UNIVERSITY OF ALASKA
UNIFORM GUIDANCE WORKING GROUP

Section Number & Name: 200.449 Interest
A-21 Reference: J-26

BACKGROUND INFORMATION:

A. Does the revised guidance contain new language? ☒ Y ☐ N

Specifically describe the new language and how it differs: See attached

Language is changed to make more universal

B. Is the new guidance more or less restrictive than university processes? ☐ More ☒ Less

Specifically describe how it is more or less restrictive: Less restrictive sine the lease-purchase analysis requirement was removed (A-21, J26d)
Includes definition for intangible assets

C. Cite any relevant system-wide policies/regulations/procedures:
F&A Interest Adjustment
Accounting and Administrative Manual A-25 for Capitalization and Depreciation Policies

D. Cite any MAU-level relevant processes or manuals:

_____

E. Is there an impact to electronic systems (Banner HR/Finance, Web Timesheets, Effort Reporting, etc.)? ☐ Y ☒ N

List specific system(s) impacted and method of impact:

_____

ACTION PLAN: Is specific action needed? ☒ Y – see below ☐ N – no action needed

Recommended Action(s):

1. F&A proposal, check on interest
2. Share section with Myron, Vickie

3. Update Accounting and Administrative Manual A-25 for definition of intangible assets
UA responsible area requiring documentation of compliance:

Rosemary Madnick, Heather Paulsen, Barbara Hyde, Tanya Hollis, Christi Eickholt, Andrew Gray, Claire Ligsay, Cindy Eriksen, Tana Myrstol

200.449 Interest.

(a) *General.* Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-Federal entity's own funds, however represented, are unallowable. Financing costs (including interest) to acquire, construct, or replace capital assets are allowable, subject to the conditions in this section.

(b)(1) Capital assets is defined as noted in §200.12 Capital assets. An asset cost includes (as applicable) acquisition costs, construction costs, and other costs capitalized in accordance with GAAP.

(2) For non-Federal entity fiscal years beginning on or after January 1, 2016, intangible assets include patents and computer software. For software development projects, only interest attributable to the portion of the project costs capitalized in accordance with GAAP is allowable.

(c) *Conditions for all non-Federal entities.* (1) The non- Federal entity uses the capital assets in support of Federal awards;

(2) The allowable asset costs to acquire facilities and equipment are limited to a fair market value available to the non-Federal entity from an unrelated (arm's length) third party.

(3) The non-Federal entity obtains the financing via an arm's-length transaction (that is, a transaction with an unrelated third party); or claims reimbursement of actual interest cost at a rate available via such a transaction.

(4) The non-Federal entity limits claims for Federal reimbursement of interest costs to the least expensive alternative. For example, a capital lease may be determined less costly than purchasing through debt financing, in which case reimbursement must be limited to the amount of interest determined if leasing had been used.

(5) The non-Federal entity expenses or capitalizes allowable interest cost in accordance with GAAP.

(6) Earnings generated by the investment of borrowed funds pending their disbursement for the asset costs are used to offset the current period's allowable interest cost, whether that cost is expensed or capitalized. Earnings subject to being reported to the Federal Internal Revenue Service under arbitrage requirements are excludable.

(7) The following conditions must apply to debt arrangements over $1 million to purchase or construct facilities, unless the non-Federal entity makes an initial equity contribution to the purchase of 25 percent or more. For this purpose, "initial equity contribution" means the amount or value of contributions made by the non-Federal entity for the acquisition of facilities prior to occupancy.

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Deleted: a…*eneral.* Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the institution's…on-Federal entity's own funds, however represented, are unallowable. However,…inancing costs (including interest on debt incurred after July 1, 1982… to acquire buildings, major reconstruction and remodeling… construct, or the acquisition or fabrication of…eplace capital equipment costing $10,000 or more, is…ssets are allov … [1]

Deleted: . Interest on debt incurred after **May 8, 1996** to acquire or replace capital assets (including construction, renovations, alterations, equipment, land, and…(1) Capital assets is defined as noted in §200.12 Capital assets acquired through capital leases) acquired after that date and used in support of sponsored agreements is allowable, subject to the following conditions: ¶
(1) For facilities costing over $500,000, the institution shall prepare, prior to acquisition or replacement of the facility, a lease-purchase analysis in accordance with the provisions of Sec___.30 through____.37 of OMB Circular A-110, which shows that a financed purchase, including a capital lease is less costly to the institution than other operating lease alternatives, on a net present value basis. Discount rat … [2]

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(i) The non-Federal entity must reduce claims for reimbursement of interest cost by an amount equal to imputed interest earnings on excess cash flow attributable to the portion of the facility used for Federal awards.

(ii) The non-Federal entity must impute interest on excess cash flow as follows:

(A) Annually, the non-Federal entity must prepare a cumulative (from the inception of the project) report of monthly cash inflows and outflows, regardless of the funding source. For this purpose, inflows consist of Federal reimbursement for depreciation, amortization of capitalized construction interest, and annual interest cost. Outflows consist of initial equity contributions, debt principal payments (less the pro-rata share attributable to the cost of land), and interest payments.

(B) To compute monthly cash inflows and outflows, the non-Federal entity must divide the annual amounts determined in step (i) by the number of months in the year (usually 12) that the building is in service.

(C) For any month in which cumulative cash inflows exceed cumulative outflows, interest must be calculated on the excess inflows for that month and be treated as a reduction to allowable interest cost. The rate of interest to be used must be the three-month Treasury bill closing rate as of the last business day of that month.

(d) Interest attributable to a fully depreciated asset is unallowable.

(D) Additional conditions for states, local governments and Indian tribes. For costs to be allowable, the non-Federal entity must have incurred the interest costs for buildings after October 1, 1980, or for land and equipment after September 1, 1995.

- The requirement to offset interest earned on borrowed funds against current allowable interest cost (paragraph (c)(5), above) also applies to earnings on debt service reserve funds.

- The non-Federal entity will negotiate the amount of allowable interest cost related to the acquisition of facilities with asset costs of $1 million or more, as outlined in paragraph (c)(7) of this section. For this purpose, a non- Federal entity must consider only cash inflows and outflows attributable to that portion of the real property used for Federal awards.

(iii) Additional conditions for IHEs. For costs to be allowable, the IHE must have incurred the interest costs after September 23, 1982, in connection with acquisitions of capital assets that occurred after that date.

(iv) Additional condition for nonprofit organizations. For costs to be allowable, the nonprofit organization incurred the interest costs after September 29, 1995, in connection with acquisitions of capital assets that occurred after that date.

(v) The interest allowability provisions of this section do not apply to a nonprofit organization subject to "full coverage" under the Cost Accounting Standards (CAS), as defined at 48 CFR 9903.201-2(a). The non-Federal entity's Federal awards are instead subject to CAS 414 (48 CFR 9904.414), "Cost of Money as an Element of the Cost of Facilities Capital", and CAS 417 (48 CFR 9904.417), "Cost of Money as an Element of the Cost of Capital Assets Under Construction".

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(7) The allowable costs to acquire facilities and equipment are limited to a fair market value available to the institution from an unrelated (arm's length) third party. ¶
c. Institutions are also subject to the following conditions: ¶
(1) Interest on debt incurred to finance or refinance assets re-acquired after the applicable effective dates stipulated above is unallowable. ¶
(2) Interest attributable to fully depreciated assets is unallowable. ¶
... [7]