The purpose of this document is to provide a general overview of the overhead rate process.

This document is continually being updated; we would appreciate any information and/or insight which would help us develop stronger policies for NMIMT’s research community.
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction</td>
<td>3</td>
</tr>
<tr>
<td>II. Indirect Cost Pools</td>
<td>4</td>
</tr>
<tr>
<td>A. Building Usage Allowance</td>
<td>4</td>
</tr>
<tr>
<td>B. Equipment Usage Allowance</td>
<td>4</td>
</tr>
<tr>
<td>C. Departmental Administration</td>
<td>5</td>
</tr>
<tr>
<td>D. General Administration and General Expenses</td>
<td>5</td>
</tr>
<tr>
<td>E. Sponsored Projects Administration</td>
<td>5</td>
</tr>
<tr>
<td>F. Operations and Maintenance</td>
<td>6</td>
</tr>
<tr>
<td>G. Library</td>
<td>6</td>
</tr>
<tr>
<td>III. Functions</td>
<td>7</td>
</tr>
<tr>
<td>A. Instruction</td>
<td>7</td>
</tr>
<tr>
<td>B. Organized Research</td>
<td>7</td>
</tr>
<tr>
<td>C. Other Sponsored Activities</td>
<td>7</td>
</tr>
<tr>
<td>D. Other Institute Activities</td>
<td>7</td>
</tr>
<tr>
<td>IV. Space</td>
<td>8</td>
</tr>
<tr>
<td>V. References</td>
<td>9</td>
</tr>
</tbody>
</table>
I. Introduction

The term overhead is synonymous with Facilities and Administrative (F&A), or indirect, costs. Indirect costs are those that have been incurred for common or joint objectives and therefore cannot be identified specifically with a particular sponsored project, instructional activity, or other institutional activity (OMB Circular A-21 Section B.4). A negotiated, fixed with carry-forward, rate is established through an audit process conducted by Defense Contract Audit Agency (DCAA) on behalf of NMIMT’s cognizant agency the Office of Naval Research (ONR). Rates are developed under the requirements of the U.S. Office of Management and Budget Circular A-21 (OMB A-21), “Cost Principles for Educational Institutions.”

Rates are developed, proposed and negotiated on an annual basis with ONR for the following functions:

- Organized Research (on-campus and off-campus)
- Other Sponsored Activities (on-campus and off-campus)
II. Indirect Cost Pools

The overhead calculation process is intricate and involves the assignment of a cost category to all funds within NMIMT's ledger. This facilitates management's ability to sort the funds into various categories. The general operating expenditures of the university are grouped into seven cost categories, collectively referred to as indirect cost pools. These costs are then allocated to the four functions of the university: instruction, research, other sponsored activities, and other institute activities.

The overhead rate consists of a numerator, which represents the sum of the allocation of the seven indirect cost pools, divided by the denominator, which includes modified total direct costs of a particular function.

The activities in the funds assigned to these seven pools must be consistent with OMB Circular A-21's definition of the function and must not include any of the expressly unallowable costs outlined under Section J.

The seven indirect cost pools are as follows:

A. Building Usage Allowance

This allowance is the compensation to NMIMT for use of buildings and capital improvements to land and buildings (OMB A-21 Section F.2 and J.14). Computation is based on the acquisition cost of the assets involved, excluding any portion borne by federal contributions and land at the rate of 2%.

Allowance is allocated to the major functions of the institute on the basis of usable square footage. In those instances where space is used jointly by more than one function, the space is allocated to benefiting functions on the basis of institution-wide employee salaries and wages applicable to the benefiting major functions in accordance, with OMB Circular A-21 Section F.3.b.

B. Equipment Usage Allowance

This allowance is the compensation to NMIMT for use of equipment (OMB A-21 Sections F.2 and J.14). Computation is based on the acquisition cost of the assets involved, excluding any portion borne by federal contributions at the rate of 6 2/3%.
Allowance is allocated to the major functions of the institute on the basis of usable square footage. In those instances where space is used jointly by more than one function, the space is allocated to benefiting functions on the basis of institution-wide employee salaries and wages applicable to the benefiting major functions in accordance, with OMB Circular A-21 Section F.3.b.

C. Departmental Administration

Expenses under this heading are those that have been incurred for administrative and supporting services that benefit common or joint departmental activities or objectives in academic deans' offices, academic departments and divisions, and organized research units. (Cost Category (DA), OMB A-21 Section F.6). Acceptance of these expenses must be based upon a determination that the department is engaged in organized research and the departmental administrative personnel perform functions benefiting organized research.

In addition, each academic department is allocated its share of the academic dean’s expenses attributable to administrative functions. Salaries and fringe benefits attributable to administrative work (including bid and proposal preparation) of faculty (including department heads) and other professional personnel conducting research and/or instruction, are allowed at a rate of 3.6% of modified total direct costs. The allowance is added to the computation of the F&A cost rate. The expenses covered by the allowance are excluded from the departmental administration cost pool.

Cross allocations to departmental administration include building and equipment usage allowance, operations & maintenance, and general and administrative costs.

D. General Administration and General Expenses

Expenses under this heading are those that have been incurred for the general executive and administrative offices of NMIMT, which serve the entire university system. They include the Presidents office, V.P. Administration & Finance, Purchasing, Business Office, General Accounting, Human Resources, etc. (Cost Category (GA), OMB A-21 Section F.5). This category includes its allocable share of operation and maintenance expenses, building and equipment usage allowance.

E. Sponsored Projects Administration

Expenses under this heading are limited to those incurred for the administration of sponsored projects by the Restricted Funds Department (RFD) or by Research & Economic Development (R&ED) for administration of University Research (Cost Category (SP), OMB A-21 Section F.7). This category includes its allocable share of operation and maintenance, general administration and general expenses, building and equipment usage allowances.
F. Operations and Maintenance
Expenses under this heading are those that have been incurred for the administration, supervision, operation, maintenance, preservation, and protection of the institution’s physical plant (PPlant). It includes PPlant administration utilities, janitorial services, building repair and maintenance, etc. (Cost Category (OM), OMB A-21 Section F.4). Rates are developed for general operating costs of PPlant, custodial services and utilities. The rates are then applied to the functions of NMIMT on the basis of square footage.

G. Library
Expenses under this heading are those that have been incurred for the operation of the library, including the cost of books and materials (Cost Category (LI), OMB A-21 Section F.8).

Library expenses include its allocable share of equipment/building usage allowances, operations & maintenance, and general administrative costs. Expenses are first allocated on the basis of primary categories of users, i.e., student and professional. This amount is then further assigned to the various functions of the institution.
III. Functions

Pooled costs are allocated to the following four functions of NMIMT:

A. Instruction
This function refers to the teaching and training activities of NMIMT [Cost Category (IN), OMB A-21 Section B.1.a)

B. Organized Research
This function refers to all research and development activities of the institution that are separately budgeted and accounted for. It includes research activities supported by federal or nonfederal sponsors, or the activities that can be funded internally.

Research is the systematic study directed toward fuller knowledge of the subject involved and includes rigorous inquiry, experiment, or investigation. Research can also be described as the pursuit of new knowledge, understanding existing knowledge, or testing/proving existing knowledge (Cost Category (SR), OMB A-21 Section B.1.b).

For costs associated with organized research, use Program code 29000.

C. Other Sponsored Activities
This function refers to activities that involve performance of work other than research. Examples include non-research training agreements, sponsored instruction, course development, community service programs, and testing agreements (Cost Category (SO), OMB A-21 Section B.1.c).

For costs associated with other sponsored activities, use Program code 29001.

D. Other Institute Activities
This function consists of auxiliary enterprises and costs which are unallowable (for indirect cost rate purposes) to sponsored agreements. Examples include operation of residence halls, intercollegiate athletics, bookstores, student administration and services, and lobbying and marketing (defined as the unsolicited promotion of NMIMT) efforts (Cost Category (OA), OMB A-21 Section B.1.d).

Rates are currently developed for organized research and other sponsored activity functions, while the other two functions pay their share of NMIMT’s general operating expenditures via the application of institutional support.
IV. Space

As part of the overhead rate development process, a space study is performed every two years. The objective of this study is to perform a room-by-room space inventory to determine the room type, what department occupies the space, and what type of activity is performed in the room. The information obtained from this survey is used to allocate expenditures to the different cost categories in the Indirect Cost Study and Proposal. See Space Survey Instruction in Policies and Procedures.
V. References

Office of Management and Budget Circular A-21, "Principles for Determining Costs Applicable to Grants, Contracts and Other Agreements with Educational Institutions."