

Simplified Cost Allocation Method

CFI-Funded Construction/Renovation which is Part of a Larger Undertaking

When can the Simplified Method be used?

Given that construction/renovation costs can be difficult to allocate when CFI-funded space is part of a larger undertaking, the CFI will allow an Institution to use a simplified method (hereafter referred to as the Simplified Method) to approximate the costs of the CFI-funded space under the following special circumstances:

1. The average cost of CFI-funded space is representative of the average cost of the overall undertaking.¹

If a review of the nature of the CFI-funded space and other types of space (not funded by the CFI) in the overall undertaking indicates that the average cost for the CFI-funded space is in line with the average cost of the overall undertaking, it is legitimate to use the overall average cost as a means of allocating costs to the CFI-funded space. In theory, this method should yield the same cost as would a more detailed method.²

The Institution should retain on file its rationale leading to its conclusion that the average cost of the CFI-funded space is in line with the average cost of the entire undertaking. A confirmation from the architect or contractor to this effect should also be obtained and retained on file in order to properly support the use of this method.

2. The average cost of the CFI-funded space is higher than the average cost of the overall undertaking.

In order for the Simplified Method to be used for projects where the average cost of the CFI-funded space is not representative of the average cost of the overall undertaking, it must result in the calculation of a conservative amount of construction/renovation costs for the CFI-funded space. In other words, the average cost of the CFI-funded space must be higher than the average cost of the overall undertaking. This means that the CFI-funded space is more costly to build/renovate on average than the other types of space (not funded by the CFI) in the overall undertaking. For example, the CFI might be funding wet labs when the remaining of the space (not funded by the CFI) is office space.

Under other circumstances (non-construction/renovation related costs), the CFI does not allow an Institution to understate costs. The full cost of eligible items must be reported as this allows the CFI to report back to the Federal Government on the true costs and

¹ The average cost of the CFI-funded space should take into consideration the additional costs related to the special conditions required by the CFI-funded space.

² For an example of a detailed method, refer to the document entitled [Costing Attribution Guidelines](#) prepared by Hanscomb included in the [Frequently Asked Questions](#) in the Finance section of the CFI website.

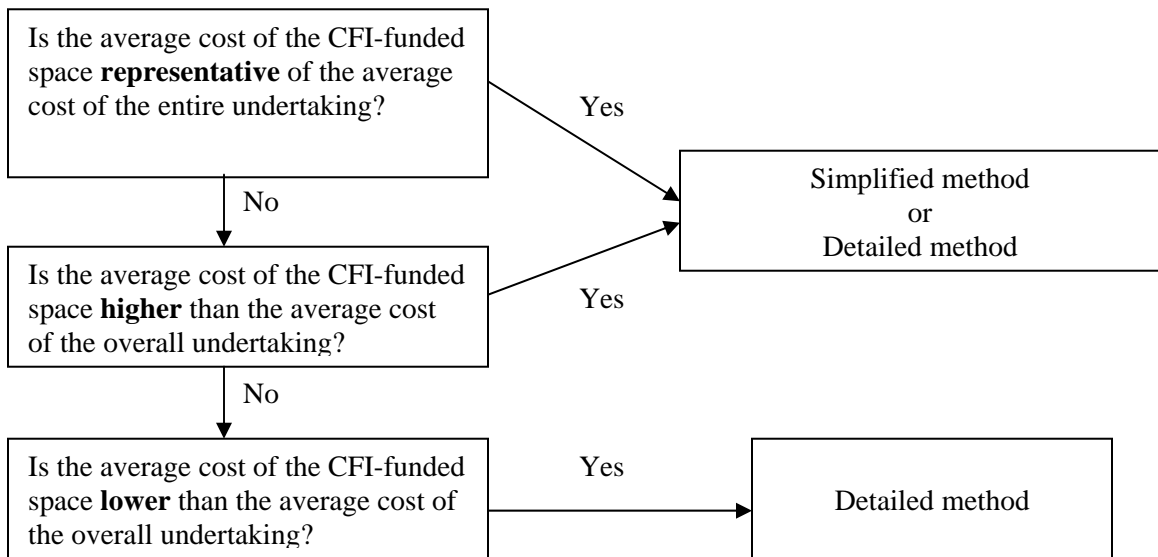
contributions of CFI-funded infrastructure projects. It also allows for proper monitoring of projects.

However, in light of the complexities and high costs associated with establishing a detailed cost allocation method for construction/renovation, the Simplified Method is accepted by the CFI if the average cost of the CFI-funded space is higher than the average cost of the overall undertaking. The use of this method in such circumstances means that the total costs of the CFI-funded space are not all included in the project costs reported to the CFI. This provides assurance that the CFI has not over funded its portion.

The Institution should retain on file its rationale leading to its conclusion that the average cost of the CFI-funded space is higher than the average cost of the overall undertaking. A confirmation from the architect/contractor to this effect should also be obtained and retained on file in order to properly support the use of this method.

The use of the Simplified Method under these circumstances no longer needs to be approved by the CFI. The use of this method will be accepted by the CFI as long as the Institution can support one of the above circumstances.

If one of the two circumstances above is not met, the Institution must use a detailed cost allocation method³ (for example when the average cost to build/renovate the CFI-funded space is less than the other types of space (not funded by the CFI) in the undertaking).



The cost allocation method used by an institution will be reviewed by the CFI upon audit of a project and adjustments may be required if the method used is not appropriate. Therefore, as this may present a risk for institutions, we strongly encourage institutions to consult with experts from

³ For an example of a detailed method, refer to the document entitled [Costing Attribution Guidelines](#) prepared by Hanscomb included in the [Frequently Asked Questions](#) in the Finance section of the CFI website.

their Physical Plant department (or equivalent) to ensure that the proposed cost allocation method for a given project is appropriate. In the case of the Simplified Method, being able to support the fact that the average cost of the CFI-funded space is representative of, or higher than, the average cost of the overall undertaking is critical⁴. Institutions should ensure this aspect is reviewed carefully and that sufficient and appropriate supporting documentation is obtained and retained on file.

Under what circumstances is an Institution most likely to want to use the Simplified Method?

Institutions will **most likely** want to use the Simplified Method when the average cost of the CFI-funded space is representative of the average cost of the overall undertaking. This method is simple and less time consuming, and will yield equivalent results to a more detailed method.

As indicated in the previous section, Institutions also have the opportunity to use the Simplified Method when the CFI-funded space is known to have been more expensive than the other types of space (not funded by the CFI), perhaps due to the installation of expensive, specialized items (e.g. wet labs) versus inexpensive items in the other types of space (e.g. office space). This tends to be the case for many CFI-funded projects. When such circumstances exist, an Institution is **most likely** to want to use this method when:

- a detailed cost allocation was not performed in the past (e.g. the Institution may not have been aware that this was needed), and/or;
- actual or forecasted costs of construction/renovation are much higher than the cost presented to the CFI in the application or upon award finalization, even with the use of the Simplified Method. Therefore, the use of the Simplified Method to report costs upon award finalization or in financial reports does not affect CFI funding, and/or;
- the Institution wishes to adopt a simple method, one that is less costly and time consuming to perform.

An Institution is **unlikely** to want to use the Simplified Method at the application stage as this would result in lower overall CFI funding. Institutions often use best estimates of the cost of the proposed construction/renovation for purposes of the application. These estimates may be provided by quantity surveyors, contractors, or established using industry standards or the Institution's own experience with similar construction/renovations within the recent years.

The Institution is also **unlikely** to want to use this method at the award finalization or financial reporting stage if reporting a lower amount of costs has an impact on their CFI funding. If this is the case, the Institution may want to adopt a more detailed method in order to report a greater amount of cost which is reflective of the true actual cost of the CFI-funded space.

⁴ The comparison of the average cost of the CFI-funded space with the average cost of the overall undertaking can be **qualitative** in nature (i.e. qualitative comparison of the particularities of the CFI-funded space with the particularities in the other types of space (not funded by the CFI) in the undertaking).

Can we obtain an example of the Simplified Method?

A framework for the calculation of construction/renovation costs using the Simplified Method can be found in **Appendix 1**. A numerical example which has been provided for illustrative purposes can also be found in **Appendix 2**. This is a framework only and the Institution must consider whether the method is appropriate for the project under review and tailor its analysis accordingly.

Simplified Method

Calculation of CFI-Funded Construction/Renovation Costs which is Part of a Larger Undertaking

The following provides a framework for the calculation of construction/renovation costs using the Simplified Method. It is a framework only and the Institution must consider whether it is appropriate for the project under review and tailor its calculations accordingly.

This method can only be used under certain special circumstances. Institutions should ensure the use of this method is appropriate for the project.

This calculation can be performed at various levels of completion of a project:

1. Prior to the start of the project to support the costs reported upon award finalization;
2. Interim period to support the costs reported in an interim financial report;
3. Following completion of a project to support the costs reported in the final financial report.

When performing the calculation, an Institution should consider the most current available information.

Expertise from the Physical Plant department (or equivalent) of the Institution should be sought when performing these calculations. All cost elements stated in the framework below are net of refundable taxes.

Framework:

Total cost of overall undertaking including cost of common elements, structural areas, and soft costs (note 1).	A
Less: CFI non-eligible costs (note 2)	B
Less: Cost of equipment which is included in the total cost of the overall undertaking, but which is reported separately to the CFI under the equipment category.	C
Less: Cost associated with common elements which are not essential for the net floor area of the entire undertaking to function within the building (note 3).	D
Less: Additional cost of special conditions that may have been required only by the other types of spaces (not funded by the CFI) in the entire undertaking, and for which it would be inappropriate for the CFI to assume a portion of the costs (note 4).	E
Less: Additional costs of special conditions required by the CFI-funded space which will be added separately as item J below (note 4).	F

Total = A-B-C-D-E-F	G
Multiplied by: Ratio of net floor area of CFI-funded space / net floor area of the entire undertaking (note 5)	H
Total G multiplied by H	I
Add : Additional cost of special conditions required by the CFI-funded space – see F above (note 4)	J
Total of lines I and J	K
Research percentage (note 6)	L
Total CFI eligible construction/renovation cost associated with the CFI-funded space (K multiplied by L) (note 7)	M

There is no need to consider special conditions in E, F, and J if the institution has concluded initially that the average cost of the CFI-funded space is representative of the average cost of the overall undertaking. In theory, if this is the situation, consideration of these conditions should have no effect on the overall calculation.

For instances where the average cost of CFI-funded space is higher than the average cost of the overall undertaking, consideration of these special conditions is optional. As the average cost of the CFI component is greater than the rest of the space not funded by the CFI, taking into account the special conditions should yield a greater overall cost, and consideration is therefore optional. Under these circumstances, an institution can either choose to:

1. not take into consideration **any** of the special conditions (i.e. not consider lines E, F, and J); or
2. take into consideration the special conditions (i.e. consider lines E, F, **and** J). In doing so, the institution may want to focus on the more significant items and establish a significance threshold to avoid small adjustments that would have a minimal impact on the overall cost. The CFI will accept the significance threshold set by the institution as long as it is applied consistently for all components of lines E, F, and J.

The CFI hopes that the above will allow institutions to keep this method as simple as possible. It should also help minimize the amount of work involved in obtaining costing information and maintaining appropriate supporting documentation related to special conditions.

Additional Notes:

Note 1: Common elements and structural areas are spaces within the building that are not included within the net floor area of the building. Examples of these areas are washrooms, mechanical & electrical rooms, janitor rooms, lobbies, elevators, circulation space, etc.

Soft costs are expense items that are not considered direct construction costs. However, these costs are necessary to prepare and complete the non-construction needs of the project. Soft costs include such items as architecture, design, engineering, permits,

inspections, etc. Institutions may wish to refer to the [Costing Attribution Guidelines](#) prepared by Hanscomb (Appendix C) for additional examples of soft costs.

Note 2: Example of CFI non-eligible costs are: moving of existing tenants, non-admissible equipment, administrative costs (printing, tenders, photos, etc.), landscaping fees, art collections, land and property acquisition, etc.

Note 3: Example of non-essential areas that may be considered as common areas are: parking, lounges, vending areas, food services, health and fitness centers, areas that are in excess of building codes, etc. The type of space considered as common elements may vary depending on the classification method used by the Institution (FICM, BOMA, etc.).

Institutions should only remove the cost of these non-essential areas if they are considered as part of the common areas for the project. Depending on the classification method used by the Institution, if these are considered part of the net floor area, the cost should not be deducted as the exclusion of the cost for these spaces will already be taken into account in the calculation of the ratio of net floor area of CFI-funded space/net floor area of the entire undertaking (see H).

If the Institution is unable to determine the cost of these common elements, the CFI will accept that the amount of space taken by these common areas be added to the net floor area of the entire undertaking in the ratio in H instead of deducting the cost in D. The ratio in H would therefore be: Ratio of net floor area of CFI-funded space/(net floor area of the entire undertaking + floor area associated with common elements which are not essential for the net floor area of the entire undertaking to function within the building).

Note 4: If special conditions are required only for the CFI-funded space, then the entire **additional** associated costs can be considered in the analysis. However, if special conditions are required only by the other types of spaces (not funded by the CFI) in the entire undertaking and for which it would be inappropriate for the CFI to assume a portion of the costs, then the related additional costs should be excluded.

Note 5: The net floor area is the sum of all usable space measured to their interior walls as determined by the functional program of the building.

Note 6: For instances where the space funded by the CFI is 100 percent used for research but is located in a building with other types of spaces (not funded by the CFI), the Institution does not need to prorate further in L because the analysis previously includes prorating to account for costs which are related only to the CFI-funded space (see H).

However, if the same CFI-funded space is used for research and other purposes, the Institution must prorate the costs in L to reflect only the research portion of the CFI-funded space. The Institution must maintain supporting documentation to support the percentage of research use.

For instances where different research percentages apply to different components of the CFI-funded space, a weighted average may be calculated to determine the overall percentage of research use of the CFI-funded space if the **average cost** of the spaces involved are relatively the same or very similar, or if there is only one small room for which this may differ significantly (e.g., 100 sq. ft. in 5,000 sq. ft. of funded space).

The following is an example on how to calculate a weighted average percentage of research use for a project where it has been determined that the use of the weighted average is appropriate:

			Research Use	
Floor 1	Space A	50 sq. ft.	50%	25 sq. ft.
Floor 1	Space B	50 sq. ft.	50%	25 sq. ft.
Floor 2	Space C	200 sq. ft.	80%	160 sq. ft.
Floor 3	Space D	300 sq. ft.	100%	300 sq. ft.
		600 sq. ft.		510 sq. ft.
Weighted average research percentage to be used: $510 / 600 = 85\%$				

If the average cost of the spaces involved are not similar and there are different research percentages for certain components of the CFI-funded space, the Institution must prepare a more detailed analysis to determine the total costs of each space area in order to multiply each total costs by the associated research percentage.

Note 7: If the institution is submitting an **interim** financial report, the total cost in M must be multiplied by the percentage of completion of the entire undertaking at the reporting date to determine the amount of **actual** costs that must be reported in the interim financial report. However, if it can be demonstrated that the percentage of completion of the CFI-funded space is different than the one of the entire undertaking, then that percentage may be used. Equally acceptable to the CFI would be to use the percentage of billings to date divided by the most recent estimated cost of completion for the entire undertaking. The difference between the total cost in M and the calculated actual cost should be presented in the appropriate forecast period of the interim financial report.

Simplified Method Numerical Example for Illustrative Purposes

New construction – Data:

Net floor area of entire undertaking:	20,000 sq.ft
Common areas, including structural areas:	<u>10,000 sq.ft</u>
Total gross area	30,000 sq.ft

Total cost of overall undertaking, net of refundable taxes (includes cost of common elements and soft costs)	\$8,500,000
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Net CFI-funded space (wet labs)	5,000 sq.ft
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Other considerations:

- The average cost of the CFI-funded space (wet labs) is higher than the average cost of the other types of spaces (not funded by the CFI) which are mainly office type spaces. The use of the Simplified Method is allowed by the CFI under this special circumstance. The higher average cost of the CFI-funded space is due to the specialized nature of the wet labs where office type spaces did not require any specialization. A confirmation from the architect has been obtained to the effect that the average cost of the CFI-funded space is higher than the average cost of the other types of spaces.
- The institution has decided to consider special conditions in its analysis and has set a significance threshold of \$40,000.¹
- Included within common areas is a cafeteria of 600 sq.ft at an estimated cost of \$220 sq.ft. (estimated total cost of **\$132,000**). This cost is net of refundable taxes. A confirmation of the architect has been obtained for the estimated total cost of the cafeteria.
- The CFI-funded space requires a specialized ventilation system because of the nature of the experiments that will be conducted in the labs. Before consideration of this special requirement, the ventilation system would have been expected to cost \$1,300,000. The additional features required because of the CFI-funded space will bring the total cost of this system to \$1,360,000. Therefore, the **additional** cost which has been incurred solely because of the CFI-funded space is **\$60,000** (net of refundable taxes).
- The labs are being used by an outside party (no link with the research project) one day out of five which is the normal operating period for the labs. The remaining four days are made available only to the research project. The research percentage of the CFI-funded space is therefore **80 percent**.
- There are several offices (part of the space which is not funded by the CFI) that house equipment with high electrical requirements. Because of this, modification had to be made to the electrical system which caused **additional** costs of **\$50,000** (net of refundable taxes). It would not be appropriate for the CFI to assume a portion of these

¹ Consideration of special conditions is optional.

costs as these are in excess of the standard electrical system costs that would normally be required and are associated with space/requirements which are not related to the CFI-funded project.

- An old building was demolished in order to allow for the construction of the new one. Included within the total cost for the overall undertaking of \$8,500,000 are relocation costs of previous tenants totaling **\$100,000** (net of refundable taxes). These relocation costs are not eligible for CFI funding. Demolishing costs are also included. However these have been deemed eligible by the CFI at the application stage given the Institution had demonstrated that it was the optimal location for the infrastructure and the research envisioned, and it was the most cost effective way to proceed.
- Included within the total cost for the overall undertaking of \$8,500,000 is specialized equipment totaling **\$200,000** (net of refundable taxes) related to the labs which has been installed by the general contractor and paid for under the general construction contract. The full cost of these equipments has been reported separately to the CFI under the equipment category.

Calculation of CFI eligible construction cost:

Total cost of overall undertaking including cost of common elements, structural areas and soft costs	\$8,500,000	A
Less: CFI non-eligible costs (relocation costs of previous tenants)	(\$100,000)	B
Less: Cost of equipment which is included in the total cost of the overall undertaking but which is reported separately to the CFI under the equipment category	(\$200,000)	C
Less: Cost associated with common elements which are not essential for the net floor area of the entire undertaking to function within the building (cafeteria)	(\$132,000)	D
Less: Additional cost of special considerations that were required only by the other types of spaces (not funded by the CFI) in the entire undertaking for which it is inappropriate for the CFI to assume a portion of the costs (electrical)	(\$50,000)	E
Less: Additional costs of special conditions required by the CFI-funded space which will be added separately below (ventilation)	(\$60,000)	F
Total	\$7,958,000	G
Multiplied by : Ratio of net floor area of CFI-funded space/net floor area of the entire undertaking (5,000 sq. ft /20,000 sq. ft)	25%	H
Total	\$1,989,500	I
Add : Additional cost of special conditions required by the CFI-funded space (ventilation)	\$60,000	J
Total	\$2,049,500	K

Research percentage	80%	L
Total CFI eligible construction cost associated with the CFI-funded space	\$1,639,600	M