



Local Educational Agency Indirect Cost Plan General Information

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South Carolina Department of Education

2025-26 Indirect Cost Plan

General Information

Part I

Introduction

In accordance with the Office of Management and Budget's (OMB) grant guidance under 2 CFR 200 and Education Department General Administrative Regulations (EDGAR) under 34 CFR 75 and 76, local educational agencies (LEAs) are required to have a current indirect cost rate agreement to charge indirect costs to a federal grant. The South Carolina Department of Education, in collaboration with the United States Department of Education and representatives of school districts, developed indirect cost plans to be used by LEAs in South Carolina. The State Superintendent of Education, or the State Superintendent's designated representative, has been delegated the authority by the United States Department of Education to review indirect cost proposal data and to approve indirect cost rates for LEAs.

The State of South Carolina has 75 LEAs and 104 charter schools. All charter schools are sponsored by an LEA and charter school data is blended with the LEA's to calculate the indirect cost rate for the LEA. The 2025-26 indirect cost rates are being issued under the current delegation agreement between the United States Department of Education and the South Carolina Department of Education set to expire on June 30, 2025,

The mission of the South Carolina Department of Education is to provide leadership and support so that all public education students graduate prepared for success.

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

2 CFR 200.400 sets forth the cost principles for determining the allowable costs of programs administered by state and local governments under the grants and contracts with the federal government.

The objectives of the principles are as follows:

- to establish uniform standards of allowability
- to identify the full cost of federal programs
- to ensure that federal programs bear their fair share of costs
- to simplify intergovernmental relations

Applications for grants and contracts usually involve a request for reimbursement of both direct and indirect costs. Indirect costs are those that are not readily identifiable with the activities of the grant but are, nevertheless, incurred for the joint benefit of those activities and other activities or programs of the organization. Indirect costs are those meeting the following two criteria:

- They are incurred for a common or joint purpose benefiting more than one cost objective.
- They are not readily assignable to the cost objectives specifically benefited.

The following are some examples of services that typically benefit several activities and programs for which an indirect cost proposal may be used to attribute costs:

- accounting
- auditing
- budgeting
- payroll
- personnel
- purchasing

In theory, all such costs can be charged directly. However, practical limitations and the consideration of efficiency in accounting preclude such an approach. 2 CFR 200.400 was issued to provide uniform government wide principles for determination and reimbursement of indirect costs through the mechanism of an indirect cost rate.

Certain limitations on recovery of indirect costs exist:

- Federal law may limit the amount of indirect costs that may be recovered. For example, the maximum indirect cost allowable by law for a particular program may be less than the amount allowable under 2 CFR 200.400. Certain programs such as 21st Century Community Learning Centers and Title I, for example, restrict payment to only those expenditures that “supplement, not supplant” local effort.
- Recovery of indirect costs is subject to availability of funds. If a combination of direct and indirect costs exceeds the amount of funds available, the LEA will not be able to recover the total cost of the project or program.
- Indirect costs may be recovered only to the extent that direct costs were incurred. The indirect cost rate is applied to the amount expended, *not to the total grant award*, in order to determine the amount for indirect costs.

If the indirect costs are determined but not claimed for the grant or contract, such amount may be used as “local effort” if local matching funds are required. Indirect cost proposals

must be submitted annually for approval of new rates. LEAs are not required to develop an indirect cost allocation plan; however, if they fail to do so, they will not be allowed to recover any indirect costs related to federal grants and contracts.

Indirect Cost Proposals

The advantage of an indirect cost proposal and rate is that it is a simplified means for determining a fair share for indirect costs of federal grants and contracts that are acceptable to federal grantor agencies. The type of indirect cost rate used by LEAs is a predetermined rate. A predetermined rate is an indirect cost rate applicable to a specified current or future period. A predetermined rate is based on an estimate of the costs to be incurred during the period. This type of rate is usually not subject to adjustment. Predetermined rates cannot be used for federal contracts, but can be used for grants or cooperative agreements. For LEAs, predetermined rates use a rolling average of five years (most current fiscal years). The rates are discounted five percent based on inherent risks to reasonably assure fair and reasonable calculation of the rates. The South Carolina indirect cost proposals for LEAs establish maximum predetermined rates for a given fiscal year. The LEA may elect to claim indirect costs at a rate less than the maximum.

The following two indirect cost allocations plans have been approved by the Office of Management and Budget for use by South Carolina school districts:

- a. “Unrestricted Indirect Cost Proposal” (for use with grants or cooperative agreements that do not carry the “supplement, not supplant” language)
- b. “Restricted Indirect Cost Proposal” (for use with grants or cooperative agreements that are subject to the “supplement, not supplant” legislative restrictions)

LEAs are required by statute to submit to the South Carolina Department of Education a copy of its audited financial report no later than December 1 of each year. The audited financial report should be uploaded into the LEA Audit Reporting System (LARS). Along with this submission, the LEA submits a LARS template which details all revenues and expenditures included on the audited financial report and a Supportive Information Sheet. Audited expenditures included on the LARS template are used to calculate the indirect cost rates for LEAs. Audited expenditures for the second preceding fiscal year are to be used in the completion of the indirect cost proposals for a given fiscal year. Audited expenditures for fiscal year 2023-24 were used to compute the indirect cost proposals for fiscal year 2025-26.

The South Carolina Department of Education’s Office of Audit Services generates the indirect cost rate calculations for LEAs using LARS. The indirect cost rate calculations are emailed to each LEA along with a copy of the South Carolina Department of Education’s

Indirect Cost Rate Proposal and the indirect cost rate signature pages. LEAs must verify the expenditures included in the indirect cost rate calculations are correct. If the indirect cost rate calculations are correct, the LEA returns the signature pages signed, and the Office of Audit Services emails a copy of the Indirect Cost Negotiation Agreement to the district. The Indirect Cost Negotiation Agreement includes both the unrestricted and restricted indirect cost rates and the effective period for the rates.

It is essential that LEAs classify expenditures uniformly and consistently. Types of expenditures identified as indirect costs shall not be included also as direct costs. Similar types of expenditures must be consistently recorded to the same accounting class. All expenditures detailed on the audited financial report must have been made, and records supporting them must be maintained by the LEA. Generally, records and documentation supporting the indirect cost proposal must be retained for a period of six years after the last day of the fiscal year to which the plan applies. If audit exceptions have been noted, records will be retained until exceptions have been resolved.

The superintendent, the superintendent's secretary, and expenditures related directly to the operation of the superintendent's immediate office, specifically, are not included in the restricted indirect costs. An individual principal, a principal's secretary, and the expenditures related to the operation of these immediate offices are included in the base for the restricted indirect cost rates. These costs are included in the base for rate computational purposes.

Heads of Components (Heads of Organizational Units)

Heads of Components, as defined in the U.S. Department of Education Cost Allocation Guide for State and Local Governments, September 2019, are treated as a direct cost. The U.S. Department of Education Cost Allocation Guide for State and Local Governments defines component costs as "...organization units for both indirect and direct functions existing one level below the chief executive officer unit." Also, "The grantee's organizational structure is considered in determining adjustments for components." LEAs should capture expenditures for the heads of component (organization) units in object codes 180, 281-289, 380, 480, and 680. However, LEAs with a 135-day ADM of 2,000 students or less may elect to maintain the current reporting treatment for the head of the component unit. There are approximately 16 LEAs with an ADM of less than 2,000 students. For example, if the head of the component is performing more management duties than actually performing day-to-day operations, the head should be pulled out of the pool and charged to the base. As an example, the Chief School Financial Officer salary, benefits, travel, and other associated costs are treated as a direct cost for restricted rate calculations." **For indirect cost calculations, the head of a component unit does not include the head of an entity determined to be a component unit of a LEA such as a charter school or foundation.**

Subcontracts/Subawards

The indirect cost rate calculation should exclude subcontract/subaward expenditures exceeding \$25,000 and other distorting items. Subawards in excess of \$25,000 should be recorded to function 265. See “Excluded Costs” section below.

Under subcontract/subaward agreements, the second-tiered entity receives funds (whether contract, grant, or other agreement) from a prime recipient, to carry out a portion of a program. The entity works independently and is responsible for decision-making.

The key to determining whether the first \$25,000 of subcontracts/subawards should be included in the base, is the level of administrative/indirect expenditures that benefit the subcontract/subaward activity. These types of activities (whether subcontract, subaward, or vendor services) generally do not benefit from the administrative/indirect expenditures to the same degree as other direct activities because items such as facilities, supplies, accounting services, administrative support and management, etc., are not provided to the same extent.

Terminology

Indirect Cost Rate. An *indirect cost rate* is simply a device for determining, in a reasonable manner, what proportion of general expenditures each federal grant or contract should bear. It is the ratio between total indirect costs and some direct cost base, commonly either direct salaries and wages or total direct costs, exclusive of any extraordinary or distorting expenditures such as capital outlay, major subcontracts, alterations, and renovations referred to as a modified total direct costs (MTDC) base. The direct cost base used for LEAs is MTDC.

The indirect cost rate formula is as follows:

$$\text{Indirect Cost Rate} = \text{Indirect Cost} / \text{Direct Costs}$$

Excluded Costs. Certain items of costs are classified in 2 CFR 200.400 as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate because the activities require minimal administrative support. Once the indirect cost rate is calculated, it must be applied in the same manner as the calculation (consistency); therefore, the indirect cost rate should not be applied to any excluded or distorting items of costs.

Excluded costs in this category include Unused Leave Payments, Object Code 140; Capital Outlay, Function 253 and Object Code 500 series; Debt Service, Function 500 series; Other Charges, Function 400 series; and Participant Support Costs, Function 267. In addition, Food Services expenditures for food, supplies, purchased services directly charged, and equipment charged to Function 256 have been excluded for the unrestricted rate and the restricted rate under instructions from the OMB. Subawards in excess of \$25,000 have also been excluded from the unrestricted and restricted rate. (Equipment: In 2004-05, the state capitalization rate

was increased from \$1,000 to \$5,000 for single item purchases. Use of the increased amount is at the discretion of the LEA.)

Disallowed Costs. 2 CFR 200.400 classifies certain items of cost as *disallowed*, which means the federal funds cannot be used for these items. These are costs directly attributable to governance. For formula computational purposes, these governance costs are combined with direct costs.

Indirect Costs. *Indirect costs* are costs of a general nature. They are incurred for a common or joint purpose benefiting more than one activity specifically without effort disproportionate to the results achieved.

Direct Costs. *Direct costs* are those that are incurred specifically for one activity and that can be identified specifically with that activity. These costs may be charged directly to grants, contracts, and other programs against which costs are finally recorded.

Restricted Rate. In accordance with an advisory statement from the Secretary of Education, a *restricted indirect cost rate* must be applied to grants and contracts that contain the “supplement, not supplant” legislative restrictions. The *restricted indirect cost rate* would apply in grant programs under the Elementary and Secondary Education Act, the Individuals with Disabilities Education Act, the Carl D. Perkins Career and Technical Education Act, and any other legislative authority requiring assurance that federal funds will be so used to supplement and in no case to supplant state or local funds.

Excluded Costs

Restricted Rate	Unrestricted Rate
A. Facility Acquisition and Construction (Function 253)	A. Facility Acquisition and Construction (Function 253)
B. Food Services (Function 256, food and supplies and Object 393, food service direct purchased services)	B. Food Services (Function 256, food and supplies and Object 393, food service direct purchased services)
C. Other Charges (Function 400 series, transfer expenditures)	C. Other Charges (Function 400 series, transfer expenditures)
D. Debt Service (Function 500 series)	D. Debt Service (Function 500 series)
E. Equipment (Object 540 series)	E. Equipment (Object 540 series)
F. Capital Outlay (Object 500 series)	F. Capital Outlay (Object 500 series)
G. Subawards in excess of \$25,000 (Function 265)	G. Subawards in excess of \$25,000 (Function 265)
H. Unused Leave Payments (Object 140)	H. Unused Leave Payments (Object 140)
I. Participant Support Costs (Function 267)	I. Participant Support Costs (Function 267)

Indirect Costs

Restricted Rate

- A. Board of Education
(only Account 231-318, Audit
Services)*
- B. Fiscal Services (Function 252)
- C. Internal Services (Function 257)
- D. Internal Auditing Services (Function 259)
- E. Central Support Services (Function 260
series, Except 261)

Unrestricted Rate

- A. Board of Education
(only Account 231-318, Audit
Services)*
- B. Fiscal Services (Function 252)
- C. Operation and Maintenance of Plant
(Function 254)
- D. Internal Services (Function 257)
- E. Internal Auditing Services (Function 259)
- F. Central Support Services (Function 260
series)
- G. Depreciation on Buildings and Equipment

** In accordance with 2 CFR 200.425, an entity may not charge audit costs to a federal award if the entity has total federal award expenditures of less than \$750,000 per year.*

Direct Costs

Restricted Rate	Unrestricted Rate
A. Instruction (Function 100 series)	A. Instruction (Function 100 series)
B. Pupil Services (Function 210 series)	B. Pupil Services (Function 210 series)
C. Instructional Staff Services (Function 220 series)	C. Instructional Staff Services (Function 220 series)
D. Board of Education (Function 231 except Object 318, Audit Services)	D. Board of Education (Function 231 except Object 318, Audit Services)
E. Office of Superintendent (Function 232)	E. Office of Superintendent (Function 232)
F. School Administration (Function 233)	F. School Administration (Function 233)
G. Operation and Maintenance of Plant (Function 254)	G. Pupil Transportation (Function 255)
H. Pupil Transportation (Function 255)	H. Food Services (Function 256 except food, supplies, and equipment)
I. Food Services (Function 256 except food, supplies, equipment)	I. Supporting Services Pupil Activity (Function 271)
J. Heads of Component (Organizational) Units (Objects 180, 281-289, 380, 480, 580, 680)	J. Community Services (Function 300 series)
K. Supporting Services Pupil Activity (Function 271)	K. Summer School (Function 170 series)
L. Community Services (Function 300 series)	
M. Summer School (Function 170 series)	

Submitting the Indirect Cost Proposal

An email with each LEA's indirect cost proposal will be sent to each LEA. LEAs are to review the proposals carefully. If the LEA agrees with the data entered and calculated, the LEA should sign, scan, and return the delegation agreement via email to auditingervices@ed.sc.gov. If revisions need to be made, the LEA should email the Office of Audit Services and include a copy of the proposal noting the areas of concern. If changes are not necessary, a copy of the approved proposal will be sent to the office of the LEA's superintendent by the South Carolina Department of Education.

Applying the Indirect Cost Rate

The indirect cost rate is necessary in order to compute the indirect cost dollar amounts. The LEA is required to use the approved rate in all applications for federal grants during the fiscal year for which the rate has been established. (As noted above, separate rates are established for unrestricted programs and restricted programs) The indirect cost dollar amount (**I**) is the product of the indirect cost rate (**R**) multiplied by the direct cost dollar amount (**G**).

Therefore **(I) = (R x G)**

A. Determining Total Current Expenditures

Total current expenditures (**TCE**) equals the sum of the indirect cost dollar amount plus the direct cost dollar amount (**G**).

Therefore **(TCE) = (I) + (G)**

B. Determining the Fixed Grant Amount

Total federal award equals the sum of the total current expenditures (**TCE**) plus expenditures for the following account classifications:

- Facility Acquisition and Construction, Function 253
- Debt Service, Function 500 series
- Other Charges, Function 400 series

C. Determining Indirect Cost Dollar Amounts for Restricted Programs

As shown above, the formula for the indirect cost dollar amount is **I** (indirect cost dollar amount) = **R** (indirect cost rate) x **G** (direct cost dollar amount).

In entitlement programs such as the Title I, Basic State Grant Programs, the indirect cost rate would be established on the basis of the second preceding year financial data for all appropriate expenditures. This value **R**, after approval by the South Carolina Department of Education, would be used in the formula.

To determine **I** (the *indirect cost* dollar amount) and **G** (the *direct cost* dollar amount), you must first identify the total entitlement or fixed grant amount already established by the award.

From this dollar amount, subtract costs computed for Facility Acquisition and Construction (**C**), Debt Service (**D**), and Other Charges (**T**). The remainder is the sum of the indirect cost dollar amount (**I**) and the direct cost amount (**G**).

For simplicity of the formula, assume an indirect cost rate (**R**) of 2.5 percent (.025) and give the direct cost dollar amount (**G**) its value of 100 percent (1.000) as representing the total direct costs.

Example

Fixed grant amount	\$927,000
Less	
Facility Acquisition and Construction (C).....	\$23,000
Debt Service (D)	-\$3,000
Other Charges (T)	<u>-\$1,000</u>
Sum of indirect cost and direct cost (I + G).....	\$900,000

Indirect Cost Rate (**R + 100% direct costs**, .025 + 1.00) = 1.025

Direct cost dollar amount (\$900,000 / 1.025)

G = (I + G) / (R + 100% direct costs) \$878,049

Indirect cost dollar amount (.025 x \$878,049)

I = RG.....\$21,951

D. Determining Indirect Cost Dollar Amounts for Restricted Competitive Grant Programs

In a restricted (“supplement, not supplant”) competitive grant program or contract, the indirect cost amount (**I**) is computed as it is in other programs. For example, in the equation **I = R** (indirect cost rate) x **G** (direct cost dollar amount), **G** is a known quantity, and after the indirect cost rate (**R**) is computed, the indirect cost dollar amount is derived directly from the **I = RG** formula. The total federal grant or contract amount for a restricted competitive program equals the sum of the direct costs, indirect costs, Facility Acquisition and Construction, Debt Service, and Other Charges.

E. LEA Indirect Cost Rate Computation Example – Predetermined Rate

Fiscal Year 2019-20 Indirect Cost Rate - Predetermined Rate Calculation						
	Indirect Costs Actuals for 2017-18	\$ 21,951.00	=		0.0250	
	Direct Costs Actuals for 2017-18	\$ 878,049.00				
	Indirect Cost Rate for 2015-16	Indirect Cost Rate for 2016-17	Indirect Cost Rate for 2017-18	Indirect Cost Rate for 2018-19	Calculated Indirect Cost Rate for 2019-20 with Actual Expenditures	
LEA	0.0745	0.0478	0.0595	0.0761	0.0250	
Average Indirect Cost Rate for Most Recent 5 years		Predetermined Discount (5%)		5% Discount	Average Indirect Cost Rate Minus 5% Discount Equals Indirect Cost Rate	Indirect Cost Rate for LEA for Fiscal Year 2019-20
0.0566	X	0.05	=	0.0028	0.0538	5.38%

F. LEA Indirect Cost Rate Cap

The South Carolina Department of Education will use the formula above to calculate each LEA's indirect cost rate. However, if the restricted indirect cost rate exceeds 10% or if the unrestricted indirect cost rate exceeds 20%, the South Carolina Department of Education will cap the LEA's restricted indirect cost rate at 10% and the LEA's unrestricted indirect cost rate at 20%.

Part II

Special Instructions

This plan has been designed to conform to the statewide financial accounting system utilized by all South Carolina school districts. The LEA should review the following specific information prior to checking the indirect cost proposals:

- A. Verify expenditures to the fiscal year 2023-24 audited data. Please note that if the district has a component unit, the component unit totals are included in the district's totals.
- B. Depreciation on buildings, capital improvements, and equipment is employed in computing the unrestricted rate. This computation is based on the actual cost. However, where actual cost records have not been maintained, a reasonable estimate of original acquisition cost may be used. The computation will exclude any portion of cost donated or borne directly or indirectly by the federal government.
 - The cost of land also is excluded. When the depreciation method is used, adequate property records must be maintained. Any generally accepted method must be consistently applied for any specific asset or class of assets.
 - Depreciation on idle or excess facilities is not allowable.
 - The information for depreciation is submitted on the Supportive Information Sheet that is due annually by *December 1* with the submission of the annual audit report.
- C. Check the indirect cost proposals carefully. Sign the certification statement and return to:

auditingervices@ed.sc.gov

A certified and approved copy of each proposal will be returned to the LEA. If there are any errors, the LEA should make corrections on the proposals prior to submission.