

Attachment for Information Memorandum [ACYF-IM-HS-01-13](#)
see Attachment [Venn diagram and explanation](#)

The following present in different formats a summary of the three major factors a grantee must consider when developing a Head Start budget. These are:

- The 15% limitation on the costs of development and administration that must be met by all grantees. The limitation is calculated on the total Head Start budget (Federal share plus the grantee's non-Federal share requirement.)
- The amount required for an indirect cost pool, calculated as a percentage of the total budget. This requirement applies only to multi-purpose agencies with an approved indirect cost rate determined by the cognizant Federal agency (the Federal Department which is the largest funding source for the grantee.) This amount must not cause the grantee's budget to exceed the 15% limitation.
- Cost allocation, which is required if the grantee is sharing Head Start resources with a non-Head Start program.

The chart entitled "[Distribution of Costs in a Head Start Budget](#)" shows by an "X" which of the three requirements apply to the varying agencies (single or multipurpose) and possible elements of their budget (Head Start only; Head Start plus revenue from a child care program; and Head Start plus a budget in which resources are shared with a non-Head Start program. (A grantee may have both the child care revenue and shared resources.)

The "[Summary of Cost Distribution Requirements](#)" presents the details of the requirements on one page so that the relationship of the requirements to each other may be seen.

Distribution of Costs in a Head Start Budget

		Requirements		
		15% Limitation	Indirect Cost Rate (if applicable)	Cost Allocation
Budget Type	Head Start Only Agency	X		
	• <i>plus</i> child care reimbursement			
	• <i>plus</i> resource shared with non-Head Start program			X
	Multipurpose agency (Head Start funds only)	X	X	
	• <i>plus</i> child care reimbursement			
	• <i>plus</i> resource shared with non-Head Start program			X

Summary of Cost Distribution Requirements

Below is a summary of the various requirements to distribute costs in a Head Start budget. A grantee's budget is defined as "total approved costs" at 45 CFR 1301.2; it is the total of Federal funds, including training and technical assistance funds, plus the 20% required non-Federal share. These requirements must be met independently since they are differing "slices" of a total budget. Note that the terms "cost allocation" and "cost allocation plan" apply only to the requirements under the cost principle circulars of the Office of Management and Budget (OMB) and only when a Head Start resource is shared with another program.

15% limitation and indirect costs

Single purpose Head Start agency budget

- **Limitation on costs of development and administration (45 CFR 1301.32)**
- grantee must identify in application which costs are subject to the limitation
- 15% is maximum that may be used for development and administration
- in the case of **dual benefit costs** (to both development and administration and program) grantee must identify and allocate portion for development and administration
- no indirect costs

Multi-purpose agency budget

- **All costs must be charged either**
 - directly to the project; or
 - as part of an indirect cost pool
- **Indirect cost pool** (based on OMB Circulars; relationship to 15% limit discussed at 45 CFR 1301.32(e))
 - costs in pool may be administrative **or** programmatic
 - indirect cost rate is determined by cognizant Federal agency
- **Limitation on costs of development and administration** required as for single purpose agency (above)
- regardless of indirect cost rate, **15% limitation may not be exceeded** (indirect cost pool is an administrative convenience; the 15% limit is statutory)

Cost Allocation (OMB Circulars A-21; A-87; and A-122)

- Head Start only budget (single or multipurpose agency)
 - cost allocation not required
- Head Start budget with reimbursement or revenue from other program source(s)
 - cost allocation not required
- Joint use of Head Start resource with other non-Head Start funding source(s)
 - costs of resource **must be fairly allocated** among the program source(s) so that programs share costs in accordance with the benefits derived
 - exception provided for equipment and nonconsumable supplies as defined in the Head Start Act, Section 640(a)(5)(E).



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