

University of Alaska
Facilities and Administrative Cost Guidelines
FY02 – FY04

A. General

The purpose and intent of this document is to establish the basis and methodology for developing the university's facilities and administrative costs. These guidelines are consistent with the Office of Management and Budget Circular A-21 (Circular A-21), and with previous Memorandum of Understanding agreements between the university and the Office of Naval Research. These guidelines may be amended or augmented from time to time, if more equitable allocation methodologies are developed or as changes in regulations or current circumstances warrant.

B. Definitions

1. Instruction represents all teaching and training activities, except for research training included in organized research identified below, whether offered on a credit or non-credit basis or whether offered through regular academic departments or separate divisions such as a summer school or extension division.
2. Departmental Research represents all research and development activities that are not Organized Research. This primarily means the activities are not separately budgeted and accounted for. Departmental Research is considered part of the instruction function for purposes of this cost allocation.
3. Organized Research is all research and development activities that are separately budgeted and accounted for. It includes research and development activities that are sponsored by federal and nonfederal agencies and organizations, as well as those that are formally budgeted through internal allocation of university funds. It also includes activities of training individuals in research techniques where such activities are not included in the instruction function.
4. Other Sponsored Activities are programs and projects financed by federal and nonfederal agencies and organizations that involve the performance of work other than Instruction and organized research. Examples of such programs and projects are health service projects and community service programs. When any of these activities are undertaken without outside support, they may be classified as Other Institutional Activities.
5. Other Institutional Activities are all activities of an institution except: (1) Instruction, Departmental Research, Organized Research, and Other Sponsored Activities, as defined above; (2) facilities and administrative cost activities identified in section F. of Circular A-21; and (3) specialized service facilities described in section J. 44. of Circular A-21. Other Institutional Activities include operation of residence halls, dining halls, hospitals and clinics, student unions, intercollegiate athletics, bookstores, faculty housing, student apartments, guest houses, chapels, theaters, public museums, public radio stations, cooperative extension, and other similar auxiliary or public service enterprises. This definition also includes "unallowable" activities as defined in A-21, Section J.
6. Direct Costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity or costs that can be directly assigned to such activities relatively easily with a high degree of accuracy.

7. Facilities and Administrative Costs (F & A) are those costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. F & A costs are synonymous with "indirect" costs, as previously used in Circular A-21 and these guidelines. Such costs are classified under the following broad categories of cost. "Facilities" is defined as use allowances and depreciation, interest on debt associated with certain buildings, equipment and capital improvements, operation and maintenance expenses, and library expenses. "Administration" is defined as general administration and expenses, sponsored projects administration, departmental administration, and student administration and services, and all other types of expenditures not listed specifically under one of the subcategories of Facilities (including cross allocations from other pools).

C. Facilities and Administrative Cost Activities - Allocation Bases

The following facilities and administrative cost and attendant allocation bases will govern the university's cost allocation process under the long form method of calculating facilities and administrative cost rates.

1. Depreciation

- a. Buildings

- (1) The capitalization threshold for new buildings is \$50,000 and a useful life of fifteen years. Major building upgrades are capitalized when total planned expenditures, regardless of year paid, are \$50,000 and the life of the structure is extended fifteen or more years. If the cost of a building/upgrade is less than \$50,000 or if the building/upgrade has a useful life of less than fifteen years, the cost will be treated as a current year expenditure for purposes of depreciation and pool cost computations.
 - (2) Architect and engineer fees are capitalized as part of the cost of the building. Construction interest is capitalized consistent with generally accepted accounting principles. Construction projects are charged for a portion of the Statewide Facilities Planning and Construction costs as outlined in the Statewide Accounting Manual procedure P-54.
 - (3) The capitalized value, less federal funding, is used as the basis for building depreciation. In accordance with A-21, the cost of a building may be treated as a single asset or may be divided into more detailed components. The building cost components may include: construction exterior, construction interior, elevators, fire protection, floor covering, foundation, heating ventilation, AC, lighting, electrical, piping plumbing, roof cover, roof structure, site preparation, steel frame, and walls exterior. Useful lives are assigned for each component. Noncomponentized buildings are depreciated using a useful life of 40 years. Building and component valuation and federal funding amounts are determined from subsidiary records that are reconciled to the formal accounting system.

- (4) Section F.2. of Circular A-21 prescribes allocation methods for depreciation of a building. The university's allocation methodology is consistent with Circular A-21. Building depreciation for buildings used exclusively for a single function is allocated fully to that function. Building depreciation for buildings used for more than one function is allocated based on the ratio of square footage used for each function of the building.
- (5) The university prepares a computerized space listing that identifies each room in each building and indicates room type (i.e., office, classroom, laboratory, etc.). Common areas are not to be included in the space allocation.
- (6) Building and room usage is determined by the occupants or users of the space through a space survey that is conducted at least once every two years. Space survey data is input into the database containing the space listing on a room-by-room basis by Statewide Office of Budget & Institutional Research. A data file is prepared by that department and provided to Statewide Cost Accounting for use in the CRIS database software.

b. Improvements Other Than Buildings

- (1) Improvements other than buildings include costs for roads, parking lots, fences and utility lines. The capitalization threshold for improvements other than buildings is \$50,000 and a useful life of fifteen years. If the cost of an improvement is less than \$50,000 or has a useful life of less than fifteen years, the cost of the improvement will be treated as a current year expenditure for purposes of use charge and pool cost computations.
- (2) The university will include in the facilities and administrative cost pool depreciation for improvements consistent with paragraph F.2.b.(4) of Circular A-21. The capitalized value, less federal funding, is used as the basis for depreciation on improvements other than buildings. The cost of an improvement may be treated as a single asset or may be divided into more detailed components. The improvement cost components may include: parking, walkways, stairs, disability; landscaping – includes retaining walls; specific improvements; power plant; specific utilities; sytem networks – fiber optics, telephone; roads and road systems; utilities – water, sewer, electric, steam; and other. Useful lives are assigned for each component. Improvements and component valuation and federal funding amounts are determined from subsidiary records that are reconciled to the formal accounting system.
- (3) The depreciation will be allocated to the benefiting function if identifiable, otherwise the depreciation will be allocated to user categories of students and employees on a full-time equivalent basis. The amount allocated to the student category shall be assigned to the instruction function. The amount allocated to the employee category will be further allocated to the major functions in proportion to the salaries and wages of all employees applicable to those functions. Certain students, such as graduate assistants, will be included in the employee category as well as in the student category in order to recognize the dual activity of such individuals.

c. Equipment

- (1) Equipment is defined as an item of tangible personal property with an acquisition cost of at least \$2500 and a two-year useful life. Items with a purchase price of less than \$2500 are usually considered non-accountable property and are usually recorded under the commodities object code. The property manual outlines specific policies and procedures for recording and accounting for equipment.
- (2) The university will include in the facilities and administrative cost pool depreciation for equipment consistent with paragraph F.2. of Circular A-21. The university will depreciate equipment on the straight-line method with the half-year convention and based upon useful lives by property class. No depreciation will be claimed for federally funded equipment. No depreciation will be claimed for privately funded equipment in the year of acquisition.
- (3) Equipment is allocated to benefiting direct and indirect activities based on a combination of usage and square footage. The department responsible for individual equipment items is identified through the property system record that includes a departmental org code for each item of equipment. Equipment depreciation costs are summarized by department and then allocated to the benefiting direct and indirect activities of the department on the basis of their assignable square footage and the information provided by the users of the space through the biannual functional use survey.
- (4) Not less than once every two years, the university will verify the equipment through a physical inventory in order to determine the department that has possession of the item. The university will establish either through survey techniques or statistical sampling the status of equipment as usable, used and needed.
- (5) Equipment inventory amounts will be reconciled to the university financial accounting records.

d. Other Capitalizable Assets

- (1) Other capitalizable assets include assets that do not meet the definition of equipment, fixed equipment, buildings, or improvements other than buildings, but have a unit cost of \$25,000 or more. Includes items such as storage sheds, hazmat containers, and tent structures.
- (2) The university will include in the facilities and administrative cost pool depreciation for other capitalizable assets consistent with paragraph F.2.b.(4) of Circular A-21. The capitalized value, less federal funding, of other capitalizable assets is used as the basis for depreciation. Valuation and federal funding amounts are determined from subsidiary records that are reconciled to the formal accounting system. The cost of an asset may be treated as a single asset or may be divided into more detailed components. Useful lives are assigned for each component. Other capitalizable asset valuation and federal funding amounts are determined from subsidiary records that are reconciled to the formal accounting system.

- (3) Other capitalizable assets depreciation is allocated to benefiting direct and indirect activities based on subsidiary records that include information concerning location and usage for each item.

2. Operations and Maintenance

- a. Operations and maintenance (O&M) expenses are those expenses which are incurred by the university's physical plant for the administration, supervision, operation, maintenance, preservation and protection of the institution's physical plant. They include expenses normally incurred for such items as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; environmental safety; hazardous waste disposal; property, liability and all other insurance relating to property; space leasing; and central receiving. The operation and maintenance expense category also includes the leave and staff benefit costs applicable to the salaries and wages included therein and an appropriate allocation of depreciation.
- b. Interest on debt associated with certain buildings, equipment, and capital improvements, as defined in Section J.22.e of Circular A-21, is included in the operations and maintenance pool, and is allocated in accordance with e. below.
- c. Revenue generated from sales of steam and electricity to external parties will be offset against operations and maintenance expenditures.
- d. Utility costs charged at agreed upon amounts need to be reversed and allocated via the O&M pool. Using a detailed utility billing list from the Physical Plants, the source for the billing amount i.e. meter, PP calculation using sq.ft., or other must be determined. Utility costs charged to non-university entities do not need to be reversed. Utility costs charged based on square footage and those charged to auxiliaries (excludes head bolt heater utility costs charged to the parking auxiliary) need to be reversed and allocated through the total square footage pool in accordance with f.(3) below.
- e. Department paid O&M costs are transferred to the specific function O&M pools and then allocated to the benefiting activities as O&M costs to eliminate any inconsistencies in treatment of O&M type costs.
- f. Allocation
 - (1) Charges identifiable by building will be allocated using the space allocation data identified in section C.1.a. above.
 - (2) Charges related to improvements other than buildings such as grounds maintenance and snow removal will be allocated on a full-time equivalent basis consistent with section C.1.b. above.
 - (3) Expenses that cannot be identified with a specific building or with the improvements category, such as the physical plant directors' office, utilities, and the security and fire departments, will be allocated to the individual functions consistent with the ratio of total square feet used.

3. General and Administrative Expenses

a. Statewide Services

- (1) General and administrative expenses are those expenses which are incurred for the general executive and administrative offices of the statewide system administration. These expenses do not relate solely to any major function of the university (i.e., instruction, organized research, other sponsored activities or other institutional activities). This expense category includes the leave and staff benefit costs applicable to the salaries and wages included therein and an appropriate allocation of depreciation and operations and maintenance expense.
- (2) For purposes of long-form facilities and administrative cost rate computations, the statewide administration's general and administrative costs are to be allocated on the modified total cost basis to the respective campuses with subsequent allocation to the functions within each campus. Consistent application of this procedure provides equitable allocation to costing components and eliminates the potential for distribution of more or less than actual costs for any specified period. Use of alternative methods for portions of the computations may result in over or under recovery of central administrative costs. The total statewide general and administrative costs allocated to each pool shall be fully included in facilities and administrative cost pools.

b. Campus G&A Expenses

- (1) General and administrative expenses are those which are incurred for the general executive and administrative offices of a specified campus. These expenses do not relate solely to any major function of the university (i.e., solely to instruction, organized research, other sponsored activities or other institutional activities). This expense category includes the leave and staff benefit costs applicable to the salaries and wages included therein and an appropriate allocation of operations and maintenance expenses and depreciation.
- (2) Expenses included in this category are allocated on the modified total cost basis to the functions serviced or benefited by the expenditures.

4. Departmental Administration

- a. Departmental administration expenses are those administrative and support expenses that benefit common or joint departmental activities or objectives in academic deans' offices, academic departments and divisions, and organized research units. This expense category also includes the leave and staff benefit costs applicable to the salaries and wages included therein and an appropriate allocation of depreciation, operations and maintenance expenses, and general and administrative expenses.
- b. Department administration also includes general and administrative expenses of organized research units that exclusively benefit sponsored and unrestricted direct research. This category excludes costs attributable to preparation of renewal proposals that are normally part of direct cost activities.

- c. This category includes salary and fringe benefits of institute directors who are professional administrative officers and who do not conduct research or instruction. Charges for individuals holding joint appointments to professional administrative officer positions will be reported in accordance with section J.8. of Circular A-21 based on activity reporting described in section D below.
 - d. Expenses included in this category are allocated to the appropriate functions of the department on the modified total cost basis consistent with paragraph F.6.c. of Circular A-21.
- 5. Sponsored Projects Administration
 - a. Sponsored projects administration includes expenses of the Proposal Office, the Grants and Contracts Office, the leave and staff benefit costs applicable to the salaries and wages included therein and an appropriate share of the depreciation, operations and maintenance expenses, and general and administrative expenses. Expenses in this category are allocated on the basis of modified total costs of sponsored projects.
- 6. Library Expenses
 - a. Library expenses are those expenses that have been incurred for the operation of the library, including the cost of books and library materials (but excluding rare books and materials) purchased for the library. The library expense category includes the leave and staff benefits applicable to the salaries and wages included therein and an appropriate allocation of depreciation, operations and maintenance expenses, and general and administrative expenses.
 - b. The allocation of library expenses will be made to three identifiable user groups on the basis of a circulation count. These user groups are employees, students and other. The amount allocated to the employee category shall be further allocated to each of the four major functions in proportion to professional salaries and wages. The amount allocated to the student category shall be fully assigned to the instruction function. The amount allocated to the other user category will be fully assigned to other institutional activities.
- 7. Student Services Expenses
 - a. Student services expenses are those expenses that have been incurred for the administration of student affairs and for services to students, including expenses of such activities as deans of students, admissions, registrar, counseling and placement services, student advisers, student health and infirmary services, catalogs, commencements, and convocations. This expense category also includes the leave and staff benefit costs applicable to the salaries and wages included therein and an appropriate allocation of general and administrative expenses, operations and maintenance expenses, and use allowances and depreciation.
 - b. Student services expenses shall be assigned to the instruction function consistent with paragraph F.9.b. of Circular A-21.

8. Ship Component

Depreciation charges for equipment will be determined in accordance with section C.1.c. above. Depreciation charges for the Seward research facility, other than the dock, shall be allocated to the ship component based on net assigned square footage. Depreciation for the Seward dock facility shall be allocated entirely to the ship component. Operations and maintenance costs will be determined in accordance with section C.2. above. There shall be no allocation of costs for on-campus facilities use charges or operations and maintenance except for those which flow-down through general and administrative, department administration, and sponsored projects administration. General and administrative expenses for statewide system administration and the Fairbanks campus administration shall be allocated to the ship cost component on an MTDC basis. Department administration of the School of Fisheries and Ocean Science (SFOS) shall be allocated to the ship rate component on an MTDC basis (e.g. if twenty percent of the SFOS MTDC base is attributable to ship activity, twenty percent of the SFOS department administration costs shall be allocated to the ship rate component). Sponsored projects administration shall be allocated based on modified total restricted funds. There will be no allocation of library costs.

9. Poker Flat Component

Depreciation charges for equipment will be determined in accordance with section C.1.c. above. Operations and maintenance costs will be determined in accordance with section C.2. above. There shall be no allocation of costs for on-campus facilities use charges or operations and maintenance except for those which flow-down through general and administrative, department administration, and sponsored projects administration. General and administrative expenses for statewide system administration and the Fairbanks campus administration shall be allocated to the component on an MTDC basis. Department administration shall be allocated to the component on a MTDC basis (e.g. if twenty percent of the Geophysical Institute (GI) MTDC base is attributable to activity at Poker Flat, twenty percent of the GI department administration costs shall be allocated to the Poker Flat Research Component). Sponsored projects administration shall be allocated based on modified total restricted funds. There will be no allocation of library costs.

D. Personnel Activity Reporting

1. Section J.8. of Circular A-21 defines the requirements for payroll distribution. These requirements indicate that all employees whose salaries are charged directly, in whole or in part, to sponsored agreements or whose salaries are used to meet cost sharing or matching requirements on the agreements are subject to personnel activity or effort reporting requirements. The requirements also apply to other employees who work on two or more activities, if a distribution of their salaries among those activities is needed to identify or allocate facilities and administrative costs. The requirements do not apply to employees who do not work on sponsored agreements and work exclusively in one facilities and administrative cost activity.
2. The university payroll system satisfies the Circular A-21 requirements as a personnel activity reporting system. The payroll system is based upon biweekly effort reporting. Employees are required to sign their time sheets and obtain supervisor approval before charging a specific contract or grant.

E. Leave and Staff Benefit Rates

1. The university utilizes the reserve method of accounting for sick, holiday and annual leave charges. Leave provisions or reserve charges shall be expensed as direct and facilities and administrative costs. The distribution of leave charges shall be prorata based on actual non-leave salaries and wages charged to all cost categories. Provisions or reserve charges for sick, holiday and annual leave are allowable direct expenses to sponsored research agreements and proposals. All over or under leave recoveries shall be carried forward to the subsequent fiscal year and included in the leave benefit rate calculation.
2. The university utilizes the reserve method of accounting for pension, health care, life and long term disability insurance, workers' compensation, unemployment, employee tuition waivers, labor relations and other staff benefit charges. Staff benefit provisions or reserve charges shall be expensed as direct and facilities and administrative costs. The distribution of staff benefit charges shall be prorata based on actual salaries and wages and leave accruals charged to all cost categories. Separate staff benefit rates are established for major employee groups where benefits for the employee group differ significantly in relationship to salaries and wages. All excess revenue recoveries and shortfalls shall be carried forward to the subsequent fiscal year and included in the staff benefit rate calculation. A report of leave and staff benefit expenditures and recovery shall be submitted to the federal cognizant agency.

F. Service Centers

1. There are three classes of service centers as defined in the SW Accounting Manual procedure P-112: Time and Materials Center (T&M Center), Recharge Center, and Specialized Service Facility. Recharge centers are defined as service centers with (1) more than \$100,000 per year in gross receipts, or (2) sales to external parties of more than 5 percent of gross receipts, or (3) an enterprise operating cycle which is other than a June 30 fiscal year, or (4) inventory in excess of \$50,000 or (5) permission/directive from the CFO to be classified as a recharge center rather than a T&M Center. A specialized service facility will normally have a separate negotiate F&A rate. Treatment as a specialized service facility requires approval of the vice president for finance and is generally reserved for highly complex facilities and large recharge operations (over \$500,000) or for operations which have significant external sales.
2. The university operates the following recharge centers that provide specialized services to the university community:
 - a. UAF
 - (1) Geophysical Institute: Proposal Office, Electronic Shop, Machine/Carpentry Shop, Photo/Graphics Shop, Computer Resource, Vehicle, Stockroom, Copy Pool, and Map Office.
 - (2) School of Fisheries and Ocean Sciences: Academic Services, Kasitsna Bay, Stockroom, and ASLC Analytic Services.
 - (3) Institute of Arctic Biology: General, Lab Analysis, Vet Services, Shops, and Toolik Field Station
 - (4) Physical Plant: General, Utilities, Warehouse, P&PS, and Real Estate Management.

- (5) Library: General, Photo, Graphics, and Server.
 - (6) Agriculture Forestry Experiment Station: General, Lab Analysis
 - (7) Various Departments: Conferences & Special Events; INE Mass Spectography Analysis; Network Services; CSEM Advanced Microprobe; Print Shop; Copy Pool; Vehicle and Equipment Pool.
- b. UAA
- (1) Various Departments: Telephone; Copy Services; Center Copy Services; FP & C; Printing Services; Facilities and Campus Services; IT Desktop.
- c. UAS
- (1) None
- d. Statewide
- (1) Statewide Information Technology Services: Audio; Video; Direct Connects; Alaska 3.
3. The School of Fisheries and Ocean Science Alpha Helix Ship operates as the only specialized service facility at the university.
4. The rates charged for these services are intended to recover all direct and departmental facilities and administrative costs pertaining to that center. Charges are designed to recover not more than the aggregate cost of providing the services over a long-term period, generally the university's fiscal year. All excess revenue recoveries and shortfalls shall be carried forward to the subsequent rate calculations. Accordingly, the rates are to be reviewed periodically and adjusted for any discrepancies between income and the combined direct and facilities and administrative costs. The rates charged do not discriminate against federally sponsored users.
5. Any over or under recovery of service center costs for the fiscal year shall be classified as Other Institutional Activities for base year calculations. Recharge centers and specialized service facilities are assumed to break even during the projection years.
- G. Facilities, Planning, & Construction (FP&C) Departmental facilities and administrative Cost Charge
- Construction projects are charged for a portion of the university's facilities, planning, and construction (FP&C) administrative costs consistent with the recharge methodology described in the Statewide Accounting Manual procedure P-54. For federally funded construction projects, the FP&C administrative cost recovery will be capped at the lesser of a) project total costs times the regional administrative cost rate or b) project direct labor costs times the regional direct labor rate. For this purpose, the regional administrative cost rate is defined as total regional facilities and administrative costs less equipment purchases and rent expense, divided by the estimated regional construction activity. The regional direct labor rate is defined as the regional direct labor divided by the estimated regional construction activity.

H. Off-Campus Research

Off-campus research is defined as projects or specified project segments which (a) have estimated direct costs in excess of \$100,000 and (b) which require off-site research activities for a period of 180 consecutive days or the equivalent of 80 percent of the project term. Such research shall be charged at facilities and administrative cost rates agreed to by the contracting parties based on individual project requirements. Unless a benefit to the project can be identified, such rates shall not contain on-campus facilities use charges or operation and maintenance costs except for those costs that flow down through other cost components. They should also not include a provision for library or student services costs.

I. Industry or Foreign Government Subsidies

The university fund accounting system effectively prohibits subsidizing industry and/or foreign government programs. All monies received for restricted purposes, including federal awards, are recorded in separate restricted funds. Direct expenditures from these monies are restricted to the exclusive purpose of the grant, contract, or gift. Since all restricted funds are eventually classified as part of either the research, instruction, or other base (not pool), the appropriate share of facilities and administrative costs are allocated to industry and/or foreign government expenditures regardless of whether or not facilities and administrative costs are charged on the actual activity.

J. Carryover Calculation

The university negotiates predetermined facilities and administrative rates for a three-year period. These rates are considered final and not subject to adjustment in accordance with the provisions of section G.4. of Circular A-21 and the Federal Acquisition Regulations; subject to any statutory or administrative limitations applicable to a given grant, contract or other agreement only to the extent that funds are available and consistent with any and all limitations of cost clauses or provisions.

The university negotiates fixed rates with carry forward provisions for leave and staff benefit rates. For fixed rates negotiated in advance, the over- or under- recovery for that fiscal year will be carried forward and included as an adjustment to the leave and staff benefit costs for the next subsequent rate negotiation. After negotiation and finalization of the actual fiscal year costs, any difference between the proposed and the audited carryforward amounts will be included as an adjustment to a subsequent rate negotiation.