INDIRECT COST RATE PROPOSAL

CERTIFICATION INSTRUCTIONS FOR INDEPENDENT SCHOOL DISTRICTS

September 2026

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Introduction

The purpose of this handbook is to provide specific instructions on how to review, approve, and certify the Indirect Cost Rate Proposal (ICRP), which can be found in the **ICRP** folder in GFFC Reports and Data Collections. Once you certify and submit the **ICRP Certification** page, the ICRP will be considered the official document containing your approved final restricted and unrestricted indirect cost rates for the 2027–2028 school year.

Process for Requesting an Indirect Cost Rate for Independent School Districts (ISDs)

Effective with the 2018–2019 school year, ISDs may request an indirect cost rate each year by completing and submitting the Indirect Cost Rate Proposal (ICRP) Additional Costs Workbook (ACW). The deadline for submitting the workbook, and thereby requesting an indirect cost rate for the 2027–2028 school year, is January 15, 2027.

The submission of the ICRP ACW serves as an ISD's official request for an indirect cost rate. Rates will be calculated only for ISDs that submitted a completed ICRP ACW. If an ISD does not submit a completed ICRP ACW, TEA will not calculate or issue a rate for that ISD for the 2027–2028 school year.

TEA publishes the requested indirect cost rate for every school district by July 1 of each year. The indirect cost rates will be effective from July 1 of the year in which they are issued through June 30 of the following year.

Date	Action
January 15, 2027	Due date for ISDs to request an indirect cost rate for 2027–2028 by submitting the ICRP ACW.
May 14, 2027	Due date for ISDs to submit ICRP Certification in GFFC Reports and Data Collections.
July 1, 2027	Indirect Cost Rate notification letters posted by TEA in GFFC Reports and Data Collections, accessible through TEAL.

ICRP

The ICRP will be uploaded to GFFC Reports and Data Collections by the Federal Fiscal Compliance and Reporting (FFCR) Division. The ICRP is a compilation of PEIMS data and ISD-submitted data used to calculate the restricted and unrestricted indirect cost rates for your ISD. Data sources include:

- ICRP Additional Costs Workbook (ACW), an Excel workbook that ISDs submit to TEA with data needed to calculate their indirect cost rates
- TSDS/PEIMS Expenditures and Staff Counts data

ICRP Certification

The ICRP Certification is the ISD's approval and acceptance of the data contained within the ICRP (uploaded by TEA after combining ACW and PEIMS data) and the final restricted and unrestricted indirect cost rates generated within the ICRP. Submission instructions are included in a later section: *Submitting the Approved ICRP Certification to TEA*.

Classification of Costs

To understand how TEA calculates indirect cost rates, it is important to understand how actual costs must be classified into categories. Federal guidelines stipulate that all of your school district's actual costs must be classified into one of the four categories described in the following sections. Please note that you must be consistent when classifying costs. For example, if you classify an item as a direct cost, a similar item used for the same purpose in another functional area must also be classified as a direct cost.

Excluded Costs

Excluded costs are those costs that are extraordinary or distorting. They cannot be used in the indirect cost rate calculation. Examples of excluded costs include, *but are not limited to*, the following:

- Capital outlay (such as capitalized land, buildings, and improvements)
- Items in a capital project fund, including items not considered capital (such as architectural fees)
- All debt (inside or outside a debt service fund)
- Federal subgrants to other entities (any costs over $50,000 per year)
- Payments to fiscal agents and member districts of shared service arrangements (except for payments made with federal funds of up to $50,000 per year)
- Pass-through funds to other entities (except the first $50,000 of federal funds per year)
- Food and milk
- School Board (702)
- Tax Office (703)
- Terminal Leave
- Contingencies (funds set aside for possible future expenses, such as lawsuit settlements or refunds to TEA)

Unallowable Costs

Unallowable costs are those designated as unallowable in Title 2 of the Code of Federal Regulations (2 CFR), parts 200.420–200.476, General Provisions—Considerations for Selected Items of Cost. These costs cannot be funded with federal grant funds; however, they are included in the calculation of your school district's indirect cost rate.
Examples of unallowable costs include, *but are not limited to*, the following:

- Bad debts (Bad debts are funds owed to your school district that your school district is responsible for paying to another entity, such as money owed by students for school lunches that your school district must pay to a food service entity. Any related legal and collection costs are also unallowable.)
- Entertainment costs
- Fines and penalties
- Contributions and donations to outside organizations

Direct Costs

Direct costs are those costs related to a specific cost objective such as a grant program, an instructional program, or one phase of an operation. TEA uses direct costs to calculate your school district's indirect cost rate. Examples of direct costs include, *but are not limited to*, the following:

- Compensation of the employees who work on the program
- Supplies and materials for the program
- Equipment purchased and used for the program
- Travel expenses incurred to carry out the program

Indirect Costs

Under 2 CFR 200.56, indirect (facilities and administrative) costs are costs incurred for a common or joint purpose that benefit more than one cost objective and cannot be readily assigned to the cost objectives specifically benefited without an effort disproportionate to the results achieved. TEA uses indirect costs to calculate your district's indirect cost rate. Examples of indirect costs include the following:

- Costs that benefit the entire organization, such as accounting and fiscal management, payroll, human resources, accounting, occupancy and space maintenance for agency-wide services, agency-wide strategic planning, and executive management, including the salaries and expenses of employees who perform these activities
- Fixed costs of the employees related to indirect (facilities and administrative) costs, including retirement, unemployment compensation, health insurance costs, and contributions to fringe benefits

Calculation of Indirect Cost Rates

TEA uses this classification of actual costs to calculate an ISD's indirect cost rate. The calculation is based upon a simple ratio of your school district's indirect costs to your modified total direct costs (MTDC).

The numerator in this ratio is your school district's indirect cost pool. The indirect cost pool is the total of all of your school district's indirect costs.

The denominator is your school district's MTDC base. The MTDC base is the total of all of your school district's direct costs and unallowable costs.

TEA includes some specific indirect costs in the numerator to calculate the unrestricted indirect cost rate and then moves them to the denominator to calculate the restricted indirect cost rate. These specific indirect costs are related to certain school district employees, such as the superintendent and chief executive officers within your school district. The costs associated with these positions are indirect (facilities and administrative) costs when paid with local and state funds. However, for purposes of calculating the restricted indirect cost rate, these costs must be moved from the indirect cost pool to the MTDC base in the restricted rate calculation.

Dividing the numerator by the denominator results in a preliminary indirect cost rate:

Indirect cost pool ÷ MTDC base = preliminary indirect cost rate

Example: $120,000 ÷ $2,000,000 = 0.06, or 6%

TEA then applies a 10% discounting factor to calculate the final indirect cost rate. This discounting factor is applied as required by the USDE delegation agreement. The discounting factor is intended to account for fluctuations in your financial data over those three years and mitigate the possibility that you may receive an indirect cost rate that is too high.

Applying the discounting factor to the preliminary indirect cost rate results in the final indirect cost rate:

preliminary indirect cost rate × discounting factor = final indirect cost rate

Example: 6% (0.06) × 90% (0.9) = 5.4% (0.054)

Reviewing the ICRP

The ICRP is an Excel form that has been converted to a PDF file. The following guidance explains how to review the information in the PDF document. When you have completed the review, you must **submit only the ICRP Certification form** through TEA's secure GFFC Reports and Data Collections application, which is accessible through TEA Login (TEAL). Specific instructions for uploading the certification document are included in a later section.

Financial Worksheets

The pages of the ICRP are labeled at the bottom of each page. The specific data contained within the worksheets is summarized below:

- U-1 All Years (pages 2–3) – Summary of the unrestricted rate data averaged over all three years. The calculated unrestricted rate is shown at the top of the left column.
- Restricted Rate Adj All (page 4) – Summary of the data averaged over all three years and the total amount moved from the Indirect Cost Pool to the Total Modified Direct Cost Base.
- R-1 All Years (pages 5–6) – Summary of the restricted rate data averaged over all three years. The calculated restricted rate is shown at the top of the left column.
- Supporting data for each of the 3 fiscal years used in the calculation (additional costs and TSDS/PEIMS financial data)
    - Year 1 (pages 7–10)
    - Year 2 (pages 11–14)
    - Year 3 (pages 15–18)

Certification

The first page of the ICRP is your school district's certification of the information contained within the proposal. **The certification must be signed by the school district's superintendent, chief executive officer (CEO), or chief financial officer (CFO)**. To complete the certification:

1. Print the certification page.
2. Enter the name of your school district.
3. Enter the county-district number of your school district.
4. Enter the name of the school district official who is signing the form.
5. Enter the official's title (either Superintendent, CEO, or CFO).
6. Have the Superintendent, CEO, or CFO sign and date the printed page.
7. Scan the signed and dated page.
8. Upload the scanned certification into GFFC Reports as "**ICRP Certification**."

Submitting the Approved ICRP Certification to TEA

Complete the following steps to submit your school district's completed ICRP Certification:

1. Log on to TEA Login (TEAL)
2. Select **GFFC Reports and Data Collections**.
3. Select **Upload Response Documents**
4. Select **ICRP Certification** from the "Response Template Title" pull-down menu.
5. Select **Response Document** from the "Response Doc Type" pull-down menu.
6. Select the **2027–2028** school year from the "School Year" pull-down menu.

Resources

Please refer to the Indirect Cost Rates page of the TEA website for further information and additional resources regarding indirect cost rates.

For Further Information

If you have questions about the indirect cost rate process, please email compliance@tea.texas.gov.

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