

Layman's Explanation of Indirect Costs (F&A Costs)

Indirect costs are those costs that contribute to the project, but would be very difficult and time consuming to allocate the exact proportion of each that the project uses and charge according. Examples of these include things such as secretarial support, organization administration, office space, utilities, payroll staff handling paying the employees associated with the project, those in purchasing who process the purchase requests for the program, those in travel to allow reimbursement for project travel, people in grants accounting to document and track grant and matching expenditures and prepare the financial reports of the grants for the funders, people in human resources to assist in hiring of new personnel needed and their benefits, local phone service and basic office supplies. While you could track how many yellow tablets were used for the project over a year's span of time, it would not be practical nor would keeping records for how many minutes each month it took for each of the travel personnel to process and reimburse people on the grant for the expenses that they have incurred. For this reason, all of those costs are documented and "pooled" and the total is compared to the total budget for the organization. The percent of the total represented by those pooled costs is determined and what is presented to the federal negotiator. There are certain limitations that the federal government puts on how much of the organization's costs can be recovered in certain categories and these must be followed. The true costs of the organization are normally greater than the federally approved indirect cost rate.

Our federally negotiated indirect cost rate, also called the F&A rate, is 33% MTDC (modified total direct costs) as approved in the University of Arkansas's rate agreement with the Department of Health and Human Services. The Modified Total Direct Cost rate excludes equipment, capital expenditures, rental of off-site office space and the amount of each subcontract in excess of \$25,000 from the base used for calculating indirect costs.