

Cost Principles for Educational Institutions



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON D.C. 20503

OFFICE OF MANAGEMENT AND BUDGET

Cost Principles for Educational Institutions

AGENCY: Office of Management and Budget.

ACTION: Final Revision and interim final revision of OMB Circular A-21, "Cost Principles for Educational Institutions."

SUMMARY: The Office of Management and Budget revises Circular A-21, "Cost Principles for Educational Institutions," by: (1) establishing review and documentation requirements to assure the reasonableness of large research facility costs, (2) implementing a new alternative approach to replace using special cost studies for the recovery of utility costs and deferring the elimination of special cost studies for the recovery of library costs, (3) providing additional guidance on the calculation of depreciation and use allowances on buildings and equipment, and (4) changing the distribution basis for the facilities and administrative cost application (from salaries and wages to modified total direct costs) at universities that use the simplified (short-form) method to calculate their facilities and administrative rate.

In addition, OMB is issuing an interim final revision to allow trustees' travel expenses.

DATES: The revision and the interim final revision are effective on June 1, 1998. Comments on the interim final revision must be received by July 1, 1998.

ADDRESSES: Comments should be mailed to Gilbert Tran, Financial Standards and Reporting Branch, Office of Federal Financial Management, Office of Management and Budget, 725 17th Street, N.W.,

Room 6025, Washington, DC 20503. Comments up to three pages in length may be submitted via facsimile to 202-395-4915. Electronic mail comments may be submitted via Internet to TRAN_H@A1.EOP.GOV. Please include the full body of electronic mail comments in the text and not as an attachment. Please include the name, title, organization, postal address, and E-mail address in the text of the message.

FOR FURTHER INFORMATION CONTACT: Non-Federal organizations should contact the organization's cognizant Federal agency. Federal agencies should contact Gilbert Tran, Financial Standards and Reporting Branch, Office of Federal Financial Management, Office of Management and Budget, (202) 395-3993.

SUPPLEMENTARY INFORMATION:

A. Purpose of Circular A-21

Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Educational Institutions," establishes principles for determining costs applicable to Federal grants, contracts, and other sponsored agreements with educational institutions.

B. Recent Prior Revisions

On February 6, 1995, OMB published two sets of proposed revisions (60 FR 7104 and 60 FR 7105): one for immediate consideration and the other for future consideration. The first set of proposed revisions was finalized on May 8, 1996 (61 FR 20880) with the following revisions.

- Incorporated four Cost Accounting Standards applicable to educational institutions, issued by the Cost Accounting Standards Board (CASB) on November 8, 1994 (59 FR 55746), and extended these standards to all sponsored agreements.
- Required certain large institutions to disclose their cost accounting practices by the submission of a Disclosure Statement prescribed by the CASB
- Amended the definition of equipment
- Eliminated in 1998 the use of special cost studies to allocate utility, library and student services costs
- Required the use of fixed facilities and administrative (F&A) cost rates for the life of sponsored agreements

- Established cost negotiation cognizant agency responsibilities
- Replaced the term "indirect costs" with "facilities and administrative costs"
- Clarified the policy for a change from use allowance to depreciation
- Added criteria to interest allowability
- Disallowed tuition benefits for employee family members.

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C. Current Revisions

On September 10, 1997, OMB proposed the second set of revisions (62 FR 47722) to complete OMB's intention expressed in February 1995. The proposal included the following:

1. Establish guidance for Federal cost negotiators to assure the reasonableness of facility costs
2. Implement a new alternative approach to replace using special cost studies for the recovery of utility costs and defer the elimination of special cost studies for the recovery of library costs
3. Provide additional guidance on the calculation of depreciation and use allowances on buildings and equipment
4. Change the distribution basis for the facilities and administrative cost application (from salaries and wages to modified total direct costs) at universities that use the simplified (short-form) method to calculate their facilities and administrative rate.
5. Develop a standard format for F&A proposal submissions

- 6.

Circular A-21 is revised to:

1. Establish a review process to ensure the reasonableness of facility costs. To increase accountability in the research component of F&A costs and ensure that the cost of new research facilities passes a "prudent person" test of reasonableness, OMB establishes a review and documentation process for large research facilities. Large facilities are defined as buildings costing more than \$10 million. The new provisions apply to large research facilities that are included in F&A rate proposals negotiated after January 1, 2000, with design and construction beginning after July 1, 1998. The revision, which is detailed in a new Section F.2.c, "Large research facilities," is based on a university proposal and implements the following requirements:

- A requirement for institutions to maintain an adequate internal review and approval process for facility costs to ensure that the construction costs for large research facilities are reasonable. The requirement is applicable when an institution has a new large research facility (costing more than \$10 million), of which more than 40 percent is expected to be allocated to Federal research. An annual review of the institution's internal review process would be performed under the audit for Federal programs, as required by OMB Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations." Future revisions to the OMB Single Audit Compliance Supplement, which provides steps and procedures for auditors in conducting A-133 audits, will address the auditor's responsibility for assessing institutional compliance with the research facility cost review process.
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- An additional documentation requirement for a building costing more than \$25 million, of which more than 50 percent is expected to be allocated to Federal research. For any such building, the institution must perform and document an analysis of construction costs, which includes a comparison of those costs with the National Science Foundation data on research construction costs (based on its biennial survey, "Science and Engineering Facilities at Colleges and Universities"), and any other relevant construction cost data.

2. Implement an alternative approach for the payment of utility costs and defer the elimination of special cost studies for the recovery of library costs. For the fiscal year beginning on or after July 1, 1998, institutions that have included special cost studies in their most recently submitted F&A

proposal (listed in Exhibit B) may, instead, add a utility cost adjustment (UCA) of 1.3 percentage points to the university's overall F&A organized research rate calculated using the standard Circular A-21 allocation methods.

As explained below, the 1.3 percentage points represent the weighted average incremental rate that the Federal Government paid above the rate calculated using the standard allocation methodology to the 50 institutions that previously submitted special utility studies for utility costs related to research activities. OMB will periodically reassess the UCA.

OMB will also develop criteria and publish them in a Federal Register notice by which the institutions may be periodically recertified and by which other institutions could qualify for the UCA by July 1, 2002 and may change the UCA percentage point.

Further, OMB revises the Circular to allow special studies for library costs. Due to the uncertain effects of recent and ongoing changes to university libraries and their services brought about by the increased use of the Internet and on-line research, OMB defers the elimination of special cost studies to support the allocation of library costs until OMB has an opportunity to evaluate the impact of these changes on the costs of library services benefitting organized research.

3. Provide additional guidelines on depreciation and use allowances.

To provide more consistency in the treatment of use allowances and depreciation among educational institutions and Federal cognizant agencies, the Circular is revised as follows:

(a) Limit use allowance recovery to the acquisition costs of assets, or fair market value of donated assets at the time of donation (see subsection J.12.c).

(b) Require institutions that report depreciation on their financial statements to use the same depreciation method and useful lives for the F&A proposals (see subsection J.12.b).

(c) Establish guidelines for the calculation of depreciation on buildings when depreciation is calculated on individual building components (see subsection J.12.b). This revision establishes general categories of building components.

(d) Require institutions that record depreciation in their financial statements to record gains and losses on the disposition of depreciable assets (see section J.33).

4. Change the distribution basis for F&A application (from salaries and wages to modified total direct costs) for institutions that use the simplified allocation method. This change, detailed in Section H.3, provides more comparability of F&A rates between small and large universities.

5. Allow trustees' travel expenses. This change is issued as an interim final revision and is made to provide consistency with recent revisions to Circular A-122, "Cost Principles for Non-Profit Organizations." OMB requests comments on this change.

Circular A-21, as amended by this revision, consists of the Circular published in 1979 (44 FR 12368; February 26, 1979), as amended in 1982 (47 FR 33658; July 23, 1982), in 1986 (51 FR 20908; June 9, 1986), in 1986 (51 FR 43487; December 2, 1986), in 1991 (56 FR 50224; October 1, 1991), in 1993 (58 FR 39996), in 1996 (61 FR 20880; May 8, 1996), and in this notice. The 1996 amendment included a recompilation of the Circular up to that date (61 FR 20893). A recompilation of the entire Circular with all its amendments, including this amendment, is available in electronic form on the OMB Home Page at /OMB.

D. Comments and Responses

OMB received about 130 comments from universities, Federal agencies, professional organizations, and accounting and law firms. The comments received and OMB's responses are summarized below. Several comments resulted in modifications to OMB's original proposal.

Facility costs

Comment: The commenters strongly opposed the proposal to establish benchmark rates for facility costs, citing the following reasons: (1) benchmarks are unnecessary given that there is no evidence of abuse and universities already have rigid internal review and approval processes to assure reasonable construction costs; (2) benchmarks would compromise scientific excellence by discouraging universities' investment in modern facilities; (3) negotiators are not qualified to review justifications of

facilities costs; and (4) the proposed NSF data are not suitable for establishing benchmark rates.

Some universities proposed a less rigid approach that relies on university cost management procedures to control the research facility costs.

Response: The objective of the proposed review process based on benchmark rates was to improve accountability by requiring and reviewing construction cost justifications of buildings costing more than 125 percent above the calculated average regional median. However, OMB recognizes that there may exist review and approval systems at universities to assure that construction costs are reasonable. Therefore, in accordance with the universities' suggestion, the Circular is revised to implement an approach that relies more on a university's internal review process for facility costs rather than established benchmarks. The approach requires a review of universities' internal cost management procedures, combined with additional documentation for large research facilities that are substantially allocated to Federal programs.

Comment: The review of any internal control system for costs charged against Federal programs should be included as part of the annual audit of Federal programs required by Circular A-133.

Response: OMB agrees. The review of the university's internal control and approval process for construction costs, which are indirectly charged to Federal programs through depreciation/use allowance costs, is included as part of the annual university A-133 audit. The review procedures will be included in the A-133 Compliance Supplement.

Comment: The National Science Foundation (NSF) survey data for research construction costs are inadequate for establishing benchmark rates. The data does not identify costs by project and produces an average rate based on the total of all construction projects, regardless of size. Some commenters added that benchmark rates should be based only on construction cost data for large projects at research-intensive schools, since these buildings tend to cost more.

Response: OMB has requested NSF to conduct a follow-up survey that would identify costs by project, and accumulate data for projects costing more than \$10 million. For the revised review process in section F.2.c, universities shall include these NSF construction cost data for comparison purposes in their analysis of large research facilities costs.

Comment: One of the criteria that triggers a review for construction costs is that a building is substantially allocated to Federal programs. Does this criteria apply only when the building is initially put in service or during the life of the building?

Response: The criteria for Federal participation (use) percentage are based on university's estimation of the building use for its entire life. Therefore, when a university estimates during the planning phase that the space of a particular research building will be substantially allocated to Federal programs during its life (thus, the Federal government will fund a substantial part of the building costs), then the university must comply with requirements of section F.2.c. The Federal cognizant agencies will monitor the actual Federal participation percentage in the building usage versus the universities' estimation, so that OMB may evaluate whether further revisions to the review requirements would be appropriate.

Comment: The review process for facility costs should exclude reconstruction and renovation projects because of the diverse nature of these projects, and therefore their costs. In addition, the total costs of these projects are usually not material.

Response: OMB agrees. Reconstruction and renovation projects are not subject to the requirements of section F.2.c.

Comment: The criteria for construction projects subject to benchmark review should be increased to \$25 million in construction costs and 50 percent of space allocated to Federal programs (instead of the proposed \$10 million and 40 percent Federal participation).

Response: The revised requirements consist of two sets of criteria. The first one (buildings costing more than \$10 million and 40 percent Federal participation) triggers the requirement for an internal review and approval system for facility construction costs at the institution. As suggested by some, the second set of criteria (buildings costing more than \$25 million and 50 percent Federal participation) triggers the documentation requirement for that particular building.

Comment: The NSF construction data, which are required to be used as comparison data in section F.2.c, should be made available publicly and published as a separate schedule, as an attachment to A-21, or as part of the NSF biennial report.

Response: OMB agrees. NSF data will be available publicly because this data must be used by institutions in the comparative analysis for buildings costing more than \$25 million. NSF will publish this data as part of their biennial report on research facilities.

Comment: Do the provisions in section F.2.c apply to buildings on which the design and construction begins prior to July 1, 1998 (and the buildings are not completed until fiscal year 2000)?

Response: OMB generally does not apply new provisions retroactively. Therefore, the new provisions in section F.2.c apply only to construction projects, on which the design and planning begins *after* July 1, 1998, and whose costs are included in the F&A rate proposals negotiated after January 1, 2000. The design and planning of a particular building start when the architectural design of the building is first presented to the institution's board of trustees for consideration.

Utility cost adjustment

Comment: Some commenters suggested an increase in the utility cost adjustment (UCA) from 1.3 percent to 1.7 percent based on the weighted average of negotiated UCA at 11 major research universities.

Response: The UCA remains at 1.3 percent at this time. The 1.3 percent UCA is the weighted average for 50 universities that have performed special utility cost studies, as OMB identified at proposal time. Since the proposal was published, an additional 16 universities have been identified to be eligible for the UCA because of their previous submission of the special cost studies. The revised weighted average UCA for the 66 schools dropped subsequently to 1.2 percent. Instead of reducing the UCA to 1.2 percent, OMB will finalize the UCA at 1.3 percent.

Comment: The UCA should be allowable to all schools regardless of whether they have previously performed a special utility cost study, since it is evident that research space require more utility costs than other types of space.

Response: OMB allows the universities to conduct special cost studies to support the utility consumption for research activities under section E.2.d of the Circular. As a result, 66 universities performed the special studies that support the allocation of utility costs to their research activities. OMB

does not believe it is appropriate to grant the UCA at this time to universities that have not demonstrated the heavier utility consumption for their research activities. In addition, utility consumption varies greatly depending on the types of research space. For certain types of research space (e.g., computer laboratory, agricultural research barn, dry laboratory, and math laboratory), the standard allocation method (based on square foot) generally provides the best allocation of utility costs to benefitting activities. However, OMB will develop criteria by fiscal year 2002 for these universities to become certified for the UCA.

Comment: The UCA number needs to be connected with future actual utility costs because utility costs can increase astronomically in the future.

Response: OMB will periodically reassess the UCA number. OMB plans to reevaluate the UCA in fiscal year 2002 with the assistance from Federal agencies and the universities.

Comment: How is the UCA applied? On a building by building basis or on the total F&A rate?

Response: The UCA is added to the university's overall F&A rate that is computed using the standard allocation method. For example, a university computes its total F&A rate of 50 percent (using the square feet basis to allocate its utility costs); the F&A adjusted rate with the UCA would be 51.3 percent.

Depreciation and use allowance

Comment: Can a state university, that is not required to record depreciation for financial statements under generally accepted accounting principles (GAAP), use depreciation for its F&A proposal?

Response: A state university, which is not currently required under GAAP to record depreciation on its assets, can either use depreciation or use allowance for its F&A proposal. When the depreciation method is selected, the university must comply with the existing provisions in section J.12.b of the Circular to calculate depreciation costs.

Comment: The revision requires that the same depreciation method be used for financial statements and for a F&A proposal. Can a Federal negotiator question the useful life of an asset when that useful

life is used for financial statements?

Response: The Federal negotiator can always question the reasonableness of a particular asset's useful life as part of the F&A proposal review. However, with this revision, the Federal negotiator should address his/her concerns to the institution's external auditors, who are responsible for certifying the adequacy of the institution's financial statements (including the asset depreciation methods). For public universities that do not currently record depreciation on their financial statements, but use depreciation methods on their F&A proposals, the Federal negotiator can address his/her concerns to the institution's management and make any necessary adjustments on the F&A proposal.

Comment: The revision suggests the grouping of building components for depreciation purposes into three general groups: building shell, building services systems, and fixed equipment. Can a university have more than three general groups with the authorization from the Federal cognizant agency?

Response: OMB believes that the three general groups are sufficient for grouping building components for depreciation. If, in an exceptional cases, a university believes it should have more than the three general groups for building components, the university may so proceed if it receives authorization from the Federal cognizant agency to do so. Such an exception should rarely be authorized, if ever. The use of the three general groups standardizes the "componentization" process, eases the review of depreciation, and allows better data collection on depreciation costs.

Comment: Can each component within a major building group have a separate useful life?

Response: Each component within a general building group can have a separate useful life that takes into consideration such factors as: type of construction, nature of equipment, technological developments in the particular area, and the renewal and replacement policies for the assets. When a general component group has more than one useful life for its components, a composite useful life for the entire group must be calculated.

Comment: The commenters, particularly the public universities, opposed a requirement to limit (i.e., cap) the use allowance recovery on assets to the acquisition costs. They argued that (1) the requirement is contrary to current policy regarding use allowance;(2) the over-recovery of use allowance on those assets that have surpassed their useful life is balanced by the under-recovery of assets that are disposed of earlier than their useful life; and (3) the new limitation will lead universities

to convert to depreciation, which is costly, will add accounting burden, and will increase the F&A rate.

Response: OMB disagrees. To allow use allowance for assets in excess of the assets' acquisition costs can result in over-recovery of costs by the universities, particularly when the universities can select either the depreciation or use allowance methods for a particular class of assets. In many instances, universities use both the depreciation and use allowance methods for different classes of assets: often using use allowance for long-lasting assets such as buildings and laboratory benches, while using depreciation for shorter-life assets such as computers. In these instances, the under-recovery and over-recovery of asset costs do not balance each other out, but rather the result is an over-recovery of costs against Federal programs.

Under special circumstances, when a university uses the use allowance method for all its assets, current section J.12.c.(3) allows the university to claim use allowance recovery in excess of acquisition costs for certain assets, with approval from Federal cognizant agencies.

This issue may soon become moot when the public universities are required, by the Governmental Accounting Standards Board (GASB), to record depreciation for financial statements(at this time, this requirement is projected to be effective for fiscal year 2001).

Comment: The conversion to depreciation for old buildings is extremely difficult, if not impossible, because of the lack of records for older capital improvement projects. The commenters suggest that capital improvement projects be excluded from the limitations of use allowance recovery.

Response: For older capital improvement projects, for which records are unavailable, the university and the Federal cognizant agency may negotiate a reasonable use allowance amount as long as the buildings are still in use for the benefit of Federal programs.

Comment: The provision on gains and losses on the sale, retirement, or other disposition of depreciable property should not apply to public universities, which are not required to depreciate under GAAP, and therefore, do not maintain depreciation records.

Response: OMB agrees. Section J.33.a (d) provides an exemption for institutions that claim use allowance in lieu of depreciation for the recovery of their asset costs.

Distribution basis for "short-form" universities

Comment: The use of the modified total direct costs (MTDC) basis should be an option rather than a requirement for the simplified allocation method since the determination of a MTDC basis can be much more complicated than the salaries and wages basis. In some cases, universities have to make major accounting system changes to accommodate this requirement.

Response: OMB agrees. OMB encourages universities to use the MTDC as the distribution basis for the simplified allocation method, as it would improve the consistency of F&A rate reporting among small and large universities. However, because of the possible difficulties for some universities to calculate the MTDC amount, the revision allows the universities to use either the MTDC or salaries and wages as distribution basis.

Definition of "major projects"

Comment: In July 1994, OMB issued a memorandum to the Federal agencies to clarify its policy on administrative costs for "major project", referred in subsection F.6.b, "Departmental administration expenses." OMB should add this clarification to the Circular to provide consistent definition and treatment of the administrative costs related to "major project."

Response: OMB agrees. The OMB memorandum to the Federal agencies (dated July 13, 1994) provided guidance on defining the circumstances under which administrative and clerical salaries may be charged directly to Federal sponsored agreements. The definition of "major project", as provided in OMB's memorandum, is added to section F.6.b. A sample of examples is listed as new exhibit C.

E. Other Items

Develop a standard format for the submission of F&A proposals

OMB proposed in September 1997 to develop a standard format for the submission of F&A proposals, that would assist universities in completing their F&A rate proposals more efficiently and help the Federal cognizant agency review each proposal on a more consistent basis. OMB, with assistance from Federal agencies and universities, is in the process of developing this standard format. When completed, OMB will request comments under the Paperwork Reduction Act through a separate Federal Register notice. The standard format will be included as an Appendix to the Circular and be available electronically.

Interim Final Revision - Trustees' travel expenses

OMB is making an interim final revision to allow trustees' travel expenses at educational institutions under the administrative cost component of the F&A rate. The revision is made to provide consistency with recent revisions to Circular A-122, "Cost Principles for Non-Profit Organizations," which retained the allowability of trustees' travel expenses.

OMB recently issued final revisions to Circular A-122 to provide consistency across all cost circulars. Based on the comments received from non-profit grantees regarding the proposed disallowance of trustees' travel expenses, OMB determined that trustees' travel expenses are reasonable and necessary business expenses for the operations of non-profit organizations and should remain allowable. In considering this issue for A-122, OMB also decided that trustees' travel expenses are reasonable and necessary for universities. In October 1991, trustee travel was made unallowable in Circular A-21, along with a number of other cost categories (e.g., alcohol and advertising costs). This interim final rule reflects the view that trustee travel, unlike the other unallowable costs, is a reasonable cost of business, and should be allowed. Accordingly, OMB is revising Circular A-21 to allow trustees' travel expenses (see revised section 50). OMB requests comments on this change.

Franklin D. Raines

Director

Circular A-21 is revised as follows:

1. Replace subsection E.2.d.(5) with the following:

(5) Notwithstanding **subsection (3)**, effective July 1, 1998, a cost analysis or base other than that in **Section F** shall not be used to distribute utility or student services costs. Instead, **subsections F.4.c and F.4.d** may be used in the recovery of utility costs.

2. Add new subsection F.2.c:

c. **Large research facilities.** The following provisions apply to large research facilities, that are included in F&A rate proposals negotiated after January 1, 2000, and on which the design and construction begin after July 1, 1998. Large facilities, for this provision, are defined as buildings with construction costs of more than \$10 million. The determination of the Federal participation (use) percentage in a building is based on institution's estimates of building use over its life, and is made during the planning phase for the building.

(1) When an institution has a large research facilities, of which 40 percent or more of total assignable space is expected for Federal use, the institution must maintain an adequate review and approval process to ensure that construction costs are reasonable. The review process shall address and document relevant factors affecting construction costs, such as:

- Life cycle costs
- Unique research needs
- Special building needs
- Building site preparation
- Environmental consideration
- Federal construction code requirements
- Competitive procurement practices

The approval process shall include review and approval of the projects by the institution's Board of Trustees (which can also be called Board of Directors, Governors or Regents) or other independent entities.

(2) For research facilities costing more than \$25 million, of which 50 percent or more of total assignable space is expected for Federal use, the institution must document the review steps performed to assure that construction costs are reasonable. The review should include an analysis of construction costs and a comparison of these costs with relevant construction data, including the National Science Foundation data for research facilities based on its biennial survey, "Science and Engineering Facilities at Colleges and Universities." The documentation must be made available for review by Federal negotiators, when requested.

3. Add new subsections F.4.c and F.4.d:

c. For F&A rates negotiated on or after July 1, 1998, an institution that previously employed a utility special cost study in its most recently negotiated F&A rate proposal in accordance with **Section E.2.d**, may add a utility cost adjustment (UCA) of 1.3 percentage points to its negotiated overall F&A rate for organized research. Exhibit B displays the list of eligible institutions. The allocation of utility costs to the benefitting functions shall otherwise be made in the same manner as described in **subsection F.4.b**. Beginning on July 1, 2002, Federal agencies shall reassess periodically the eligibility of institutions to receive the UCA.

d. Beginning on July 1, 2002, Federal agencies may receive applications for utilization of the UCA from institutions not subject to the provisions of **subsection F.4.c**.

4. Replace subsection F.6.b with the following:

b. The following guidelines apply to the determination of departmental administrative costs as direct or F&A costs.

(1) In developing the departmental administration cost pool, special care should be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or **F&A** costs. For example, salaries of technical staff, laboratory supplies (e.g., chemicals), telephone

toll charges, animals, animal care costs, computer costs, travel costs, and specialized shop costs shall be treated as direct cost wherever identifiable to a particular cost objective. Direct charging of these costs may be accomplished through specific identification of individual costs to benefiting cost objectives, or through recharge centers or specialized service facilities, as appropriate under the circumstances.

(2) The salaries of administrative and clerical staff should normally be treated as **F&A** costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity. "Major project" is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments. Some examples of major projects are described in Exhibit C.

(3) Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as **F&A** costs.

5. Replace subsection H.1.a with the following:

a. Where the total direct cost of work covered by Circular A-21 at an institution does not exceed \$10 million in a fiscal year, the use of the simplified procedure described in **subsections 2 or 3**, may be used in determining allowable F&A costs. Under this simplified procedure, the institution's most recent annual financial report and immediately available supporting information shall be utilized as basis for determining the F&A cost rate applicable to all sponsored agreements. The institution may use either the salaries and wages (see **subsection 2**) or modified total direct costs (see **subsection 3**) as distribution basis.

6. Change the title for subsection H.2. to "Simplified Procedure - Salaries and wages base."

7. Add a new subsection H.3.

3. Simplified procedure - Modified total direct cost base.

a. Establish the total costs incurred by the institution for the base period.

b. Establish a **F&A** cost pool consisting of the expenditures (exclusive of capital items and other costs specifically identified as unallowable) which customarily are classified under the following titles or their equivalents:

(1) General administration and general expenses (exclusive of costs of student administration and services, student activities, student aid, and scholarships).

(2) Operation and maintenance of physical plant; and depreciation and use allowances; after appropriate adjustment for costs applicable to other institutional activities.

(3) Library.

(4) Department administration expenses, which will be computed as 20 percent of the salaries and expenses of deans and heads of departments.

In those cases where expenditures classified under **subsection (1)** have previously been allocated to other institutional activities, they may be included in the **F&A** cost pool. The modified total direct costs amount included in the **F&A** cost pool must be separately identified.

c. Establish a modified total direct cost distribution base, as defined in **Section G.2**, that consists of all institution's direct functions.

d. Establish the **F&A** cost rate, determined by dividing the amount in the **F&A** cost pool, **subsection b**, by the amount of the distribution base, **subsection c**.

e. Apply the **F&A** cost rate to the modified total direct costs for individual agreements to determine the amount of **F&A** costs allocable to such agreements.

8. Replace subsection J.12.b.(2) with the following:

(2) The depreciation method used to charge the cost of an asset (or group of assets) to accounting periods shall reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight-line method shall be presumed to be the appropriate method. Depreciation methods once used shall not be changed unless approved in advance by the cognizant Federal agency. The depreciation methods used to calculate the depreciation amounts for F&A rate purposes shall be the same methods used by the institution for its financial statements. This requirement does not apply to institutions (e.g., public institutions) which are not required to record depreciation by applicable generally accepted accounting principles (GAAP).

9. Replace subsection J.12.b.(4) with the following:

(4) The entire building, including the shell and all components, may be treated as a single asset and depreciated over a single useful life. A building may also be divided into multiple components. Each component item may then be depreciated over its estimated useful life. The building components shall be grouped into three general components of a building: building shell (including construction and design costs), building services systems (e.g., elevators, HVAC, plumbing system and heating and air-conditioning system) and fixed equipment (e.g., sterilizers, casework, fumehoods, cold rooms and glassware/washers). In exceptional cases, a Federal cognizant agency may authorize an institution to use more than these three groupings. When an institution elects to depreciate its buildings by its components, the same depreciation methods must be used for F&A purposes and financial statements purposes, as described in **subsection (2)**.

10. Replace subsection J.12.c.(1) with the following:

(1) The use allowance for buildings and improvements (including improvements such as paved parking areas, fences, and sidewalks) shall be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment shall be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost. Use allowance recovery is limited to the acquisition cost of the assets. For donated assets, use allowance is limited to the fair market value of the assets at the time of donation.

11. Replace section J.33 with the following:

33. Profits and losses on disposition of plant equipment or other capital assets.

a. (1) Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to the asset cost grouping(s) in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) shall be the difference between the amount realized on the property and the undepreciated basis of the property.

(2) Gains and losses on the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:

(a) The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under **Section J.12**.

(b) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.

(c) A loss results from the failure to maintain permissible insurance, except as otherwise provided in **Section J.21.d**.

(d) Compensation for the use of the property was provided through use allowances in lieu of depreciation.

b. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in **subsection a** shall be excluded in computing Federal award costs.

c. When assets acquired with Federal funds, in part or wholly, are disposed of, the distribution of the proceeds shall be made in accordance with Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit

Organizations."

12. Replace Section 50 with the following:

50. **Trustees.** Travel and subsistence costs of trustees (or directors) are allowable. The costs are subject to restrictions regarding lodging, subsistence and air travel costs provided in **Section 48**.

13. Add Exhibit B - Listing of institutions receiving the UCA and Exhibit C - Examples of "major project" where direct charging of administrative or clerical staff salaries may be appropriate.

Exhibit B

Listing of institutions receiving the utility cost adjustment.

1. Baylor University
2. Boston College
3. Boston University
4. California Institute of Technology
5. Carnegie-Mellon University
6. Case Western University
7. Columbia University
8. Cornell University (Endowed)
9. Cornell University (Statutory)
10. Cornell University (Medical)
11. Dayton University
12. Emory University
13. George Washington University (Medical)
14. Georgetown University
15. Harvard Medical School
16. Harvard University (Main Campus)
17. Harvard University (School of Public Health)
18. Johns Hopkins University

19. Massachusetts Institute of Technology
20. Medical University of South Carolina
21. Mount Sinai School of Medicine
22. New York University (except New York University Medical Center)
23. New York University Medical Center
24. North Carolina State University
25. Northeastern University
26. Northwestern University
27. Oregon Health Sciences University
28. Oregon State University
29. Rice University
30. Rockefeller University
31. Stanford University
32. Tufts University
33. Tulane University
34. Vanderbilt University
35. Virginia Commonwealth University
36. Virginia Polytechnic Institute and State University
37. University of Arizona
38. University of CA, Berkeley
39. University of CA, Irvine
40. University of CA, Los Angeles
41. University of CA, San Diego
42. University of CA, San Francisco
43. University of Chicago
44. University of Cincinnati
45. University of Colorado, Health Sciences Center
46. University of Connecticut, Health Sciences Center
47. University of Health Science and The Chicago Medical School
48. University of Illinois, Urbana
49. University of Massachusetts, Medical Center
50. University of Medicine & Dentistry of New Jersey
51. University of Michigan
52. University of Pennsylvania
53. University of Pittsburgh
54. University of Rochester
55. University of Southern California
56. University of Tennessee, Knoxville
57. University of Texas, Galveston

58. University of Texas, Austin
60. University of Texas Southwestern Medical Center
61. University of Virginia
62. University of Vermont & State Agriculture College
63. University of Washington
64. Washington University
65. Yale University
66. Yeshiva University

Exhibit C

Examples of "major project" where direct charging of administrative or clerical staff salaries may be appropriate.

- Large, complex programs such as General Clinical Research Centers, Primate Centers, Program Projects, environmental research centers, engineering research centers, and other grants and contracts that entail assembling and managing teams of investigators from a number of institutions.

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- Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting (such as epidemiological studies, clinical trials, and retrospective clinical records studies).

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- Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.

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- Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).

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- Projects that are geographically inaccessible to normal departmental administrative services, such as research vessels, radio astronomy projects, and other research fields sites that are remote from campus.

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- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols; and multiple project-related investigator coordination and communications.

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These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples. For instance, the examples would be appropriate when the costs of such activities are incurred in unlike circumstances, i.e., the actual activities charged direct are not the same as the actual activities normally included in the institution's facilities and administrative (F&A) cost pools or, if the same, the indirect activity costs are immaterial in amount. It would be inappropriate to charge the cost of such activities directly to specific sponsored agreements if, in similar circumstances, the costs of performing the same type of activity for other sponsored agreements were included as allocable costs in the institution's F&A cost pools. Application of negotiated predetermined F&A cost rates may also be inappropriate if such activity costs charged directly were not provided for in the allocation base that was used to determine the predetermined F&A cost rates.