Understanding F&A Costs

The costs associated with organized research at the University of Minnesota fall into one of two categories (as defined by the federal government in OMB Circular A-21).

**Direct**

Direct costs are “those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.”

Examples include the portion of salary and fringe benefits of a faculty member performing an experiment or preparing a survey instrument.

**Indirect**

Also referred to as Facilities and Administrative (F&A) costs, indirect costs are “those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, instructional activity, or any other institutional activity.”

Examples include utilities, library acquisitions, compensation and fringe benefits of administrative staff, office supplies and postage.

**F&A Rate = Research F&A Costs / Modified Total Direct**

The sum of all indirect costs incurred in support of research activities within a fiscal year and assigned to one of several cost pools within the facilities or administrative categories

The sum of all direct costs attributable to organized research (i.e. total direct costs) minus certain direct costs

**F&A Costs at the U of M**

59.72%

- **General admin**: 8.79%
- **Departmental admin**: 19.09%
- **Sponsored projects admin**: 3.78%
- **Building depreciation**: 4.82%
- **Equipment depreciation**: 4.31%
- **Interest**: 0.98%
- **Operations & maintenance**: 16.17%
- **Library**: 1.78%
- **Projections**: 3.60%

52%

- **General admin**: 7.22%
- **Departmental admin**: 15.67%
- **Sponsored projects admin**: 3.11%
- **Building depreciation**: 4.00%
- **Equipment depreciation**: 3.50%
- **Interest**: 0.80%
- **Operations & maintenance**: 13.30%
- **Library**: 1.60%
- **Projections**: 1.80%

26%

ACTUAL

NEGOTIATED

Continued...
FACTS AND FIGURES

F&A COSTS

RATES AND RECOVERY

The calculated rate is just the starting point for a negotiation process with the U.S. Department of Health and Human Services (DHHS). This rate is immediately reduced by a cap on administrative costs that was imposed by the federal government in 1991.

While the U of M can document actual administrative costs of 31.66 percent, we are allowed to recover only a portion of these costs as a result of this cap.

The U of M’s actual on-campus F&A rate is 59.72 percent. This means that for every dollar spent on direct costs of organized research, the university spends an additional 60 cents in indirect costs that support the research.

THE IMPACT

The F&A cost component of a sponsored research project is intended to reimburse the university for the additional support needed to manage the project.

Unfortunately, even when the federally negotiated rate of 52 percent is applied to a project, we are not recovering all of our actual costs. Our average rate of recovery is closer to 34 percent. Among other factors, this is largely due to the application of a rate that is lower than our federally negotiated rate.

When a reduced F&A rate is applied to a project, the U of M must further subsidize the research. While there are circumstances under which a reduced F&A rate is appropriate, it’s important to understand the impact this loss of revenue has on the university.

Funding derived from F&A cost reimbursements provided by external sponsors is critical to the university’s operations. Under the U of M’s earned income/full cost model, 100 percent of the F&A costs recovered is returned to the college, or colleges, that generated it.

When a reduced rate is applied to a sponsored project, it will result in a reduced F&A revenue stream to the college, even though the college will still be responsible for covering its full share of F&A related costs.