



### Operating Instruction 7.3.4 Cost Allocation

#### Part 1. Purpose

To address the allocation of both direct and indirect costs to the colleges, universities, or system office programs, activities, and cost centers. The purpose of allocating costs can include the pricing of goods or services, or to assist in the sharing of resources.

#### Part 2. Definitions

##### Direct costs

Costs that can be specifically identified and assigned with relative ease and with a high degree of accuracy to a program or activity. These are costs where it is practical to track actual use by program or activity. Examples include but are not limited to:

1. labor and fringe benefits,
2. telephone-related charges traced to a specific telephone account,
3. copier costs where they are identified by a specific cost center, and
4. postage costs where these costs are accumulated by cost center.

##### Indirect costs

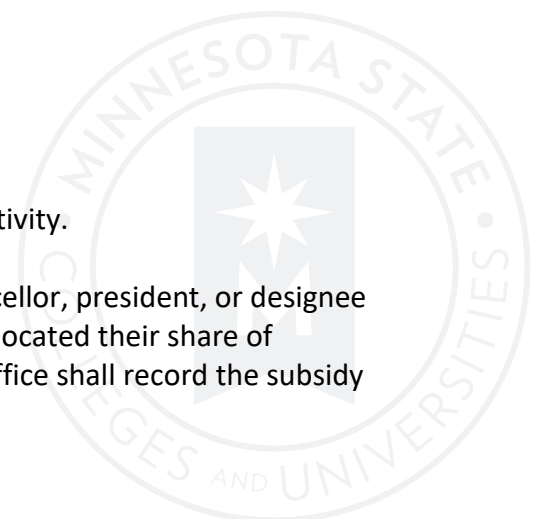
Often referred to as “overhead,” indirect costs are costs incurred for multiple programs or activities that cannot be readily or easily identified with those programs or activities. These costs are not accumulated in units easily traceable to individual activities and therefore must be allocated using a consistent method. Typical expenses in this category include:

1. facility and utilities costs,
2. maintenance and other related charges,
3. administrative activities such as human resources,
4. fiscal services, and
5. executive staff, such as presidents and vice presidents.

#### Part 3. Allocating Costs

All direct costs must be charged back to the related programs or activity.

In accordance with the auxiliary multi-year financial plan, the chancellor, president, or designee may determine that specific programs or activities should not be allocated their share of indirect costs. In such an event, the college, university, or system office shall record the subsidy



with a corresponding revenue and expense object code. For financial reporting purposes all costs must be recorded in the accounting system.

#### **Part 4. Indirect Cost Methods**

The method used to determine an indirect cost rate to apply to activities and functions must be:

1. reasonable,
2. based on a documented principles and procedures,
3. based on reliable financial and other information, and
4. consistently applied.

Indirect costs may be applied as a single rate or in multiple rates based on the cost factors involved. These may be square footage for facilities costs, including utilities, maintenance, and depreciation where applicable. Costs for human resources and payroll functions may be based on the number of full-time equivalent (FTE) employees, the number of staff hired during the year, or some other related measure. Costs for the business office function may be based on non-personnel costs incurred.

In each of these examples, the rates should be based on prior year actual data or an estimate for the current year. The rate applied normally would not change during the year unless a material event occurred to require a change.

#### **Part 5. Costs for Contract Training or Services**

Contract training or services include all instruction and related services designed and delivered to meet the needs of private and public sector companies or organizations. Instruction includes closed enrollment and credit or non-credit provided under a contract with market pricing. For purposes of determining total program costs for customized training activities, all direct and indirect costs must be included in accordance with this procedure. The basis used must be consistent with that used for any other activities or programs where indirect costs are allocated. A multi-year financial plan approved by the president, or president's designee, may dictate that these programs be provided a subsidy for some share of indirect costs.

#### **Part 6. Grants**

Colleges and universities receiving federal grants, other than the Carl D. Perkins Vocational and Technical Education Grant, should obtain a negotiated indirect cost rate from their respective cognizant federal agency.

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Date of Adoption: 06/07/02  
Date of Implementation: 06/07/02  
Date of Last Review: 05/03/22

Date and Subject of Amendments:

05/03/2022 – Reviewed as part of the five year review cycle. The proposed amendment consists of technical edits, and the application of new formatting and writing standards.

11/16/16 – Eliminated Part 1 Authority. Replaced Part 2 Guidelines with Part 1 Purpose. Other wording and formatting changes throughout for clarity and consistency with other policy and procedures.

5/17/11 - Amended part 2, subpart B, to clarify that subsidies for auxiliary enterprises must be recorded in the accounting system. Added part 4, "Grants," specifying that for any federal grants, college or university would have to obtain a negotiated indirect cost rate from a federal agency.

07/20/09 - Technical changes; replacing the acronym MnSCU with Minnesota State Colleges and Universities.

No additional HISTORY