



Working with Overhead Rates and Fringe Benefits

Ken Miller, Assistant Vice President for Finance & University Controller

Dave McGarry, Associate Controller, Financial Reporting & Cost Accounting

Sharon Barrett, Cost Accounting Manager

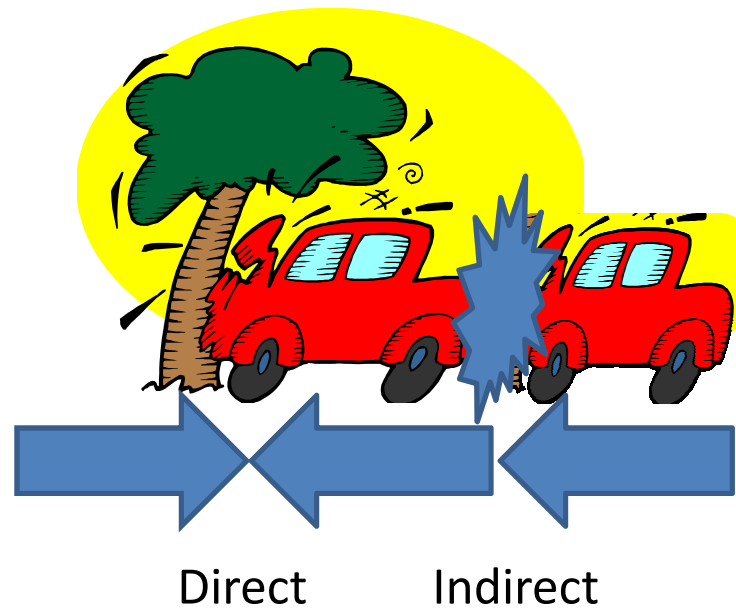
Business Practices Seminar - April 3, 2014



Facilities & Administrative (Indirect) Costs



What is the difference between Direct and Indirect?





Overview

F&A rates are the approved mechanism to recover from external sponsors their appropriate share of indirect costs related to grants and contracts. Multiple rates are calculated (Research – used most often, Instruction, Research, Public Service).

- Administrative costs: salaries and related fringe benefit expenses for individuals in central administration areas, such as accounting, budgeting, human resources, purchasing, etc.
- Facilities costs: depreciation expense for buildings and equipment, interest expense, utility costs, and operations and maintenance

Rates are negotiated with the approved cognizant Federal agency



Do we *have* to charge F&A costs to every sponsored project?



§ 4-2.03 INDIRECT COSTS

a. INDIRECT COST RECOVERIES FROM GRANTS AND CONTRACTS:

- Each state agency, including institutions of higher education, which accepts a grant or contract shall recover full statewide and agency indirect costs unless (1) exempted from this provision by the State Comptroller or (2) prohibited by the grantor agency.



F&A Rate Development

- Calculation based on federal cost accounting regulations
- Process of allocating indirect costs to the appropriate direct cost bases is complex; the actual calculation is basic:

$$\text{F\&A Rate} = \frac{\text{Allocated Facilities and Administrative Costs}}{\text{Qualifying Direct Research Expenditures}}$$



Step Down Allocation Process (FY2011 base year)

Cost Allocation Method (Dollars Thousands)	Total Cost	Space Survey Data				Modified Total Direct Costs			Instruction	Faculty/Staff Student FTE
		Building	Equipment	Interest	O&M	G&A	Dept Admin	Spon Pgm	Stu Serv	Library
Indirect Costs										
Building	34,769	(34,769)								
Equipment	20,854		(20,854)							
Interest	19,506			(19,506)						
Oper & Maint	89,228	1,705	708	1,568	(93,208)					
Gen & Admin	490,196	770	3,548	361	3,237	(57,111)				
Dept Admin	65,308	1,451	805	740	6,099	5,291	(79,695)			
Spon Proj Admin	5,060	32	9	12	384	410		(5,909)		
Student Services	13,022	446	76	220	910	1,055			(15,729)	
Library	15,846	425	84	104	2,384	1,284				(20,127)
Direct Functions										
Instruction	260,969	9,113	5,241	3,169	27,066	21,141	45,201	328	15,729	17,209
Research	126,194	6,013	5,723	3,822	17,637	10,223	23,599	4,584		1,250
Agr Exp Station	19,928	606	580	278	3,307	1,614	1,753	1		258
Public Service	60,619	488	474	168	3,101	4,911	6,373	996		539
OIA	138,029	13,720	3,606	9,064	29,083	11,182	2,769	-		871



FY2014-15 Research Rate

Organized Research Rate Components

(Dollars in Thousands)

Administrative	<u>Allocation</u>	<u>Base</u>	<u>Rate</u>
General and Administrative	\$ 12,388	\$ 141,793	8.7%
Department Administration	26,023	141,793	18.3%
Sponsored Projects Administration	<u>4,720</u>	130,670	<u>3.6%</u>
Admin Total	\$ 43,131		30.6%
Administrative Cap Adjustment			<u>-4.6%</u>
Allowable Administrative Cost Component			26.0%
Facilities			
Building	\$ 6,627	\$ 120,782	5.4%
Equipment	6,426	120,782	5.3%
Interest Expense	4,551	120,782	3.6%
Operations & Maintenance	21,687	120,782	18.0%
Library	<u>1,406</u>	120,782	<u>1.4%</u>
Facilities Total	\$ 40,697		33.7%
Total Calculated On Campus Research Rate			59.7%
Utility Cost Allowance (addition)			1.3%
			<u>61.0%</u>
FY2014 - 15 Organized Research Rate			



Trends in F&A Rates

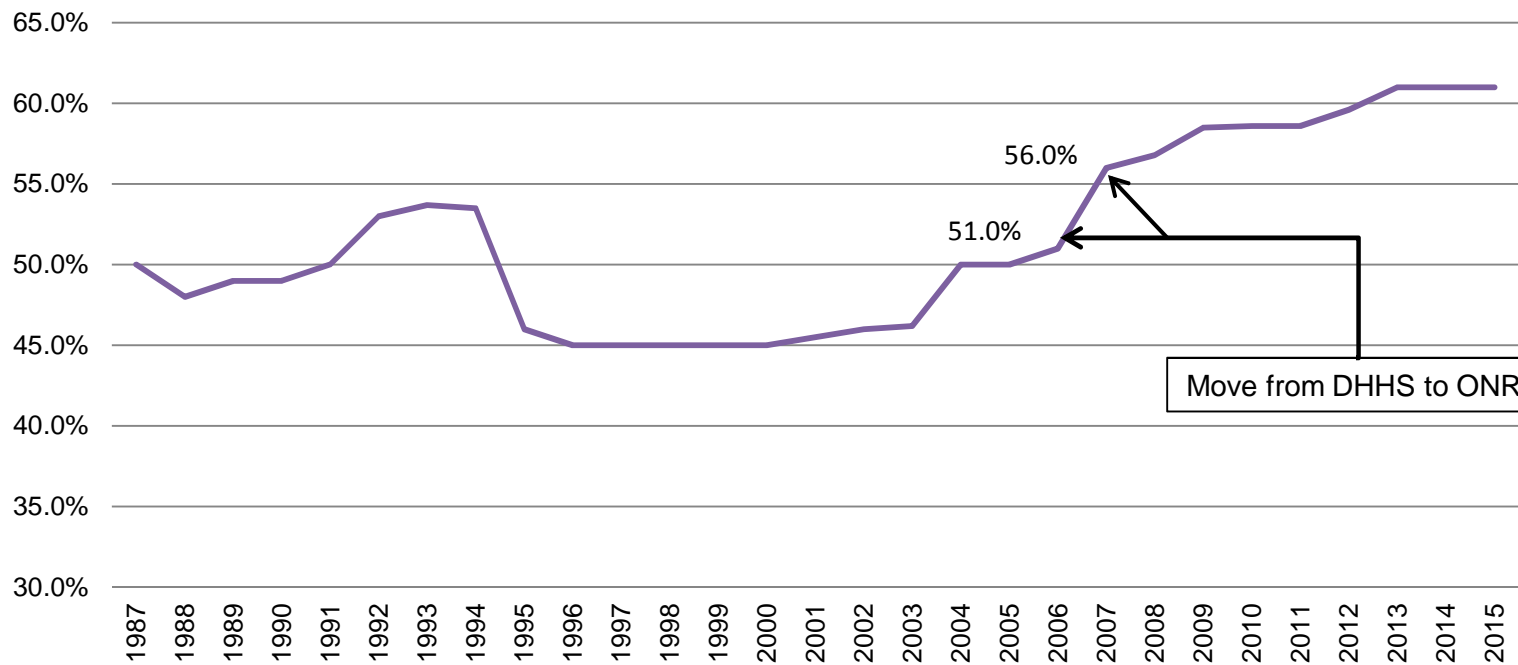
The F&A rate has been steadily increasing in recent years primarily due to the following factors:

- The change in the federal cognizant agency approving F&A rates for Virginia Tech from Department of Health and Human Services to Office of Naval Research
- Ongoing and significant investments made by the university in research buildings and equipment in the last decade



Trends in F&A Rates

Virginia Tech F&A Rates



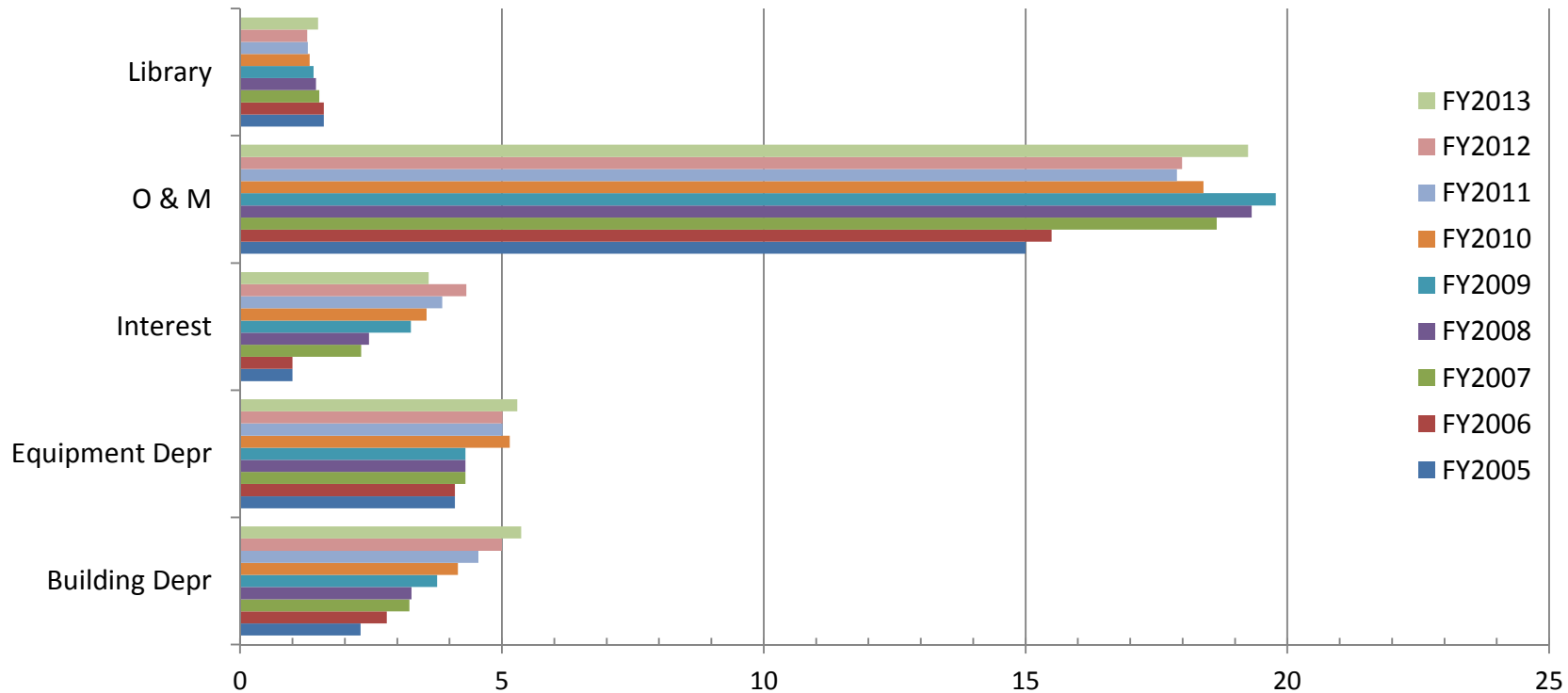


New Buildings impacting the F&A Rate

F&A Rate Agreement	Building Name	Building Value	Annual Total Building Depr. & Interest	Annual Organized Research Building Depr. & Interest	% Actual & Est. Organized Research
2007-2009	Latham Hall	\$ 26,811,560	\$ 2,015,749	\$ 1,146,925	57%
2007-2009	Life Sciences	37,388,521	1,939,763	1,117,940	58%
2007-2009	ICTAS I	45,355,007	2,344,544	1,647,696	70%
2007-2009	Integrated Life Sciences Building	17,341,077	1,977,410	1,118,799	57%
2010-2012	VTCRI	77,370,845	5,000,768	850,549	17%
2010-2012	ICTAS II	30,810,489	1,131,554	425,926	38%
2010-2012	Infectious Disease Research Facility	7,936,170	483,026	173,891	36%
2013-2015	Human and Agricultural Biosciences Bldg I	53,759,000	3,885,120	777,012	20%
2013-2015	Davidson Renovation	31,119,000	2,265,158	754,506	33%
2013-2015	Signature Engineering	<u>95,218,000</u>	<u>4,286,793</u>	<u>1,714,717</u>	40%
	Totals	\$ 423,109,669	\$ 25,329,885	\$ 9,727,961	38%

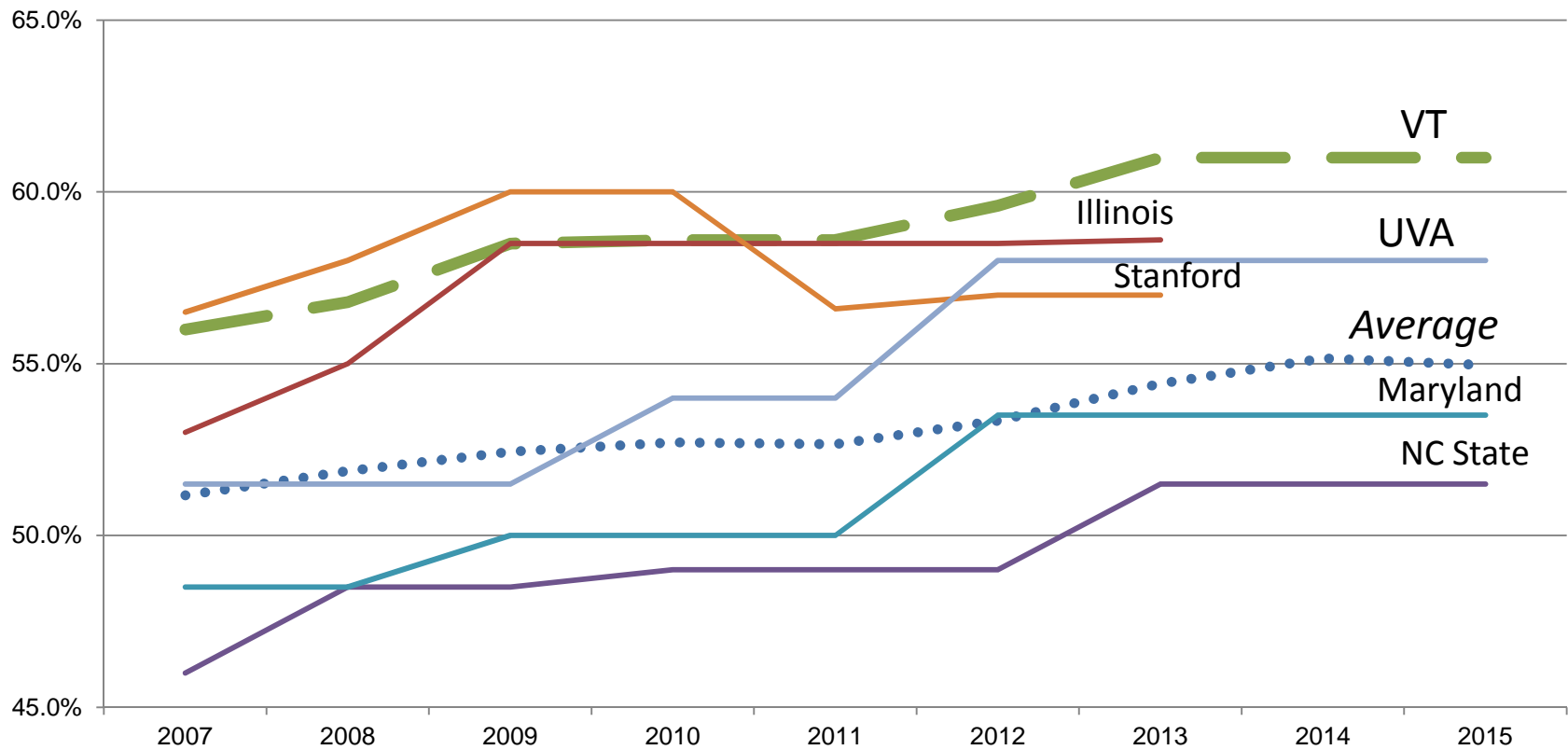


Facilities Overhead Rate Components FY2005 – FY2013





Comparison with Similar Institutions





University Fringe Benefits



Requirement

Title II Code of Federal Regulations Part 220 – Cost Principles for Educational Institutions (formally OMB Circular A-21)

Describes the Fixed with Carry-Forward rate development process

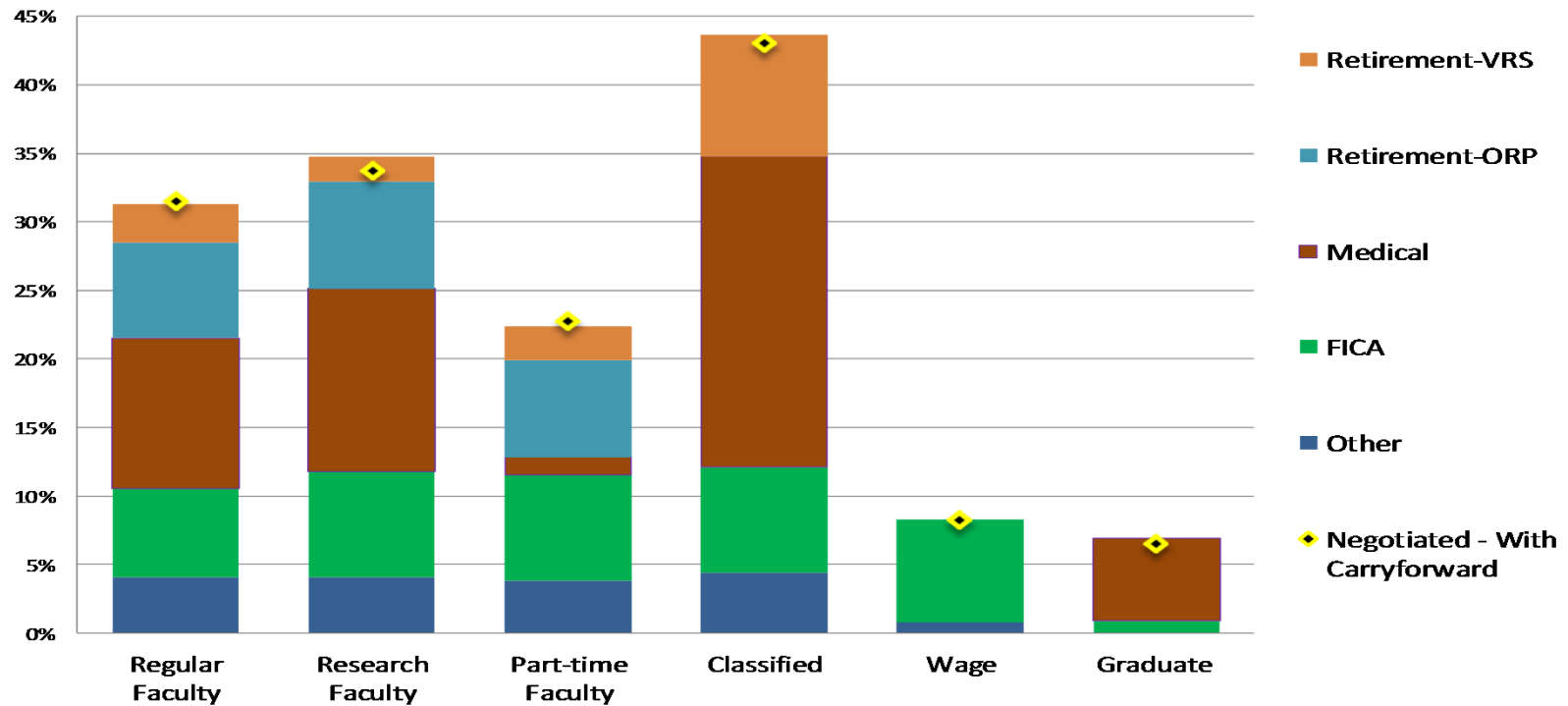
Average Fringe Rates Calculated by Category

Categories include all university employees

Prevents manipulation of the rates



FY2014 Fringe Benefit Rates by Category





Rate Category Drivers

Fringe Benefits based on a Percentage of Salary

- Retirement programs
- F.I.C.A.

Fringe Benefits with Fixed Dollar amount

- Medical coverage

 - Larger Component of Classified Rate (\$136.5 million Salary Base)

 - Smaller Component of Faculty Rate (\$252.2 million Salary Base)



Process Overview

Three Year Cycle

Base Year

Actual Expenses

Calculate Over/Under recovery-Applied to Rate year

Actual Fringe Benefit Expenses

Minus Calculated Fringe Benefit Expenses (Salaries x Fixed Rate)

Positive number (Over Collection) Negative (Under Collection)

Current Year

Actual expenses through January 31st

Projected Expenses through June 30th

Establishes Base to apply any Rate Year Adjustments

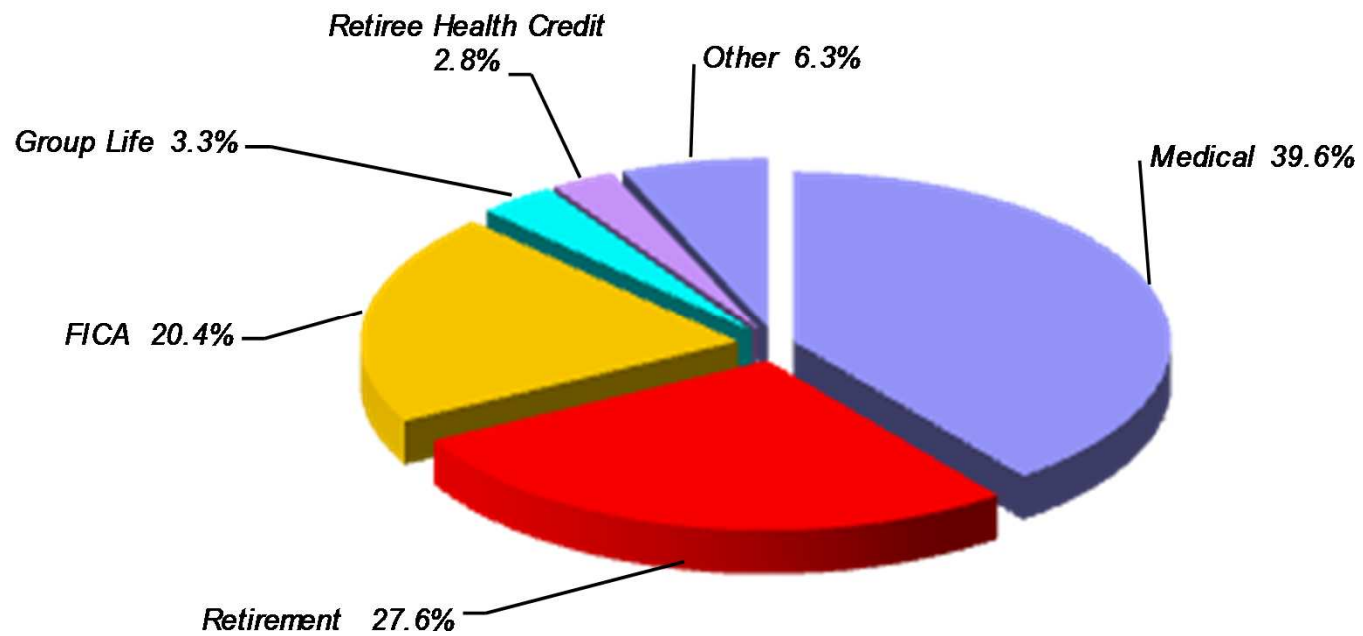
Rate Year

Project Fringe Benefit Costs, Salaries & Wages from Current year data

General Assembly still in session – State Fringe rates may not be set



Fringe Benefit Costs FY2013



\$156.2 Total Fringe Expenses



Major Fringe Components

Medical Fringe Expense

Highly Volatile – Steadily Increasing

Independent of Salary Amounts

State Self Insures – Subject to Artificial Pressures

39.6% of Total Fringe Costs in FY2013

VRS managed plans

Rates managed - Highly Volatile – Fluctuates up and down

Appropriation constraints vice cost experience

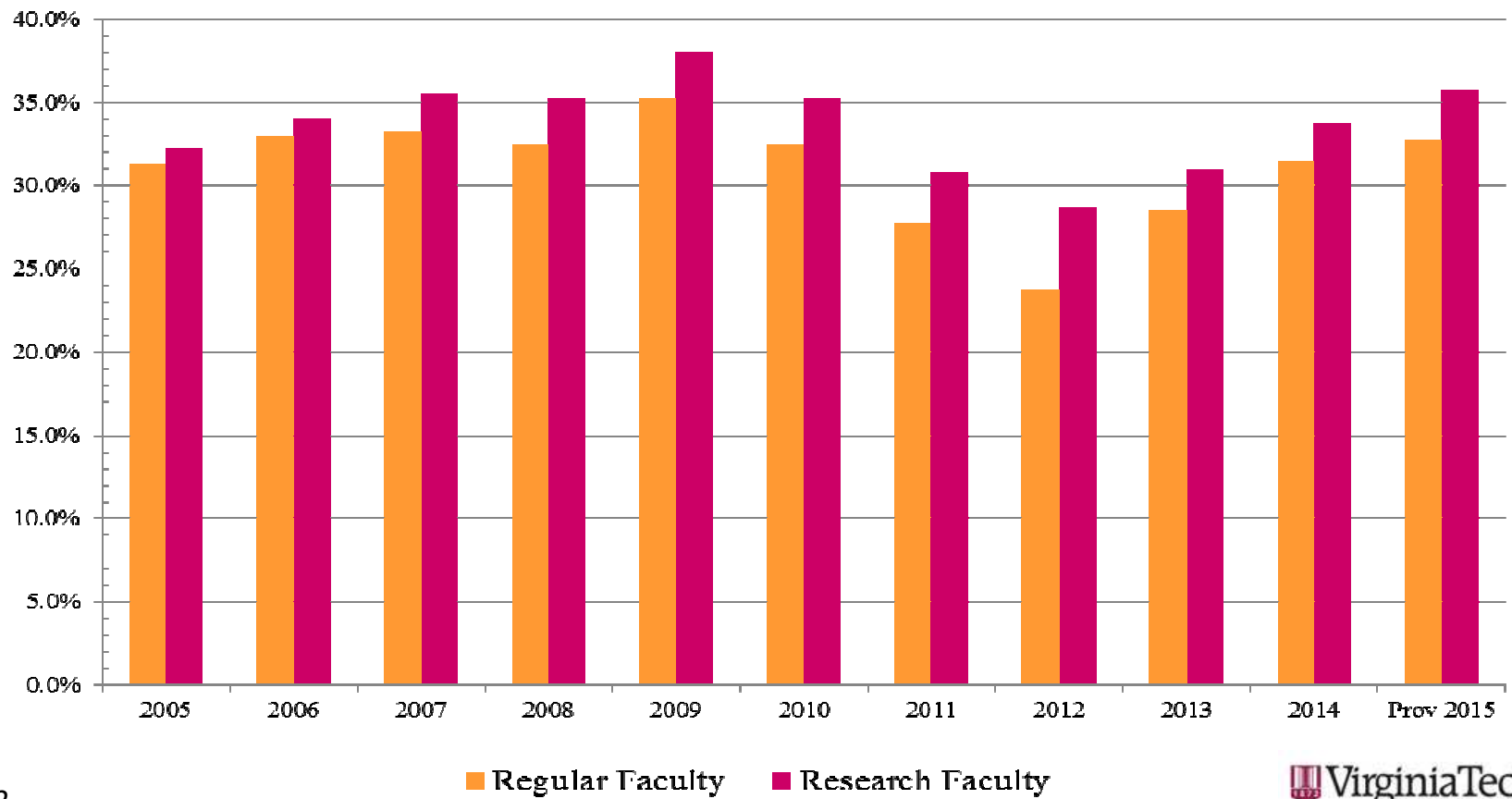
Rates adjusted or set after rate proposal submitted to audit/negotiated

VRS, VSDP, Group Insurance, and Retiree Health Insurance Credit

34.6% of total Fringe costs in FY2013

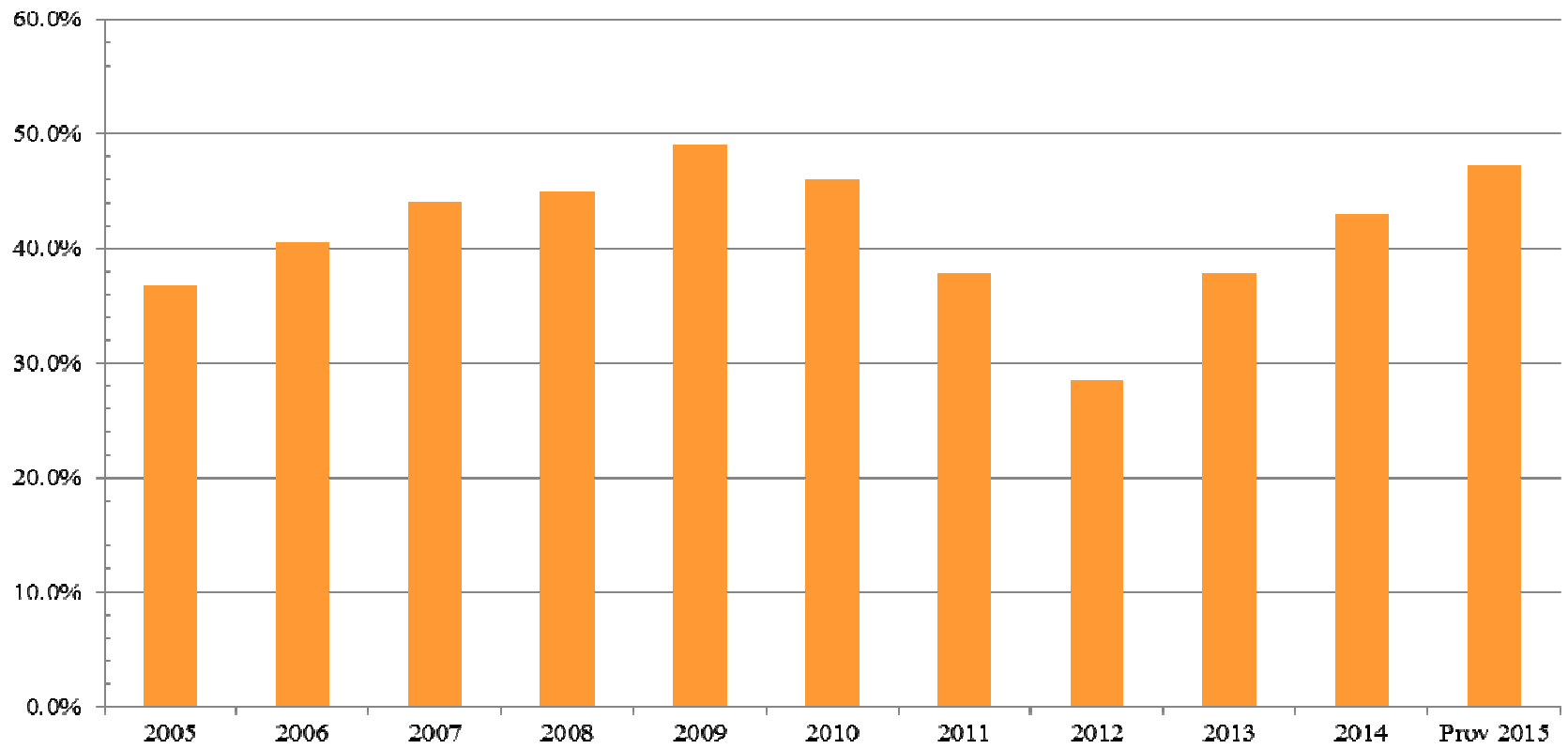


Faculty Fringe Benefit Rates





Classified Staff Fringe Rates





Questions??

For more information, please contact:

Ken Miller (millerk@vt.edu)

Phone 231-7448

Dave McGarry (mcgarrde@vt.edu)

Phone 231-3340

Sharon Barrett (barretts@vt.edu)

Phone 231-8578