\$ 25,000.00	\$ 100,000.00
Individual Contract	\$ 25,000.00	\$ 25,000.00	\$ -
Individual Contract	\$ 50,000.00	\$ 25,000.00	\$ 25,000.00
Individual Contract	\$ 25,000.00	\$ 25,000.00	\$ -
Total	\$ 275,000.00	\$ 125,000.00	\$ 150,000.00

Step 2 - Divide	
To find net direct base/costs	
MTDC	\$ 250,000.00
1+ Approved Indirect Cost Rate	1.05%
Net Direct Base	\$ 238,095.24
Step 3 - Multiply	
To find maximum indirect budgeted allowable amount	
Net Direct Base	\$ 238,095.24
Approved Indirect Cost Rate	5.00%
Indirect Cost	\$ 11,904.76
Note: The amounts calculated in steps 2 and 3 equal the MTDC.	\$ 238,095.24
	\$ 11,904.76
	\$ 250,000.00

In this example, \$250,000 represents the organizations MTDC and indirect costs. The quotient of dividing the MTDC and indirect costs by one plus the indirect cost rate (\$238,095), is the net direct costs. The net direct costs base can then be multiplied by the indirect cost rate of 5 percent to determine the indirect cost budget amount based on the grants allocation/budget.

Final Expenditure Report - Determination of Recovery

At the end of the grant period, 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 MTDC (expenditures).

Determination of recovery will require the following steps:

1. **Subtract** unallowable and exclusions from total direct costs/total expenditures to determine the MTDC.
2. **Multiply** the amount determined in step two by the approved indirect cost rate.

EXAMPLE:

<i>Final Expenditures</i>						
Salaries	Fringe	*Purchased Services	Supplies	Capital Outlay	Other (Flow thru/object 800)	Total Expenditures
\$ 100,000.00	\$ 20,000.00	\$ 275,000.00	\$ 5,000.00	\$ 50,000.00	\$ 300,000.00	\$ 750,000.00

Step 1 - Determine MTDC based on total expenditures			
Total Expenditures on FER	\$ 750,000.00		
Subtract:			
Capital Expenditure	\$ (50,000.00)		
*Subaward/Sub-agreements	\$ (150,000.00)		
Flow-Through Funds/Object 800	\$ (300,000.00)		
Modified Total Direct Costs (MTDC)	\$ 250,000.00		
*Subaward/Sub-agreements	Contract Amount	Applicable to Rate	Excluded
Individual Contract	\$ 50,000.00	\$ 25,000.00	\$ 25,000.00
Contract for alterations and renovations	\$ 125,000.00	\$ 25,000.00	\$ 100,000.00
Individual Contract	\$ 25,000.00	\$ 25,000.00	\$ -
Individual Contract	\$ 50,000.00	\$ 25,000.00	\$ 25,000.00
Individual Contract	\$ 25,000.00	\$ 25,000.00	\$ -
Total	\$ 275,000.00	\$ 125,000.00	\$ 150,000.00
Step 2 - Multiply			
To find maximum indirect recover amount			
Expenditures (MTDC)			\$ 250,000.00
Approved Indirect Cost Rate			5.00%
Indirect Costs			\$ 12,500.00

Coding Expenditures

The indirect cost recovery should be coded to Object Code 899 (Miscellaneous) and Function Code 2590 (Fiscal).

If you have questions regarding this guidance, please email: Indirectcost@education.ohio.gov.