A. PURPOSE

To provide guidance to institutions when grants are reduced or terminated.

B. DEFINITIONS

1. Facilities and Administration (F&A) Costs: These costs are also referred to as indirect overhead, or overhead. They are actual costs incurred to conduct the normal business activities of an institution and are not readily identified with or directly charged to a specific sponsored project award, but recouped from an overhead rate.

C. POLICY

1. Information Relative to Grant Reduction or Termination

1.1. Each institution must notify the Executive Director at least 30 days prior to the reduction or early termination of a grant award that results in an annual award reduction of $1,000,000 or more, or an annual Reduction of F&A receipts of $200,000 or more. The notification from the institution shall include the following:
   - The annual fiscal impact of the reduction or early termination;
   - The number of FTEs directly affected by the reduction or early termination; and
   - The institution’s plan to compensate and/or adjust for the budgetary shortfall resulting from the reduction or early termination.

1.2. The Executive Director shall provide a quarterly report to the Board detailing the reduction or early termination notifications received.

2. Facilities and Administration (F&A) Receipts

2.1. All grant and contract F&A receipts (sometimes called indirect or overhead receipts) shall be under the direct supervision of the president of the institution. An annual report shall be included in the supplemental budget information submitted as part of the budget request cycle. The annual report shall include a breakdown of personal services and O&M expenditures within NACUBO program. F&A receipts shall be included in the operating budgets submitted during each budget cycle. The F&A account must operate in the positive. In the event F&A expenses exceed receipts, a
financial report detailing one-time and on-going commitments from F&A receipts shall be included in the operating budget submitted. If this occurs, the F&A account must be balanced.

2.2. Research F&A receipts may be utilized as follows:
   2.2.1. Directly in matching support of organized research or distributed on a departmental basis to promote research-related activities;
   2.2.2. For administrative and audit costs related to research undertakings;
   2.2.3. For physical plant improvements that support or foster research;
   2.2.4. For graduate research assistant and fellow-related student aid in accordance with BOR Policy 3.6.1 (Section I); or
   2.2.5. To support research in departments where outside grant funding is not available.

3. **F&A Cost Definitions**

   3.1. F&A costs are real and defensible costs of conducting sponsored projects and activities. These costs represent incremental expenses which should be recognized by all agencies that do business with colleges and universities.

   3.2. The most defensible posture for the institutions to assume is to base the F&A cost rates applied to grants and contracts with State agencies on each institution’s federally-approved F&A cost rate. The cognizant audit agency for all of the institutions under the supervision of the South Dakota Board of Regents is the U.S. Department of Health and Human Services Audit Agency.

4. **Recovery of F&A Cost from State Agencies**

   4.1. In order to recognize the state of South Dakota’s monetary contribution to higher education and higher education’s desire to serve the state of South Dakota, F&A cost rates charged to State agencies shall be limited to 60% of each institution’s federally-approved F&A cost rate. This rate adjustment for State agencies does not apply to grants and contracts that involve federal or other non-state funds.

   4.2. Each institution must be allowed the flexibility to negotiate indirect cost recovery on individual grants or contracts based on the potential benefit of that sponsored project to the institution. Where the actual level of F&A receipts is less than the amount dedicated by the federally-approved cost rate, the difference may be shown as an institutional contribution to the project.

**FORMS / APPENDICES:**

None

**SOURCE:**

BOR 1965; 1968, P. 293; May 1991: May 1993; October 2014; April 2019; October 2023 (Clerical).