

**Race to the Top Program**  
**Guidance and Frequently Asked Questions**

*Addendum 8*  
*May 20, 2010*

**C-9. How may a State include indirect costs in its Race to the Top budget?**

Indirect costs represent the expenses of doing business that are not readily identified with a particular grant project function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs. Indirect costs are generally administrative costs such as the salaries and expenses for staff engaged in organization-wide (general) activities. Typical indirect costs include the costs of procurement, payroll, personnel functions, maintenance and operations of space, data processing, accounting, auditing, budgeting, or communications. A cost may not be allocated as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned as a direct cost.

A State may include indirect costs in its Race to the Top budget. If a State chooses to include such costs, it must use a current approved indirect cost rate found in its Indirect Cost Rate Agreement.<sup>1</sup> The indirect cost rate must be applied in accordance with the terms and procedures in the Indirect Cost Rate Agreement. The Department recommends that an applicant review its Indirect Cost Rate Agreement and work closely with State staff familiar with the agreement as it drafts its Race to the Top budget.

There are two types of indirect costs rates that States can get approved by the Department: restricted and unrestricted. If a State chooses to include indirect costs in its Race to the Top budget proposal, and it has an approved unrestricted cost rate, it may use that rate.

A State may apply its indirect cost rate against subawards only to a very limited extent. In particular, a State may apply its indirect cost rate only against the first \$25,000 of each subaward (i.e., each sub-grant or contract) on a yearly basis (subject to that being consistent with its Indirect Cost Rate Agreement), and not against the full amount of each subaward. Therefore, for example, a State may apply its indirect cost rate only against the first \$25,000 of each contract included in line 6 (Contractual). [Note: The statement on pages 56 and 58 of the application that indirect costs are not allocated to lines 11-12 may be disregarded.]

For more information about indirect cost rates, please refer to the Department's *Cost Allocation Guide for State and Local Governments*. This guide may be found at: <http://www2.ed.gov/about/offices/list/ocfo/fipao/guideigcwebsite.pdf>.

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<sup>1</sup> If a State does not have an Indirect Cost Rate Agreement that was approved by the Federal government, the Department generally will authorize grantees to use a temporary rate of 10 percent of budgeted salaries and wages subject to certain limitations. These limitations include: (a) the grantee must submit an indirect costs proposal to its cognizant agency within 90 days after the Department issues a grant award notification; and (b) if after the 90-day period, the grantee has not submitted an indirect costs proposal to its cognizant agency, the grantee may not charge its grant for indirect costs until it has negotiated an indirect cost rate agreement with its cognizant agency.