

# H10 - Indirect Cost Recovery

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*87th MSBO Annual Conference & Exhibit Show*

*Thursday, April 23, 2026*

# AGENDA

**Indirect Cost Rate Overview**

**The Rate Process & Timeline**

**26-27 Updates**

**District Role**

**Clearing Up Confusion**

**Multi-Year Grants**

# INDIRECT COST RATE OVERVIEW

## What Are Indirect Costs?

Indirect costs are expenses that benefit multiple programs or activities and cannot be easily attributed to a single program. Examples include administrative salaries, utilities, facility maintenance, and general office supplies.

## Purpose of the Indirect Cost Rate

The indirect cost rate allows districts to recover a fair share of administrative and overhead costs from federal grants, ensuring that grant funds support not only direct program activities but also the infrastructure that makes those programs possible.

Types of Indirect Cost Rates	Cap
Restricted	15%
Unrestricted	15%
Special Education	15%
Medicaid	25%

## How Is the Indirect Cost Rate Calculated?

The rate is calculated by dividing total indirect costs by total direct costs.

Indirect Costs:	\$50,000
Direct Costs:	\$250,000
Calculation:	$\$50,000 \div \$250,000 = 0.20$

**Indirect Cost Rate: 20%**

# THE RATE PROCESS: OVERVIEW & TIMELINE



## Submit FID

Due November 1



## Costs Categorized

See Appendix A



## Publish Report R0418A

Posted April 20



## Preliminary Rates

Posted April 20



## Submit DS-4513

Due June 1



## Final Rates

Posted June 20



## New Rates Effective

July 1

**Michigan Department of Education**  
**Costs for the Development of 2026-2027 Federal Indirect Cost Rate**  
**01010 Alcona Community Schools**  
**Form R0418A**

	Total Expense	Exclusions	Direct or Unallowable	Unrestricted Indirect	Restricted Indirect
<b>General Fund</b>					
Instructional	5,851,380.08	45,083.81	5,806,296.27	0.00	0.00
Support Serv - Pupil	1,108,034.68	10,000.00	1,098,034.68	0.00	0.00
Support Serv - Instructional	454,067.46	0.00	454,067.46	0.00	0.00
Support Serv - Board of Ed	77,631.26	0.00	77,631.26	0.00	0.00
Support Serv - Executive Adm	255,949.00	0.00	255,949.00	0.00	0.00
Support Serv - Grant Writer	0.00	0.00	0.00	0.00	0.00
Support Serv - School Adm	542,583.15	0.00	542,583.15	0.00	0.00
Support Serv - Business	369,977.77	0.00	1,625.00	368,352.77	368,352.77
Operations and Maintenance	1,041,732.35	2,998.00	41,589.34	997,145.01	0.00
Pupil Transportation	644,551.85	28,025.00	616,526.85	0.00	0.00
Support Serv - Planning & Research	0.00	0.00	0.00	0.00	0.00
Support Serv - Communication	22,929.50	0.00	22,929.50	0.00	0.00
Support Serv - Staff & Personnel	332.50	0.00	332.50	0.00	0.00
Support Serv - Technology	339,585.42	0.00	6,678.00	332,907.42	332,907.42
Support Serv - Pupil Accounting	0.00	0.00	0.00	0.00	0.00
Support Serv - Central - Other	0.00	0.00	0.00	0.00	0.00
Support Serv - Other	239,603.04	0.00	239,603.04	0.00	0.00
Community Services	1,854.88	0.00	1,854.88	0.00	0.00
Payments to Government Agencies	0.00	0.00	0.00	0.00	0.00
Facilities Acquisition	90,521.97	90,521.97	0.00	0.00	0.00
<b>Special Revenue Funds</b>					
Instructional	0.00	0.00	0.00	0.00	0.00
Support Serv - Pupil	0.00	0.00	0.00	0.00	0.00
Support Serv - Instructional	0.00	0.00	0.00	0.00	0.00

# IMPORTANT CHANGES FOR 26-27 SCHOOL YEAR

## NEW THRESHOLDS EFFECTIVE FOR THE UPCOMING FISCAL YEAR

### Equipment Capitalization Threshold

Current:

**\$5,000**



New:

**\$10,000**

#### IMPACT:

To use the new federal equipment threshold of \$10,000, districts must update their capitalization policy to match. Items between \$5,000 and \$10,000 will now be classified as supplies rather than equipment, affecting how those costs appear in the indirect cost rate.

### Major Contract Threshold

Current:

**\$25,000**



New:

**\$50,000**

#### IMPACT:

For 26–27, the indirect rate will be applied to the first \$50,000 of each major contract (previously \$25,000). When completing the DS-4513, exclude amounts above \$50,000 instead of the old \$25,000 threshold.

#### ACTION REQUIRED:

Districts should review accounting practices and ensure proper classification of equipment and contracts under the new thresholds beginning July 1.

# DISTRICT ROLE & RESPONSIBILITIES

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## 1. Update Business Manager Contact

Ensure your district's business manager contact information is current in the Educational Entity Master (EEM) system annually.

## 2. Review Data

Examine the Costs for the Development of Federal Indirect Cost Rates (Form R0418A) to verify accuracy.

## 3. Make Adjustments Using DS-4513

Submit the DS-4513 Excel file by June 1 to make necessary exclusions or adjustments.

## 4. Monitor Subcontracts

Track subcontracts greater than \$50,000 (increased from \$25,000). Indirect costs apply to the first \$50,000 per contract per award period per year.

## 5. HOC Requirement

Districts with membership greater than 2,999 must comply with Head of Component (HOC) requirements.

### GOOD DATA STARTS WITH YOU

- Follow accounting guidance
- Follow accounting structure
- Report accurately in the FID

# REAL LIFE EXAMPLES

Accurate Coding Lets MDE Do More  
of the Heavy Lifting on Indirect Rates

## 1 COVID Relief Funds

- A huge influx that could have destabilized district rates
  - Accurate coding allowed the impact to be smoothed over multiple years
  - Districts avoided major swings without taking on extra work
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## 2 MPSERS One-Time Payment

- We tried to spread the impact, but coding issues got in the way
- Grant code 263 was required for this payment
- Some districts skipped the code; others used it but reported mismatched amounts in the FID

# PROPER RECORDING OF INDIRECT RECOVERY



# PROPER RECORDING OF INDIRECT RECOVERY

## DISTRICT ROLE

### Appendix – Definitions of Account Codes – Expenditure Object/Activity Codes

Object Code	Allowable Functions	Object Name/Description
9900		To be used for recording transactions that have little or no effect on fund balance. (Examples, Indirect Cost Recovery and Program Changes)
9990	6xx	Indirect Cost Recovery

### Example: Recording the recovery of indirect costs in the appropriate grants.

*(Fund, Transaction Code, Object, State Code)*

Type	Account	Amount
Debit	11-1-611-9990-6013	\$10,000
Debit	11-1-611-9990-6213	\$5,000
Debit	11-1-611-9990-7623	\$2,000
Debit	11-1-611-9990-7653	\$3,000
Credit	11-1-611-9990-0000	\$20,000

# CLEARING UP CONFUSION:

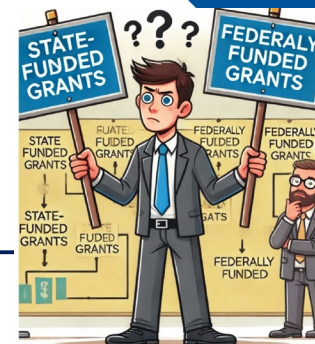
ADDRESSING FAQs

&

MISCONCEPTIONS



# FEDERAL FUNDING USAGE AND STATE LAW LIMITATIONS



## Indirect Cost

Indirect costs represent the administrative and overhead expenses necessary to support **federal programs**. Federal regulations allow recovery of these costs through approved indirect cost rates.

## Administrative Costs

Administrative costs overlap with indirect costs but may be charged directly to a grant **only when the cost can be specifically tied to that program**. Once a cost is treated as direct or indirect, it must be treated that same way across all programs.

## Statutory Interpretation

State law must be applied exactly as written. We cannot assume flexibility that is not explicitly stated.

## Direct Billing

Some administrative costs may be billed directly when the work is specific to that program. Keep in mind: a cost treated as indirect in one program cannot be charged as a direct administrative cost in another.

# COMMON MISCONCEPTIONS

## MYTH BUSTERS VERSION

### MYTH

#### Indirect Recovery is Based on Award Amount

#### REALITY

Indirect cost recovery is based on actual eligible expenditures, not the total award amount. You recover indirect costs on what you spend, not what you're awarded.

### MYTH

#### I Am Always Allowed to Recover Indirect at My Approved Rate

#### REALITY

Some federal grants have statutory caps or restrictions on indirect cost recovery. Additionally, certain costs are excluded from the calculation base, limiting recovery.

### MYTH

#### LEAs Can Use the De Minimis Rate

#### REALITY

Under 2 CFR 200.414(f), the de minimis rate is only available to entities that do not have a current federally negotiated indirect cost rate. Because all Michigan districts have negotiated rates, they are not eligible to use the de minimis rate.

### MYTH

#### Districts Must Recover Indirect Costs

#### REALITY

Indirect cost recovery is optional, not mandatory. Districts may choose not to recover indirect costs on specific grants for strategic or programmatic reasons.

# MULTI-YEAR GRANTS & INDIRECT COST RATES

## Applying Indirect Cost Rates for the Appropriate Year

### Example: LEA XYZ NICRA Agreements

	NICRA (A)	NICRA (B)
Effective Period	July 1, 2020 – June 30, 2021	July 1, 2021 – June 30, 2022
Indirect Cost Rate	10%	8%

**Key Rule:** Expenditures incurred during fiscal year 2021 must use NICRA (A). Expenditures incurred during fiscal year 2022 must use NICRA (B).

Expenditure Incurred	Indirect Cost Rate Applied
June 15, 2021	(A), 10%
July 15, 2021	(B), 8%

### Critical Principles:

- **Use rate in effect when expense is incurred** – The indirect cost rate that applies is determined by the date the expenditure was incurred, not when the grant was awarded or when funds are drawn down.
- **Drawdown once per fiscal year (minimum)** – Districts must draw down indirect costs at least once per fiscal year to ensure proper recovery and compliance.

### Not drawing indirect at the appropriate time will result in:

- Noncompliance with federal grant requirements and state regulations
- Misrepresentation of actual indirect costs recovery in financial reports
- Unnecessary fluctuations in future rates due to improper timing of recoveries

# ITEMS EXCLUDED FROM THE INDIRECT COST RATE CALCULATION

## For General Fund, Special Revenue Fund, Trust Fund, and Enterprise Fund

Certain items are excluded because they do not represent ongoing operating costs, do not generate proportional administrative burden, would distort the rate if included, and federal methodology requires consistent treatment across districts.

### AUTOMATICALLY EXCLUDED ITEMS

#### Object Codes Starting With:

- "6" – Capital Outlay
- "56" – Resale Supplies and Materials (includes cost of food for food service)
- "71" – Redemption of Long-term Bonds, Loans and Capital Leases
- "72" – Interest on Debt
- "73" – Other Financing and Debt Expenditures
- "75" – Claims and Judgments
- "76" – Taxes Abated and Written Off
- "85" – Sub Grantee Disbursements

#### Function Codes and Funds:

- Function codes starting with "44" – Sub Grantee Payments (Flow Through Grants)
- Debt Service Function 51X
- Capital Project Fund 4X
- Internal Service Fund (costs would be duplicated in other funds) 8X
- District Wide Reporting 9X

### ITEMS DISTRICTS MAY MANUALLY EXCLUDE VIA DS-4513

- Fines and Penalties
- Election Expenses
- Any excludable costs paid to Other Governmental Agencies reported in function codes starting with 41, 42, and 43
- Costs reported under the Enterprise Fund that are duplicated because they are also reported in another fund
- The amount over \$50,000 for any major contract related to a federal grant **UPDATED**

### MAJOR CONTRACTS

For any major contract related to a federal grant, indirect should be charged only on the first **\$50,000 UPDATED** of the contract.

When a contract crosses fiscal years, you may apply the indirect rate to the first \$50,000 in each year.

# BEST PRACTICES FOR MANAGING INDIRECT COST RECOVERY

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## 1 Track Deadlines and Drawdowns

Create a calendar with key dates for FID submission, DS-4513 filing, rate publication, and grant drawdown schedules. Use automated reminders in your financial management system to alert staff of upcoming deadlines. Assign clear responsibility for monitoring compliance.

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## 3 Document Exclusions

Maintain clear documentation for any manual exclusions made via DS-4513, including the rationale and supporting calculations.

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## 5 Coordinate with Grant Managers

Establish regular communication between business office staff and program directors to ensure indirect costs are drawn down appropriately on all eligible federal grants.

## 2 Review Rates Annually

When new rates are published each June, review them carefully and compare to prior years. Investigate significant changes and ensure they align with your district's financial activities.

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## 4 Train Staff on Proper Coding

Ensure that business office staff understand proper account code usage.

# RESOURCES

## [Indirect Cost Rates Webpage](#)

Access current and historical indirect cost rates, guidance documents, and FAQs.

## [Michigan Public School Accounting Manual](#)

Authoritative source for accounting structure, object codes, and reporting requirements for Michigan school districts.

## [State School Aid Updates](#)

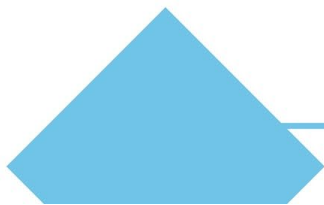
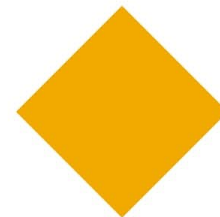
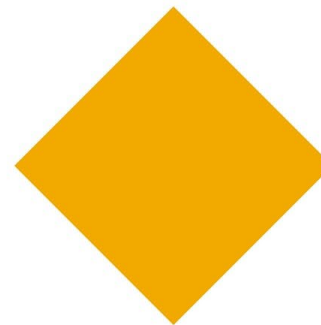
Stay informed about changes to state funding and reporting requirements.

## [MDE Memos](#)

Official communications from the Michigan Department of Education on policy changes and deadlines.

## [2 CFR Part 200](#)

Federal regulations governing administrative requirements, cost principles, and audit requirements.





# THANK YOU

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