

# Request for Comment on FAQs to Explain Costing Issues for Core Facilities

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**Notice Number: NOT-OD-10-138**

## Key Dates

**Release Date:** September 23, 2010

## Issued by

National Institutes of Health ([NIH](#))

## Purpose

The National Center for Research Resources and the NIH Office of Extramural Research co-sponsored a meeting in July 2009 on the Efficient Management and Utilization of Core Facilities ([http://www.ncrr.nih.gov/core\\_facilities\\_management\\_and\\_utilization/](http://www.ncrr.nih.gov/core_facilities_management_and_utilization/)). One of the items discussed during that meeting was costing issues. Core facilities (sometimes known as Shared Resource Facilities) at universities, academic health centers or non-profit institutions cited difficulty in interpreting the requirements in Federal cost principles (OMB Circular A-21 and A-122), and implementing these requirements in a manner consistent with various federal funding agency imperatives. The following draft document has been created to provide NIH staff and awardees with a set of common questions and answers to aid in assuring core facilities operate in compliance with the terms of award including applicable Federal Cost Principles. NIH intends to publish a final document.

## Information Requested

NIH is seeking comment on this Draft Document. Comments could address questions/answers that are provided or could suggest additional questions to be addressed in the final document.

## Draft Document

Core facilities within educational institutions should refer to OMB Circular A-21 (2 CFR Part 220, [http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=/ecfrbrowse/Title02/2cfr220\\_main\\_02.tpl](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=/ecfrbrowse/Title02/2cfr220_main_02.tpl)), requirements for those within other non-profit organizations are covered by OMB Circular A-122 (2 CFR Part 230, [http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=/ecfrbrowse/Title02/2cfr230\\_main\\_02.tpl](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=/ecfrbrowse/Title02/2cfr230_main_02.tpl)), and core facilities in hospitals should refer to Title 45 CFR Part 74, Appendix E ([http://www.access.gpo.gov/nara/cfr/waisidx\\_09/45cfr74\\_09.html](http://www.access.gpo.gov/nara/cfr/waisidx_09/45cfr74_09.html)). The administrative and costing requirements for all NIH grants, including projects supporting Core Facilities, are referenced in the terms of award. These terms generally incorporate Title 45 CFR Part 74 which incorporates the applicable cost principles by reference.

## 1) General Information about Core Facilities

### a. What is a core facility?

Core facilities can be defined as centralized shared resources that provide access to instruments, technologies, services, as well as expert consultation and other services to scientific and clinical investigators. The typical core facility is a discrete unit within an institution and has dedicated personnel, equipment, and space for operations. In general, core facilities recover their cost of providing service in the form of user fees that are charged to an investigator's funds, often NIH or other federal grants.

### b. Are cores limited in the types of costs they may recover?

Yes. In general, a core facility's cost may be limited by the terms of award and in general may only recover the allocable, allowable and reasonable direct cost of providing a service to an investigator. This is the case when the core's infrastructure costs, commonly referred to as Facilities and Administration (F&A) or indirect costs are covered by the application of the institution's indirect cost rate. Since these indirect costs are recovered by the application of the F&A rate to the indirect cost base of an investigator's grant, a core may not collect these charges a second time.

See more about allowable direct costs below.

### c. Are there exceptions to the direct cost recovery guideline?

Yes. It is commonly accepted that core facilities which incur expenses over a certain annual threshold or generate a disproportionate share of F&A burden that should be excluded from the institution's research cost base for the purpose of distributing costs (Example A-21 E.2.c. 3&4). Such a core is often referred to as a specialized service center or facility, and generally must recover both direct and indirect costs in the fees charged to users. A-21 and A-122 do not specify an annual threshold amount but based on guidance from the HHS Division of Cost Allocation, the threshold is currently considered to be \$1,000,000 in annual expenses. Animal Care facilities at most institutions operate as specialized service centers. An increasing number of other types of core facilities are transitioning to this full cost recovery model. This model can make more transparent the appropriate allocation of costs applicable to operations and so assure other activities do not subsidize the activities of the core facility.

### d. Can one core support another?

Within the provisions of applicable cost principles institutions have flexibility in defining specialized service facilities and core facilities. It is possible for an institution to group multiple types of instruments/services under a centralized core infrastructure. Such an organizational structure may spread costs among subcomponents of the central core (for example, a mass spectrometry component and a microscopy component). The cost circulars do not require that the core as a whole break even, only that the cost allocations are consistent with the cost principles and the charge for service is adjusted to assure that there is no over-recovery/overcharge.

In general, the charges for one core can't directly subsidize the implementation or operations of

another core. However, if a core benefits or utilizes the services of another core; then appropriately determined and documented charges can be incorporated into the core utilizing the services. Accordingly, the rates for a service should include only the costs of that service, and investigators should be charged only the cost of the service that they are using. For example, if a core facility provides a range of integrated services for a generally overlapping set of investigators (e.g., RNA-sequence sample preparation and next generation sequencing data generation), then one service in a core can support another (i.e., the fee revenues from one service can support another service in the core; provided the institution has in place controls necessary to assure expenses are allocated on a reasonable and consistent basis, are not double billed and rates are adjusted to address over/under recoveries).

#### **e. How should institutional contributions be accounted for?**

If the institution contributes funds to the operation of the Core Facility, this support should be included in the requested budget for support of the core by describing the support (for example, salaries for staff who will work on the core but will not be charged against NIH funding) with either no costs requested or less commonly as the “non-federal share”. These commitments are considered “committed cost sharing” when the project is awarded. Such costs need to be appropriately burdened with F&A costs. The institution could also specify that its funds be used to subsidize costs for specific classes of users as outlined above.

## **2) Charges to Users**

#### **a. How should core facilities set charges for users – particularly for use on federally funded projects?**

The costs of services provided by highly complex or specialized facilities operated by the institution are allowable provided they are budgeted and accounted for in accord with applicable Federal Cost Principles and the charges for these services take into account any income or other applicable credits. (See: Section J. 47 of OMB Circular A-21 and Attachment B # 46 of OMB Circular A-122)

#### **b. What are the considerations for determining appropriate charges?**

- The costs of core facility services must be charged directly to the applicable awards in the form of user fees, charges or rates.

Rates must be based on actual usage of the services.

- The schedule of rates should be established using a documented method.
- Rates may not discriminate against federally supported activities of the institution, including usage by the institution for internal purposes.
- Rates must be designed to recover only the aggregate costs of the services. The costs of providing each service normally consist of its direct costs only, or its direct costs and its allocable share of all F&A costs in the case of a specialized service center/facility.
- Rates shall be adjusted at least every other year, and shall take into consideration any operating deficit or surplus of the previous period(s).
- Records must be retained and made available to federal official as required by 45 CFR 74 .53

### **c. What are typical allowable costs for determining rates?**

Typical allowable direct costs may include:

- Labor (salary and fringe for staff)
- Operating supplies and materials
- Service contracts for core equipment
- Depreciation on non-federally purchased equipment

This list is not comprehensive. Refer to OMB Circular A-21 Section J or the other cost principles as applicable for more details.

### **d. What are types of costs that are unallowable or excluded for determining rates?**

Some examples include:

- Debt principal payments and interest
- Advertising
- Alcoholic beverages
- Bad debts
- Contributions and donations
- Entertainment expenses
- Fund raising
- Public relations

This list is not comprehensive. Refer to OMB Circular A-21 Section J or the other cost principles as applicable for more details.

### **e. What is an aggregated cost?**

An aggregated cost for a service is the sum of the direct cost for the service and any allocable share of the F&A costs used when the service is performed.

### **f. Is it acceptable to estimate costs in determining initial rates that will be charged new services?**

Yes. Initial rates may be developed based upon estimates of how actual costing will accrue and apply. These rates must be adjusted to reflect actual costing as required by the applicable cost principles. Some key principles include:

- You may group homogeneous costs in order to cover those cases where it is not practical to itemize costs. For example: instead of itemizing each pipet tip and test tube used in providing each service every time it is performed, it is acceptable to determine an average or estimated consumable supply cost that will apply across all users of a given service.
- The method for estimating costs should be applied consistently within the core and without discriminating against any one user.
- The method and details involved in any cost estimate must be documented and available for review by the institution or funding agency as appropriate.

## **g. How should Core Facilities Recover F&A Costs from Users?**

The aggregate costs of services at a Core Facility include both direct costs and appropriate F&A costs. If NIH has made an award that partially or totally supports a core facility, the costs of the facility will be included in the F&A base of the award. For all users of the Core Facility, the appropriate F&A costs should be allocated as part of the cost to use the facility.

### **3) General core operating principles**

The general best practice for a core facility is to ensure that:

- The costs of providing service are allowable, allocable, consistently applied and reasonable.
- The rates established to recover these costs are documented and systematically evaluated against actual cost and revised on a regular basis to reflect actual costs (see A-21 J. 47).
- These rates are charged to all users on a consistent basis, regardless of funding source(s) and employing a principle of “one service, one rate”.

#### **a. Can a core facility purposefully accumulate profit?**

No. Any operating surplus must be applied overall to reduce the rates charged to all users. It is not appropriate to “bank” funds for expenses that may be incurred in future years. In general, core facilities are expected to operate in a revenue neutral manner, recovering only their cost of providing service.

#### **b. Can a core use an unexpected operating surplus to purchase equipment?**

No. The acquisition cost of new equipment may not be charged to current users.

Acceptable methods of acquiring equipment for a core facility include:

- Recovery of existing equipment depreciation expense in user fees. The accumulated credits from this portion of the service rates can be used toward purchase of new equipment.
- Institutional or other funding
- Shared instrumentation grants or other grant programs designed to establish or support shared resources. Note: the cost of equipment supported on these programs cannot be recovered as depreciation on rates applied for the facility.

See the Depreciation section for more information.

#### **c. My core provides a project-level service that may take months to complete, and may be subject to change in scope or cost as the project moves forward. How can I develop an acceptable system of custom charges?**

It is understandable that at a project-level, there may be services for which it is difficult to determine a standard rate to charge per project. However, the core may establish definable billable units of service or set up accounts to accumulate costs that can be accumulated into a specific project cost. Each billable unit is subject to the federal cost principles outlined in OMB Circular A21/A122, and should consist of a definable service and appropriately identified and allocated costs. By documenting each billable unit as part of regular rate review/development and consistently using

these units and other allowable costs to build a custom project-level service, the core will be in a position to support specific charges to projects benefiting from the service.

**d. How often should my core bill for usage?**

Billing should occur at regularly intervals to assure timely and accurate accounting and cost recovery. Many institutions bill on a monthly basis, but other cycles can be implemented as appropriate.

**e. Can my core bill now for work that will be performed later?**

No. All billing and cost recovery must be based on services provided (i.e., after service has been provided and expense has been incurred). Billing in advance or receipt of pre-payment is not allowable. However, you may choose to divide the work into smaller billable units in order to quickly recover partial costs for long-term project work. For example, if your core needs to purchase specialized reagents or supplies to perform work for a specific project, you may bill the user for these costs once the purchase has been made, and bill a separate charge for completion of work later.

**f. If a core director or other staff scientist is awarded a shared instrumentation grant, may the PI of that grant and other co-PIs be charged discounted user fees as a benefit of the award?**

No. User fees that have been appropriately developed will not include any costs associated with acquisition of the new shared instrument supported by a NIH grant or other Federal project. So, there is no basis for a discount or credit to be applied.

**4) Accommodating Different Types of Rate Payers**

**a. Where do funds to pay fees or rates come from?**

Funds to pay user fees may come from a variety of sources: federal and other grants and contracts, institutional funds, or other sources of funds. Regardless of the source of funding or combination of funds used, the principle of a single specific charge for a defined service or product must be observed when federal funding is involved.

For example, a senior PI in a tenure track position with external support may be required to pay the list price of the service or material provided by the facility. However, charges to junior faculty might be lower or waived if some other source of funding (e.g., an institutional fund) will make up the difference. Charges to members who participate in a particular sponsored project may also be lower than the established price schedule, as long as, the difference is charged to the sponsored project. In all examples, the same cost for each unit of usage must be recovered. It is not allowable to offset lower rates to some users by applying higher rates to other users.

**b. How can my core acceptably bill usage to users with multiple agency funding?**

Many biomedical institutions have investigators funded by multiple federal agencies. Different federal funding agencies, while all applying Federal cost principles, may incorporate slightly

different administrative and costing requirements as terms of a grant award. In order to accommodate these requirements but serve all users, a core may develop separate documented service lines to meet agency program requirements. Each of these service lines must be managed in accord with the applicable cost principles and be adjusted to reflect actual cost as described above.

**c. Is it allowable for core facilities to be subsidized for particular sets of users or grants?**

The use of the core facility must be allocated at the same rate for all users. However, some grant programs may provide resources to stimulate research for a particular disease and for the purpose of assuring the stability of critical shared resources for particular constituent groups of investigators at an institution (e.g., CFAR, CCSG, CTSA, etc.). In these cases, individual usage may be subsidized at an appropriate level. For example, NCI funds provided under a Cancer Center Support Grant specifically support cancer research by Cancer Center members. Thus, resource usage by Cancer Center members may be supported in whole or in part through appropriate charges to the Cancer Center Support Grant award. While the overall rate cannot be different for different users, Cancer Center members will only need to pay any remaining (non-subsidized) portion of the standard rate. Members of a particular academic department could also pay lower rates as long as the Department's (non-federal) account has been billed for the difference.

**d. Are there any circumstances when one federally-supported project may be charged a reduced or discounted rate compared to another?**

No. Rates used to charge the cost of the service must be consistently charged to all federally-supported projects, using the "single service for a single cost" principle.

**e. If an investigator acquires an instrument on a project and this instrument is assigned to a core facility, can the investigator's usage be given preferential treatment (e.g., giving samples from the donating investigator priority in the instrument's sample processing queue; allowing only the donating investigator or members of the donating investigator's group hands-on access to the instrument; and/or allocating a defined percentage of capacity of the instrument exclusively for the use of the donating investigator).**

Yes, provided that it can be clearly shown: (1) the preferential treatment does not constitute the equivalent of a reduced rate; (2) preferential treatment for any investigator does not increase the rates for any other investigators, particularly instrument users with federally supported activities; (3) the preferential treatment is clearly defined in operating policies and procedures and any written agreement; and (4) similar terms are available to any investigator willing to donate equipment.

For equipment purchased in whole or part with Federal research grant funds, the title to the equipment generally passes to the grantee (generally with limited authority for the funding Federal entity). The grantee has the authority to direct the usage of the equipment. It would certainly be expected that the equipment would be available for the research that was proposed in the grant application.

## **5) Non-institutional and third-party usage**

**a. Can a third-party, for example another biomedical research institution, educational**

**institution, or commercial (for-profit) organization be charged at a different rate from the institutional rate?**

Yes. NIH encourages the sharing of available research resources including core facilities at reasonable costs. So, charges to external users will need to be appropriately costed including application of any applicable Facilities and Administrative (F&A) costs and can include a reasonable additional fee in excess of the cost of the service. Accordingly, net fees should remain reasonable for the service provided to facilitate the provision of access to the core facility to external users. Such recoveries would need to be treated as program income if the costs of the core facility are supported on a NIH grant.

**b. Do charges to third parties, including commercial organizations, need to be recognized as program income if all or a portion of the cost of the service is supported with the costs provided by an NIH supported project?**

Yes. Program income is addressed in the NIH Grants Policy Statement (12/03) [http://grants.nih.gov/grants/policy/nihgps\\_2003/NIHGPS\\_Part8.htm](http://grants.nih.gov/grants/policy/nihgps_2003/NIHGPS_Part8.htm): "Program income is gross income—earned by a grantee, a consortium participant, or a contractor under a grant—that was directly generated by the grant-supported activity or earned as a result of the award. Specific terms in the Notice of Award may affect program income.

**6) Depreciation****a. What is depreciation?**

Depreciation is an accounting tool that is used to recognize and apply the cost of acquiring an instrument or piece of equipment across its useful life (generally, with a life of at least 3 years and at a cost of \$5,000 or more). Purchases below these thresholds are generally treated as supplies, which are expensed when purchased, and are not depreciated.

**b. How is depreciation used by Core Facilities in setting rates?**

Appropriately applied depreciation is considered an allowable direct cost of providing service, with some limitations discussed below.

**c. Can depreciation charges be applied to the cost of instruments and equipment purchased with Federal funds, for example the NCRN S10 Shared Instrumentation Grant program?**

No. Since the acquisition cost of the equipment was fully supported by federal funds, the core cannot recover depreciation expenses in its user fees, because inclusion would result in duplicate charges when used on a Federal project (first in the support for acquisition and again if costs are included in usage charges). However, if the source of funds for the equipment is non-federal, depreciation charges for the equipment can be incorporated in the determination of charges for the core facility.

**d. Must depreciation charges be applied to the cost of instruments and equipment purchased with non-Federal funds?**

No. For instruments and equipment purchased with non-Federal funds, institutions can allocate or not allocate depreciation charges in its usage fees or a discretionary basis, based on sources of funding and institutional policy. However, if the equipment qualified for capitalization and so depreciation, it would not be appropriate for the institution to expense as a 'current expense' of the core facility when determining charges. In this situation, when the institution decides to forgo application of depreciation charges, the institution would be waiving any reimbursement for the equipment.

## How to Submit a Response

Responses will be accepted through December 10, 2010. Responses by e-mail are strongly preferred. Please use the address [farberg@mail.nih.gov](mailto:farberg@mail.nih.gov) to submit a response. The submitted information will be reviewed by NIH staff that have an interest in this matter and may be shared with staff members from other Federal agencies.

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