THE UNIVERSITY OF MICHIGAN

STANDARD PRACTICE GUIDE

SECTION:	Research	**Number:**	303.2
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SUBJECT:	Indirect Costs	**Date Issued:**	
		Attachment(s)	0
APPLIES TO:			
ISSUED BY:	Office of the Vice President for Research		

Direct costs are those 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. Indirect costs are the real costs of University operations which are not readily assignable to a particular project or activity. Indirect costs can be grouped in two broad categories: (1) facilities--depreciation and use allowance, interest on debt associated with certain buildings, equipment and capital improvements, operations and maintenance expenses, and library expenses; and (2) administration--general administration and general expenses; departmental administration; sponsored projects administration; student administration and services; and all other types of expenditures not listed specifically under one of the subcategories of facilities.

A cost may be charged directly to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement, or if all costs incurred for the same purpose in like circumstances are treated as direct costs of all institutional activities. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort, the cost should be allocated to the projects/activities based on the proportional benefit.

Indirect costs may be recovered from sponsored projects if it can be demonstrated that these costs benefit both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods, or are necessary to the overall operation of the institution and, in light of the principles provided in the Federal Office of Management and Budget Circular A-21, are deemed to be assignable in part to sponsored projects.

Indirect costs are distributed to applicable sponsored agreements and other benefiting activities on the basis of modified total direct costs (MTDC), which consists of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to $10,000 each subgrant or subcontract. Equipment, capital expenditures, charges for patient care, tuition remission, rental costs, scholarships, and fellowships are excluded from modified total direct costs.

It is the University's policy to claim the maximum allowable reimbursement for indirect costs based on sound cost accounting principles. The rate that is negotiated under the provisions of OMB Circular A-21 should be included in all research grants and contracts with the federal government. In the case of non-federal sponsors, it is the University's policy to obtain as complete a reimbursement for indirect costs as possible.

Indirect cost reimbursements are included in the overall resources of the University, along with state appropriations, student fee revenue, etc., and the total resources are budgeted for operating

the University. Therefore, indirect costs recovered from sponsors are not available to operating units for expenditures except through the normal University budgetary procedures.