What You Should Know About F&A

• What is F&A?
• Why is F&A Important?
• F&A Recovery Over Time
• How is the F&A Rate Developed?
• How does Cost Share affect F&A?
• What are the facts about F&A?
• How does Minnesota’s rate compare?
• Where does the F&A go? Understanding the University’s Full Cost & Revenue Allocation Model
• Who generated my F&A Revenue?
• Questions?
What is F&A?
A Brief History of Indirect Costs

1950s
- NIH grants include indirect costs beginning at 8% and increasing to 20%

1958
- OMB Circular A-21 issued

1965
- Negotiated IDC Rate instituted

1979
- Concept of Modified Total Direct Costs (MTDC) introduced

1991
- Administrative rates capped at 26% for IHEs

1996
- Required use of negotiated IDC rate for entire segment

2014
- Uniform Guidance goes into effect
What is F&A?

- *Facilities and administrative* expenses are costs incurred for a common purpose “benefitting more than one cost objective” (instruction, research, or public service), often referred to as Indirect Costs or Overhead Costs

- F&A costs are REAL costs that the federal government recognizes and provides reimbursement for based on a calculated rate developed and negotiated in accordance with 2 CFR Part 200 (Uniform Guidance)

- The F&A rate is the federally-created mechanism by which we recover Indirect Costs
What is F&A?

F&A costs are part of the full cost of conducting Sponsored Activities.
Why is F&A Important?

• F&A ensures the University is able to recover a portion of the additional infrastructure costs required to conduct research.

• 100% of F&A recovery is returned to the Resource Responsibility Center (RRC) that generated it.

• F&A provides schools and colleges with funding that can be applied toward the portion of their departmental expenses related to sponsored projects (including cost pool allocations).
F&A Recovery Over Time

- F&A Rates are applied to sponsored projects to generate $ reimbursements to the University for the costs it incurs to support the infrastructure used for Research, Public Service, and Instruction.

![Graph showing F&A Revenue and MTDC over time]

- FY15: $142
- FY14: $145
- FY13: $150
- FY12: $151
- FY11: $148
- FY10: $127
- FY9: $115

Millions

University of Minnesota
Driven to Discover
How is the F&A Rate Developed?

Financial Classifications
- Instruction
- Research
- Public Service
- Academic Support
- Institutional Support
- Student Services
- Operations & Maintenance
- Scholarships & Fellowships
- Auxiliaries
- Depreciation

Exclusions

F&A Reclassifications
- General Administration
- Departmental Administration
- Sponsored Projects Administration
- Student Services
- Operations & Maintenance
- Libraries
- Interest
- Depreciation
- Instruction/Departmental Research
- Organized Research
- Other Sponsored Activities
- Other institutional Activities
## How is the F&A Rate Developed?

<table>
<thead>
<tr>
<th>F&amp;A Rate Components</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administrative</strong></td>
<td></td>
</tr>
<tr>
<td>General Administrative Costs</td>
<td>Central administrative offices (Payroll, accounting, purchasing)</td>
</tr>
<tr>
<td>Department Administration</td>
<td>Academic Departments/Colleges</td>
</tr>
<tr>
<td>Sponsored Administration</td>
<td>SPA, SFR, OVPR, IRB, IACUC</td>
</tr>
<tr>
<td>Operation &amp; Maintenance</td>
<td>Repair &amp; maintenance, utilities, grounds, police</td>
</tr>
<tr>
<td><strong>Facilities</strong></td>
<td></td>
</tr>
<tr>
<td>Building and Equipment Depreciation</td>
<td>Standardized asset classifications and lives</td>
</tr>
<tr>
<td>Interest Costs on Building &amp; Equipment</td>
<td>Interest Costs on debt paid by State of MN &amp; U of M</td>
</tr>
<tr>
<td>Libraries</td>
<td>Central/Campus Libraries (including BioMedical and Law Libraries)</td>
</tr>
</tbody>
</table>
How is the F&A Rate Developed?

\[
\text{F&A Rate} = \frac{\text{Allocated F&A (Indirect)}}{\text{Modified Total Direct Costs}}
\]
How is the F&A Rate Developed?

- Full fiscal year expenditures (per audited Financial Statement) categorized as Direct vs. F&A (indirect)
- **Function codes**, Account codes, DeptIDs, Fund codes, Project and Program codes
  - $3.2 Billion in Operating Expenses (FY 2014)
  - Over 110,000 unique chart strings
  - Over 3,500 Programs and 10,000 Projects
  - Payroll for over 17,000 unique employee IDs
  - FTE/FYE for employees and students
- Depreciation on Capital Assets
  - More than 1,000 Buildings
  - 50,000 Capitalized Equipment items
- Space of 26 million Square Feet
  - Detailed survey of 2 million ASF with room type of Research Lab, Lab Service, Greenhouse, or Greenhouse Service
# How is the F&A Rate Developed?

## Breakdown, by component, of current (FY 2014) Research rate:

<table>
<thead>
<tr>
<th>FY2014 Base Year Research Rate</th>
<th>Actual</th>
<th>Proposed</th>
<th>Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>General &amp; Administrative</td>
<td>9.13</td>
<td>7.54</td>
<td>(2)</td>
</tr>
<tr>
<td>Departmental Administration</td>
<td>19.27</td>
<td>15.88</td>
<td>(2)</td>
</tr>
<tr>
<td>Sponsored Projects Administration</td>
<td>3.12</td>
<td>2.58</td>
<td>(2)</td>
</tr>
<tr>
<td><strong>Administrative Subtotal</strong></td>
<td>31.52</td>
<td>26.00</td>
<td>(1)</td>
</tr>
<tr>
<td>Building Depreciation</td>
<td>5.45</td>
<td>5.45</td>
<td>4.40</td>
</tr>
<tr>
<td>Equipment Depreciation</td>
<td>3.32</td>
<td>3.32</td>
<td>2.60</td>
</tr>
<tr>
<td>Interest</td>
<td>2.06</td>
<td>2.06</td>
<td>1.70</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>17.20</td>
<td>17.20</td>
<td>15.30</td>
</tr>
<tr>
<td>Library</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
</tr>
<tr>
<td><strong>Facilities Subtotal</strong></td>
<td>30.03</td>
<td>30.03</td>
<td>26.00</td>
</tr>
<tr>
<td>Proposal Subtotal</td>
<td>61.55</td>
<td>56.03</td>
<td>52.00</td>
</tr>
<tr>
<td>UCA Addition</td>
<td>1.04</td>
<td>1.04</td>
<td></td>
</tr>
<tr>
<td>Projections</td>
<td>1.88</td>
<td>1.43</td>
<td></td>
</tr>
<tr>
<td><strong>On Campus Total</strong></td>
<td>63.43</td>
<td>57.46</td>
<td>52.00</td>
</tr>
</tbody>
</table>
Misconceptions about F&A

Myth #1:
This means 52% of my grant is going for F&A?!

FALSE
Misconceptions about F&A

If we get 52% for F&A, then for every $1 of MTDC, 66 cents goes for direct costs and 34 cents goes for F&A
Misconceptions about F&A

Myth #2: F&A represents a profit to the University!

FALSE
**Misconceptions about F&A**

F&A is a reimbursement of real costs incurred by the University in support of sponsored activities!
Misconceptions about F&A

Myth #3: The University recovers all of its costs. FALSE
Misconceptions about F&A

Our actual recovery rate for research is closer to 40%.

* Components for Actual Recovery are calculated values representing a proration of the Negotiated components.
Misconceptions about F&A

Myth #4:

Rising central administration costs are responsible for our increasing F&A rates.

FALSE
Misconceptions about F&A

#1 Reimbursements for administrative costs were capped by the federal government at 26% beginning in 1991 so changes in our administrative costs do not affect our final F&A rate.

#2 New facilities, such as the Cancer & Cardiovascular Research Building and the Physics Nanotechnology Building, plus the costs of renovating older buildings has increased the University’s total facilities costs.
How does Minnesota’s rate compare?

Comparison of rates among the schools included in the Committee on Institutional Cooperation (the expanded Big Ten)

<table>
<thead>
<tr>
<th>Institution</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois - Urbana/Champaign</td>
<td>59.8%</td>
</tr>
<tr>
<td>Chicago</td>
<td>58.0% *</td>
</tr>
<tr>
<td>Indiana</td>
<td>57.5%</td>
</tr>
<tr>
<td>Pennsylvania State</td>
<td>57.2%</td>
</tr>
<tr>
<td>Michigan</td>
<td>55.0%</td>
</tr>
<tr>
<td>Purdue</td>
<td>55.0%</td>
</tr>
<tr>
<td>Rutgers</td>
<td>55.0% *</td>
</tr>
<tr>
<td>Northwestern</td>
<td>54.5% *</td>
</tr>
<tr>
<td>Michigan State</td>
<td>53.5%</td>
</tr>
<tr>
<td>Wisconsin - Madison</td>
<td>53.0%</td>
</tr>
<tr>
<td>Maryland - College Park</td>
<td>52.0%</td>
</tr>
<tr>
<td>Minnesota</td>
<td>52.0%</td>
</tr>
<tr>
<td>Iowa</td>
<td>51.0%</td>
</tr>
<tr>
<td>Nebraska</td>
<td>51.0% *</td>
</tr>
</tbody>
</table>

* Provisional rate to be used until amended
How does Minnesota’s rate compare?
Comparison of rates for the top 21 public institutions as reported in NSF’s 2014 HERD Survey

<table>
<thead>
<tr>
<th>Top 21 Research Institutions</th>
<th>F&amp;A 2016</th>
<th>NSF/Herd 2014 Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas M.D. Anderson Cancer Center</td>
<td>60.0%</td>
<td>13</td>
</tr>
<tr>
<td>Illinois</td>
<td>58.6%</td>
<td>19</td>
</tr>
<tr>
<td>UC San Francisco</td>
<td>58.5%</td>
<td>4</td>
</tr>
<tr>
<td>Penn State</td>
<td>57.2%</td>
<td>12</td>
</tr>
<tr>
<td>UC Berkeley</td>
<td>57.0%</td>
<td>14</td>
</tr>
<tr>
<td>UC Davis</td>
<td>56.5%</td>
<td>16</td>
</tr>
<tr>
<td>Georgia Tech</td>
<td>55.9%</td>
<td>15</td>
</tr>
<tr>
<td>Michigan, Ann Arbor</td>
<td>55.0%</td>
<td>1</td>
</tr>
<tr>
<td>UC San Diego</td>
<td>55.0%*</td>
<td>5</td>
</tr>
<tr>
<td>Rutgers</td>
<td>55.0%*</td>
<td>18</td>
</tr>
<tr>
<td>Texas, Austin</td>
<td>55.0%</td>
<td>21</td>
</tr>
<tr>
<td>Washington</td>
<td>54.5%*</td>
<td>2</td>
</tr>
<tr>
<td>UCLA</td>
<td>54.0%</td>
<td>7</td>
</tr>
<tr>
<td>Pittsburgh</td>
<td>54.0%</td>
<td>9</td>
</tr>
<tr>
<td>Ohio State</td>
<td>54.0%</td>
<td>11</td>
</tr>
<tr>
<td>Arizona</td>
<td>53.5%</td>
<td>20</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>53.0%</td>
<td>3</td>
</tr>
<tr>
<td>North Carolina</td>
<td>52.0%</td>
<td>6</td>
</tr>
<tr>
<td><strong>Minnesota</strong></td>
<td>52.0%</td>
<td>8</td>
</tr>
<tr>
<td>Florida</td>
<td>50.0%</td>
<td>17</td>
</tr>
<tr>
<td>Texas A&amp;M</td>
<td>48.5%</td>
<td>10</td>
</tr>
</tbody>
</table>

* Rates are provisional for 2016
How does Cost Share affect F&A?

Cost Sharing…

- Increases the overall University cost for the Project
- Redirects University resources originally designated for other activities
- Increases administrative burden by requiring additional tracking, certifying, and reporting
- Increases the Direct Cost base which can result in a lower F&A rate

<table>
<thead>
<tr>
<th>Allocated Indirect Costs for FY 2014 ORGANIZED RESEARCH</th>
<th>$187 M *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modified Total Direct Costs for FY 2014 ORGANIZED RESEARCH</td>
<td>$334M **</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allocated Indirect Costs for FY 2014 without designated Cost Share ORGANIZED RESEARCH</th>
<th>$184 M *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modified Total Direct Costs for FY 2014 without Cost Share ORGANIZED RESEARCH</td>
<td>$323 M **</td>
</tr>
</tbody>
</table>

* Pro-rated to reflect negotiated rate
** On-Campus base
Understanding F&A within the context of the University’s Budget Model

The University’s Full Cost & Revenue Allocation Budget Model…

• Uses an all-funds, full cost and revenue approach
• Incorporates both direct and indirect costs of mission (sponsored and non-sponsored), plus auxiliary operations and student aid
• Ties to the University’s General Ledger
• Allows analysis at system and campus/collegiate (RRC) levels
• Is replicable in future years
• Is organized by mission through the use of function codes
• Relies on chart string level data, rolled up to the RRC level
• Relies on cost pools to allocate some support costs
Fully allocated cost of mission activities

Cost of Mission
- Instruction
- Research
- Public Service

Indirect (Support) Costs
- Student Services
- Academic Support
- Institutional Support
- Physical Plant

= Fully Allocated Costs
Fully allocated costs
(sponsored and non-sponsored)

Direct Costs
Instruction

Direct Costs
Research

Direct Costs
Public Service

Fully allocated cost of Instruction

Fully allocated cost of Research

Fully allocated cost of Public Service

Indirect costs
Allocation of Costs and Revenues

Fully Allocated Costs

Direct Costs
- Instruction
- Research
- Public Service

Indirect Costs
- Student Services
- Academic Support
- Institutional Support
- Physical Plant

Fully Allocated Revenues

Revenue Sources
- Tuition
- State Appropriation
- Gifts
- Sponsored Directs
- Indirect Cost (F&A) Recovery
- Etc.

Costs and Revenues are allocated to mission activities in similar a manner.
# 9 Primary Cost Allocation Pools

<table>
<thead>
<tr>
<th>Pool</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities Operations and Maintenance</td>
<td>Custodial, Waste, Landcare, R&amp;R, Maintenance, BSAC</td>
</tr>
<tr>
<td>Utilities</td>
<td>Steam, Gas, Electricity, Chilled Water</td>
</tr>
<tr>
<td>Debt &amp; Leases</td>
<td>Actual cost of Debt Service and Leases by Building</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Internet, E-mail, Voice Serv, File Storage, PeopleSoft, etc.</td>
</tr>
<tr>
<td>Support Service Units</td>
<td>HR, Controller, U Relations, Gen Cnsl, Pub Safety, etc.</td>
</tr>
<tr>
<td>Libraries</td>
<td>Twin Cities Libraries, excluding the Law Library</td>
</tr>
<tr>
<td>Student Services</td>
<td>Student Finance, Honors, Aid, Admissions, Grad Sch., etc.</td>
</tr>
<tr>
<td>General Purpose Classrooms</td>
<td>Office of Classroom Management</td>
</tr>
<tr>
<td>Research</td>
<td>OVPR, Sponsored Financial Reporting, U Hlth&amp;Safety</td>
</tr>
</tbody>
</table>

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**University of Minnesota**

**Driven to Discover**
Who generated my F&A?

- From your MyU page, select the Reporting Center under Key Links
- From the Research group, expand the selections under Grants, Projects & Contracts
- Select F and A Recovery
Who generated my F&A?

Select the beginning Fiscal Year and beginning Accounting Period

Prompt Selection for F&A Recovery Report

Select a Fiscal Year, Accounting Period to Report From:
To view a range of accounting periods within a fiscal year, use this selection for the starting fiscal year and accounting period.

Fiscal Year: 2015-2016
Accounting Period: 1

Submit  Reset

Then select the ending Fiscal Year and ending Accounting Period

Prompt Selection for F&A Recovery Report

2016-1

Select a Fiscal Year, Accounting Period to Report Through:

Fiscal Year: 2015-2016
Accounting Period: 4

Submit  Reset
Who generated my F&A?

- Make your report selections
  (This example uses PI Emplid)

  - The selection for *Department* refers to the Deptid to which
    the F&A revenue is credited as identified under *Set Up
    Financials/Supply Chain>Business Unit Related>Grants>Facilities
    Admin Options* (usually the RRC Deptid).

  - The selection for *Chartfield1* will pull F&A revenue
    generated BY a specific Deptid. Just remember to preface
    the Deptid number with “DPTID” (ex: DPTID10722).
Who generated my F&A?

This report was generated in PDF and shows all of the F&A recoveries generated by this PI’s Grant activity for Fiscal Year 2016, Periods 1 through 4.
Questions?

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*Director, Office of Cost Analysis*

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Phone: 626-9895

Holly Schuveiller  
*Senior Financial Analyst*

Office of Cost Analysis  

schuv004@umn.edu  
Phone: 625-8017
THANK YOU!

Additional Resources:


University Policy Library: **Charging of Facilities and Administrative/Indirect Costs to Sponsored Projects**  [http://policy.umn.edu/research/cost](http://policy.umn.edu/research/cost)

- Under the Procedures and Appendices section of this policy are links to a number of related F&A policies.


