

## Distribution of F&A Funds Recovered on Sponsored Projects and Guidelines for Expenses Using Distributed Funds

### Background

Facilities and Administrative (F&A) costs – also referred to as indirect costs – are expenses incurred by the University that cannot be readily and specifically identified with a particular sponsored project, but that contribute to the University's ability to conduct sponsored projects. Such expenses include costs related to buildings (labs, offices, training facilities, etc.), utilities (water, electricity, heating, air conditioning, etc.), maintenance (custodial and facilities services, etc.), equipment, libraries, general administration (purchasing, accounting, payroll, human resources, legal services, information technology services, etc.), departmental administration (deans offices, academic departments, etc.), and sponsored project administration. External sponsoring agencies reimburse the University for these expenses through an F&A rate that is negotiated with the Federal government approximately every three years. These rates represent the actual cost to the University for sponsored projects.

### F&A Distribution Formula

F&A funds recovered from externally-funded projects are intended to offset the actual costs to the University that are required in the support of these projects. As the University's financial position allows, a portion of the F&A funds recovered on sponsored project awards may be shared with the units responsible for the awards based on a distribution formula established on an annual basis.

For projects that recover the University's full F&A rate, the minimum rate to be distributed to the project director is 10% of the F&A amount recovered on each award. For projects that recover F&A costs at a rate that is less than the University's full rate, the minimum rate to be distributed to the project director is 5% of the F&A amount recovered on each award.

Certain programs are excluded from the distribution process because University funds should not be allocated to subsidize administrative service agreements. Currently, excluded units include the Training Resource Center, Kentucky Center for School Safety, Kentucky Educational Cooperative for State Agency Children, and Migrant Education Administrative Center.

In addition, the Provost Research Fund will receive a distribution each year. Distributions from this fund will be at the discretion of the Provost and will include faculty start-up awards, matching funds when required by external funding programs, and other initiatives that support research. The Provost may assign a portion of funding for strategic initiatives to be managed by Sponsored Programs through a competitive award process.

### F&A Distribution Timeline

Because the recovery of F&A costs is not finalized until after the University's annual external audit has been completed, distribution of recovered F&A funds is done on an annual basis. Accounting and Financial Services is responsible for calculating and reporting the amount of F&A earned on each award and normally completes this process by the end of each calendar year for the previous fiscal year. This means, for example, that F&A funds recovered from a project in August of one year are not finalized until December of the following year or later.

### F&A Distribution Process

Following the completion of the external audit for each fiscal year, Accounting and Financial Services will prepare a spreadsheet that reflects the amount of F&A funds recovered from each sponsored project award. Sponsored Programs will use this information to calculate the distribution amount for each award based on the percentages authorized for that year. Sponsored Programs will prepare a notification to each project director that will identify

the amount available for distribution and provide a link through which project directors may submit spending plans outlining how they will use the distributed funds in accordance with the spending guidelines in this document. This notification can be expected early in the spring semester each year.

Sponsored Programs will accept spending plan submissions through a specified date each year. Upon approval of a spending plan, project directors will receive an email notification, and Accounting and Financial Services will facilitate the budgeting of approved funds in an org assigned to the project director.

If a project director does not have a need for funds to be distributed, a spending plan is not required. Project directors may also request an amount less than the total amount allowable. Funds not claimed by project directors will be added to the Provost Research Fund. Any distributed funds that are not spent by June 30 of the following year will be returned to the University for reallocation.

Orgs in which recovered F&A funds were distributed are not transferrable to another financial manager. In the event that a project director who received a distribution departs from the University with a balance in an F&A org that has not yet expired, those funds will be returned to the University. However, the following exceptions will apply: (1) If the funds were recovered from a project with a co-project director, the co-project director will be given access to the remaining funds, and (2) If the funds were recovered on a continuing program that directly serves students through a grant-funded staff, the replacement project director will become the financial manager for the remaining funds so that the program is not penalized because of a change in leadership. The second exception applies only to TRIO programs and the Center for Student Parents. For both exceptions, distributed funds will expire in accordance with the original distribution with no extensions.

### **Distributed F&A Spending Guidelines**

Distributed F&A funds may be used for the following types of expenses:

- Costs in support of research and scholarship activities; and
  - Costs related to an active sponsored project award for expenses that are either not allowable as direct charges to the award or that are in excess of the amount available in the sponsored project award.
- Distributed F&A funds may not be used to replace funds that would otherwise be spendable on a sponsored project award.

Funds may not be used for salaries, student tuition, or recurring costs (i.e., service agreements or software subscriptions). Where appropriate, funds may be used for student wages for hours worked through June 30 of the fiscal year following the year in which funds are distributed. All hiring of student workers must be in compliance with University policies governing student employment, including the hourly rate paid and the number of hours worked per week.

Project directors who have 100% effort paid by a sponsored project may not propose a spending plan that would require work outside the scope of the sponsored project.

Distributed F&A funds are subject to the same conditions and purchasing procedures as other University funds. Timing for spending is subject to the fiscal year end deadlines established by Financial Affairs, and there will be a lapse in the availability of unspent funds carried forward into the subsequent fiscal year.