
RATE TYPES ALLOWED IN CIRCULAR A-21

Circular A-21 lists four types of rates:

Predetermined rates

Negotiated fixed rates and carry-forward provisions

Provisional and final rates

Negotiated lump sum.

The following paragraphs describe each type of rate, using extracts from Circular A-21 in quotations and additional explanations.

Predetermined rates for F&A costs. “Negotiation of predetermined rates for F&A costs for a period of two to four years should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of F&A costs during the ensuing accounting periods.” The predetermined rate is based on accounting data from a base period, a recently closed fiscal year of the institution, with any adjustments for projected changes mutually agreed on between the institution and its cognizant agency for negotiation.

Negotiated fixed rates and carry-forward provisions. In the past, this was a common method of setting F&A recovery rates. A fixed rate was negotiated in advance for a fiscal year based on forecasts and compared with actual allowable costs after the year is over. “The over- or under-recovery for that year may be included as an adjustment to the F&A cost for the next rate negotiation.”

Provisional and final rates for F&A costs. “Where the cognizant agency determines that cost experience and other pertinent facts do not justify the use of predetermined rates, or a fixed rate with a carry-forward, or if the parties cannot agree on an equitable rate, a provisional rate shall be established. To prevent substantial overpayment or underpayment, the provisional rate may be

adjusted by the cognizant agency during the institution's fiscal year. Predetermined or fixed rates may replace provisional rates at any time prior to the close of the institution's fiscal year. If a provisional rate is not replaced by a predetermined or fixed rate prior to the end of the institution's fiscal year, a final rate will be established and upward or downward adjustments will be made based on the actual allowable costs incurred for the period involved."

Negotiated lump sum for F&A costs. "A negotiated fixed amount in lieu of F&A costs may be appropriate for self-contained, off-campus, or primarily sub-contracted activities where the benefits derived from an institution's F&A services cannot be readily determined." This arrangement is generally not used. Rather, for small institutions, the short form is used.