



Minnesota State Colleges and Universities System Procedures Chapter 7 – General Finance Provisions

Procedures 7.3.4 Cost Allocation

Part 1. Authority. Board Policy 7.3, Financial Administration, delegates to the chancellor authority to develop procedures to implement this policy.

Part 2. Guidelines. This procedure covers the allocation of both direct and indirect costs to college and university programs, activities and cost centers.

Cost information serves many purposes, both internal and external. The purpose for accumulating cost information may dictate the type and complexity of the costing methods. The costs to be allocated, both direct and indirect, will be determined by the uses of the information.

Costs may be allocated in order to price goods or services. Another purpose is to assist in the allocation of resources.

Definitions

- Direct costs are those 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 usage by program or activity. Examples include labor and fringe benefits, telephone-related charges traced to a specific telephone account, copy costs where the number of copies are identified by cost center, and postage costs where these costs are accumulated by cost center.
- Indirect costs, often referred to as "overhead", are costs incurred for multiple programs or activities and 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 rational and consistent method that approximates the activities' proportional benefit derived. Typical costs in this category are facility costs, such as utilities, maintenance and other related costs; costs of administrative activities such as human resources and fiscal services, and costs of executive staff, such as presidents and vice presidents.

Allocating Costs

- A. All direct costs paid centrally must be evaluated to determine if they should be allocated and charged back to the related programs or cost centers.

- B. Where required by program code structure, certain costs must be charged directly or allocated back to specified programs. Where any of these costs are immaterial, or where the effort to allocate as direct costs is prohibitive, the costs may be allocated in the same way as an indirect cost. See Program Codes for list of costs and programs.

For auxiliary and other student service activities, budget principles approved by the president may dictate that specific programs not be charged their share of all direct or indirect costs. However, all costs must be calculated, accounted for in the accounting system and included in program costs for purposes of financial reporting.

- C. In order to be treated as an auxiliary activity, uncharged costs must be reasonable in relation to overall net income.

Indirect Costs methods

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

- Reasonable;
- based on a documented principles and procedures; and
- based on reliable financial and other information.

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. Cost for the 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 reasonable basis. 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 3. Costs for Contract Training/Services. Contract training/services include all instruction and related services designed and delivered to meet the needs of private and public sector companies/organizations. Such instruction includes closed enrollment, credit or non-credit, provided under a contract with market pricing. This is Customized Training Network sponsored/state appropriation-supported activity and must be recorded in Minnesota State Colleges and Universities Fund 120. 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. Written budget principles approved by the president may dictate that these programs not be charged their share of all direct or indirect costs.

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