

Rate Studies Handbook

FINANCIAL MANAGEMENT



THE UNIVERSITY OF ARIZONA

Financial Services

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1.00 Introduction

1.1 Purpose

Service/recharge center cost accounting and administrative practices are subject to, and must comply with, federal guidance and University of Arizona Financial Services Manual, 18.10 Service Centers. This is the University's official policy-level interpretation and application of the federal guidance, including Cognizant Agency for Indirect Costs implementation constraints, as it pertains to service/recharge centers. The *Rate Studies Handbook* is an additional, in-depth resource for interpreting and applying Federal Guidance and Policy 18.10 Service Centers. Adherence to the principles within the *Rate Studies Handbook* constitutes a good faith effort to comply with federal guidance and relevant ABOR/University of Arizona policies. Appendix D – Federal Guidance provides an outline of sources of federal rules most relevant to service/recharge centers.

NOTE: Since Specialized Service Facilities are a highly unique and rare type of service/recharge center, the *Rate Studies Handbook* is largely addressed to service centers and recharge centers.

1.2 Compliance/adherence expectations

Service/recharge centers must operate in conformance with Policy 18.10. Further, adherence to the principles within the *Rate Studies Handbook* will ensure compliance with both federal guidance and Policy 18.10.

1.3 Failure to comply/adhere

Failure to comply with Policy 18.10 and adhere to the principles of the *Rate Studies Handbook* can lead to negative consequences for the University and the service/recharge center.

1.4 Customers must pay for the goods/services they receive

All goods/services provided by a service/recharge center to a customer/user must be billed to an account i.e., either a customer/user account or available discretionary funds. Excluding goods/services that are consumed by the service/recharge center itself, a service/recharge center's internal account can never absorb the cost of goods/services provided to others.

1.5 Principles applicable to internal customers

(A) Breakeven, cost-based rates

A service/recharge center must design the internal service bill rate (ISBR) for any one good/service to recapture actual allowable breakeven-basis costs over a defined breakeven period as authorized by Financial Services Rate Studies.

(B) Consistency

A service/recharge center must consistently apply its cost accounting practices and internal service billing rates to all internal customers, regardless of fund source. Such practices and rates cannot be changed without the explicit authorization of Financial Services Rate Studies.

1.6 Principle applicable to external customers

A service/recharge center must determine and apply the most appropriate premium billing rate(s) to external customers.

1.7 Responsibilities

(A) General responsibilities

The following summarizes the general, overarching responsibilities of University of Arizona organizational entities with the most noteworthy obligations under the *Rate Studies Handbook*.

(I) Service/recharge centers and parent organization

A service/recharge center's general responsibilities include:

(1) Operating in compliance with Policy 18.10, and in adherence with the *Rate Studies Handbook*.

Service/recharge centers will develop, maintain, propose, and implement necessary accounting and administrative practices.

NOTE: by complying with Policy 18.10 and adhering to the *Rate Studies Handbook*, a service/recharge center will comply with federal guidance.

(2) Requesting exceptions to Policy 18.10 or the *Rate Studies Handbook*

Service/recharge centers can submit requests for exceptions to Financial Services Rate Studies for authorization. Where appropriate, Rate Studies may involve others, such as Research Innovation and Impact (RII), service/recharge center advisory committee and, in certain cases, the service/recharge center executive committee.

(3) Requesting Rate Studies assistance

A service/recharge center can request Rate Studies assistance with Policy 18.10 or the *Rate Studies Handbook*. Where appropriate, Rate Studies may redirect the service/recharge center to other, more appropriate contacts.

(II) Rate Studies and Research Innovation and Impact (RII)

Rate Studies is the primary contact for the University with the Cognizant Agency for Indirect Costs regarding service/recharge center, finance and accounting (F&A), employee related expenses (ERE), and other cost allocation matters. Others, e.g., Service/recharge centers and parent organizations, should not directly contact the Cognizant Agency for Indirect Costs without prior authorization from Rate Studies. Research Innovation and Impact (RII) and Rate Studies will collaborate to ensure service/ recharge center compliance with federal guidance and Policy 18.10.

(1) Managing institutional practices related to service/recharge center s

Rate Studies and Research Innovation and Impact will develop, propose, maintain, implement, interpret/clarify, and/or update accounting and administrative policies/procedures applicable to service/recharge centers.

(2) Granting exceptions to Policy 18.10 and/or the Rate Studies Handbook

Rate Studies will review and either approve or reject service/recharge center requests for exceptions. Where appropriate, Rate Studies will refer these requests to the service/recharge center advisory committee or, in certain cases, the service/recharge center executive committee. Rate Studies will also establish an appropriate duration for approved exceptions. Exceptions normally will be granted for only a limited period, e.g., 1-2 years.

(3) Guiding, training, and enabling service/recharge center s

Rate Studies and Research Innovation and Impact (RII) will provide guidance and education/training that will enable Service/recharge centers to comply with Policy 18.10 and adhere to the Rate Studies Handbook. This includes facilitating a service/recharge center's ability to develop and complete required rate studies.

(4) Ensuring service/recharge center compliance/adherence

Rate Studies and Research Innovation and Impact (RII) will ensure that Service/recharge centers comply with Policy 18.10 and adhere to the Rate Studies Handbook. This includes performing periodic reviews on a selective, random, or institution-wide basis.

(III) Service/recharge center Executive Committee

This committee's general responsibilities include:

(1) Providing institution-level policy/programmatic guidance

The committee provides service/recharge center -related policy/programmatic direction to Rate Studies, Research Innovation and Impact (RII), and the service/recharge center advisory committee.

(2) Providing guidance regarding problematic service/recharge center matters or cases

The service/recharge center executive committee will provide direction regarding cases/issues that have been forwarded by Rate Studies, Research Innovation and Impact (RII), or the service/recharge center advisory committee. Such matters must be particularly material, precedent-setting, problematic, or unusual. Also, such matters normally should affect more than one University college/division.

(3) Authorizing new/revised institutional policies/procedures applicable to service/recharge centers

The service/recharge center executive committee is the final authority for approving the adoption and implementation of institutional service/recharge center policies/procedures recommendations that have been reviewed and approved by Rate Studies, Research Innovation and Impact (RII), and the service/recharge center advisory committee.

(4) Meeting periodically

The service/recharge center executive committee will meet as needed to discuss the university service/recharge center environment. Such meetings will be coordinated and scheduled by Rate Studies and Research Innovation and Impact (RII), with the concurrence of a majority of polled committee members.

(IV) Service/recharge center advisory committee

This committee's general responsibilities include:

(1) Providing a Capital Asset Management campus-wide forum for monitoring institutional service/ recharge center practices

The service/recharge center advisory committee will identify, discuss, and propose revisions in institutional practices, e.g., policies/procedures. The committee's primary purpose is to promote a capital asset management campus-wide service/recharge center environment that is beneficial to the University's mission-based entities and programs, notably, research and development. Recommendations are subject to authorization from Rate Studies and Research Innovation and Impact (RII). Material or precedent-setting recommendations may need to be forwarded to the service/recharge center executive committee for their guidance and authorization.

(2) Helping monitor Capital Asset Management campus-wide service/recharge center issues

The service/recharge center advisory committee will help Rate Studies and Research Innovation and Impact (RII) monitor and address new, evolving, hot-button, or lingering issues affecting the operations of service/ recharge centers; and may forward particularly problematic issues to the service/recharge center executive committee for resolution.

(3) Meeting periodically

The service/recharge center executive committee will meet as needed to discuss the university service/recharge center environment. Such meetings will be coordinated and scheduled by Rate Studies and Research Innovation and Impact (RII), with the concurrence of a majority of polled committee members.

(B) Specific responsibilities

The individual sections of the Rate Studies Handbook contain specific assigned responsibilities for service/ recharge centers and parent organizations, Rate Studies, Research Innovation and Impact (RII), and others. *Appendix E – Specific Responsibility Citations* identifies these responsibilities.

1.8 Consequences of noncompliance/non-adherence

Failure to either comply with Policy 18.10 or adhere to the Rate Studies Handbook can result in negative consequences to a service/recharge center. Possible outcomes include, but are not limited to:

- ◆ Debarment of the service/recharge center, i.e., suspension from doing business with sponsored or federally funded Internal Customers.
- ◆ Reductions in financial support from the University
- ◆ Disallowances of those portions of service/recharge center charges attributable to noncompliant or non-adherent practices. Disallowances may require refunds/reimbursements to affected Internal Customers, perhaps including imputed interest.
- ◆ Loss of Internal Customers
- ◆ Diminished reputation of, and diminished confidence in, the service/recharge center amongst stakeholders within the university community.
- ◆ In egregious cases, forced closure of the service/recharge center or imposition of disciplinary actions against offending (responsible) service/recharge center employees according to applicable University policies.

1.9 Contextual use of terms and required vs. optional practices

In general, adverb terms like must, will, or shall are used in conjunction with required or mandatory actions, practices, or outcomes. Conversely, adverb terms like should or may are used in conjunction with recommended or optional actions, practices, or outcomes. As such, these terms normally are used for procedures identified as best practices.

1.10 Policy 18.10 and Rate Studies Handbook updates and review cycle

- Financial Services Manual 18.10 and the Rate Studies Handbook should be completely reviewed every four years and either reconfirmed/reauthorized or updated/revised. Ideally, this should occur within the year following the completion of a finance and accounting (F&A) rate negotiation cycle resulting in new or extended Cognizant Agency for Indirect Costs-authorized finance and accounting (F&A) rates.
- Changes in Policy 18.10 or the Rate Studies Handbook can be proposed by Rate Studies or Research Innovation and Impact (RII). Agreed upon changes will be forwarded to the service/recharge center advisory committee for evaluation and recommendations.
- Changes proposed by Service/recharge centers or capital asset management administrators should be forwarded to Rate Studies and Research Innovation and Impact (RII) for review. Laudable changes and recommendations will be forwarded to the service/recharge center advisory committee for review. If those changes are authorized by Rate Studies, Research Innovation and Impact (RII), and the service/recharge center advisory committee, they will be forwarded to the service/recharge center executive committee for final authorization.

NOTE: Changes deemed necessary to ensure institutional compliance with federal guidelines will be forwarded to the service/recharge center advisory committee as informational items only.

2.00 Types of Service/recharge centers

2.1 Characteristics common to all service/recharge centers

(A) Discrete operating units

Service/recharge centers function as discretely organized operating units.

(B) Discrete financial activity

The financial/budgetary aspects of service/recharge centers are segregated from other activities in that they have their own accounts in the Designated – Recharge Fund Group that incur their own separately identifiable operating costs.

NOTE: Where authorized by Rate Studies and Research Innovation and Impact (RII), Service/recharge centers may also set aside SMR and incur strategic maintenance expenditures (ii) set-aside EIR and incur capital equipment expenditures.

(C) Discrete equipment/instrumentation

Service/recharge centers normally should have their own equipment/instrumentation

(D) Discrete space

Service/recharge centers normally should have their own space

(E) Goods/services provided to internal customers on a rate/fee basis

Internal Customers are the primary customer of service/recharge centers, which provide goods/services on a rate/fee basis. The rate/fee basis for Internal/Service Billing Rates is directly related (although due to subsidization, not necessarily equal) to the cost of the goods/services provided.

2.2 Characteristics specific to service centers

(A) Open market availability

The service/recharge center provides goods/services that are commonly available or readily obtainable from for-profit entities in an open market, such as

- Vehicle rentals and repairs
- Communications services, e.g., basic telephone/data
- Photocopying/printing services

(B) Highly complex/specialized capital assets are an immaterial contributor to the provision of goods/services

The service/recharge center's provision of goods/services to internal customers is not materially dependent upon access to or the use of highly complex/specialized medical or scientific facilities or equipment.

(C) No specific threshold on internal/service billings [IBs] to federally funded internal customers

The service/recharge center may have any level of annual IBs to federally funded internal customers.

2.3 Characteristics specific to recharge centers [RCs]

(A) Limited market availability

The service/recharge center provides goods/services that are commonly available or readily obtainable from for-profit entities in an open market. Examples include:

- Microscopy/imaging
- Proteomics/lipidomic/mass spectrometry
- Chemical/material analysis

(B) Highly complex/specialized capital assets are a material contributor to the provision goods/services.

The service/recharge center's provision of goods/services to Internal Customers is materially dependent upon access to or the use of highly complex/specialized medical or scientific facilities or equipment.

(C) <\$1M in internal/service billings [IBs] to federally funded internal customers [ICs]

The service/recharge center's annual total of IBs and finance and accounting (F&A) applicable to federally funded ICs is less than \$1,000,000 in total.

2.4 Characteristics specific to specialized service facilities [SSFs]

(A) Limited market availability

The service/recharge center provides goods/services that are **not** commonly available or readily obtainable from for-profit entities in an open market.

(B) Highly complex/specialized capital assets are a material contributor to the provision of goods/services

The service/recharge center's provision of goods/services to Internal Customers is materially dependent upon access to or the use of highly complex/specialized medical or scientific facilities or equipment.

(C) >\$1M in internal/service billings (IB) to Federally funded internal customers (IC)

The service/recharge center's annual total of IBs and finance and accounting applicable to federally funded ICs is \$1,000,000 or more in total.

3.00 Establishing a Service/recharge center

3.1 Minimum requirements for requesting and establishing a service/recharge center

(A) Provide goods/services on a billing rate basis

Provision of goods/services should be primarily to numerous Internal Customers. A service/recharge center will not be established when applicable Internal Service Billings relate to just one customer, for example, one faculty member's grants/contracts.

(B) Have ISBR-based revenue that exceeds one or both of these financial thresholds:

- \$50K from all internal customers
- \$25K from federally funded internal customers

(C) Operate as a discrete financial/budgetary entity

(D) Maintain enough professional and administrative staffing

Service/recharge centers or parent organizations must employ qualified professional and administrative staff who can and will manage the service/recharge center in compliance with Policy 18.10 and the Rate Studies Handbook. Such staff should be capable of performing/updating billing rate studies with guidance from Rate Studies, and all other administrative/accounting tasks applicable to service/recharge center s.

3.2 Additional requirements for Specialized Service Facilities and Authorized Equipment Investment Recapture

- Have its own discretely identifiable and assignable space
- Operate and maintain its own discretely identifiable equipment

3.3 Process for establishing a service/recharge center

(A) Determine whether the activity qualifies as a service/recharge center, and if so, what type

The requesting department/entity must first contact Rate Studies for assistance in determining whether an activity might qualify as a service/recharge center. Rate Studies will provide recommendations and alternatives to a center.

(B) Develop a Business Plan and request authorization

If the establishment of a service/recharge center is deemed appropriate, the requestor must develop and submit a Business Plan to Rate Studies for coordination with Research Innovation and Impact (RII) and other appropriately interested parties. Rate Studies and Research Innovation and Impact (RII) will review the plan, identify necessary revisions, and authorize a final version for signatures by Rate Studies, the service/recharge center, and the service/recharge center's parent organization.

NOTE: Unrelated business activities and competition create extra concerns that must be evaluated by the parties noted above and Tax Services. See the Unrelated Business Income; and Competition sections. A mockup Business Plan is provided as Appendix A – Core Facilities & Service/recharge centers: Business Plan and Life Cycle Management.

(C) Meet with and provide supplementary information to requesting entities

During review of their Business Plan, the requestor may be required to provide supplementary information to Rate Studies, Research Innovation and Impact (RII) and other interested parties as appropriate. Meetings or communications may be needed to clarify matters.

(D) Establish accounts and implement appropriate accounting/administrative procedures

Upon authorization of a service/recharge center by Rate Studies, the service/recharge center and/or its parent organization will establish necessary UAccess Financials accounts. Also, Rate Studies will help the service/recharge center identify basic accounting and administrative practices that must be implemented.

3.4 Service/recharge center use of federally funded capital equipment

Capital equipment acquired under a federal award may be used by a service/recharge center under either circumstance:

(A) Prior to termination of the award

Such usage must not interfere with the performance of the federal award for which the equipment was acquired.

Utilization of such equipment must be prioritized in this order:

- 1) Activities under a federal award from the federal awarding agency which funded the original program or project
- 2) Activities under federal awards from other federal awarding agencies
- 3) Non-federally funded programs or projects

(B) After termination of the award

Title to the equipment must have passed to the University

3.5 General service/recharge center account/accounting information

- UITS offers an extensive list of classes on their website covering processing various transactions within UAccess Financials.
- Departments must create new service/recharge center accounts within UAccess Financials in accordance with Financial Services Manual Policies & Procedures. This can be done via the Accounts Lookup screen in UAccess

Financials, either by creating a new account or by copying a specific account via the look up function and modifying as appropriate.

- UAccess Financials automatically routes new service/recharge center account requests to Rate Studies for authorization.
- *See the Adding, changing or closing service/recharge center accounts in UAccess Financials section for further guidance.*

3.6 Activities that do not reach the service/recharge center threshold

In cases where an activity does not qualify as a service/recharge center, the requestor may still directly charge costs to pertinent accounts using an appropriate UAccess Financials process other than Internal Service Billings. Acceptable processing documents include:

- ♦ For labor costs: SETs
- ♦ For Operating Costs: DIs or GECs, as appropriate

Relevant direct charging (cost distribution) methods must consider the types of fund sources involved.

- ♦ For grant/contract (sponsored agreement) accounts, departments should consult with Sponsored Projects & Contracting Services regarding the use of GECs as the mechanism for distributing/transferring costs into applicable grant/contract accounts.
- ♦ For non-sponsored accounts, departments should consult with Financial Services Operating Funds regarding the most appropriate cost distribution/transfer mechanism.

4.00 UAccess Financials Accounts

4.1 Adding, changing, or closing service/recharge center accounts in UAccess Financials

(A) Coordinate through Rate Studies

Service/recharge centers must submit the following requests to Rate Studies for authorization:

- ♦ Establishing new service/recharge center accounts
- ♦ Changing service/recharge center account attributes/characteristics
- ♦ Closing service/recharge center accounts
- ♦ Transferring service/recharge center revenues, expenses, or balance sheet items or making material service/recharge center budget adjustments.

See University Financial Policy FSM 6.10, Opening a New Account, Modifying an Existing Account, and Closing an Account.

(B) Creating service/recharge center accounts

Service/recharge centers should contact Operating Funds for assistance.

(C) Revising service/recharge center accounts

(I) Service/recharge center accounts cannot be repurposed

Like other UAccess Financials accounts, service/recharge center accounts cannot be repurposed. Instead, new accounts must be created and utilized.

(II) Minor changes in UAccess Financials account attributes are allowable

Minor changes in account attributes may be allowable. Contact Operating Funds for assistance.

(D) Closing service/recharge center accounts

Contact Rate Studies for assistance. Rate Studies will coordinate with others, as necessary, e.g., Operating Funds, Research Innovation and Impact (RII), the service/recharge center advisory and executive committees.

4.2 Operating Cost-Designated Recharge [Internal] Accounts

(A) Separate Internal Accounts required

Service/recharge center activities require discrete Internal Accounts. Within UAccess Financials, these accounts must bear an Account Type Code of NE (Internal Exempt), or NP (Internal Partial Exempt).

Separate Internal Accounts are necessary for helping a service/recharge center identify

- ♦ Breakeven-basis revenues, i.e., cost recovery
- ♦ Total allowable labor costs and basic operating costs, whether subsidized or unsubsidized
NOTE: The precise way available subsidization is provided and tracked can have a bearing on whether labor costs and/or basic operating costs can be included in and recovered through internal service billing rates.
- ♦ Authorized transfers between a service/recharge center's Internal Account and any of these sources: the service/recharge center's OC (SMR)-DR Sub-Account(s); the service/recharge center's Equipment Reserve-DR Account(s); or discretionary funds.
- ♦ Breakeven-basis operating surpluses/deficits and fund balances
- ♦ Key financial data needed for developing and updating of breakeven-based internal service billing rates.

Internal Accounts can only be used for allowable operating costs. Accordingly, such accounts cannot be used for these purposes:

- ♦ SMR set-asides established in accordance with the *Strategic Maintenance Reserve section*. Also, see *Appendix C – Illustrative Examples: Journal Entries Throughout the Life Cycle of Strategic Maintenance Reserves* for detailed instructions on how to record such activities in UAccess Financials.
- ♦ Equipment Reserve set-asides established in accordance with the *Equipment Reserve section*.
- ♦ Unallowable cost(s)
- ♦ Unallocable/unrelated costs

(B) Internal Account fund balance management

(I) Minimum fund balance

Absent a Breakeven Plan authorized by Rate Studies, a service/recharge center must maintain in its Internal Account a zero or positive fund balance by the end of each fiscal year.

(II) Maximum fund balance

Within its Internal Account, a service/recharge center may maintain a positive fund balance up to the equivalent of 60 days of labor expenses and basic operating costs. Fund balances above 60 days are considered excessive. Rate Studies can assist in determining appropriate fund balances for an Internal Account.

Excessive fund balance \cong Year-end fund balance less Annual labor and basic operating costs divided by 6.

Example:

Annual labor costs and basic operating costs for a service/recharge center total approximately \$180K.

The service/recharge center's allowable average monthly fund balance is \$30K (\$180K*2 months/12 months).

During the most recently completed fiscal year, however, service/recharge center maintained an average monthly fund balance of \$50K, which exceeds the allowable limits by \$20K.

NOTE: An official Federal Guideline reference applicable to the 60-day limit in the context of Institution of Higher Educations is not available. Instead, the 60-day limit is only addressed in 2 Code of Federal Regulations 200 appendices, Appendix V (State/Local Government-wide Central Service Cost Allocation Plans, Section G.2, Working Capital Reserves) and Appendix XI (Compliance Supplement, see language applicable to Billed Central Service Costs). Neither instance, however, applies directly to Institution of Higher Educations. Fortunately, as a matter of business courtesy considering the State/Local rules, Federal Cognizant Agency for Indirect Costs have informally extended the 60-day operating reserve principle to Institutions of Higher Education.

(III) Handling excessive or deficit fund balances

Deficit or excessive fund balances must be eliminated by the service/recharge center within a reasonable timeframe. In isolated cases, subject to authorization by Rate Studies and perhaps even the University's Cognizant Agency for Indirect Costs, a longer timeframe may be established for very large surpluses or deficits. See *the Internal/service billing rate [ISBR] adjustments driven by fund balance levels section*. If excessive fund balances are not reduced in a reasonable timeframe, penalties such as refunds to federal sponsors, inclusive of imputed interest, may be incurred.

(C) Internal Account transfers in and transfers out

Transfers of subsidization, revenues, expenditures, or balance sheet items, e.g., cash, accounts receivable, accounts payable, can have a bearing on internal service billing rate calculations and perhaps alter the Breakeven Plan. Transfers are tightly controlled and possibly unallowable. A service/recharge center must submit to Rate Studies all subsidization, revenue, expenditure, and balance sheet transfer requests affecting the service/recharge center's Internal Account(s).

(I) Subsidization transfers

- Transfers of subsidization funding in the interest of proactively managing a service/recharge center's fund balances and/or stabilizing internal service billing rates are allowable. Subsidization can be transferred between an internal account and discretionary funds. Relevant accounts must have funds to accommodate applicable transfers.
- Subsidization transfers must be initiated according to procedures provided in *Appendix F – Service/recharge center (service/recharge center) Subsidy Transfer*. The transfers can be made depending on the materiality of deficits in the Internal Account.

Note: Transfers representing a return of subsidization to original sources are limited by current fiscal year subsidization. Returns of subsidization for prior fiscal years are allowable in only extremely rare circumstances.

(II) Revenue transfers

Revenue transfers are allowable in these cases:

- ♦ Error corrections, such as transfers out of revenue that more appropriately pertains to other accounts

- ♦ Transfers in of internal service billing rates-based revenue applicable to external customer sales and services. *See Appendix B – Illustrative Example Cost Allocation to the External Customer-Designated Recharge Account for Services provided to external customers* for a comprehensive example on recording in UAccess Financials.
- ♦ Transfers out of internal service billing rate revenue that more appropriately pertains to Equipment Reserve. For Equipment Reserve authorized service/recharge centers, transfers must be based on depreciation, gains/losses on disposals of capital equipment, and interest expenses for the prior fiscal year, as recorded in UAccess Financials Capital Asset Management, and Capital Finance documentation/workbooks. *See Appendix H, Illustrative Examples: Equipment Reserve Journal Entries.*

For convenience of the service/recharge center, these transfers can be made periodically or annually, provided the sum of the transfers within the year equals the of annual depreciation, gains/losses on disposals of capital equipment, and applicable interest expense according to UAccess Financials Capital Asset Management and Capital Finance.

Revenue transfers must be processed using the most appropriate UAccess Financials procedures/documents,

(III) Expense transfers

Expense transfers are allowable in these cases:

- ♦ Error corrections, such as transfers out of expenditures that more appropriately pertain
 - ♦ Distributions of intra-service/recharge center administrative/overhead costs to pertinent internal accounts
- NOTE: For transfers of expenditures into a service/recharge center's Internal Account, such expenditures must qualify as allowable expenses of the service/recharge center.*

Expense transfers must be processed using the most appropriate UAccess Financials procedures/documents under the circumstances.

(IV) Balance sheet transfers

Balance sheet transfers and cash transfers from an Internal Account for purposes of contributing to departmental, University-wide, or college-wide budgetary rescissions/sweeps are not allowable.

(D) Closures of Internal Accounts

(I) General

All requests to close Internal Accounts are subject to authorization from Rate Studies, who will coordinate with Operating Funds and Research Innovation and Impact (RII), as necessary.

(II) Discontinuation of a good/service group

When a service/recharge center completely discontinues providing a particular good/service group while continuing to operate and offer other goods/services, pertinent Internal Account fund balances must be distributed in one of these manners:

- ♦ Subject to Rate Studies authorization, immaterial deficit or surplus cumulative fund balances must be transferred to an appropriate Internal Account within the service/recharge center.
- ♦ In case of a material deficit fund balance, an infusion of subsidization funding from the parent organization is required.
- ♦ In case of a material surplus fund balance, the service/recharge center and Rate Studies must perform an analysis to determine the customer fund sources that contributed to the fund balance. Based on this analysis, the service/ recharge center and Rate Studies will develop a dispensation strategy that is fair to identified customer sources, especially federal internal customer funds. In extreme cases, the service/recharge center may be required to refund the federal portion to the Cognizant Agency for Indirect Costs.

(III) Complete dissolution of a service/recharge center

When a service/recharge center is completely closed and not reorganized or consolidated into another, pertinent Internal Account fund balances must be closed out in one of these manners:

- ♦ Subject to Rate Studies authorization, deficit fund balances or immaterial surplus fund balances can be transferred to an appropriate discretionary fund within the service/recharge center's parent organization.
- ♦ In case of a material surplus fund balance, the service/recharge center and Rate Studies must perform an analysis to determine the customer fund sources that contributed to the fund balance. Based on this analysis, the service/recharge center and Rate Studies will develop a dispensation strategy that is fair to identified customer sources, especially federally funded internal customers. In extreme cases, the service/recharge center may be required to refund the Federal portion to the Cognizant Agency for Indirect Costs.

(IV) Service/recharge center reorganization or absorption

When a service/recharge center is reorganized or consolidated into another, or when one of a service/recharge center's goods/services groups is transferred to another, pertinent Internal Account fund balances must be transferred to counterpart Internal Accounts in the surviving/recipient center. Rate Studies authorization is required.

4.3 Strategic Maintenance Reserve-Designated Recharge Sub-Accounts (SMR-DR)

(A) Separate sub-accounts are required

For Strategic Maintenance Reserve authorized service/recharge centers, SMR-DR sub-accounts must be created and maintained. Coordination between service/recharge centers, Rate Studies, and Research Innovation and Impact (RII) is appropriate. *See the Strategic Maintenance Reserve section.*

NOTE: Service/recharge centers should create and utilize a separate SMR-DR Sub-Account for each goods/services group.

SMR-DR sub-accounts are useful for helping a service/recharge center identify:

- ◆ Strategic Maintenance Reserve related revenue recovered through internal service billing rates
- ◆ Authorized transfers between a service/recharge center's Strategic Maintenance Reserve-DR sub-account and either the service/recharge center's Internal Account or discretionary funds.
- ◆ Total allowable strategic maintenance expenditures
- ◆ Cumulative fund balances specifically related to a service/recharge center's strategic maintenance requirements.
- ◆ Key financial data for developing/updating of a Strategic Maintenance Reserve Plan and internal service billing rates.

SMR-DR sub-accounts are strictly limited to tracking assets and liabilities related to strategic maintenance and cannot and cannot be used for.

- ◆ Labor costs
- ◆ Basic operating costs, including general maintenance

Note: All service/recharge center maintenance costs should be incurred against its Internal Account

- ◆ Covering deficits in a service/recharge center's Internal Account or, if applicable, Equipment Reserve Account
- ◆ Equipment Reserve set-asides, expenditures for capital equipment, or debt service payments.
- ◆ Unallowable costs
- ◆ Unallocable/unrelated costs

Where feasible, Service/recharge centers should create and utilize an SMR-DR Sub-Account for each good/service group. Rate Studies can help identify unique goods/services groups for which (SMR)-DR Sub-Accounts are mandatory.

(B) SMR-DR Sub-Account fund balance management

Within an SMR-DR sub-account, a service/recharge center must maintain a fund balance that is consistent with its authorized SMR Plan. The following applies:

- ◆ The cash balance of an SMR-DR sub-account applicable to a prepaid multi-year maintenance agreement will be negative for the prepaid years of the agreement. The negative balance will decrease over the SMR Plan period, eventually zeroing out in the last year of both the agreement and plan.
- ◆ The cash balance of an Operating Cost Strategic Maintenance Reserve (OC SMR)-DR Sub-Account designed specifically to accommodate a material maintenance event should increase during the fiscal years prior to such. When the event occurs, the cash balance should (approximately) zero out. The cash balance should never materially exceed the amount needed for the planned one-time event.

Rate Studies can assist in determining appropriate fund balances for SMR-DR Sub-Accounts. When circumstances change materially, a service/recharge center may request adjustments in the SMR Plan, which must be submitted to Rate Studies for authorization. Authorized changes likely will require prospective adjustments to expense transfers between a service/recharge center's Internal Account and SMR-DR sub-account.

See Appendix C – Illustrative Examples: Journal Entries throughout the Life Cycle of Strategic Maintenance Reserves to see how prepaid maintenance agreements and periodic material maintenance events affect cash balances.

(C) SMR-DR Sub-Account transfers in and transfers out

Transfers of balance sheet items, e.g., cash, accounts receivable, accounts payable, are not normally allowable.

(D) Closures of Strategic Maintenance Reserve-DR Sub-Accounts

(I) General

All requests to close SMR-DR Sub-Accounts are subject to authorization by Rate Studies, who will coordinate with Operating Funds and Research Innovation and Impact (RII) as necessary.

(II) Discontinuation of a good(s)/service(s) group

When a continuing service/recharge center completely discontinues providing a particular good/service group, SMR-DR Sub-Account fund balances must be closed out in one of the following manners:

- ◆ Subject to Rate Studies authorization, immaterial fund balances must be transferred to another SMR-DR Sub-Account within the service/recharge center or, if no sub-account exists, an appropriate service/recharge center Internal Account within the service/recharge center.

- ♦ In case of a material deficit fund balance, subsidization funding from the service/recharge center's parent organization is required.
- ♦ In case of a material surplus fund balance, Rate Studies and the service/recharge center must perform an analysis to determine the customer fund sources that contributed to the fund balance. Based on this analysis, the service/recharge center must work with Rate Studies to develop a distribution strategy that will be fair to identified customer sources, especially federally funded ICs. In extreme cases, the service/recharge center may be required to refund the Federal portion to the Cognizant Agency for Indirect Costs.

Note: Transfer of the remaining fund balance from an SMR-DR Sub-Account to an Internal Account will affect whether the Internal Account has a deficit or surplus fund balance, perhaps above allowable operating reserve limits. This effect may require the service/recharge center to adjust its internal service billing rates.

(III) Complete dissolution of a service/recharge center

When a service/recharge center is completely closed and not reorganized or consolidated into another center, pertinent SMR-DR sub-account fund balances must be closed out in one of these ways:

- ♦ Subject to Rate Studies authorization, immaterial fund balances can be transferred to an appropriate discretionary fund of the parent organization.
- ♦ For a material deficit fund balance, an infusion of subsidization funding from the service/recharge center's parent organization is required in the case of a material deficit fund balance
- ♦ For a material surplus fund balance, Rate Studies and the service/recharge center must perform an analysis to determine the customer fund sources that contributed to the fund balance and develop a distribution strategy that will be fair to identified customer sources, especially federally funded ICs. In extreme cases, the service/recharge center may be required to refund the federal portion to the Cognizant Agency for Indirect Costs.

(IV) Service/recharge center reorganization or absorption

When a service/recharge center is reorganized or consolidated into another, or when one of a service/recharge center's goods/services groups is transferred to another, pertinent SMR-DR Sub-Account fund balances must be transferred to counterpart SMR-DR Sub-Accounts in the surviving/recipient service/recharge center. Rate Studies authorization is required. In case of a large deficit fund balance, relevant parent organizations should negotiate an appropriate infusion of subsidization funding.

NOTE: Transfers of the remaining fund balance from an SMR-DR Sub-Account to an Internal Account can affect whether the Internal Account fund balance is within allowable limits and may cause adjustment of internal service billing rates.

4.4 Equipment Reserve Accounts

(A) Separate Equipment Reserve Accounts are required

Rate Studies and Research Innovation and Impact (RII) authorization is required prior to establishing Equipment Reserve accounts. Requests for such accounts should be sent to Rate Studies for coordination with Research Innovation and Impact (RII). Once authorized, a service/recharge center must create and utilize a separate Equipment Reserve Account. Within UAccess Financials, these accounts must bear an account type code RE.

Equipment Reserve Accounts are useful for helping a service/recharge center discretely identify:

- ♦ Equipment Reserve related revenue recovered through internal service billing rates
- ♦ Total Equipment Reserve-related capital equipment expenditures and/or debt service payments
- ♦ Authorized transfers between a service/recharge center's Equipment Reserve account and internal accounts
- ♦ Gains/losses applicable to dispositions of capital equipment by Equipment Reserve-authorized service/recharge centers.

Use of Equipment Reserve funds is limited strictly to service/recharge center capital equipment expenditures, e.g., acquisitions/ enhancements; and, if applicable, debt service payments on service/recharge center equipment. Such equipment must be assigned explicitly to, and used exclusively by, the service/recharge center.

Equipment Reserve funds cannot be used for:

- ♦ Labor costs or basic operating cost
NOTE: a service/recharge center's labor costs and basic operating costs should be incurred against the center's internal accounts
- ♦ Covering deficits in a service/recharge center's internal account or, if applicable, an SMR-DR Sub-Account
- ♦ Strategic maintenance costs
NOTE: a service/recharge center's strategic maintenance costs should be incurred against an authorized SMR-DR Sub-Account
- ♦ Unallowable costs

- ◆ Unrelated costs

(B) Equipment Reserve account fund balance management

While there is no ceiling on Equipment Reserve account fund balances, a service/recharge center must maintain a zero or positive fund balance in its Equipment Reserve account by the end of each fiscal year.

(C) Equipment Reserve Account transfers in and transfers- out

Transfers of revenues, expenditures, or balance sheet items, e.g., cash, accounts receivable, and accounts payable, can have a bearing on internal service billing rate calculations and may alter the breakeven plan. Transfers are tightly controlled and possibly unallowable. A service/recharge center must submit to Rate Studies all revenue, expenditure, and balance sheet transfer requests affecting the service/recharge center’s Equipment Reserve Account for authorization.

(I) Revenue transfers

Revenue transfers are allowable for:

- ◆ Error corrections, such as transfers out of revenue that more appropriately pertains to other accounts.
- ◆ Transfers in of internal service billing rate revenue that more pertain to Equipment Reserve For Equipment Reserve-authorized service/recharge centers, such transfers must be based on depreciation, gains/losses on disposals of capital equipment, and interest expenses for the prior fiscal year, as recorded in UAccess Financials/Capital Asset Management and Capital Finance documentation/workbooks. *See Appendix H, Illustrative Examples: Equipment Reserve Journal Entries.*

For convenience of the service/recharge center, these transfers can be made periodically or annually, provided the sum of such transfers within the year equals the sum of annual depreciation, gains/losses on disposals of capital equipment, and applicable interest expense according to UAccess Financials Capital Asset Management and Financial Services Office – Capital Finance.

NOTE: A service/recharge center cannot forego making Equipment Reserve transfers, which are mandatory. In limited cases, Rate Studies and Research Innovation and Impact (RII) can authorize a temporary delay of the transfers, for example, deferring them between fiscal years in order to prevent a short-term fund balance deficit in a service/recharge center’s Internal Account. When exceptions are granted, however, the Equipment Reserve Account eventually must be made whole again.

Revenue transfers must be processed using the appropriate UAccess Financials procedures/documents.

(II) Expense transfers

Expense transfers are allowable in the following cases:

- ◆ Error corrections, such as transfers-out of expenditures that more appropriately pertain to other accounts.
- ◆ Transfers of service/recharge center capital expenditures in the interest of proactively managing a service/recharge center’s Equipment Reserve Account balances or subsidization levels. This is accomplished by transferring capital expenditures between the service/recharge center’s Equipment Reserve Account and discretionary funds.

NOTE: The capital expenditures must relate to service/recharge center capital equipment.

Expense transfers must be processed using the appropriate UAccess Financials procedures/documents.

(III) Balance sheet transfers

Balance sheet transfers and cash transfers from an Internal Account for purposes of contributing to departmental, University-wide, or college-wide budgetary rescissions/sweeps are not allowable.

(D) Closures of Equipment Reserve Accounts

(I) General

All requests to close Equipment Reserve Accounts are subject to authorization by Rate Studies, who will coordinate with Operating Funds and Research Innovation and Impact (RII) as necessary

(II) Discontinuation of a good(s)/service(s) group

When a continuing service/recharge center completely discontinues providing a particular goods/services group, pertinent Equipment Reserve Account fund balances can be closed out in one of these manners:

- ◆ Subject to Rate Studies authorization, surplus fund balances or immaterial deficit fund balances can be transferred to either Equipment Reserve Accounts of other goods/service group within the same service/recharge center; or a discretionary fund within the center’s parent organization.
- ◆ For a material deficit fund balance within the Equipment Reserve Account, an infusion of subsidization funding from the parent organization is required.

(III) Complete dissolution of a service/recharge center

When a service/recharge center is completely closed and not reorganized/consolidated into another center, pertinent Equipment Reserve Account fund balances can be transferred to a discretionary fund within the center’s parent organization.

(IV) service/recharge center reorganization or absorption

When a service/recharge center is reorganized or consolidated into another center, or when one of a service/recharge center's goods/services groups is transferred to another center, pertinent Equipment Reserve Account surplus fund balances should be transferred to appropriate Equipment Reserve Accounts in the surviving/recipient center. Relevant parent organizations may negotiate different dispositions of Equipment Reserve Account fund balances, whether deficit or surplus.

4.5 External Customer-Designated Recharge Accounts (External)

(A) Purpose of External Accounts

The primary purpose of External Accounts is to segregate internal customer billings and related fund balances, which are subject to federal guidance, from external customer billings and related fund balances, which are not subject to such.

(B) Separate External Accounts

Subject to Rate Studies approval, a service/recharge center can create and utilize an External Account and sub-accounts when application of premium billing rates to external customers will result in operating surpluses material enough to warrant separation from the service/recharge center's Internal Account. Requests should be submitted to Rate Studies for authorization. Within UAccess Financials, these accounts bear account type code EX.

Example:

A service/recharge center has an annual breakeven budget of \$100K. Its total budget, including subsidization funding, is \$200K. About 20% of the center's goods/services are provided to external customers, who are invoiced for services based on a full-cost basis. The center estimates it should generate ~\$16K in operating surplus from sales/services to external customers. The center and Rate Studies believe that amount will help provide important supplemental funding for the acquisition of replacement capital equipment. Accordingly, an External Account is established.

External Revenue (\$200K x 20%)	\$40,000
Less: Internal Rates (\$100K x 20%)	\$20,000
<hr/>	
Net Income from External Activity	\$20,000

External Accounts are useful for helping a service/recharge center identify:

- ♦ Revenues from goods/services provided to external customers based on premium billing rates.
- ♦ Service/recharge center costs applicable to goods/services provided to external customers based specifically on internal service billing rates.
- ♦ Authorized transfers between the center's External Account and Internal Account(s); or discretionary funds.
- ♦ Surplus funds generated from application of premium billing rates.

External Accounts essentially function as a service/recharge center's discretionary funds or contingency reserves. Ideally, External Account funds/reserves should be retained and used in ways that explicitly benefit the center, including:

- ♦ Subsidization funding into a service/recharge center's Internal Account.
- ♦ Subsidizing units of goods/services that are provided to internal customers.
- ♦ Subsidizing or stabilizing internal service billing rates.
- ♦ Covering deficits in a service/recharge center's Internal Accounts.
- ♦ Incurring unallowable costs or unallocable costs that are excluded from internal service billing rates.
- ♦ Helping a service/recharge center pay for strategic maintenance costs.
- ♦ Helping a service/recharge center acquire new or replacement capital equipment or make related debt service payments.

(C) External Account fund balance management

A service/recharge center has no ceiling on its External Funds balances and must maintain a zero or positive fund balance in its External Accounts by the end of each fiscal year.

(D) External Account transfers in and transfers out

Transfers of subsidization, revenues, expenditures, or balance sheet items, e.g., cash, accounts receivable, accounts payable, can have a bearing on internal service billing rates and/or full-cost rate calculations and may alter the breakeven plan. Transfers are tightly controlled, possibly even unallowable. A service/recharge center must submit all subsidization, revenue, expenditure, and balance sheet transfer requests affecting the center's External Account(s) to Rate Studies.

(I) Subsidization transfers

Transfers of subsidization funding in the interest of proactively managing a service/recharge center's Internal Account balances, e.g., reducing surpluses or deficits, or subsidization levels or stabilizing internal service billing rates are allowable. Such subsidization can be transferred between center's External Subsidization Account and Internal Account. Subsidization transfers must be initiated according to procedures provided in *Appendix F – Service/recharge center (service/recharge center) Subsidy Transfer*.

NOTE: Transfers representing a refund of subsidization from the Internal Account to an External Subsidization Account normally are limited by current year subsidization. Accordingly, such returns cannot exceed subsidization transfers previously provided by the External Subsidization Account during the current fiscal year. Returns of subsidization for prior fiscal years are allowable in only extremely rare circumstances.

(II) Revenue transfers

Revenue transfers are allowable when:

- ◆ Revenue transfers are only allowable for error corrections, such as transfers-out of revenue that more appropriately pertains to other accounts or sub-accounts.

Revenue transfers must be processed using the most appropriate UAccess Financials procedures/documents under the circumstances, e.g., DIs or GECs.

(III) Expense transfers

Expense transfers are allowable in the following cases:

- ◆ Error corrections, such as transfers-out of expenditures that more appropriately pertain to other accounts.
- ◆ Transfers-out of ISBR-based expenses applicable to goods/services a service/recharge center provides to external customers. *See Appendix B – Illustrative Example: Cost Allocation to the External Customer-Designated Recharge Account for Services Provided* to external customers for detailed instructions on how to complete these transactions.

NOTES: This procedure is the most efficient and cost-effective way of recording within the External Account those costs that appropriately pertain to goods/services provided to external parties on a purely breakeven basis.

At the point external customers are charged for goods/services, they should be invoiced based on the most appropriate premium billing rates. The revenue received from those customers must be deposited directly into the External Account.

- ◆ Transfers of expenditures in the interest of proactively managing service/recharge center fund balances, subsidization levels, or internal service billing rates. This is accomplished by transferring expenditures from a service/recharge center's Internal Account to its External Account. The External Account must have funds to accommodate applicable transfers.

Expense transfers must be processed using the most appropriate procedures/documents under the circumstances.

(IV) Balance sheet transfers

Balance sheet transfers are not allowable.

NOTE: External Accounts are considered discretionary funds. Cash transfers for purposes of contributing to University-wide, college-wide or departmental budgetary rescissions/sweeps are allowable.

(E) Closures of External Accounts

When an External Account is closed, all fund balances can be transferred to either the service/recharge center's Internal Account or a discretionary fund within the parent organization.

5.00 Equipment Reserve

5.1 Eligibility requirements

A service/recharge center can include equipment reserve in its internal service billing rates. A center must submit equipment reserve requests to Rate Studies for authorization.

In general, equipment reserve will be permitted when all these qualifications are met:

- ◆ No annual subsidization resulting in ISBR reductions for the service/recharge center
- ◆ The service/recharge center has its own discretely identifiable space
- ◆ The service/recharge center has its own discretely identifiable capital equipment, with material annual equipment reserve

5.2 Duration of equipment reserve authorization

Once authorized to recover equipment reserve, a service/recharge center is not normally permitted to reverse course later. Equipment reserve authorization is considered permanent, applying to each year of a center's existence. Under extraordinary circumstances, Rate Studies and Research Innovation and Impact (RII) can, on a one-time basis, permanently

remove equipment reserve authorization. Deauthorization will not be reversed again regardless of circumstances. For Rate Studies and Research Innovation and Impact (RII) to consider deauthorization, demand for the center's goods/services must materially decline.

When a service/recharge center is deauthorized, annual depreciation, gains/losses on disposals of capital equipment, and interest expenses applicable to the center will be included in future finance and accounting rate calculations and, as a result, recovered through negotiated finance and accounting rates rather than internal service billing rates.

5.3 **Separate Equipment Reserve-Designated Recharge Accounts required**

Service/recharge centers that are authorized to recover equipment reserve through internal service billing rates must create and utilize Equipment Reserve Accounts. Service/recharge centers must coordinate such requests through Rate Studies. For further guidance, see the following Rate Studies Handbook sections: General service/recharge center account & accounting information; and Equipment Reserve Accounts.

5.4 **Selective inclusion/exclusion of capital equipment items is prohibited**

Only equipment reserve expenses related to capital equipment items that are assigned exclusively to an equipment reserve-authorized service/recharge center may be recovered through internal service billing rates. The service/recharge center cannot pick and choose between items to include or exclude in ISBR calculation. Equipment reserve applicable to capital equipment items that are not assigned exclusively to, or not used exclusively by, a service/recharge center cannot be included in internal service billing rates. This limitation essentially pertains to equipment reserve of equipment items that a service/recharge center shares with non-service/recharge center activities.

5.5 **Items explicitly excluded from equipment reserve**

For equipment reserve-authorized service/recharge centers, internal service billing rates cannot include equipment reserve applicable to:

- Federally funded portions of capital equipment depreciation
- Capital equipment claimed through Federal Surplus Property procedures
- Matching or cost shared equipment

This includes equipment depreciation associated with capital expenditures incurred by non-federal funds in satisfaction of matching or cost sharing requirements, commitments or obligations related to federally sponsored agreements. This limitation applies only during the period of performance of the applicable federal award(s).

(A) Capital equipment obtained with non-Federal sponsored agreement funds

This includes capital equipment acquired using non-federally sponsored agreement funds. However, this equipment reserve limitation applies only during the period of performance of the applicable non-Federal awards. The limitation ends at the point the non-Federal agreement terminates.

(B) Unlocated, unusable, unneeded, or unused capital equipment items

This includes capital equipment items that cannot be located, or are unusable, unneeded or unused, other than idle equipment. This includes items Surplus Property for disposition.

(C) Fully depreciated capital equipment items

(D) Internal interest

This includes interest expense, whether imputed or explicit, on capital equipment acquired by means of internal loan funds. In such cases applicable depreciation expenses are still includible in internal service billing rates.

5.6 **Idle capital equipment of authorized equipment reserve service/recharge**

Equipment reserve recovery is allowable for idle capital equipment of an equipment reserve-authorized service/recharge center if either of these apply:

(A) Fluctuations in workload

The capital equipment is idle due to fluctuations in workload, providing there is a reasonable basis for expecting the items will be needed to meet future business levels.

(B) Unforeseeable events

The capital equipment item was needed at the time it was acquired but is now idle due to causes that could not have been reasonably foreseen at the time of the original purchase. Examples include revisions in program requirements; efforts to achieve more economical operations; reorganizations; or terminations.

If either of these conditions is present, equipment reserve set-asides for idle equipment can be included in internal service billing rates, but only for a reasonable period, normally not to exceed one year. A longer period may be possible, provided reasonable efforts have been made to re-task, reuse, lease-out, or dispose of such assets.

5.7 **Financing of capital equipment acquisitions**

When an equipment reserve-authorized service/recharge center needs to borrow funds to obtain necessary capital equipment, the center is encouraged to seek a loan from internal sources, e.g., parent organization, or Research Innovation and Impact.

If external financing is required, an equipment reserve-authorized service/recharge center must submit a request to Rate Studies for coordination with Capital Finance in Financial Services, who will coordinate with the Senior Vice President for Business Affairs as all institutional debt obligations are subject to their authorization.

NOTE: Interest expenses incurred on loans from external sources are allowable and recoverable within internal service billing rates. Interest expenses applicable to internal loans are not includible and recoverable in internal service billing rates.

5.8 Accounting for equipment reserve

For an equipment reserve-authorized service/recharge center, the must set aside equipment reserve in discrete accounts that can be used only for capital equipment acquisitions or, if applicable, debt service payments. *See Equipment Reserve Accounts section.*

5.9 Equipment reserve calculation data sources

- UAccess Financials Capital Asset Management, Capital Finance, and Property Management are the official sources of service/recharge center capital equipment data.
- Basic equipment information, e.g., descriptions, building-room location, cost-basis, useful life, and depreciation, is maintained in and available from UAccess Financials Capital Asset Management.
- Basic capital equipment financing information (debt instruments, terms/conditions, asset descriptions and annual principle and interest payments), and related supporting documentation is maintained by and available from Capital Finance.
- Gain/loss information pursuant to disposal of capital equipment is maintained by and available from Property Management.
- Equipment Reserve-authorized Service/recharge centers can request Rate Studies help with obtaining necessary equipment information.

5.10 Capitalizable equipment

Determination of whether equipment is capitalized is made by Property Management according to Financial Policy, PMM 2.10 Capitalization of Tangible Assets.

5.11 Capital equipment inventories for authorized equipment reserve service/recharge center s

- Service/recharge centers must inventory capital equipment in accordance with Policy 12.30: Performing Physical Inventories.
- Capital equipment assets that are assigned to and used exclusively by an equipment reserve authorized center must be tracked in UAccess Financials Capital Asset Management. This can be achieved by establishing and maintaining a unique Inventory Unit code for each specialized service facility or equipment reserve-authorized service/recharge center.
- Rate Studies and Property Management will provide guidance on equipment inventory matters.

5.12 Depreciation method and convention

Equipment reserve-authorized Service/recharge centers must follow University depreciation methods and conventions. The University uses the straight-line method and full-year convention for recording capital equipment depreciation expenses. Annual depreciation for an item of capital equipment is calculated based on its useful life, beginning in the year in which the asset was acquired. Under the full-year convention, a full year of depreciation is taken in the year equipment is placed into service, regardless of the point during the year at which it was placed into service.

Example:

A service/recharge center acquires and installs a scientific instrument in December 2012 (capital expenditures = \$100K). The instrument's useful life is set at 5 years. Under the straight-line method and full-year convention the calculated depreciation expense for this item is \$20K per year ($\$100K/5$ years useful life), beginning with FY 2013 and ending with FY 2017.

5.13 Useful service lives

Standard campus useful lives are established for various classes of capital equipment based on multiple considerations or factors, including type of construction; nature of the equipment; technological developments; obsolescence; economic efficiencies; actual utilization (i.e., wear and tear); experience; and renewal/replacement policies.

NOTE: The terms useful service life and physical life are distinctly different terms. The terms are not interchangeable.

5.14 Gains/losses on disposal of capital equipment

A gain/loss must be recognized when a piece of service/recharge center capital equipment is sold, exchanged, lost/stolen, cannibalized, or destroyed. Calculation of the gain/loss compares the amount of cash received for the equipment item and the item's net book value (i.e., original cost minus accumulated depreciation) at the time of disposition. If the cash received is greater than the equipment item's net book value, the difference is recorded as a gain. If the cash received is less than the item's book value, the difference is recorded as a loss. Property Management calculates gains/losses on capital equipment that is disposed of.

5.15 Non-capitalizable equipment items

Non-capitalizable equipment items are not depreciated as such expenditures are considered immaterial and treated as basic operating costs, like consumable supplies.

6.00 Strategic Maintenance Reserve [SMR]

6.1 Strategic maintenance reserve eligibility requirements

When certain conditions are met, a service/recharge center can include SMR in its internal service billing and may submit requests for approval to establish an SMR to Rate Studies. For reference purposes, such Service/recharge centers are designated as SMR-authorized service/recharge centers. In general, SMR circumstances will be recognized when strategic maintenance expenditures meet all the following conditions:

- **Material expenditures:** SMR expenditures must be material and represent a material portion of the service/recharge center's operating costs.
- **Multi-period benefits:** although expenditures occur at points in time in the useful life of a capital equipment item, they technically relate to two or more fiscal years.
- **Distortion of internal service billing rates:** Inclusion of the expenditures within the internal service billing rates of any single fiscal year will cause those rates to be materially different than the rates in other years.
- **Material deficits:** Incurring the expenditures against a service/recharge center's Internal Account will create a material fund balance deficit in that account.

6.2 Accounting for strategic maintenance

Accrual accounting procedures are required for SMR-authorized service/recharge centers. See *Appendix C – Illustrative Examples: Journal Entries throughout the Life Cycle of Strategic Maintenance Reserves* for details on how prepaid maintenance agreements and periodic strategic maintenance events are handled.

6.3 Descriptions of primary strategic maintenance situations

(A) Prepayment of multi-year agreements

Material, multi-year maintenance agreements that are largely, if not entirely, paid for at the front end of the agreements in order to yield cost savings.

(B) Strategic (major) maintenance events

Material pre-planned strategic maintenance actions that, based on objective information/documentation from manufacturers or other reliable sources, need to occur at specified intervals. These normally occur no more frequently than once or twice during the useful life of a capital equipment item, such as major overhauls, renovations, restorations, refurbishments, or key component replacements.

6.4 Strategic Maintenance Reserve [SMR] Plan

SMR-authorized Service/recharge centers must develop a financial and operational strategic maintenance reserve plan and submit it to Rate Studies for authorization. The plan must identify:

(A) Necessary strategic maintenance requirements

All strategic maintenance requirements must be substantiated using objective information from reliable industry sources. Strategic maintenance is reasonably determined based on manufacturer-defined specifications and recommendations, as well as operational/monitoring information, e.g., system health, utilization data, from either embedded sensors or warning devices, or reliable service logs. Predictive, preventive, or preemptive maintenance are examples of activities that can be considered for treatment as strategic maintenance.

(B) Viable strategic maintenance service options

An SMR-authorized service/recharge center must provide a summary of all viable service options, including:

- Pros and cons of each option
- Estimated costs of each option
- Estimated duration of each option
- A list of known, qualified service providers

(C) Preferred service option

An SMR-authorized service/recharge center must identify the preferred/recommended option from the service options list, including a justification for selection of that option.

7.00 Subsidization of Service/recharge center Activities

7.1 Subsidization requires coordination with the parent organization and other interested parties.

A service/recharge center and its parent organization will determine the level of available subsidization as well as the way it is provided and used. This should be specified in the service/recharge center's business plan that is subject to approval by Rate Studies, Research Innovation and Impact (RII), and other appropriately interested parties.

NOTE: A service/recharge center must ensure that its internal service billing rates are enough to cover its breakeven basis costs. Accordingly, the center must obtain subsidization as necessary to achieve breakeven and are encouraged to consult with Rate Studies regarding subsidization options and rate effects.

7.2 Subsidization sources

Service/recharge center subsidization can be provided from only one of these discretionary sources:

- ♦ The service/recharge center's External Account
- ♦ Other discretionary funds provided by the center's parent organization and/or other interested/vested organizations.

7.3 Subsidization methods/models

There are three general methods of subsidization available to service/recharge centers.

(A) Utilization Subsidization

This is the preferred form of subsidization. Under this method, using authorized full-cost internal service billing rates, some portion of units of goods/services delivered to and/or consumed by internal customers are charged to available subsidization funds rather than internal customer fund, e.g., grants/contracts. Most of the delivered/consumed units are billed to internal customer fund sources, with remaining units billed to subsidization funds. Under this model, sponsored agreements budgets will be enough to cover the full cost of providing these goods/services throughout the terms of these agreements, whether any units of service are subsidized or not.

Example:

A service/recharge center estimated that it will cost \$100K to provide 1,000 goods/services units to customers during the upcoming year. Prior to any consideration of subsidization, the center's ISBR was \$100/unit. However, the center's parent organization, set aside some discretionary funds for purposes of subsidizing 20% of the center's internal customers.

Advantages

Advantages of this method include, but are not limited to:

- ♦ It provides a comprehensive financial picture of all costs and revenues (cost recovery) applicable to a center.
- ♦ It results in the use of true, full-cost internal service billing rates. Further, such full-cost internal service billing rates will greatly simplify the development of fully burdened applicable to external customers.
- ♦ Grants/contracts award budgets based on full-cost internal service billing rates will be sufficiently funded to absorb future year internal service billing rates without the need for subsidization.
- ♦ It might help PIs stretch their grant/contract budgets, avoid a perpetual cycle of subsidization, and result in higher consumption levels for the centers those PIs normally use.

Scenario: When PIs prepare their sponsored agreement proposals, required service/recharge center goods/services are budgeted based upon the published internal service billing rates at that time. Under the Utilization Subsidization Model, internal service billing rates are based upon the full cost of providing these goods/services.

Disadvantages

In terms of management and administrative/accounting support, it may be the most burdensome subsidization model. A service/recharge center must establish, implement, and maintain supplemental procedures that will support split funding of internal billings and some of the internal customer's units to subsidization funds. Regardless, the University believes the benefits outweigh the accompanying additional costs/burdens. *See Appendix G, service/recharge center Tools, iLab Core Facilities Operations Software* for information regarding a comprehensive service/recharge center management software that removes the burden of accounting for this type of subsidization.

NOTE: Funding reductions for a service/recharge center that follows the Utilization Subsidization Method will not immediately impact the service/recharge center's internal service billing rates. Such funding decreases and can cause a decline in the center's overall number of delivered units of goods/services in any one year. Due to fixed costs, this can drive up subsequent fiscal year internal service billing rates.

(B) Internal/Service Billing Rate Subsidization

Subsidized internal service billing rates are breakeven basis rates that have been discounted for some portion of a center's allowable operating costs or other discretionary fund sources rather than by the center's Internal Accounts. The two types of subsidized internal service billing rates are:

(I) General ISBR Subsidization

Subsidization funding is provided explicitly for purposes of financing operating costs incurred by a service/recharge center in delivering its various goods/services to internal customers.

Example:

In Year-1 of operation, the center's parent organization used discretionary funds to pay for a portion of labor costs applicable to the center's technician. For simplicity, assume the technician's labor applies to the delivery of services to all of the center's internal customers. The parent organization and center decide to apply this ISBR subsidization in a non-preferential, indiscriminate manner to all the technician's activities. By doing so, all of the center's breakeven basis internal service billing rates are reduced to not recover the subsidized costs, and all of the customers benefit from the parent organization's subsidization funding.

Advantages

- All the center's internal customers effectively derive a proportional subsidization benefit via toned-down, breakeven basis internal service billing rates.
- Since each ISBR is applied equally to all internal customers of the particular good/service, it is one of the least burdensome subsidization models in terms of management and administrative/accounting support.

Disadvantages

- Subsidized costs result in the use of artificially suppressed internal service billing rates.
- It applies subsidization to all internal service billing rates and precludes the service/recharge center and/or its parent organization from directing subsidization to preferred internal customers.
- By subsidizing costs applicable to a center's internal service billing rates, the full financial picture applicable to running the service/recharge center can be blurred and may lead to hidden/ stealth subsidization. This can result in suboptimal strategic financial decision making by the center's parent organization.
- Grants/contracts funded based on suppressed internal service billing rates will be underfunded if the ISBR subsidization is removed or reduced in future years.

Scenario: When PIs prepare sponsored agreement proposals, a service/recharge center's goods/services are budgeted based upon the published internal service billing rates at that time. Assuming the project is awarded as proposed, the award budget will be less than it could have been due to the artificially suppressed internal service billing rates, and lack sufficient funding to cover the full cost of acquiring these goods/services in future years should subsidization be reduced or withdrawn during the lifespan of the sponsored project.

- For Service/recharge centers that follow the General ISBR Subsidization Methodology, a common error when selling goods/services to external customers is to base their pre-Administrative Service Charge external customer billing rates on breakeven basis internal service billing rates. As a result, external customers inappropriately derive a benefit from subsidized rates.

NOTE: In many cases involving external customers, Service/recharge centers should use premium billing rates. This is especially true where there is little or no convergence of interests between the University and the external customer. Fully burdened cost-based rates are a type of premium rate. See the Rate Studies Handbook section Application of External Customer billing rates. The use of premium rates prevents external customers from receiving a hidden subsidization by University.

(II) Targeted ISBR Subsidization

Under this model, operating costs for certain goods/services are subsidized. Accordingly, the internal customers of the targeted internal service billing rates are the sole beneficiaries of the subsidization.

Example:

A service/recharge center has multiple technicians who are interchangeable and work on all of center's goods/services. The parent organization decides to subsidize technician labor costs applicable to a particular service. By doing so, the center's breakeven basis costs required to deliver that service are reduced to not recover subsidized costs. As a result, the internal customers of that service benefit from the parent organization's subsidization funding, whereas internal customers of other services do not.

Advantages

- It allows the service/recharge center or its parent organization to direct available subsidization toward specific internal service billing rates. This is accomplished by charging subsidization sources for some or all operating costs of the chosen good/service.
- Since each pertinent internal service billing rate is applied equally to all internal customers of the particular good/service, it is a less burdensome subsidization models in terms of management and administrative/accounting support.

Disadvantages

Shortcomings of the Targeted and General Subsidization methods are the same. *See the Disadvantages section.*

NOTES: In the event general or targeted ISBR subsidization funding is eliminated or materially reduced, internal service billing rates will need to increase in a timely manner to recoup labor and/or basic operating costs previously incurred against discretionary funds, and prevent a fund balance deficit greater than planned or expected. Such rate increases can have severe budgetary impacts on internal customers that utilize a service/recharge center extensively, notably, sponsor-funded internal customers.

When subsidization reductions adversely affect sponsored agreements, affected PIs must pursue supplemental funding from relevant parent organizations, Research Innovation, and Impact (RII), the Budget Office, or Senior Vice President for Business Affairs. It is not permissible to provide a customer with goods/services for which they are not billed. For purposes of this Handbook, provision of goods/services on an unbilled basis is a type of bad debt.

(C) **Subsidization Infusion**

This is like the ISBR Subsidization Method in that discretionary funds are provided to defray a service/recharge center's operating costs, thereby creating artificially suppressed breakeven basis internal service billing rates. These facets differentiate this method, and each must be explicitly addressed in a service/recharge center's authorized business plan:

- **All the service/recharge center's operating costs will be incurred against its Internal Account**
None of the service/recharge center's operating costs can be incurred against Discretionary Funds.
- **Ongoing structural operating deficits in the service/recharge center's Internal Account are expected**
The service/recharge center and its parent organization expressly intend to utilize internal service billing rates that likely will result in structural operating deficits in its Internal Account each month.
- **Parent organization will backstop and backfill all deficits**
The service/recharge center's parent organization or other interested/vested party must agree to cover operating deficits by periodically transferring subsidization funding. At minimum, such deficits must be eliminated by the end of each fiscal year. In cases involving material deficits, more frequent transfers may be required.

Advantages

- ◆ Provides a comprehensive financial picture of all costs and revenues applicable to a service/recharge center.
- ◆ Results in the use of true, full-cost internal service billing rates rather than artificially suppressed rates. Such full-cost rates will greatly simplify the development of fully burdened rates applicable to external customers.
NOTE: This does not preclude the use of artificially suppressed internal service billing rates. The use of such will likely lead to operating deficits.
- ◆ Since all a service/recharge center's costs are incurred against its Internal Account – and since each ISBR is applied equally to all internal customers of the particular good/service – it is one of the least burdensome subsidization models in terms of management and administrative/accounting support.
- ◆ All a service/recharge center's internal customers – rather than some subset of internal customers – effectively derive a proportional subsidization benefit via toned-down, breakeven-basis internal service billing rates.

Disadvantages

- ◆ It applies subsidization to all internal service billing rates. As a result, this method precludes the service/recharge center and/or its parent organization from directing subsidization to preferred internal customers.
- ◆ For Service/recharge centers that follow the Subsidization Infusion Methodology, a common error when selling goods/services to external customers is to base their pre-Administrative Service Charge external customer billing rates on breakeven basis internal service billing rates. As a result, external customers inappropriately derive a benefit from subsidized rates. *See note in the General ISBR Subsidization section.*

NOTES: In the event Subsidization Infusion funding is eliminated or materially reduced, internal service billing rates will need to be increased in a timely manner in order to prevent fund balance deficits greater than previously planned or expected. Such rate increases can have severe budgetary impacts on internal customers that utilize a service/recharge center extensively, notably, sponsor-funded internal customers.

When subsidization reductions adversely affect sponsored agreements, affected PIs must pursue supplemental funding from relevant parent organizations, Research Innovation, and Impact (RII), the Budget Office, or Senior Vice President for Business Affairs. It is not permissible for a center to provide a customer with goods/services for which they are not billed. For purposes of this Handbook, provision of goods/services on an unbilled basis is a type of bad debt.

7.4 **Accounting and recordkeeping for subsidization**

Service/recharge centers must discretely track subsidization, with the specific accounting practices used to track such identified in the center's Business Plan. For supplementary recordkeeping and other procedures, *see the Supplementary financial records section and the General service/recharge center account & accounting information section.*

7.5 Internal Customers versus External Customers

Ideally, subsidization should be limited to internal customers. While external customers with convergent interests may benefit from some subsidization, such subsidization should never be material in aggregate. Centers should rarely if ever engage in sales/services activities that result in subsidization benefiting private sector entities. *See External customer billing rates section.*

8.00 Billing Practices

8.1 Customers must be charged for the goods/services they receive from a service/recharge center

Service/recharge center cannot provide free, bartered, or unbilled goods/services to customers as this would inappropriately shift the cost of those goods/services to other paying customers. Accordingly, a service/recharge center must bill each customer for goods/services supplied to them, provided the goods/services meet proper or specified quality standards. Applicable internal service billings cannot be borne by a center's Internal Accounts. They can be borne by non-service/recharge center subsidization funding. *See the Subsidization of Service/recharge center Activities section.*

8.2 Internal/service billing rates should be posted

A service/recharge center should post and maintain a schedule of current billing practices and internal service billing rates on its website and should post a notice of any upcoming changes in these rates at least 30 days prior to implementation. A longer advance notification period is preferable. Additionally, internal customers of the center should be advised to become familiar with the service/recharge center's practices and internal service billing rates prior to requesting/ordering goods/services.

Service/recharge centers may request Rate Studies feedback regarding the center's website practices.

8.3 Uniform application of internal/service billing rates

Service/recharge centers must bill internal customers for goods/services delivered/provided to them. Such billings must be based solely on internal service billing rates authorized by Rate Studies. Customers cannot be charged rates other than those that have been expressly authorized by Rate Studies. Authorized internal service billing rates must be applied on a consistent, nondiscriminatory basis to all internal customers, regardless of funding source or organizational affiliation within the University.

NOTE: Prorated portions of approved internal service billing rates may be charged, but only in cases where a discrete unit of good/service that is regarded to be a single unit can be divided without materially diminishing or harming its character, market value, or utility.

8.4 Identification of customer fund sources for billing purposes

A service/recharge center should have internal customers identify appropriate fund sources, i.e., UAccess Financials accounts, that can be billed for goods/services delivered/provided to them. In the case of sponsored agreements, a service/recharge center should obtain project termination dates. This information will facilitate the identification and use of appropriate internal service billing rates and ensure that internal customer sources pay for their goods/services.

8.5 Internal/service billings and external customer invoicing

(A) Internal/service billing processing

A service/recharge center must follow appropriate UAccess Financials internal service billing procedures.

(I) Internal customers

(1) Object codes applicable to internal customers

Service/recharge centers must use an appropriate UAccess Financials object code (e.g., 0616, Services – Internal) for recording of internal service billing revenue to the service/recharge center's Internal Account. Appropriate UAccess Financials expenditure object codes must be used for internal customer accounts.

(2) Timing of internal/service billing processing

At the point the goods/services are delivered, a service/recharge center must process internal billing in a timely manner, preferably on a monthly basis where feasible. This is especially important for Service/recharge centers that regularly serve sponsor-funded internal customers. Centers that follow a monthly processing cycle can minimize, if not prevent, potential closeout issues related to terminating sponsored agreements.

NOTE: Failure to process IBs prior to termination of an internal customer's sponsored agreement can result in unrecoverable losses to the service/recharge center or negative financial complications for the internal customer's parent organization.

(3) Internal Billing is allowable only after goods/services are provided to internal customers

A service/recharge center can only process IBs against an internal customer's UAccess Financials account after the goods/services have been completed and delivered to the internal customer. In limited circumstances, subject to Rate Studies authorization, a center can process IBs according to recognized work-in-progress or percentage of completion practices.

(4) Prepayments of any type by internal customers are not allowable

A service/recharge center cannot bill an internal customer when doing so effectively represents a prepayment for goods/services, even if the internal customer requests or approves the prepayment.

NOTE: IBs processed against sponsored agreement internal customers must pertain explicitly to that agreement or, subject to Sponsored Projects & Contracting Services authorization. Further, Service/recharge centers cannot process IBs requested by internal customers in order to use up remaining sponsored agreement fund balances or to provide goods/services to other current or future sponsored agreements.

(II) Internal Billings applicable to external customers

Service/recharge centers must use UAccess Financials object code 0618 (Service Center Cost Recovery) for recording of IB revenue, i.e., intra-cost recovery, applicable to goods/services provided to external customers. These transactions are based entirely on internal service billing rates rather than premium billing rates. Such revenue belongs to the service/recharge center's Internal Account. At the same time, object code 4218 (Service Center Cost) must be used to record expenditures to the service/recharge center's External Account.

NOTE: By recording object code 4218 expenditures into the External Account, the service/recharge center efficiently and effectively allocates breakeven-basis costs applicable to goods/services provided to external customers. This process treats all goods/services the same way, whether provided to external customers or internal customers.

See Appendix B – Illustrative Example: Cost allocation to the External Account for services provided to external customers for a walk through of the accounting entries related to goods/services provided to external customers.

(B) Invoicing external customers should be based on premium billing rates

A service/recharge center must follow appropriate institutional policies and procedures when invoicing external customers at the most appropriate premium billing rate(s). Invoiced revenue from external customers must be recorded in the External Account using an appropriate UAccess Financials object code (e.g., 0600 – Services). The acceptable timing options for invoicing external customers are:

- ◆ Upfront, when the external party's order is received or begun
- ◆ At appropriate points in the process of preparing goods/services, based on recognized work-in-progress or percentage of completion practices
- ◆ After requested goods/services are delivered to the external customer

9.00 Rate Setting and Cost Accounting Practices

9.1 General

Many estimates and assumptions need to be made to formulate internal service billing rates for new service/recharge centers, but historical data will eventually be the basis upon which internal service billing rates are formulated. The two factors that ultimately determine internal service billing rates over a service/recharge center's life are costs and utilization. Mathematically internal service billing rates are defined by the following equation:

$$\text{ISBR} = \frac{\text{Total Cost}}{\text{Utilization}}$$

The cost component in this equation is comprised of both variable and fixed costs. Variable costs increase linearly as utilization grows and tend to be relatively small compared to the fixed-cost component of rates. Knowing that rates are asymptotic at average marginal cost, cost saving efforts should be focused upon the fixed costs of Service/recharge centers in order to mitigate internal service billing rates. For example, negotiation of maintenance agreement costs based on both prepayment and bundled purchases can lead to material discounts on annual maintenance agreement expenses. These reductions will translate directly into lower internal service billing rates regardless of the level of utilization within the center. Based on the equation above, the level of utilization of the center's goods/services is the other driver of internal service billing rates. The equation below describes the change in ISBR as a result of changes in utilization.

$\Delta \text{Rate} = \text{Fixed Costs} \left(\frac{1}{n} - \frac{1}{(n-1)} \right)$, where n = last marginal unit of service sold, and sales are made in discrete units.

9.2 Sources of data & information

(A) Official data sources

Service/recharge centers must develop internal service billing rates and full-cost rates primarily from data drawn from official University enterprise systems.

These UAccess systems contain official institutional financial related data that is needed for purposes of developing internal service billing rates and/or full-cost rates:

- ◆ UAccess Financials
- ◆ UAccess Employee
- ◆ UAccess Analytics
- ◆ UAccess Research

The Archibus System contains official institutional space related data that is needed for calculations of institutional finance and accounting rates and service/recharge center internal service billing rates. This system is managed and maintained by Planning Design & Construction - Space Management.

(B) Supplemental sources

As necessary, a service/recharge center can supplement UAccess or Archibus data with subsidiary records. This information must be consistent with and periodically reconciled to data drawn from applicable University enterprise systems. *See the Supplementary Recordkeeping section.*

A service/recharge center should reconcile its subsidiary financial records with UAccess Financials data on a monthly basis.

9.3 Consistent practices

- ◆ A service/recharge center must consistently follow established rate setting and cost accounting practices. Cost accounting practices cannot be changed merely for budgetary or administrative convenience.
- ◆ A service/recharge center must apply authorized internal service billing rates in a consistent, nondiscriminatory manner to all internal customers, regardless of fund source.
- ◆ A service/recharge center must request Rate Studies authorization prior to making changes in cost accounting practices and/or internal service billing rates. Depending on the nature and potential significance of the changes, Rate Studies may need to seek Cognizant Agency for Indirect Costs authorization.

9.4 Breakeven basis

A service/recharge center must design its individual internal service billing rates to recapture only allowable breakeven operating costs, including:

- ◆ Labor costs and basic operating costs that are actually incurred against a center's Internal Account. Projected costs are also allowable, providing they will be incurred against the Internal Account.
- ◆ Strategic maintenance, where authorized by Rate Studies. This includes:
 - Allowable strategic maintenance expenditures incurred against a service/recharge center's SMR Sub-Account.
 - Set-asides transferred to a service/recharge center's SMR Sub-Account explicitly and solely for the purpose of funding strategic maintenance costs.

NOTE: A critical objective is to match strategic maintenance costs with applicable fiscal periods and customers benefited.

- ◆ Equipment reserve, where authorized by Rate Studies.

ISBR calculations normally cannot include either of the following:

- ◆ Costs borne by a service/recharge center's Subsidization Account
- ◆ Projected equipment reserve

9.5 Goods/services groups

A service/recharge center must manage discretely similar goods/services group. Each group operates on its own breakeven basis. Surpluses or deficits cannot be shifted from one group to another.

9.6 A separate rate for each distinct good/service

Key principle for internal service billing rates:

- ◆ The average cost per-unit of a good/service should be reasonably similar for the vast majority of customers of that ISBR, with relatively few outliers/variations. Ideally, the average cost of a particular good/service should be representative of the actual cost for at least 68% of all customers of that good/service (i.e., ± 1 standard deviation from the mean).

In general, a unique ISBR must be developed for a good/service when these conditions are present:

- ◆ The total cost of delivering a single unit of the good/service is substantially different from other goods/services
- ◆ There will be discrete IB transactions for the good/service annually

9.7 Types of rate bases

The two most common bases and average unit rates are:

(A) Time-based rate

This rate is derived by dividing the total annual cost of a particular good/service by total annual productive/deliverable units of time furnished to customers. An example is a service/recharge center providing an employee who delivers technician services.

$$\frac{\text{Annual costs}}{\text{Annual productive/billable hours}} = \frac{\$78,000}{1,200} = \$65 \text{ per hour}$$

Annual costs include the technician's annual salary for the most recent fiscal year, minor supplies, authorized salary adjustments for the coming fiscal year, projected employee related expenses (ERE) based on federally negotiated fringe benefits rates, and adjustment for an Internal Account fund balance deficit for the most recent fiscal year.

(B) Unit-based rate

This rate is derived by dividing the total annual cost of a particular good/service by total annual productive/deliverable units of service furnished to customers.

Example:

A service/recharge center performs assays.

$$\frac{\text{Annual costs}}{\text{Annual number of assays}} = \frac{\$78,000}{390} = \$200 \text{ per Assay}$$

Annual costs include: (i) staff salaries for the most recent fiscal year, supplies/materials consumed while running standard assays, authorized salary adjustments for the coming fiscal year, projected employee related expenses (ERE) based on federally negotiated fringe benefits rates, and adjustment for an Internal Account fund balance surplus for the most recent fiscal year.

9.8 Breakeven required

(A) Annual breakeven

In most cases, a service/recharge center must design internal service billing rates for a goods/services group to achieve breakeven over an appropriate (planned) breakeven period, normally a single fiscal year.

(B) Longer-term breakeven

In certain circumstances, a breakeven period beyond one year may be established for a goods/services group. In such cases, a center will develop an appropriate Breakeven. The goods/services group is not necessarily expected to achieve breakeven in any one fiscal year. A service/recharge center must submit the plan to Rate Studies for authorization. Where appropriate/necessary, Rate Studies may involve Research Innovation and Impact (RII) and other interested parties.

Example:

Due to high start-up costs for a new service, a service/recharge center expects the costs for one of its goods/services groups will exceed revenues by \$25K over the first 2 years of availability. The center, however, plans on recapturing and eliminating that deficit in Years 3 and 4. Accordingly, they develop a Breakeven Plan and forward it to Rate Studies and, where appropriate/necessary, the Budget Office for authorization.

(C) Monitoring and revising the Breakeven Plan

A service/recharge center must routinely monitor progress toward achieving breakeven according to the Plan. When necessary to maintain the integrity of the original plan, or when material changes occur, can request Rate Studies authorization to modify the Breakeven Plan and/or internal service billing rates. Where appropriate/necessary, Rate Studies may involve Research Innovation and Impact (RII) and other interested parties.

9.9 Internal allocations of operating costs

A service/recharge center must distribute operating costs between goods/services groups and/or between individual goods/services using a sound cost allocation methodology. Such methodology reflects benefits-derived and traceable cause and effect relationships. Logic and reason should be used in cases where benefits-derived and traceable cause and effect relationships are not determinable.

9.10 Data needed for updating of existing internal/service billing rates

(A) Historic data

When performing a rate study to update existing internal service billing rates, a service/recharge center's calculations must be based primarily on historic (actual) data. The following types are required:

- ◆ Actual allowable operating costs, as adjusted for applicable credits, for a one-year period – normally the most recently completed fiscal year. These costs should be itemized initially by goods/services group, with distinctions between subsidized and unsubsidized (i.e., breakeven basis) costs.
- ◆ An analysis of a service/recharge center's Internal Account fund balance including, where possible, an initial breakdown of the fund balance by goods/services group. This information is needed for a service/recharge center that provides multiple goods/services groups using only a single Internal Account.
- ◆ Actual units of service provided to customers during the same time period as allowable operating costs.
- ◆ Statistical information necessary for the development of internal service billing rates. This information must be based on the same time period for which allowable cost data pertains. Examples of this are:
 - Special time-in-motion labor studies
 - Studies of supplies/materials consumed during specified processes

(B) Projected data

ISBR calculations can be adjusted to reflect material expected changes in costs that are necessary and reasonable for proper and efficient operation of a service/recharge center; utilization statistics (e.g., units of service); or other material factors. Such data must be based on known or reasonably predictable evidence or information and cannot be based on conjecture or speculation. Examples of data that can be predicted with reasonable certainty include:

- Authorized changes in compensation rates for employees
- Authorized changes in employee related expenses (ERE) rates
- Documented changes in the price of consumables (i.e., materials/supplies)
- Trend analyses demonstrating changes in customer demand

9.11 **Data needed for new service/recharge centers or new internal/service billing rates**

When creating a new service/recharge center or a new ISBR, a service/recharge center's rate calculations must rely on best reasonable estimates of annual allowable operating costs and annual units of service. Information from similar Service/recharge centers or internal service billing rates at the University, or even other universities, may be useful for purposes of establishing an initial framework. Prior to implementation of initial internal service billing rates, a service/recharge center must request Rate Studies authorization of its bases for such rates. For all subsequent years, a service/recharge center's actual costs, projected costs and utilization data must be used when updating internal service billing rates,

9.12 **Primary characteristics of allowable costs**

A service/recharge center can include only allowable operating costs in its internal service billing rates. The allowability of costs should be determined prior to the incurrence of the costs. When in doubt, a service/recharge center should seek guidance from Rate Studies. The absence of prior approval from Rate Studies will not affect the ultimate determination of allowability. The following general rules apply for purposes of determining whether a service/recharge center cost is allowable:

(A) Necessary and reasonable

The cost must be necessary and reasonable for the provision of goods/services. In this regard, a service/recharge center must determine whether a cost is (or will be) generally recognized as ordinary and necessary for the efficient and effective provision of goods/services to its internal customers. Further, the service/recharge center must determine whether the cost is, or will be, incurred pursuant to:

- ◆ Sound business practices, arm's-length bargaining, applicable federal guidance and laws/regulations (federal, state of Arizona, foreign, etc.)
- ◆ Appropriate consideration of marketplace prices and, when such concerns are critically important to the provision of goods/services to customers, convenience, and availability
- ◆ Actions a prudent person would take under the circumstances, considering their responsibilities to the university community, the service/recharge center, and various other stakeholders.
- ◆ Established practices and policies. Deviations cannot result in materially higher costs and unjustifiable increases in internal service billing rates

(B) Properly allocable

The cost must be properly allocable in part or whole to an ISBR. A cost is allocable if it is necessary to the provision of the ISBR's goods/services and meets either of these conditions:

- ◆ The cost relates to a specific ISBR.
- ◆ The cost relates to multiple internal service billing rates but can be distributed equitably between the rates without undue effort or cost. This requires the use of a sound cost allocation methodology that reflects traceable cause and effect relationships and benefits derived. Logic and reason should be used in cases where traceable cause and effect relationships and benefits derived are not determinable.

Example:

A service/recharge center provides two different types of testing services and allocates its administrative/management costs to the two services based on salaries/wages applicable to each service.

NOTE: Costs allocable to one good/service cannot be shifted to another good/service. Further, for ISBR calculation purposes, like SMR costs, material expenditures that represent a prepayment of future year expenses must be expensed to benefiting fiscal years as the pertinent item(s) are consumed, for example, purchases of stock supplies/materials that benefit multiple fiscal years.

(C) Consistent application

The cost must be applied consistently and uniformly according to all of these:

- ◆ GAAP
- ◆ The rate studies handbook, which embodies pertinent federal guidelines
- ◆ Relevant University policies and procedures

A service/recharge center's operating costs must be applied in a consistent, uniform, non-discriminatory manner to all internal customer fund sources. Specific finance and accounting types of costs applicable to a center must be treated consistently and uniformly as includible in and recoverable through either internal service billing rates or institutional finance and accounting rates, but not both at the same time. ISBR and finance and accounting costs are mutually exclusive.

(D) Not used to meet cost share obligations

The cost must not be used to meet cost sharing or matching requirements applicable to federal funds or sponsored agreements.

(E) Adequate documentation

Costs must be adequately documented given the nature of the expenditure at-hand.

9.13 Unallowable costs

Unallowable costs fail to meet the conditions for allowability in the *Primary Characteristics of Allowable Costs section*. A service/recharge center cannot recover such costs through internal service billing rates and should seek guidance from Rate Studies when in doubt as to whether a cost may be unallowable.

(A) Unallowable operating costs

Examples of costs that are explicitly unallowable include, but are not limited to:

- ◆ Alcoholic beverages
- ◆ Bad debt expense and losses
- ◆ Commencement/convocation costs
- ◆ Community/public relations
- ◆ Contributions to contingency reserves
- ◆ Donations and contributions
- ◆ Entertainment, i.e., activities that are for the purpose of amusement, diversion, enjoyment, leisure, pleasure, recreation, relaxation or socializing
- ◆ Fines and penalties resulting either from violations of federal, state, local, or foreign laws/regulations
- ◆ Goods/services for personal use
- ◆ Marketing/promotion, including promotional advertising
- ◆ Student financial assistance, e.g., scholarships/fellowships

(B) Noncompliance/non-adherence losses and refunds/reimbursements

- ◆ Operating losses traceable to a failure to either comply with Policy 18.10 or adhere to the Rate Studies Handbook
- ◆ Required/mandated refunds/reimbursements to internal customers
NOTE: Refunds/reimbursements normally should be achieved by reducing relevant internal service billing rates. Such reductions will apply only for as long as it takes to achieve the required level of refunds/reimbursements.
- ◆ Direct refunds to the Cognizant Agency for Indirect Costs or sponsors

(C) Cost forecasts/projections/estimates

Projected or estimated operating costs that are not based on solid data or reasoning.

(D) Costs that are not related or not allocable to a service/recharge center's goods/services

This includes operating costs that are not needed for or related to particular goods/services, or that are not allocable to particular goods/services. Examples include labor and basic operating costs (including travel) applicable to course related activities or presentations of academic/R&D papers; and OCs that are materially unreasonable or unnecessary/avoidable.

(E) Contributions to budgetary rescissions/sweeps

This includes expenditures or transfers that effectively represent contributions to University-wide, college-wide, or departmental budgetary rescissions/sweeps.

(F) Capital equipment acquisitions, debt service payments, and interest on internal loans

This includes capital equipment expenditures/acquisitions, debt service payments to external creditors, and loan repayments to internal (University) parties.

NOTE: Equipment reserve-authorized Service/recharge centers are permitted to include equipment reserve in their internal service billing rates. Equipment reserve explicitly excludes principal/interest on internal loans.

9.14 Frequency of rate adjustments

In most cases, internal service billing rates normally should be used for at least an entire year, preferably a fiscal year. Mid-year adjustments can be justified in cases where subsidization funding is eliminated or materially reduced, or key cost elements are subject to a great deal of volatility - for example, material increases or fluctuations in the cost of resale materials or supplies/ consumables. Mid-term adjustments should always be done in a timely manner to recoup revised breakeven-basis expenses. A service/recharge center must submit all rate changes to Rate Studies for authorization.

9.15 Frequency of billing rate studies

A service/recharge center must perform a comprehensive billing rate study at least once every two years in order to update each of its internal service billing rates, based on contemporary actual costs and units of service. The study must be

submitted to Rate Studies for authorization. Rates based on the study should be implemented at the earliest reasonable time.

NOTE: Depending on factors such as subsidization method, materiality of IBs, special authorizations (e.g., strategic maintenance, equipment investment recapture), less frequent rate studies may be possible. Exceptions to the 1 - 2-year rule, however, are subject to Rate Studies review and authorization.

9.16 Internal/service billing rate adjustments driven by fund balance levels

A service/recharge center is permitted to maintain a positive fund balance in its Internal Account(s), not to exceed the maximum allowable level. Fund balances above the maximum are considered excessive.

In most instances, immaterial negative or positive fund balances can be eliminated within a year by increasing or decreasing internal service billing rates in the subsequent fiscal year.

9.17 Rate updates in years when a cost study is not performed

Service/recharge centers must maintain their Internal Account fund balances within allowable limits in years when rate studies are not performed. Appropriate ISBR adjustments must be made where deficit or excessive fund balances are present or reasonably anticipated and such adjustments must be submitted to Rate Studies for authorization prior to implementation.

9.18 Advance notifications of possible rate adjustments

A service/recharge center must give internal customers a reasonable forewarning of changes in internal service billing rates, or of anticipated rate studies, since these normally result in adjustments to existing internal service billing rates. This can be accomplished through direct correspondence with internal customers (including email) or appropriate website announcements, advisories, or bulletins. A service/recharge center should provide advance notifications to internal customers 30-60 days prior to implementation of new/adjusted internal service billing rates.

9.19 Conditional internal/service billing rates

Conditional internal service billing rates are normally difficult to objectively prove, and the use of such rates is highly restricted.

To the extent they are used for internal customers, conditional charging practices and applicable internal service billing rates must be applied consistently and uniformly to all internal customers, regardless of fund source.

Service/recharge center requests to establish and use such rates must be submitted to Rate Studies for authorization and must be accompanied by compelling documentation (including rationale) and relevant data in support of such rates. The documentation should substantiate that, when specified circumstances are present, the actual cost per-unit of a particular good/service is materially different from the norm.

NOTE: Limitations regarding conditional rates/billings do not apply to external customers.

Common types of conditional rates:

(A) Volume-based rates

A service/recharge center can use this type of rate in cases where it can establish that actual input/throughput costs of providing a particular good/service (on a per-unit basis) change materially at certain capacity levels. This may be particularly true in cases where certain input cost requirements may be relatively constant for most customer orders, but where other input costs can increase or decrease dramatically beyond certain volume thresholds.

Example:

A service/recharge center provides a type of assay service. Charges to internal customers are based on instrument cycles. Technician labor and supplies/materials are the major input costs. According to a special study performed by its technician, the center determines that input requirements are similar for basic assays. As the instrument cycles surpass a certain threshold, the labor requirements basically flatten, whereas supplies/materials requirements continue to rise. Accordingly, the service/recharge center requests implementation of a (lower) conditional rate for instrument cycles above the specified threshold.

Volume-based rate variances normally are traceable to distinctly different fixed-cost versus variable-cost input/throughput components. Accordingly, separating fixed from variable costs is a good first step in creating a basis for volume-based rates. Thereafter, creation of separate rates for fixed-cost components and variable-cost components will likely avert the need for volume-based rates.

(B) Priority internal/service billings/charges

A service/recharge center can use this type of ISBR in cases where it can establish that actual input/throughput costs of providing a particular good/service on a per-unit basis are affected by whether a customer requires priority attention to their goods/services. The following applies:

- A service/recharge center's established and posted operating policies and procedures must distinguish between normal and abnormal workflow processes. Accordingly, the center's policies/ procedures must specifically address normal scheduling or sequencing of jobs/orders and accommodate urgent/priority customer requirements.

- Supplemental priority-job charges are limited to instances where actual incremental costs are incurred by a service/recharge center as a result of having to alter its normal work-stream for a customer.

Example:

A researcher asks a service/recharge center to perform a particular service within 24 hours. In order to satisfy this request, the center must set aside the other customer orders already in progress. The center will track the additional costs of setting aside those other orders, and reinserting, and perhaps even redoing, those orders. These additional costs can/should be billed to the researcher's fund sources.

- If a PI is using a federal award to pay for their good/service, they must seek Sponsored Projects & Contracting Services authorization (who may require sponsor authorization) before incurring priority/urgent service charges.

(C) Off-peak hour (e.g., time-of-day, night/weekend) rates

A service/recharge center can use this type of rate in cases where it can document that actual input/throughput costs of providing a particular good/service on a per-unit basis during off-peak hours differs from the costs of providing that same good/service during regular business hours (e.g., 8:00 AM – 5:00 PM, Mondays through Fridays).

A service/recharge centers established and posted operating policies and procedures must explicitly identify the normal working hours, and distinguish between normal working hour and off-peak hour practices, such as scheduling, availability, staffing, rates/pricing and so on. As is true for all internal service billing rates, off-peak hour internal service billing rates must be based on actual costs of the service.

Example:

A service/recharge center provides internal customers with access to scientific instrumentation. The instrumentation facility is staffed by several permanent full-time technicians (i.e., a Lab Manager, several senior level technicians, and several junior level technicians). In the interest of balancing the demand for access, the service/recharge center is interested in extending its availability to nights and weekends. Off-peak hour services would be manned mostly by junior level technicians, with the Lab Manager and senior level technicians available remotely or on-call. Based on a breakdown of costs and demand for access (as between normal weekday hours and off-peak hours), the center determines that off-peak hour access rates will be lower than the weekday rates.

(D) Customer no-show fees

A service/recharge center may assess no-show fees/charges to a customer that fails to arrive for a scheduled appointment. For internal customers only, such billings must be based on actual costs incurred. In UAccess Financials, applicable IBs must be assessed against expenditure object code 4xxx, which has been established specifically for this type of fee. Depending on the instrumentation and/or activity involved, applicable IBs may consist of some combination of labor costs, basic operating costs (e.g., chemicals, supplies/materials, and strategic maintenance costs (e.g., service contracts) that are incurred by the service/recharge center in order to prepare a good/service (including instrumentation availability) for consumption or usage by the internal customer. There are no limitations on whether and when an external customer may be assessed a no-show fee/charge. When such fees are established for internal customers, external customers must be assessed a similar fee in accordance with Rate Studies Handbook section External customer (premium) billing rates.

NOTES: While the service/recharge center may assess no-show fees/charges to UAccess Financials account numbers as designated by internal customers, such IBs to sponsored projects may be deemed unallowable. In such cases, the IBs will need to be transferred from affected sponsored project accounts to other appropriate accounts (e.g., discretionary funds).

9.20 Recovery of Facilities & Administration

Indirect types of costs cannot be simultaneously included in and recovered through a service/recharge center's internal service billing rates and University's finance and accounting rates. Accordingly, indirect types of costs that are included in internal service billing rates must be excluded from University finance and accounting rate mechanisms. Conversely, indirect types of costs that are included in the University's finance and accounting rate mechanisms must be excluded from internal service billing rates. University finance and accounting rate practices normally take precedence over service/recharge center ISBR practices. A service/recharge center should seek Rate Studies guidance in determining whether costs are recoverable through finance and accounting or internal service billing rates,

9.21 Depreciation and interest expenses applicable to equipment

(A) Equipment reserve-authorized service/recharge center s

An equipment reserve-authorized service/recharge center (including SSFs) must include within its internal service billing rates all capital equipment depreciation, gains/losses on disposals (including net proceeds from Surplus Property), and interest expenses for all capital equipment items directly assignable to the center. Centers cannot pick and choose which items to include or exclude from internal service billing rates. Accordingly, all service/recharge center equipment reserve expenses are recoverable only through the center's internal service billing rates. Within the University's finance and accounting Rate Proposal, Rate Studies allocates equipment reserve-authorized depreciation

and interest expenses entirely to the Other Institutional Activities category. This action removes all equipment reserve expenses of equipment reserve-authorized centers from the University's finance and accounting rates.

(B) Equipment reserve unauthorized service/recharge centers

An equipment reserve unauthorized service/recharge center cannot include within its internal service billing rates any capital equipment depreciation, gains/losses on disposals of capital equipment (including net proceeds from Surplus Property), or interest expenses. This applies to all equipment items directly assignable to the service/recharge center or indirectly allocable to the center. Accordingly, none of the service/recharge center's equipment reserve expenses are recoverable through the service/recharge center's internal service billing rates. Instead, all such equipment reserve are included in University's finance and accounting Rate Proposals by Rate Studies and reallocated to the finance and accounting categories of the service/recharge center's customers. This reallocation is based on an analysis of the center's revenue by customer source. This action includes all equipment reserve expenses of equipment reserve unauthorized centers in pertinent University finance and accounting rates.

9.22 Depreciation and interest expenses applicable to buildings & improvements

(A) Specialized service facilities [SSFs]

Within University's finance and accounting Rate Proposals, Rate Studies must allocate all depreciation and interest expenses applicable to an SSF to the Other Institutional Activities category. This includes depreciation and interest expenses that are directly assignable or indirectly allocable to the SSF, such as building systems/infrastructure. This action has the effect of removing all such costs from the University's finance and accounting rates. At the discretion of University executive management, an SSF may be required to include (and recover) these costs in part or whole through its internal service billing rates.

NOTES: In cases where such expenses are only partially recovered (or not recovered at all) through internal service billing rates, the unrecovered portion effectively represents a form of institutional subsidization of an SSF's internal customers. SSF's internal customers.

(B) Service/recharge centers

A service/recharge center cannot include any buildings and improvements depreciation and interest expenses within its internal service billing rates. This applies to all buildings & improvements assets directly assignable to a service/recharge center or indirectly allocable to the center. Rate Studies includes these expenses in the University's finance and accounting Rate Proposals and reallocates them to the finance and accounting categories of the center's customers. This reallocation is based on an analysis of the center's revenue by customer source. This action has the effect of incorporating all center buildings and improvements depreciation and interest expenses into benefiting University finance and accounting rates.

9.23 Institutional operations and maintenance costs

(A) Specialized service facilities

Within University's finance and accounting Rate Proposals, Rate Studies must allocate to the Other Institutional Activities category all institutional O&M costs applicable to an SSF. This includes institution-level O&M costs that are directly incurred by or assignable to an SSF, such as utilities, building security, and maintenance of building systems/infrastructure. This action has the effect of removing all such costs from the University's finance and accounting rates. At the discretion of University executive management, these costs may be included in part or whole in an SSF's internal service billing rates.

NOTES: In cases where such costs are only partially recovered through internal service billing rates, the unrecovered portion effectively represents a form of institutional subsidization of an SSF's internal customers.

(B) Service/recharge centers [service/recharge center s]

A service/recharge center cannot include any institutional O&M costs within its internal service billing rates. This includes institution-level O&M costs that are directly assignable to a service/recharge center or indirectly allocable to a center, such as utilities, building security, and maintenance of building systems/infrastructure. None of these expenses are recoverable through a center's internal service billing rates. Instead, Rate Studies includes these costs in the University's finance and accounting Rate Proposals and reallocates them to the finance and accounting categories of the center's customers. This reallocation is based on an analysis of the service/recharge center's revenue by customer source. This action has the effect of incorporating all service/recharge center O&M expenses into benefiting the University's finance and accounting (F&A) rates.

9.24 Service/recharge center costs

A service/recharge center must include its own indirect types of costs in its internal service billing rates, provided such costs are explicitly identifiable to the center. A service/recharge center can choose to subsidize such costs using discretionary funds.

College/Departmental administration types of costs that are explicitly assignable/beneficial to a service/recharge center may be incurred against the center's Internal Account. When this happens, applicable costs must be included in the

service/recharge center’s internal service billing rates and allocated entirely to the Other Institutional Activities category within the University’s finance and accounting proposal. The latter action removes all such costs from the University’s finance and accounting rates.

NOTES: College/Departmental Administration costs directly assignable to a service/recharge center may also be incurred against the service/recharge center’s External Account or some other discretionary fund source. In such cases, the costs cannot be included in or recovered through the center’s internal service billing rates,

A service/recharge center must exclude College/Departmental administration and University-level general administration and general expenses costs from its internal service billing rates, Instead, Rate Studies includes these costs in the University’s finance and accounting Rate Proposals and allocates them to pertinent finance and accounting categories according to standard allocation methodologies. This action has the effect of incorporating all center College/Departmental administration and general administration and general expenses costs into benefiting University finance and accounting rates.

9.25 Cost recovery mechanisms for major types of facilities and administration costs applicable to service/recharge centers

Facilities & Administration Finance and Accounting Cost Pool Category	Costs will be included in & recovered through:	
	relevant finance and accounting rates	internal service billing rates
Type of service/recharge center		
Facilities		
Depreciation and Interest Expenses that are related to service/recharge center -utilized equipment		
Recharge Centers and Service Centers that are equipment reserve authorized		✓ ¹
Service/recharge centers that are equipment reserve unauthorized	✓ ²	
Specialized Service Facilities		✓ ¹
Depreciation and Interest Expenses that are related to service/recharge center -occupied space (buildings/improvements)		
Service/recharge centers	✓ ²	
SSFs		✓ ¹
Operations & Maintenance costs related to service/recharge center-occupied space		
Service/recharge centers	✓ ²	
SSFs		✓ ¹
Administration		
College/Departmental Administration [College/Departmental Administration] costs that are explicitly/directly related to service/recharge center activities		
service/recharge center s		✓ ¹
SSFs		✓ ¹
College/Departmental Administration costs that are not explicitly/directly related to service/recharge center activities		
Service/recharge centers	✓ ³	
SSFs		✓ ¹
General & Administration [G&A] costs applicable to service/recharge center activities		
RCs, service centers and SSFs	✓ ³	

¹ Within each finance and accounting (F&A) Proposal, these costs are allocated entirely to the Other Institutional Activities category. This action ensures removal of these costs from the Instruction, Sponsored/Organized R&D and Other Sponsored Activities finance and accounting rates. At the discretion of executive management, these costs may be included in part or whole through internal service billing rates. Costs that are excluded from internal service billing rates essentially represent another form of institutional subsidization of service/recharge centers.

² Within each finance and accounting Proposal, these costs are reallocated to the finance and accounting base (or, if applicable, pool) classification related to a service/recharge center’s customers. This reallocation is based on an analysis of the center’s IB revenue by customer base/pool classification. This action has the effect of including these costs in pertinent Instruction, Sponsored/Organized R&D and Other Sponsored Activities finance and accounting rates.

³ Within each finance and accounting (F&A) Proposal, these costs remain in the pertinent Administration cost pool. Ultimately, these costs are allocated to applicable cost objectives in accordance with relevant indirect cost pool allocation methodologies. These methodologies are described in each finance and accounting Rate Proposal, and the University’s CAS Disclosure Statement [DS-2].

NOTES: IBs represent expenditures to service/recharge center customers. As such, those expenditures ultimately are embedded in appropriate finance and accounting Modified Total Direct Cost bases. As a result, customer IB expenditures receive an appropriate allocation of College/Departmental Administration and General Administration & General Expenses cost pools.

9.26 Administrative Service Charge [ASC] assessments

Administrative Service Charge (ASC) and the associated policy 6.17 Administrative Service Charge have been eliminated by the University of Arizona.

9.27 External customer billing rates

For goods/services furnished to external customers, a service/recharge center must invoice them using the most appropriate premium rate(s). The rate to be used is dependent upon the relationship of the customer to the University.

(A) Types of premium billing rates

At minimum, goods/services furnished to external customers must be invoiced by service/recharge centers using minimally augmented internal service billing rates. The types of premium rates are

- ♦ Private sector external customer rates: what the private (for-profit) sector charges for similar goods/services.
- ♦ Burdened, cost-based external customer rates: There are three such rates which are depicted in this chart with the types of costs that must be recovered.

Cost Element	No/Partial/Full Recovery of the Cost Element		
	Minimally augmented ISBR	Marginally augmented ISBR	Fully augmented ISBR
ISBR (Breakeven, Unsubsidized) Costs			
Labor	F	F	F
basic operating costs	F	F	F
SMR (SMR-authorized service/recharge centers only)	F	F	F
Equipment reserve (authorized service/recharge centers)	F	F	F
Subsidized Costs			
Labor ¹	N	P ²	F
basic operating costs ¹	N	P ²	F
SMR (SMR-unauthorized Service/recharge centers only) ¹	N	P ²	F
Unallowable Costs ¹	N	P ²	F
Facilities & Administrative			
Equipment reserve (for unauthorized service/recharge centers only), if determinable ¹	N	P ²	F
finance and accounting Rate Differential (for equipment reserve - authorized service/recharge centers only) ¹	N	P ^{3,2}	F ³
finance and accounting Rate Differential (for equipment reserve - unauthorized service/recharge centers only) ¹	N	P ^{4,2}	F ⁴

¹ This cost element may be recovered through EC billing rates and retained in the service/recharge center's External Account. Such recovery can be used by the service/recharge center in a discretionary manner.

² The service/recharge center determines how much of this cost element it wants to include in the external customer rate.

³ Differential = [Applicable Cognizant Agency for Indirect Costs-approved finance and accounting (F&A) rate] – [equipment reserve components of the finance and accounting rate]

⁴ If equipment reserve is readily determinable for the service/recharge center: See Note 3, or if equipment reserve is not readily determinable for the service/recharge center: Differential = [Applicable Cognizant Agency for Indirect Costs-approved finance and accounting rate]

(B) Application of external customer billing rates

The type of rate that a service/recharge center should apply to an external customer depends on programmatic interrelationships between the University and the external customer as well as the type of customer.

NOTE: A service/recharge center can never invoice external customers using rates less than internal service billing rates.

(I) Convergent programmatic interests

For goods/services provided to external customer activities in which the external customer and University have convergent programmatic interests, a center can invoice the customer based on minimally augmented internal service billing rates. In certain cases, marginally augmented internal service billing rates may be more appropriate. University and external customer interests are considered converged when one or both conditions are met:

- Service/recharge center goods/services will assist external customer activities in which University will be substantively engaged and formally recognized as a fundamental collaborator/contributor.
- Service/recharge center goods/services will assist external customer activities the success of which will substantively enhance the University’s activities, programs, or projects.

(II) Non-convergent programmatic interests

In the absence of convergent programmatic interests, a service/recharge center’s relationship with an external customer will be considered that of a vendor providing goods/services. The following applies:

(1) State of Arizona and federal entities

For goods/services provided to the f types of external customers listed below, a service/recharge center can invoice the customers based on marginally burdened internal service billing rates. In certain circumstances, fully burdened internal service billing rates may be more appropriate.

(a) State of Arizona entities

- ABOR entities, i.e., Central Office, Arizona State University, and Northern Arizona University
- Arizona public junior colleges
- Arizona public primary and secondary schools
- State of Arizona agencies
- Arizona municipalities

(b) Federal entities and pass-through entities

- Federal agencies
- Federally Funded R&D Centers
- Entities that are using federal sources to acquire the goods/services and should provide the applicable federal award number or pertinent Catalog of Federal Domestic Assistance [CFDA] reference.

(2) All other entities

(a) 501(c)(3) (charitable) organizations

A service/recharge center can invoice based on marginally burdened internal service billing rates for goods/services. Application of fully burdened internal service billing rates is encouraged.

(b) Private sector (for-profit) entities and others

A service/recharge center can invoice based on fully burdened internal service billing rates for goods/ services. Application of private sector EC billing rates is encouraged.

Key: Y=Yes N=No M=Maybe M*= maybe, depends on circumstances				
Relationship to University Programmatic Interests and Type of External Customers (EC)	Cost-Based Rates			Private Sector (Marketplace) Rates
	Minimally Augmented ISBR	Marginally Augmented ISBR	Fully Augmented ISBR	
EC & University programmatic interests converge	Y	M*	N	N
EC & University programmatic interests do not converge				
State of Arizona				
ABOR				
ABOR Office	N	Y	M*	M*
Arizona State University	N	Y	M*	M*
Northern Arizona University	N	Y	M*	M*
Arizona Public Junior Colleges	N	Y	M*	M*
Arizona Public Primary and Secondary Schools	N	Y	M*	M*
State Agencies	N	Y	M*	M*
Arizona Municipalities	N	Y	M*	M*
Federal				
Federal Agencies	N	Y	M*	M*
Federally Funded R&D Centers	N	Y	M*	M*

Pass-through entities	N	Y	M*	M*
501(c)(3) (Charitable) Organizations	N	Y	M*	M*
Other Entities				
Nonprofit Organizations [Other Than 501(c)(3)]	N	N	Y	M*
Private Sector (For-Profit) Entities	N	N	Y	M*
Others (Not Identified Above)	N	N	Y	M*

10.00 Closures, Consolidations, or Reorganizations of Service/Recharge Centers or Goods/Services Groups

10.1 Circumstances warranting closure or reorganization

(A) Discontinuation of a goods/services group

A service/recharge center can/should close a goods/services group when it becomes reasonably clear the group cannot be sustained on a breakeven basis.

(B) Complete dissolution of a service/recharge center

At the point it becomes clear that a service/recharge center can no longer sustain itself on a breakeven basis, the center should develop a Closure Plan.

(C) Service/recharge center reorganization or absorption

At the point greater efficiencies and effectiveness can be achieved by reorganizing/consolidating a service/recharge center into another center, the centers should develop a Consolidation Plan and submit it to Rate Studies; Research Innovation and Impact (RII); and the service/recharge center's parent organization(s) for authorization.

NOTES: Where feasible, Service/recharge centers should consult with Rate Studies at least three months prior to any planned closures, consolidations, or reorganizations of good(s)/service(s) groups or service/recharge center s.

10.2 Dispensation of service/recharge fund (account) balances

Service/recharge center must dispense with remaining fund balances in accordance with the *UAccess Financials Accounts section*. Such dispensations are subject to Rate Studies authorization and, in some cases, Research Innovation and Impact (RII) as well. *Also see the Closing service/recharge center accounts; Closures of Internal Accounts; and Closures of OC (SMR)-DR Sub-Accounts sections.*

10.3 Dispensation of service/recharge center equipment

In these circumstances:

- Closure of a good(s)/service(s) group but the service/recharge center will continue operating other goods/services groups
- Complete dissolution of a service/recharge center
- Service/recharge center [service/recharge center reorganization or absorption into another service/recharge center the service/recharge center may handle pertinent capital equipment in one these manners:

(I) Repurpose

The service/recharge center may repurpose the equipment within the center or the center's parent organization.

(II) Transfer

The service/recharge center may transfer the equipment to another center or department.

(III) Dispose of

A service/recharge center may dispose of equipment according to relevant University disposal policies/procedures in the Property Management Manual, 3.20 University and Sponsor Equipment. These additional rules apply:

(1) Equipment reserve authorized service/recharge center treatment

For these centers, the proceeds should be deposited into the service/recharge center's equipment reserve account.

(2) Equipment reserve unauthorized service/recharge center treatment

For these centers, depending on the circumstances, the proceeds may be deposited into an appropriate Internal Account of the service/recharge center, or a discretionary fund source of the parent organization.

(B) Notifications and authorizations regarding equipment dispensation

The following applies to instances where a service/recharge center closes a goods/services group, completely dissolves, or reorganizes/consolidates with another service/recharge center.

(I) Rate Studies and Research Innovation and Impact (RII) authorizations

(1) Equipment Reserve Authorized service/recharge centers

Rate Studies and Research Innovation and Impact (RII) authorization is required prior to repurposing, transferring, or disposing of pertinent equipment. Requests are submitted to Rate Studies.

(2) Equipment Reserve Unauthorized service/recharge centers

The service/recharge center should consult with Rate Studies prior to repurposing, transferring, or disposing of pertinent equipment.

(II) Notifications to Financial Services Office – Property Management

- A service/recharge center must notify Property Management at the point pertinent equipment is repurposed, transferred, or disposed of.
- The notification must identify any changes in Organization Code, b location, or Inventory Unit Code, and other key UAccess Financials (Capital Asset Management) data elements.
- In the case of service/recharge center consolidations, the successor service/recharge center is responsible for notifying Property Management.

11.00 Service/Recharge Center Organization and Management

11.1 Structure of a service/recharge center

With assistance from Rate Studies, Operating Funds, and other interested parties as necessary, a service/recharge center must establish and manage itself as a discrete financial/budgetary and operational entity. Centers may function as:

- ♦ A subsidiary of a mission-based entity
- ♦ An arm of a college dean's or division director's office, or as a stand-alone service entity that reports to a college dean or division director.
- ♦ An arm of an executive office, or as a stand-alone (central-University) service entity that reports to an executive officer.

11.2 Service/recharge center committees

(A) Service/recharge center Executive Committee

Based on recommendations from the Senior Vice President for Business Affairs and Vice President for Research, the Associate Vice President for Financial Services will coordinate the formation and maintenance of a service/recharge center Executive Committee. Management aspects of the committee are:

(I) Composition

The committee should be composed of representatives from:

- ♦ Provost's Office
- ♦ Research Innovation and Impact (RII)
- ♦ Office of the Senior Vice President for Health Sciences
- ♦ Office of the Senior Vice President for Business Affairs
- ♦ Service/recharge center Advisory Committee Chairperson

(II) Committee resources

- ♦ Sponsored Projects & Contracting Services
- ♦ Budget Office
- ♦ Rate Studies and Operating Funds
- ♦ Research Innovation and Impact (RII)

NOTE: Rate Studies and Research Innovation and Impact (RII) will provide primary staff support services to the service/recharge center Executive Committee.

(III) Meetings

The Executive Committee should meet as needed, based on issues/recommendations from by the service/recharge center advisory committee, Rate Studies, or Research Innovation and Impact (RII).

(B) Service/recharge center advisory committee

The service/recharge center Executive Committee will provide membership recommendations to Rate Studies and Research Innovation and Impact (RII), who will form and maintain a service/recharge center advisory committee.

(I) Composition

The committee should be composed of service/recharge center representatives selected or recommended by the center's Executive Committee. A chairperson shall be selected by the committee and will also serve on the Executive Committee. Possible representation for the advisory committee:

(1) Central administrative offices

- ♦ Research Innovation and Impact (RII)
- ♦ Sponsored Projects & Contracting Services
- ♦ Budget Office
- ♦ Financial Services Office (Rate Studies and Operating Funds)

NOTES: Rate Studies and Research Innovation and Impact (RII) will provide primary staff support services to the service/recharge center advisory committee.

(2) Central support units

- ♦ UITS
- ♦ Facilities Management

(3) Service/recharge centers and/or parent organizations

- ♦ One participant from each center that qualifies as an SSF
- ♦ One participant from each center with annual operating budgets \geq \$500,000, or with IB revenue from federal (internal customer) sources \geq \$250,000
- ♦ Several participants from selected service/recharge centers with annual operating budgets of \$200,000 to \$499,999, or with IB revenue from federal (internal customer) sources of \$100,000 to \$249,999.
- ♦ Several participants from selected service/recharge centers with annual operating budgets \leq \$199,999, or with IB revenue from federal (internal customer) sources \leq \$99,999.

(4) College-level administrative offices

- ♦ Agriculture & Life Sciences
- ♦ Science
- ♦ Medicine – Tucson and Phoenix
- ♦ Optical Sciences

(II) Committee resources

Rate Studies and Research Innovation and Impact (RII) will provide primary staff support services to the service/recharge center advisory committee.

(III) Meetings

The service/recharge center advisory committee should meet no less frequently than once every six months. Pursuant to a recommendation by a majority of the committee, additional meetings can be scheduled.

(C) Service/recharge center User Committees

Each service/recharge center should form a committee composed of their internal customers.

(I) Composition

The committee should represent a cross-section of the service/recharge center's internal customers, e.g., principal investigators, departmental administrators.

(II) Committee resources

The service/recharge center will provide primary staff support services to the User Committee. Rate Studies and Research Innovation and Impact (RII) are available for consultation.

(III) Meetings

This committee should meet no less frequently than once a year. Pursuant to a recommendation by a majority of the committee, additional meetings can be scheduled.

12.00 Miscellaneous Administrative Topics

12.1 Supplementary recordkeeping

While basic, critically needed financial information is available from the University's enterprise systems such as UAccess Financials, service/recharge centers still need to establish and implement supplementary financial and statistical recordkeeping practices. By their very nature, supplementary records need to be maintained by the service/recharge center rather than by central-University offices and/or enterprise systems.

(A) Reasons for supplementary recordkeeping

- ♦ Maintaining detailed financial information applicable to individual goods/services and goods/services groups
- ♦ Accumulating all financial and statistical data necessary for calculating individual internal service billing rates
- ♦ Retaining supporting documentation related to IBs and the goods/services provided to internal customers
- ♦ Ensuring sound internal control and management practices

(B) Types of supplementary records

Service/recharge centers should seek Rate Studies assistance with determining and establishing necessary supplementary record keeping.

(I) Supplementary financial records

A service/recharge center needs to establish and maintain supplementary financial records in cases where critical information is unavailable from the University's enterprise systems. Examples include:

- Detailed supporting documentation for all subsidization fund sources and expenditures. A breakdown of expenditures by subsidization source is needed for labor costs (by employee or position), basic operating costs, strategic maintenance costs, and equipment reserve.
- Supporting documentation applicable to each customer. This includes orders (original and revised) placed by each customer, IBs/invoices related to goods/services delivered to the customer, internal service billing rates applied to goods/services delivered to the customer (internal or external), UAccess Financials accounts charged for the goods/services provided to the customer, units of goods/services delivered to the customer, etc.
- Records that segregate revenues, costs, and fund balances (i.e., surpluses/deficits) by goods/services
- Periodic (e.g., quarterly, annual) income statements for each goods/services group
- Source documentation related to goods/services ordered by and billed to customers
- Inventories of resale materials, raw materials, work-in-process, finished goods/services, etc.
- Effort reporting records that identify employee effort in hours or percentage of time to goods/services groups and individual goods/services
- Calculations of internal service billing rates and cost-based external customer billing rates
- Narratives and rationale describing allocation methodologies/algorithms

A service/recharge center must ensure that supplementary financial information is consistent with official University enterprise system data.

(II) Supplementary statistical records

A service/recharge center needs to establish and maintain supplementary statistical records for purposes of capturing detailed information regarding goods/services provided to customers. This information will be used when calculating internal service billing rates and, where applicable, cost-based external customer billing rates. Examples include units of goods/services available and units of goods/services furnished to customers

(III) Other supplementary records

A service/recharge center needs to establish and maintain a variety of other supplementary documentation that will be needed for ongoing management purposes, such as:

- Appendix A – Core Facilities & Service/recharge centers: Business Plan and Life Cycle Management. This document should be updated periodically.
- Final reports/findings applicable to goods/services provided to each customer, especially internal customers. This also includes important technical details and other supporting documentation related to the goods/services, such as lab notes, computer files, and the like.
- Web site documentation
- Narratives describing the goods/services
- Data regarding surveys/inventories of service/recharge center space
- Equipment maintenance records
- Time-in-motion studies that serve as the basis for documenting labor cost inputs/throughputs applicable to goods/services.
- Special studies of supplies/materials inputs/throughputs applicable to goods/services.
- Correspondence pertaining to establishing or updating rates, operating practices, etc.
- Technical specifications/details related to goods/services ordered by and delivered to customers, including final reports.

(C) Retention of supplementary records

A service/recharge center must retain all financial, statistical, and other records in accordance with University records retention policies and procedures. Since state and federal statutes, laws, rules, and regulations change across time, a service/recharge center should check with Records & Archives staff about current retention requirements for supplementary records. If a record is discovered that does not have a current retention period, then the service/recharge center must identify that record type to Records & Archive staff and recommend a reasonable retention period. Disposal of these records at the end of their retention period(s) must be done by or with prior approval of Records & Archives. This ensures that records on litigation hold or still under audit are not disposed of inadvertently, and mandated reporting to the state is completed by Records & Archives. Relevant resources include:

- ♦ [Records & Archives](#) website. This includes the Email Retention and Retention Schedule Policies, as well as other pertinent retention information.
- ♦ [Arizona State Library, Archives and Public Records](#). This links to the relevant Arizona Revised Statutes pertaining to state records laws and other information.

NOTE: For University business purposes, do not rely entirely on the State retention schedules as they may differ from Records & Archives retention guidelines; may not reflect the special requirements applicable to federal grants/ contracts at University; or may not address all operational circumstances or financial audit requirements.

12.2 Inventories of supplies/materials

(A) Inventory controls are required

A service/recharge center must establish, maintain, and perform inventory controls for resale materials/merchandise, raw materials, stock, work-in-process, and finished goods. In accordance with applicable institutional thresholds, a center may need to report such inventories to Operating Funds for CAFR purposes. A service/recharge center should consult with Operating Funds regarding applicable thresholds and policies/procedures, including acceptable valuation methodologies.

NOTE: Office supplies and other general (non-resale) supplies normally do not need to be inventoried.

(B) Inventory practices

A service/recharge center must consistently follow the same inventory procedures, including valuation method, from year-to-year. The FIFO convention is the University's preferred valuation methodology. Depending on the circumstances, alternative inventory methods may be appropriate, such as LIFO, and average-cost methods. Centers must request authorization from Operating Funds prior to revising inventory practices or implementing alternative inventory practices.

The following is an illustration of a simple inventory valuation that demonstrates how there can be material differences between the term's expenditures and expenses.

Example:

During FY 2015 a service/recharge center had \$260,000 in expenditures for supplies that will be consumed over several years. The beginning supplies inventory for FY 2015, i.e., ending inventory for FY 2014 was \$40,000, while the ending inventory was \$100,000.

To convert from FY 2015 supplies expenditures to FY 2015 supplies expense:

FY 2015 beginning supplies inventory (FIFO)	\$ 40,000
Plus: FY 2015 supplies expenditures	<u>\$260,000</u>
Supplies available for sale or use during FY 2015	\$300,000
Less: FY 2015 ending supplies inventory (FIFO)	<u>\$100,000</u>
FY 2015 Supplies Expense	\$200,000

(C) Transfers of inventory into a service/recharge center

When inventory items are transferred into or between service/recharge centers, the receiving center must establish and document an appropriate value for such items in accordance with GAAP. Fund sources for the original inventory must also be determined and documented. A service/recharge center can request assistance from Rate Studies who will coordinate with Operating Funds.

12.3 Space/occupancy

A service/recharge center must discretely identify its space within Archibus, the University's official enterprise system for inventorying and surveying space. This must be coordinated with Planning Design & Construction – Space Management, the University entity responsible for maintaining Archibus. Space Management will coordinate and consult with Rate Studies.

A service/recharge center normally should have discrete space that is dedicated entirely to the center's provision of goods/services to customers. In cases where a center shares space with non-service/recharge center activities, integrating the calculations of finance and accounting rates and internal service billing rates becomes more complicated. Accordingly, sharing of space with non-service/recharge center activities should be avoided.

13.00 Unrelated Business and Competition

13.1 Broad discretion with respect to types of goods/services that can be provided

A service/recharge center has broad discretion with respect to the types of goods/services it can provide. As a component of a public Institution of higher education, however, there can be situations where a center should not provide certain goods/services to customers, whether they are internal or external. Centers should consult with Rate Studies and Tax Services regarding situations that might be problematic.

13.2 Unrelated business income

- Income from unrelated business activities is subject to taxation by the Internal Revenue Service. *See Policy FSM 20.10 Unrelated Business Income Tax.*
- A service/recharge center should consult with Tax Services when attempting to determine whether a good/service might qualify as unrelated business. The center must provide data requested by Tax Services for purposes of filing University's 990-T, Exempt Organization Income Tax Return.

13.3 Competition

(A) Competition between service/recharge centers

In the interest of maximizing the most efficient and cost-effective use of limited institutional resources, service/recharge centers internal competition is discouraged.

- A service/recharge center can undercut the internal service billing rates of a second service/recharge center only when the first center can provide pertinent goods/services with higher utilization, greater efficiency, and lower operating costs than the second center. A center cannot undercut the internal service billing rates of another merely as a result of having access to higher levels of operating cost subsidization funding.
- A service/recharge center should provide only those goods/services that are clearly distinct from the goods/services of other service/recharge centers. In instances where competition exists, disputes about operating practices, pricing, etc., may be forwarded to Rate Studies by one or more of the competing service/recharge centers or by internal customers. Rate Studies will coordinate with Research Innovation and Impact (RII) and, if necessary, the service/recharge center advisory committee. If/when it becomes involved, the service/recharge center advisory committee will review such disputes and make recommendations to the center Executive Committee for a final determination.

(B) Service/recharge center goods/services that internal customers can readily obtain from the private sector

In general, service/recharge centers should avoid providing goods/services to internal customers when such are readily available at reasonable prices/fees from private sector entities, especially any with an established business presence in the State of Arizona, preferably (but not restricted to) entities subject to Arizona income and/or sales/use taxes.

(C) Service/recharge center goods/services that external customers can readily obtain from the private sector

A service/recharge center cannot provide goods/services to external customers when doing so qualifies as competition with private enterprise under Arizona Board of Regents Policy 1-105 (Competition with Private Enterprise).

When providing goods/services to external customers, a service/recharge center should obtain one or both:

- A statement from external customers confirming that, to the best of their knowledge, applicable goods/services are not available from private sector entities, especially those with an established business presence in the State of Arizona, preferably (although not restricted to) entities subject to Arizona income and/or sales/use taxes.
- A formal waiver from each potentially affected private sector entity confirming their current disinterest in providing particular goods/services to a service/recharge center's external customers. The indifference of affected private sector entities should be periodically reconfirmed.
 - A service/recharge center must maintain a permanent file of such statements/waivers for public inspection.
 - A service/recharge center should seek assistance from Rate Studies and Tax Services when attempting to determine whether a particular good/service might be perceived as competition with Arizona for-profit business entities. might be perceived as competition with Arizona for-profit business entities

14.00 Glossary

Accounting period: an established time period into which a service/recharge center may divide its economic activities for measurement. For purposes of completing a rate study this normally refers to the University's fiscal year.

Administrative Service Charge: Institutional Finance and Accounting (indirect cost) assessments to accounts in Auxiliary Enterprise, Designated, and Designated–Recharge Fund Groups. These are specifically related to revenue collected from external customers. ASC will no longer be collected from external customers.

Allocable/related cost: an operating cost that is related i.e., beneficial, and/or assignable to a service/ recharge center and its customers. *See the Properly Allocable section for further clarification.*

Allocation: The systematic process of distributing expenses across goods/services that benefit from the incurrence of those expenses. *See the Properly Allocable section for further clarification.*

Allowable cost/expense: refers to service/recharge center's operating costs that are includible in, i.e., recoverable through internal service billing rates. *See the Primary Characteristics of Allowable Cost section for further clarification.*

Amortization: a systematic, rational accounting process used to allocate the acquisition cost-basis of an intangible capital asset over its useful life.

Applicable credit: a receipt (negative expenditure) that has the effect of offsetting or reducing a cost. Such receipts are reductions in the original expenditures. As such, they should be posted to the same account and object code as the original expenditure within UAccess Financial. For example, sales discounts, rebates, allowances, including educational discounts, where the arrangement is not clearly and specifically identified as a gift by the vendor.

- Recoveries of indemnities on losses
- Adjustments for overpayments or erroneous charges

Arizona Board of Regents [ABOR]: governs Arizona's universities including Arizona State University, Northern Arizona University, the University of Arizona, and their branch campuses.

Bad debt expense and losses: refers to situations where deliverable-quality service/recharge center goods or services have been made available/provided to a customer consistent with original requests, orders and specifications but the customer is:

- Unable or unwilling to pay for the goods or services
- Unwilling to accept the goods or services
- Unwilling to pay full posted billing rates

Bad debt expense is equal to the amount due from a customer, based on pertinent internal service billing rates for internal customers, or, premium rates for external customers. It also includes applicable collection and legal costs. Bad debt expense and losses do not include:

- I. operating deficits caused by inadequate internal service billing rates
- II. losses on disposal of capital equipment
- III. situations where a service/ recharge center voluntarily opts to subsidize an IC

Base (or basis) unit: the lowest, most elemental metric for which an internal service billing rate is developed and the basis under which a good/service can be provided to customers/users. *See the Types of rate bases (i.e., units of goods or services) section.*

Billing rate: the price or fee a service/recharge center assesses to a customer for an individual unit of a good or service. Types of billing rates are:

- External customer or Premium billing rate. There are two types: Market (private sector) rates; and fully burdened rates.
- Internal/service billing rate is a breakeven-basis rate that applies to internal customers and recovers only unsubsidized service/recharge center costs.

Breakeven basis: business model where the goal is to generate revenue equal to costs that are allowable during a specified period, preferably the accounting period. *See the Breakeven-basis section for further clarification.*

Breakeven period: the specified period over which a service/recharge center plans to achieve breakeven. The most common period is a single fiscal year.

Breakeven Plan: plan under which a service/recharge center achieves breakeven within an authorized breakeven period with Designated Recharge Fund Group account balances within allowable limits.

Business Plan: plan that comprehensively outlines the way a service/recharge center intends to function financially and operationally. An example Business Plan is provided in *Appendix A – Service/recharge centers: Business Plan and Life Cycle Management.*

Capital equipment: equipment/instrumentation with a cost-basis of at least \$5,000 and a useful life greater than one year, per *Property Management Manual, 2.10 Capitalization of Tangible Assets.*

Capital equipment expenditure: a UAccess Financials equipment transaction that is capitalized in accordance with *Property Management Manual, 1.10 Introduction to the Manual, Section V. Definitions,* and *2.10 Capitalization of Tangible Assets.*

Cognizant agency for indirect costs: federal agency responsible for reviewing and negotiating/authorizing Institution of Higher Education cost allocation plans or Finance and Accounting, i.e., indirect cost proposals. In such matters, the agency acts on behalf of all federal agencies. The Department of Health & Human Services, Cost Accounting Services (Western Field Office) is the University's Cognizant Agency for Indirect Costs.

Comprehensive Annual Financial Report (CA FIR): is prepared in accordance with generally accepted accounting principles in conformance with standards of financial reporting established by the Governmental Accounting Standards Board using the guidelines recommended by the Government Finance Officers Association of the United States and Canada.

Conditional internal/service billing rate [ISBR]: special rate that reflects the existence of measurably different operating conditions or unique situations with demonstrably different cost inputs/throughputs. Examples include, but are not limited to, off-peak hours or unique situations. *See the Conditional Internal/ Service Billing Rates or Internal/Service Billings sections.*

Consistent: service/recharge centers follow and enforce operating and administrative/financial practices, e.g., ABOR/ University policies/procedures, federal guidelines, generally accepted accounting principles (GAAP), or authorized plans, in a constant manner, in like/similar circumstances, without discriminating between internal customers or internal customer fund sources.

Contingency provision/reserve: contribution or payment to reserves that are maintained as a hedge against future events or circumstances that cannot be foretold with certainty as to time, intensity, assurance of happening or precise outcome. Contingency provision(s) and operating reserve(s) are separate and distinct terms. Whereas contingency provisions are specifically disallowed under Federal Guidance, operating reserves are permissible.

Cost pool: grouping of individual expenses incurred to perform or provide two or more goods/services within a service/recharge center. Expenses within cost pools are allocated across benefiting goods/services in a systematic and rational manner.

Customer: client, user, consumer, or beneficiary of a service/ recharge center. There are two categories:

- Internal customer: member of the University community who acquires service/recharge center goods/services with a UAccess Financials account. Charges related to internal customer usage are normally processed via internal billing.
- External customer: Any person or entity that does not qualify as an internal customer, i.e., government agencies, other higher education institutions, for-profit companies, and nonprofit entities, like organizations, groups, and individuals. They may also be referred to as outside parties, the public, or general public.

Debt service payments: payments made to external creditors for funds borrowed to acquire service/ recharge center capital equipment. The term encompasses both repayment of principal and payment of interest expense over a specified period, in accordance with the terms and conditions of the pertinent debt instrument, e.g., System Revenue Bonds, SPEED Revenue Bonds, Certificates of Participation, capital leases, and Commercial Paper.

Depreciation: systematic, rational accounting process used to allocate the acquisition cost-basis of a tangible capital asset over the useful life of the asset.

Designated-Recharge: a fund or account that captures breakeven basis revenues and expenses of a service/ recharge center.

Direct cost: costs identified specifically to a good/service.

Discretionary funds): unrestricted accounts or sub-accounts that can be used in a broad, flexible manner. Except as noted, accounts within these fund groups and sub-fund groups are considered discretionary:

- Designated Accounts: most qualify as discretionary, although these do not:
ALUMNI CLRNG CRSFEE FIXEDP
INSTSC OTRCLR TRDMRK
- Designated—Indirect Costs and Patent Accounts (DI): most qualify as discretionary, although these do not:
Project-oriented accounts IDCDEV
PATENT sub-funds IDCPLS
- Designated—Service Center Accounts (DR): most do not qualify as discretionary considering the obligation of the University to comply with federal guidance. The only exception is External Accounts, which do qualify.
- Other Restricted Fund Group Accounts (OR): these, including project oriented RESGFT and STNONA sub-fund accounts, normally do not qualify as discretionary because of their tight or narrow constraints in terms of use. However, RESGFT and STNONA accounts with loose or inexplicit constraints may qualify as discretionary.
- State Fund Accounts (ST): most qualify as discretionary, although these do not:
Project-oriented accounts CLRROT
CLTEAC FRDCTR SUSGE
- Tech Research Initiative Fund Group Accounts (TR): those with loose or inexplicit constraints in terms of use qualify as discretionary. Those that are project-oriented, however, do not.

Distribution of Income and Expense [DI]: distributes the income or expense assets and liabilities from a holding account to appropriate account(s), when one account has incurred expenses or received income on behalf of another account(s). It can also be used to move income, expenses, assets and liabilities to other sub-accounts, object codes, or sub-object codes.

Employee Related Expenses (ERE): fringe benefit costs incurred by the University on behalf of its employees. They are charged to the UAccess Financial accounts from which an employee's wages are paid.

Equipment Reserve Expense: only allowable for authorized Service/recharge centers and includes:

- Depreciation of capital equipment
- Gains/losses on disposal of capital equipment

- Interest expenses paid to external creditors on debt service liabilities applicable to capital equipment purchases by service/recharge centers.

NOTE: Equipment reserve does not include either strategic or general equipment maintenance.

Equipment Reserve Account: a discrete account established in the Designated–Recharge Fund Group for these purposes:

- Setting aside the recapture of depreciation and/or interest expenses related to service/recharge center capital equipment
- Accounting for capital equipment expenditures, e.g., acquisitions/enhancements, and/or applicable debt service payments to external creditors

Expenditure: events or transactions that reflect a sacrifice (or exchange) of one institutional resource, e.g., cash, for another. Accordingly, expenditures may be incurred for these types of resources:

- **Current operating resources:** normally expire, or are used up entirely in a single fiscal year, in which case they are reported as current operating expenses in the Comprehensive Annual Financial Report (CAFR) They include labor costs and basic operating costs.
- Multi-year resources: normally do not expire, i.e., are not used up, entirely in a single fiscal year, in which case they are not reportable entirely as current operating expenses in the Comprehensive Annual Financial Report (CAFR). Instead, they are apportioned on a reasonable basis between the fiscal years to which the resources relate. They include strategic maintenance costs, equipment reserve, and resale materials inventories and/or prepaid expenses that are reported to Operating Funds for inclusion in the Report.

Expense: subset of expenditures that expire, i.e., are used up, within a fiscal year. This refers to current operating resources used up in a particular year, as well as the portion of multi-year resources apportioned to that year.

NOTE: *This handbook uses the terms cost and expense used interchangeably. Use of either implies an application of the Expense Recognition Principle in accordance with generally accepted accounting principles (GAAP). Under this principle, the University reports expenses in the Comprehensive Annual Financial Report (CAFR) for the fiscal year to which the expenses relate, and to which pertinent revenue is realized*

Facilities & Administration (F&A) Costs: institutional indirect costs that are recovered through either of these mechanisms:

- rates negotiated between the University and the Cognizant Agency for Indirect Costs. Such rates apply to sponsored agreements, i.e., grants/contracts.

Financial Services: a unit of Business Affairs at the University of Arizona.

First-In, First-Out [FIFO]: accounting method of inventory valuation based on the assumption that goods are sold or used in the same chronological order in which they are bought.

Fixed costs: operating costs that will not materially fluctuate between fiscal years within a defined breakeven period. Such costs are unaffected by the service/recharge center’s level of activity within any accounting period. Example, salary and wages/employee related expenses (ERE), time-related expenses being paid per month. Fixed costs may be allocated on a reasonable basis if not specifically identifiable to a single good/service.

Full-cost billing rates: fully burdened billing rates designed to recover all direct costs including relevant subsidized costs, and indirect costs.

Fund balance: the net assets of a particular or a group of related UAccess Financials account(s). This term refers to the variance between inception-to-date sources of funds, e.g., revenue and transfers-in, and inception-to-date uses of funds, e.g., expenses and transfers-out. Fund balance is also referred to as carry-forward.

General Error Correction (GEC): used to correct inappropriate or erroneous accounting string data for general ledger entries generated from other financial transactions.

Generally accepted accounting principles [GAAP]: common set of accounting standards and procedures, for which either an authoritative accounting rule-making body has established a principle of reporting in a given area, or over time, a given practice has been accepted as appropriate because of its universal application. In general, GAAP entails three important sets of rules:

- basic accounting principles and guidelines
- detailed rules and standards issued by the Governmental Accounting Standards Board [GASB], the Financial Accounting Standards Board [FASB], or FASB’s predecessor the Accounting Principles Board
- generally accepted industry practices, in the case of the University, Institution of Higher Education.

Goods/services: encompasses:

- goods, items, products, commodities, or deliverables that a service/recharge center furnishes to customers
- customer access to and utilization of a service/recharge center’s facilities, equipment, machinery, or instrumentation.
- services that a service/recharge center performs on behalf of customers

Institution(s) of higher education: in general, to a post-secondary educational institution that is accredited by a nationally recognized accrediting agency/association. See *20 U.S.C.1001, Title I – General Provisions, Part A – Definitions, Sections 101 – 102.*

Internal/service billing [IB/SB]: documents service/recharge centers can use to bill internal customers for provided goods/services. IBs record revenue to the center and expenses to the internal customer.

Differences between Internal Billing and Service Billing are:

- Internal Billings are routed through UAccess Financials to internal customers for authorization.
- Service Billings are not routed through UAccess Financials to internal customers for authorization. Use of Service Billing is restricted to a few Service/recharge centers authorized by Financial Services. Income must be identified, i.e., directed, to specific authorized Operating Cost-Designated Recharge Accounts.

Last-In, First-Out [LIFO]: accounting method used to account for inventory where the most recently produced items are recorded as sold first. Under LIFO, the cost of the most recent products purchased (or produced) are the first to be expensed as cost of goods sold, which means the lower cost of older products will be reported as inventory.

Maintenance: Activities that are performed on/for service/recharge center equipment items, whether capitalized or not, in order to retain them in or restore them to productive working order. Maintenance enables a service/recharge center to operate its assets according to the manufacturer's recommended specifications, and by doing so, minimizes equipment breakdowns and downtime. Examples include calibrating, inspecting, or testing equipment; renovating, rebuilding, refurbishing, overhauling, restoring, or altering equipment; replacing/servicing of components/parts; and performing corrective repairs of equipment. For purpose of this handbook, there are two types of maintenance:

- Strategic maintenance: refers strictly to management of service/recharge center capital equipment/instrumentation maintenance activities authorized under a Strategic Maintenance Reserve Plan.
- General maintenance: refers to all service/recharge center equipment maintenance activities other than strategic. As such, it largely includes general, unplanned, reactive, corrective, restorative, or condition-based maintenance necessary to return the center's equipment items to normal functionality.

Market (marketplace) rates: prevailing price, as determined by supply and demand, at which goods/services may be bought or sold in the open private sector marketplace.

Material (materiality): anything of significant importance or consequence. It represents any item/determination deemed to be of significant relevance based on factors such as:

- I. relative size or magnitude
- II. qualitative and quantitative factors
- III. relative impacts on decision-making
- IV. other noteworthy characteristics, considerations, or conditions.

There is no specific threshold for determining when an item is material. Instead, an item is considered material if its inclusion or exclusion when making decisions is significant enough to influence or change the judgment

of a reasonably prudent person. Conversely, something is considered immaterial if its inclusion or exclusion when making decisions is not significant enough to influence or change the judgment of a reasonably prudent person.

Mission-based entity: University of Arizona organizational entity that primarily performs mission-oriented activities, i.e., instruction, research, and/or Public/Community Service.

Office of Management and Budget [OMB]: serves the President of the United States in overseeing the implementation of his vision across the Executive Branch. Specifically, their mission is to assist the President in meeting his policy, budget, management, and regulatory objectives and to fulfill the agency's statutory responsibilities.

Operating cost: for purposes of this handbook, this refers to these types of costs:

- Labor costs include these types of resources or costs:
 - Salaries/wages
 - Employee Related Expense (ERE)
- Basic operating costs include these types of resources or costs:
 - Communications
 - Consumables, materials, and operating supplies
 - General maintenance, whether done by service/recharge center staff or external service providers
 - Graduate associate/assistant tuition remission
 - Information technology (data processing) services
 - Licenses, rentals, and royalties
 - Non-capitalizable equipment acquisitions
 - Outside/professional services
 - Printing, photography, and media
 - Repair and maintenance services
 - Resale materials
 - Research services
 - Miscellaneous/other (acquired) services
 - Travel (domestic and foreign)
- Strategic maintenance cost: includes costs incurred for these types of resources or strategic maintenance:
 - Multi-year maintenance agreements which are paid up front, i.e., paid entirely in the first year of the agreement.
 - Material maintenance events, such as periodic instrumentation/equipment overhauls, renovations, or component replacements, whether done by service/recharge center staff or external service providers.
- Equipment reserve

Operating deficit: an excess of operating costs over revenues that may occur in the normal course of business, i.e., during a given accounting period. Operating deficits shrink fund balances, thereby reducing cumulative surpluses or increasing cumulative deficits.

Operating reserve: reserve funds that can be maintained for purposes of covering fluctuations in labor costs and basic operating costs. The terms contingency provisions/reserves and operating reserves have distinctly different meanings and are not interchangeable. Whereas operating reserves are permissible under Federal Guidance, contingency provisions are specifically disallowed.

Operating surplus: excess of revenues over operating costs that may occur in the normal course of business, i.e., during a given accounting period. Operating surpluses raise fund balances, thereby increasing cumulative surpluses or decreasing cumulative deficits.

Operations & Maintenance Cost [O&M]: the operation and maintenance of plant category includes expenses for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant.

Parent organization: formal organizational/management hierarchy to which the service/recharge center belongs, i.e., executive offices (vice-presidents, associate/assistant vice-presidents), college/division offices (deans/ directors), and department heads/chairs.

Physical life: in this handbook, this refers to the total length of time an item of capital equipment is physically retained and utilized within a service/recharge center, including a period after its useful life when the equipment is used in a substantially reduced or immaterial capacity.

NOTE: The terms useful service life and physical life have distinctly different meanings and are not interchangeable.

Example:

In July of 2006, a service/recharge center acquires a scientific instrument with a determined useful life of five years. By the end of FY2011, the asset is fully depreciated. In July 2011, a replacement instrument is acquired. The center did not, however, dispose of the old item immediately. Instead, the item was retained and used as an emergency backup until it was sold in FY 2013. The older instrument's useful life was five years while its physical life was seven years.

Prepaid expense: refers to an expenditure that is incurred in a fiscal year, but which is not consumed entirely in that year. Instead, some portion, perhaps even the majority, of the expenditure pertains to (i.e., will be consumed in) future fiscal years. For service/recharge center, the prepaid portion of such expenditures represents (and is recorded as) an asset, an appropriate share of which will be expensed in each applicable fiscal year.

Principal Investigator [PI]: holder of an independent grant administered by a university and the lead researcher for the grant project.

Projected (estimated) costs: refers to anticipated labor, basic operating, and strategic maintenance costs that, using broadly-accepted cost estimating methodologies,

can be reasonably and objectively predicted based on current knowledge and conditions. Examples are:

- Authorized changes in employee pay rates
- New employee related (ERE) rates, pursuant to authorization by the Cognizant Agency for Indirect Costs
- Updated vendor pricing for supplies/materials/services

Reasonable costs: cost is reasonable if it reflects the action a prudent person would, or should, make under the circumstances considering his/her stewardship responsibility to the service/recharge center stakeholders e.g., customers, state of Arizona, federal government.

Recharge center [RC]: a specific type of service/recharge center. Characteristics are described in *the Types of Recharge/Service Centers section*.

Records and Archives: a records management program for the University and its departments that assists departments in establishing efficient systems and procedures for the storage and retrieval of information and in determining retention and disposition schedules that conform to legal, administrative, and fiscal requirements.

Remediation Plan: type of breakeven plan that requires multiple years to eliminate material Operating Cost-Designated Recharge Account deficits or excessive surpluses. Remediation is accomplished by planned adjustments in Internal Service Billing Rates over a specified number of years. The two types of remediation plans are:

- Material Deficit Remediation Plan: designed to bring material deficit fund balances within allowable fund balance levels over multiple years.
- Excessive Surplus Remediation Plan: designed to shrink excessive fund balances to within allowable fund balance levels over multiple years.

Resale materials: costs incurred for these types of resources:

- Stocked items: goods, materials, or deliverables that a service/recharge center stocks and provides to customers. It can be with alteration performed by the center, e.g., as a result of incorporating the items into a production process, or without alteration.
- Pass-through items: goods/deliverables provided directly to customers by an outside entity, normally without alteration by a service/recharge center. For pass-through items, a center serves as a coordinator, intermediary, liaison, or middleman – but not as the provider, per se.

Research and Development [R&D]

Research, Discovery & Innovation [Research Innovation and Impact (RII)]

Salary Expense Transfer [SET]: used to move salaries and benefit charges for a given employee for an accounting

period (or set of periods) from one or more accounts to one or more other accounts.

Service Billing [SB]

Service center [SC]: a specific type of service/recharge center. Characteristics are described in the *Types of Recharge/Service Centers* section.

Service/recharge center: overarching term for Recharge Centers, Service Centers and Specialized Service Facilities. Characteristics are described in the *Types of Recharge/Service Centers* section

Specialized service facility [SSF]: a specific type of service/recharge center. *Characteristics are described in the Types of Recharge/Service Centers* section

State Funds: See *Policy 2.01 Account Classification* section, *State Funds*, paragraph 15.a.

Strategic Maintenance Reserve [SMR] Plan: strategic maintenance costs for an item of a service/recharge center capital equipment are allocated between the individual fiscal years to which the expenses appropriately relate. The aim is to ensure that the items are proactively retained and functioning in productive working order, ensuring optimal efficiency and effectiveness throughout its useful life.

Subsidization: discretionary funds that are made available for any of these purposes:

- Paying for all or some service/recharge center units of goods/services delivered to and/or consumed by all or some internal customers or activities, such as specific users like students, instruction-related users, or principle investigators; projects; or university, college, or departmental initiatives.
- Paying for service/recharge center unit costs, with the explicit intent of tempering either all Internal/Service billing rates or just preferred ones
- Providing a service/recharge center with an infusion of backstop/back-fill funding to cover short-term or ongoing operating deficits.

Unallocable/unrelated costs: cost that is not allocable according to Federal Guidance. This includes, but is not limited to:

- Operating losses due to non-compliance with *Financial Policy FSM 18.10* and non-adherence to the *Rate Studies Handbook*.

- Costs that cannot be distributed to goods/services using a sound or reasonable allocation methodology.
- Costs that are unrelated to or unnecessary for, the provision of goods/services to customers.
Examples:
 - Expenditures that are recorded to the wrong Operating Cost-Designated Recharge Account.
 - Expenditures incurred for non-service/recharge center activities, e.g., travel expenditures related to presentations of academic/R&D papers and educational or student related expenditures.

Unallowable costs: service/recharge center costs that are not recoverable through internal/service billing rates.

University community: University employees (faculty, staff, postdocs, etc.), students, departments, and invited guests.

University department: discrete budgetary or organizational entity within the University; most departments are organizational entities within colleges or divisions. Each department is assigned a unique Organization Code in UAccess Financials.

University of Arizona: established in 1885, the state's land-grant university with two medical schools.

University Information Technology Services: University of Arizona Information Technology (UITS) is a collaborative partnership of the IT units at the university, all dedicated to delivering world-class service and technological solutions in support of research, teaching and learning, administration, and healthcare.

Unreasonable cost: cost that a prudent person would, or should, avoid considering their stewardship responsibility to the service/recharge center's stakeholders, e.g., customers, State of Arizona, and federal government.

Useful life: estimated number of years over which a capital asset is expected to provide useful economic service. *useful life is also referred to as depreciable life.*

NOTE: The terms useful service life and physical life have distinctly different meanings and are not interchangeable. See the example shown in the Physical life definition.

Variable cost: service/recharge costs that will fluctuate materially during a defined breakeven period, typically as a result of changes in the volume (or levels) of activity.

15.00 Appendix A

15.1 Service/Recharge Centers: Business Plan and Life Cycle Management

(A) Demographics

(I) Service Recharge Center Background

Describe the history, mission and, in general terms, the services to be offered. The mission must align or enable at least one of the University's primary missions of teaching, research, and community service. Use this section to provide justification for the center's existence, preferably in alignment with the strategic plan of the University.

(II) Description of Goods/Services

- Describe each good(s)/service(s) group, and each good/service to be provided and how it aligns with the University's missions. List all similar goods/services available from other sources on Capital Asset Management, along with current pricing. Explain what differentiates the proposed service/recharge center from these facilities.
- For instrumentation-intensive services, describe each major piece of capital equipment and its service capabilities.
 - If equipment is already owned, include a list of A-tags, acquisition dates, costs, and funding sources for the equipment. If equipment is to be procured, provide vendor quotations or price listings for the proposed equipment as well as the proposed means of financing each piece of equipment.
 - Provide a plan for maintenance and repairs of the equipment. Provide vendor quotes if service or maintenance agreements are to be purchased.
 - Provide estimates of the technological life of each piece of equipment. If equipment is nearing the end of its economic life or will need to be refreshed within a period of three to five years, provide a plan for replacement, such as equipment/instrumentation grants (e.g., S10, High-End Instrumentation), research grants/contracts, gift funding, and/or internal funding sources. If commitments have already been made, provide a list of who and how much they have committed.

(III) Management Structures

(1) Describe the administrative/financial and the operational/scientific management structures.

- What are the parent organizations of the SRC?
- Who are the senior managers of the SRC and its various goods/service areas?
- Who will provide financial oversight and review functions for the SRC to promote sustainable operations and ensure compliance with all regulatory bodies?

(2) Describe the center's User Committee.

- Who is the chair, and for how long do they serve?
- Who are the committee members (proposed or actual)?
- How often do they meet, and what are their responsibilities to the SRC?
- How will the User Committee interface with the operational and administrative management of the SRC?

(IV) Provide a list of all center employees and their proposed roles and responsibilities.

- Roles and responsibilities must correlate directly with the list of proposed goods/services above. If current employees are being considered for any of these roles, list their name and employee number along with the position for which they are being considered. If positions will require outside hires, provide a list of qualifications, including educational requirements, and a proposed salary range for each position.
- Provide an organizational chart showing the operational and administrative reporting structures of the SRC, including all proposed positions, facility managers and all parties involved in SRC oversight.

(V) Administrative Policies & Procedures

Describe the ongoing administrative responsibilities of the service/recharge center, and how and by whom they will be carried out. Examples include:

- Establishing necessary and proper financial and managerial accounting practices; and ensuring they are followed
- Establishing and implementing internal service billing rates and external customer (premium) rates
- Establishing credit limits and policies applicable to external customers
- Invoicing internal customers and external customers on a timely basis, i.e., monthly
- Periodic financial monitoring and review of the center
- Complete periodic Rate Studies, including:
 - Estimating annual units of goods/services based upon prior year usage and projected user demand for services.

- Accurately recording all center expenses, whether charged to the designated recharge account or expended against appropriate subsidization fund sources sub-accounts. Some costs will need to be appropriately apportioned across applicable goods/services.
- For new centers, estimates of variable, fixed, and shared costs will be necessary. This must be completed with the help of scientific/technical personnel that have intimate knowledge of the services to be provided. If similar services are offered by other centers on Capital Asset Management, their cost structures can be referenced as support for estimates for the new center.
- Working with Rate Studies to adjust billing rates as necessary in order to maintain appropriate (permissible) operating balances.
- Compliance with all regulatory bodies.
 - Annual (or scheduled) review and update of documentation pertaining to allowable expenses.
 - Education of scientific, technical, and administrative staff regarding allowable expenses.
- ♦ If not already addressed, describe administrative responsibilities of the home college, division, or department.

(VI) Operational Policies & Procedures

Provide a description of all operational policies and procedures within the service/recharge center, including:

- Who will manage the center's day-to-day operations?
- Employee performance expectations and customer service standards.
- Standard operating workflow and job ordering/sequencing, including policy for handling priority jobs.
- Facility/instrumentation accessibility both during standard work hours and after-hours.
- Scheduling mechanism and utilization recordkeeping practices (e.g. computerized, manual, staff-maintained, honor system).
- Minimum order sizes.
- Training requirements for self-serve customers.
- Facility/instrumentation utilization agreements.
- Additional requirements for external and/or untrained users.
- Identification of standards at which point a good/service is considered as satisfactory," i.e., meeting reasonable standards for deliverability.
- Handling situations where furnished goods/services are deemed unsatisfactory.
- Conditional pricing (only allowable when there are identifiable differential costs):
 - Volume discounts.
 - After-hours facility availability/access/orders.
 - Urgent/priority orders.
 - No-show fees.

(VII) Customers and Sustainability

- Provide a basis for why you believe this activity will be permanently sustainable. This must include a forecast of the projected market demand for each good/service over the next five years. Separately identify anticipated demand between internal customers (federally funded vs. non-federally funded) and external customers.
- Provide a list of anticipated major users, including name, college, department, and funding relevant to the services being proposed.
- Is demand sufficient to absorb service/recharge center costs or will subsidization funding be necessary?
- Address potential competition with other SRCs within the University, and with private sector entities, especially those within the State of Arizona.

(VIII) Communication

- How will the center identify and communicate with potential customers?
- How will potential customers be made aware of the center and familiarize themselves with the goods/services offered?
- Is there a marketing plan for the SRC?
- Website: provide current URL for the center, if any.

(IX) Location

- Provide building name(s)/number(s) and room number(s) in which the center is currently located.
- How does this location facilitate operation of the center (e.g. proximity to user base, available ancillary & support facilities, etc.)?
- Will any renovations be required to make the center operational? If so, what are the costs of necessary renovations, and how this be funded? Should the center be relocated and, if so, where and why?

(X) Contact Information

Provide titles and names of key contacts at the college, department, and service/recharge center, as well as current contact information such as physical addresses (building names/numbers and room numbers), Capital Asset Management campus mailing addresses, email addresses, business phone numbers, fax numbers, etc.

(B) Financial Matters

Describe general SRC financial and managerial accounting principles, policies, and procedures. Include account numbers that will capture day-to-day center revenues and expenses and identify specific staff members who will be responsible for the business/administrative duties related to the center, if not already identified above.

(I) Budgetary Breakdown of Financial Resources and Costs

- Provide a breakdown of available and required financial resources by fund source.
- Provide a breakdown of all operating costs, including labor costs, by employee or position description; basic operating costs, such as supplies/materials/consumables, general maintenance, purchased services, and travel; strategic maintenance (if applicable); and equipment investment recapture.

(II) Financial & Utilization Reporting Procedures

Describe the process and frequency for generating accurate financial statements. Identify who will be responsible for monitoring the financial performance of the center.

(III) Subsidization Agreements

Describe any University-level, college/division-level, or department-level funding that has been committed toward subsidization of the SRC. Identify the specific fund sources and any stipulations or limitations placed on this funding. Will the subsidy be provided as a lump-sum to lower overall rates, or will specific users be subsidized? Identify specific costs that are identified for subsidization, including faculty/staff positions that will be permanently funded by discretionary fund sources. Provide a forecast of subsidization that will be needed within the foreseeable future in order to achieve desired rates. Will the SRC be expected to migrate to fully-costed (i.e., fully-burdened) rates and, if so, over what time period?

(IV) Backstopping Agreements

Identify specific sources of funds that will be used to cover any significant deficits that might occur at some point. Also, provide a contingency plan for cyclical downturns in business. Signatories or approvers on all funds/accounts identified must be included in Attachment A: Business Plan Approvals.

(V) Cost Allocation Methodologies and Billing Rate Calculations

(1) Methodologies

Describe billing rate allocation methodologies (e.g. time-and-motion studies, standard cost inputs/throughputs, precise measurement, other). Documentation must be provided for:

- Labor costs.
- Consumables, i.e., supplies/materials costs. Identify the consumables to their particular good/service group or overhead category.
- Maintenance costs, including service contracts (if applicable).
- Units of good/service.
- Downtime and other overhead .
- Relevant correspondence, workbooks, special studies, etc.
- Other relevant statistical information.
- SRC capital equipment:
- Listing of all SRC equipment A-tags whether applicable depreciation is recovered via billing rates or F&A rates.
- Indication if the center proposes to recover equipment depreciation and any related interest expenses via billing rates or institutional F&A rates. Identify each piece of equipment with its good/service group.

(2) Preliminary Rate Calculations

- Preliminary rate calculations, showing all cost input/throughput elements, include:
 - Fixed costs necessary for operation of the SRC in general.
 - Fixed costs specifically identifiable to particular good(s)/service(s) group, with an approximate breakdown by individual good/service.
 - Variable costs per unit of good/service provided.
- Describe cost differentials between ISBRs and external customer (premium) billing rates and, if applicable, between rates for goods/services provided via standard operating procedures and any specialty rates identified above.
- Describe rate studies documentation maintained by the center.

(VI) Rate Study Calculations and Summary of Billing Rates

- Provide rate study documentation.
- List and describe cost pools and allocation algorithms, including rationale; individual goods/services; billing rates (current/proposed) for internal customers vs. external customers; and proposed breakeven period.
- Standard templates for both existing and proposed centers are available from RII or Rate Studies. They can assist in completion of rate study calculations and establishing optimum accounting structure and practices.

(VII) Billing Procedures

- Describe ongoing billing/invoicing procedures (e.g., data collection/summarization, units of service delivered to customers, rates charged, IB processes) with differentiation between internal customers and external customers.

NOTE: Administrative Service Charge will no longer be incorporated into external billings per the elimination of Financial Services policy 9.26.

- Administrative staff of the service/recharge center will be required to demonstrate knowledge of the necessary accounting entries for both internal customers and external customers, including debits and credits by Account and Object Code.

NOTE: external customer entries involve multiple entries, starting with invoicing of the external party based on external rates, followed by IBs to the external sales/service account based on internal rates.

- Describe how any special rates identified above are to be applied.

(VIII) Inventory Procedures

Describe inventory valuation methods for resale materials and other supplies/consumables, including whether a periodic or perpetual inventory system is utilized, and inventory flow assumptions (i.e., FIFO, LIFO or average cost, etc.). Provide a beginning inventory including cost-basis for any supplies contributed to the SRC, and which were funded from a separate account, if applicable.

(C) Attachments

(I) Attachment A: Business Plan Approvals

College/Division

Research, Discovery, and Innovation

Dean/Director Date Vice President

Date

College Financial Officer Date

Associate/Assistant Vice President Date

Department

Financial Services

Department Head Date Assistant Vice President/Comptroller Date

Service Center Manager Date

Associate Comptroller Date

Budget Office

Associate Vice President Date

(II) Attachment B: Document Version History

<i>Version</i>	<i>Date</i>	<i>Reason for Update/Revision</i>	<i>Revisions Made By</i>

(III) Attachment C: Important MOAs/MOUs and Correspondence

Insert copies of or references to important, related agreement/understanding and correspondence.

(IV) Attachment D: Current Rate Study

Insert copy of latest approved rate study, or, if currently in the approval process, the proposed rate study

(V) Attachment E: User Access Request Forms

Insert copies of standard service/recharge access requests applicable to students, faculty/staff, and external parties.

(VI) Attachment F: User Terms/Conditions Forms

Insert copies of standard user terms/conditions forms that must be signed by students, faculty/staff, and external parties prior to receiving goods/services, or prior to accessing and using facilities.

(VII) Attachment G: User Subsidization Request Forms

Insert copies of standard subsidization request forms applicable to students and faculty/staff.

(VIII) Attachment H: Additional Items

Insert additional items for permanent memorialization.

15.2 Appendix B – Illustrative Example: Cost Allocation to the External Customer-Designated Recharge Account for Services Provided to External Customers

In a service/recharge center, all allowable labor costs and basic operating costs are posted to the Internal Account to ensure accuracy in compiling data for future rate studies, regardless of whether the expenses were incurred to provide goods/services to internal or external customers. Revenue from internal customers is posted to the Internal Account, and revenue from external customers is posted to the External Customer-Designated Recharge Account. This is done to prevent commingling of income and fund balances generated by billings to internal and external customers. However, without transference of cost from the Internal Account to the External Account, internal customers would ultimately incur the costs of the external customers utilization, and the External Account would only hold revenue collected from external customers. This cost transfer is accomplished by processing an internal billing within UAccess Financials for the cost of the goods/services provided to the external customer based on internal service billing rates.

Assumptions for illustrative example:

1. Revenue for goods/services provided to ECs has been posted to the External Account via a Cash Receipt.
2. All allowable expenses incurred to provide these goods/services have been posted to the Internal Account.
3. Expenses applicable to ECs need to be “shifted” from the Internal Account to the External account. This is done based on the assumption the SRC’s breakeven-basis per-unit cost incurred to produce internal and external goods/services is the same and represented by current ISBRs. Rates assumed for this example: External = \$5,000; Internal = \$2,540.

Prepare an Internal Billing between the internal and external accounts.

- Internal Account records income on object code 0618 (Service Center Cost Recovery): \$2,540
- External Account records expense on object code 4218 (Service Center Cost): \$2,540
- External Account records revenue from the EC on object code 0600 (Services): \$5,000

The net effect of these transactions on the fund balance in the External Account is:

Service revenue	\$5,000
Less: Cost of service provided (IB) Net	<u>-\$2,540</u>
Income (i.e., change in fund balance)	\$2,460

15.3 Appendix C – Illustrative Example: Journal Entries through the Life Cycle of Strategic Maintenance Reserves

(A) Prepaid maintenance agreements

Service contracts are often available for newly or recently acquired instruments, whether the items are new or in excellent, low-use condition. Such contracts can provide a proactive way of keeping expensive items of center capital equipment/instrumentation in productive working order throughout their useful lives. Further, suppliers may be willing to negotiate material discounts for prepaying multiple years of service contracts. Such opportunities can result in material cost savings that are beneficial to the center and its customers.

(B) Determining whether to prepay for service contracts

When a center is interested in pursuing prepaid maintenance agreements, it must be determined if prepayment is in the best economic and operational interests of the center, its customers/users, and the University as a whole. The process for making this evaluation involves comparing the discount rate (imputed from information given within the supplier’s quote) and the University’s cash return rate. The latter is available from the Investment Office in Financial Services. Prepayment of the service contract is warranted in cases where the imputed discount rate exceeds the

University's cash return rate, providing a relatively risk-free means of achieving a return on the cash that exceeds the University's market-based investment opportunities, and the total imputed dollar differential is material.

A center should seek Rate Studies and RII assistance when attempting to determine whether a prepaid service agreement makes sense economically.

(I) Prepaid maintenance plan and OC (SMR)-DR Sub-Account

If the center believes that a prepaid service arrangement should be pursued, it must develop a Strategic Maintenance Reserve Plan *See the Strategic Maintenance Reserve (SMR) Plan section*. The plan and a request to establish an Operating Cost Strategic Maintenance Reserve (OC SMR) Sub-Account must be submitted to Rate Studies and RII for evaluation and authorization.

(C) Submitting the Requisition

UAccess Financials does not allow the use of object code 8640 (Prepaid Expenses) within requisitions. The center will need to submit the requisition with the prepaid service contract line(s) listed under object code 3570 (R/M Services-Scientific/Med Equipment) or another R/M object code if more appropriate to the equipment being covered. This should be recorded to the OC (SMR)-DR Sub-Account.

(I) Convert R/M (repairs and maintenance) expenditure to a prepaid asset

After the vendor has invoiced the university and the expenditure for the service contract has posted to the OC (SMR)-Sub-Account, the center must reclass the expenditure as an asset. This is done using GEC procedures that will credit expense object code 3570 (R/M Services-Scientific/Med Equipment) and debit balance sheet object code 8640 (Prepaid Expenses).

After this GEC posts, the OC (SMR)-Sub-Account will carry a negative cash balance which is offset by the prepaid expense until the prepaid expense is fully recognized at the end of the term of the service contract.

(II) Recognize expense and liquidate prepaid asset

- As the period of coverage under the service contract elapses, it is necessary to reduce the prepaid asset by recognizing the expense related to the current fiscal period via submission of a DI. This can be done annually.
- As the expense is recognized in the appropriate sub-account, the prepaid expense decreases and cash increases within the OC (SMR)-Sub-Account.

(D) Material maintenance events

Certain capital equipment/instrumentation requires prescribed maintenance to occur at regular intervals exceeding one year to maintain it in productive working order throughout its useful life. When certain conditions are met, it is possible to accrue funds over a predetermined period to cover such maintenance expenditures when necessary.

NOTE: When the maintenance interval is one year or less, expenditures for such maintenance should simply be recognized on the Internal Account as incurred, as this will not result in material cost differentials between years.

(I) Determining whether future maintenance qualifies for a strategic maintenance reserve

When a center is interested in pursuing the establishment of a strategic maintenance reserve, documentation of three key things must be provided:

- Documentation showing that future maintenance is necessary to maintain the capital equipment/instrumentation in productive working order.
- Documentation or data providing a reasonable timeline for the intervals at which maintenance will be necessary.
- Documentation, such as a vendor generated quote, providing a reasonable estimate of the cost to be incurred for such maintenance.

An SRC should seek Financial Services Office – Rate Studies and RII assistance when attempting to determine whether a strategic maintenance reserve would be allowable for their instrumentation.

(II) Strategic maintenance reserve [SMR] and OC (SMR)-DR Sub-Account

If the center believes that a strategic maintenance reserve should be established, it must develop a SMR Plan - see the RSH section "Strategic Maintenance Reserve (SMR) Plan." The plan must be submitted to Financial Services Office – Rate Studies and RII for evaluation and authorization.

(III) Recognize annual expense and accumulate the liability

Every year, as the interval between major maintenance events elapses, it is necessary to accumulate the centers liability by recognizing the expense related to the current fiscal period via submission of a DI, which can be done annually. However, two important changes need to be made:

1. Reverse the positions of the TO and FROM section lines. The annual expense to object code 3570 (R/M Services-Scientific/Med Equipment) will need to be recorded in the FROM section, and the liability will need to be recorded in the TO section.
2. Utilize object code 9190 (Miscellaneous Payables) in lieu of 8640 (Prepaid Expenses) to create/increase the liability in the OC (SMR)-DR Sub-Account.

After these DIs post the OC (SMR)-DR Subaccount will carry a positive cash balance which is offset by the Miscellaneous Payables liability. This will be the case until the expenditure for the maintenance event is processed at the end of the interval between maintenance events, and the expenditure is recast as a reduction of the liability. *See Offset previously accrued liability with R/M expenditure section* on the recasting of this expenditure.

(E) Submitting the Requisition

UAccess Financials does not allow the use of object code 9190 (Miscellaneous Payables) within requisitions. Therefore, the service/recharge center will need to submit the requisition with the maintenance expenditure listed under object code 3570 (R/M Services-Scientific/Med Equipment) or another R/M object code if more appropriate to the equipment being covered. This expenditure should be recorded to the OC (SMR)-DR Sub-Account.

(I) Offset previously accrued liability with R/M expenditure

After the vendor has invoiced the university and the expenditure for the major maintenance event has posted to the OC (SMR)-Sub-Account, the center must reclass the expenditure as an offset to the previously accrued liability. This is done using GEC procedures that will credit expense object code 3570 (R/M Services-Scientific/Med Equipment) and debit object code 9190 (Miscellaneous Payables). Once this GEC posts, the expenditure for the maintenance event should remove the liability from the OC (SMR)-DR Sub-Account.

15.4 Appendix D – Federal Guidance

(A) Code of Federal Regulations.

(I) 2 Code of Federal Regulations 200

Title 2, Grants and Agreements > Subtitle A, Office of Management and Budget Guidance for Grants and Agreements > Chapter II, OMB Guidance > Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards

Subparts:

- Subpart A (§§ 200.0 - 200.99), Acronyms and Definitions.
- Subpart B (§§ 200.100 - 200.113), General Provisions.
- Subpart C (§§ 200.200 - 200.211), Pre-Federal Award Requirements and Contents of Federal Awards.
- Subpart D (§§ 200.300 - 200.345), Post Federal Award Requirements.
- Subpart E (§§ 200.400 - 200.475), Cost Principles.

NOTE: Subpart E includes CAS applicable to Institution of Higher Educations. Specifically, see § 200.419, Cost accounting standards and disclosure statement.

- Subpart F (§§ 200.500 - 200.521), Audit Requirements.

Appendices:

- Appendix III, Indirect [F&A] Costs Identification and Assignment and Rate Determination for Institutions of Higher Education.
- Appendix XI, Compliance Supplement.

NOTE: Technically, Appendix XI is a link to OMB Circular A-133 on the White House website. See the Office of Management and Budget section of this handbook.

(B) Executive Branch (White House)

(I) Office of Management and Budget [OMB]

(1) Office of Federal Procurement Policy [OFPP]

(a) Cost Accounting Standards Board.

(i) Structure

Cost Accounting Standards Board is an independent body within the White House, OMB, OFPP.

(ii) Authority

- 41 U.S.C. 1501, et seq. (formerly, 41 U.S.C. 422). The Board's regulations are codified at 48 Code of Federal Regulations, Chapter 99.
- Exclusive authorities to create, prescribe, promulgate, amend, interpret, and rescind cost accounting guidance/standards/regulations/etc. designed to achieve uniformity and consistency in the cost accounting standards/practices governing the measurement, assignment, and allocation of costs to contracts with the Federal Government.
- Actions taken by the Cost Accounting Standards Board have the full force and effect of law.

(b) Cost Accounting Standards.

- In general, the Standards are mandatory for use by all executive agencies and by contractors and subcontractors in estimating, accumulating, and reporting costs in connection with pricing and administration of, and settlement of disputes concerning, all negotiated prime contract and subcontract procurement with the United States in excess

of \$700,000, provided that, at the time of award, the contractor or subcontractor is performing any CAS-covered contracts or subcontracts valued at \$7.5 million or greater.

- The Standards are codified in U.S.C. Title 48, Chapter 99, Subchapters A (Part 9901) and B (Parts 9903, 9904, and 9905).
- CAS-covered contracts incorporate applicable CAS clauses, Standards, and CAS administration requirements per the 48 Code of Federal Regulations Chapter 99 and 48 Code of Federal Regulations Part 30 (FAR Part 30). Accordingly, CAS applies directly to a CAS-covered contract, and the Standards at 48 Code of Federal Regulations parts 9904 or 9905 take precedence over Subpart E (Cost Principles) of the Uniform Guidance with respect to the allocation of costs. When a contract is subject to full Cost Accounting Standards (CAS) coverage, the allowability of certain costs under the cost principles will be affected by the allocation provisions of the Standards.
- Cost Accounting Standards (CAS) 48 Code of Federal Regulations 9905.501, 9905.502, 9905.505, and 9905.506 also apply to Institution of Higher Educations that receive \$50 million or more in total Federal awards during the IHE's preceding cost accounting period (i.e., fiscal year). Affected IHEs must file a CAS disclosure statement, referred to as DS-2.

(II) Audits of States, Local Governments and Non-Profit Organizations (OMB Circular A-133)

This includes revisions published in the Federal Register 06/27/2003 and 06/26/2007. See the most current version of the Compliance Supplement.

NOTE: Technically, OMB A-133 is referenced in 2 Code of Federal Regulations 200 (i.e., Uniform Guidance) as Appendix XI. However, the substance of that appendix resides under the White House OMB circulars.

(III) Cognizant agencies for UA matters

(1) Cognizant agency for indirect costs

(a) Department of Health & Human Services

Office of the Assistant Secretary for Administration; Program Support Center; Financial Management Service; Cost Allocation Services [Department of Health & Human Services - Cost Accounting Services]. Department of Health & Human Services - Cost Accounting Services was formerly known as Department of Health & Human Services-Division of Cost Allocation (Department of Health & Human Services-DCA).

(b) Department of Health & Human Services - Cost Accounting Services National Headquarters, Dallas, TX:

Relevant responsibilities:

- Coordinates regional Department of Health & Human Services - Cost Accounting Services offices.
- Authorizes Cost Accounting Standards Disclosure Statement [DS-2] revisions submitted by the UA.
- Maintains and publishes "Department of Health & Human Services - Cost Accounting Services Best Practices Manual for Reviewing College and University Long-Form F&A Cost Rate Proposals," (December 2006).

(c) Department of Health & Human Services - Cost Accounting Services, Western Field Office, San Francisco, CA.

Relevant responsibilities:

- Review F&A (i.e., Indirect) Cost Rate Proposals from UA and negotiate (authorize) rates with UA.
- Review ERE Rate Proposals from UA and negotiate (authorize) rates with UA.
- Authorize SRC cost allocation practices that are unique and material.
- Authorize UA (institution-level) indirect cost and direct cost allocation policies/procedures (including SRC practices) that materially affect Federal awards.

(2) Cognizant agency for audits

(a) Office of the Inspector General [OIG]:

(i) Office of Audit Services

Relevant responsibilities:

- Conducts financial and/or performance audits of Department of Health & Human Services-funded programs and sponsored agreements.
- Conducts special audits/reviews as directed by the Department of Health & Human Services - Office of the Inspector General or federal agencies.

(ii) Office of Investigations

Relevant responsibilities:

Conducts criminal, civil and administrative investigations of fraud and misconduct related to Department of Health & Human Services-funded programs and sponsored agreements.

(IV) Sponsoring agencies

(1) Agency-specific regulations, policies, and procedures

Federal agencies may issue guidance that varies from or supplements standard OMB guidance. The UA must comply with all such requirements. In cases of conflict between OMB and agency-specific guidance, the agency-specific guidance normally supersedes.

(2) Terms and conditions of individual sponsored agreements

Specific terms and conditions of an individual sponsored agreement may vary from standard OMB or Federal agency guidance. The UA must abide by such terms and conditions. In cases where specific terms and conditions of an individual sponsored agreement conflict with OMB guidance, the specific terms and conditions of the individual sponsored agreement normally supersede.

NOTE: In cases where formal Federal Guidance does not exist, or where available guidance is particularly vague, Rate Studies and RII have filled the void with interpretations based on these sources: verbal guidance from the University’s Cognizant Agency for Indirect Costs; written or verbal guidance from national practice consultants; UA experience with pertinent matters; and/or policies/procedures of the university’s peer institutions according to ABOR, verbal guidance from the university’s Cognizant Agency for Indirect Costs; written or verbal guidance from national practice consultants; university experience with pertinent matters; and/or policies/procedures of the university’s peer institutions according to ABOR.

15.5 Appendix E – Specific Responsibility Citations

Section Names/Headings		Section Number	Service/Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴
	Note(s)					
Compliance/adherence expectations.		1.02	AD			
Failure to comply/adhere.		1.03	AD			
Customers must pay for the goods/services they receive.		1.04	AD			
Principles applicable to internal customers. [ICs]	Breakeven, cost-based rates.	1.05(A)	AD			RS
	Consistency	1.05(B)	AD			RS
Principle applicable to external customers. [ECs]		1.06	AD			RS
Responsibilities.	General	1.08(A)(I)	AD			
		1.08(A)(II)	AC; AD; EX	✓		RS
		1.08(A)(III)	AC; AD; EX	✓		RS
		1.08(A)(IV)	AC; AD	✓		RS
		1.08(A)(V)	AD; UC			
	Specific	1.08(B)	Listed in this appendix			
Consequences of noncompliance/non-adherence.		1.09	AD			

Section Names/Headings		Section Number	Service/Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴
	Note(s)					
UA Financial Policy FSM 18.10 and Rate Studies Handbook [RSH] updates and review cycle.		1.11	AC; AD; EX	✓		RS
Characteristics common to all service/recharge centers [SRCs].	Discrete financial activity.	2.01(B)	AD	✓		RS
Minimum requirements for requesting and establishing a service/recharge center [SRC].	Maintain sufficient professional and administrative staffing.	3.01(D)	AD			RS
Process for establishing a service/recharge center	Determine if activity qualifies as service/recharge center	3.03(A)	AD			RS
	Develop business plan and request authorization.	3.03(B)	AD	✓		RS; TS
	Meet with and provide supplemental information to requesting entities.	3.03(C)	AD	✓		RS
	Establish accounts and implement appropriate accounting/administrative procedures.	3.03(D)	AD	✓		RS
Service/recharge center use of federally funded capital equipment.		3.04	AD			
General service/recharge center account/accounting information		3.05	AD			RS
Activities that do not reach the service/recharge center threshold		3.06	AD		✓	OF
Adding, changing, or closing service/recharge center accounts in UAccess Financials.	Coordinate through Rate Studies	4.01(A)	AC; AD	✓		RS
	Creating SRC accounts.	4.01(B)	AD			OF

Section Names/Headings		Section Number	Service/ Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴	
		Note(s)					
	Revising SRC accounts.		4.01(C)	AD		OF	
	Closing SRC accounts.		4.01(D)	AC; AD; EX	✓	OF; RS	
Operating Cost-Designated Recharge [Internal] Accounts.	Separate Internal Accounts required		4.02(A)	AD		RS	
	Internal Account fund balance management.	Minimum fund balance	4.02(B)(I)	AD		RS	
		Maximum fund balance	4.02(B)(II)	AD		RS	
		Handling excessive or deficit fund balances	4.02(B)(III)	AD		RS	
	Internal Account transfers-in and -out		4.02(C)	AD		RS	
	Closures of Internal Accounts			4.02(D)	AD		RS
		Discontinue good/ service group.		4.02(D)(I)	AD		RS
		Complete dissolution of an SRC.		4.02(D)(II)	AD		RS
		SRC reorganization or absorption.		4.02(D)(III)	AD		RS
	Operating Cost (Strategic Maintenance Reserve)- Designated Recharge [OC-(SMR)-DR] Sub-Accounts.	Separate OC (SMR)-DR Sub-Accounts are required.		4.03(A)	AD	✓	RS
OC (SMR)-DR Sub-Account fund balance management.			4.03(B)	AD		RS	
OC (SMR)-DR Sub-Account transfers-in and transfers-out.			4.03(C)	AD	✓	RS	
		General.		4.03(D)(I)	AD	✓	OF; RS

Section Names/Headings		Section Number	Service/ Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴
	Note(s)					
	Closures of OC (SMR)-DR Sub-Accounts.	Discontinue good(s)/ service(s) group.	4.03(D)(II)	A D	✓	RS
		Complete dissolution of an SRC	4.03(D)(III)	AD	✓	RS
		SRC reorganization or absorption	4.03(D)(IV)	AD	✓	RS
Operating Cost [OC]- Subsidization Sub-Accounts.	Separate OC-Subsidization Sub-Accounts may be useful.		4.04(B)	AD	✓	RS
	Uses of OC-Subsidization Sub-Accounts.		4.04(C)	AD		
	OC-Subsidization Sub-Account fund balance management.		4.04(D)	AD		OF; RS
	OC-Subsidization Sub-Account transfers-in and transfers-out.		4.04(E)	AD		RS
	Closures of OC-Subsidization Sub-Accounts.		4.04(F)	AD	✓	OF; RS
Equipment Reserve Accounts.	Separate Equipment Reserve Accounts are required.		4.05(A)	AD	✓	RS
	Equipment Reserve Account fund balance management.		4.05(B)	AD		
	Equipment Reserve Account transfers-in and -out.		4.05(C)	AD	✓	

Section Names/Headings		Section Number	Service/ Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴
	Note(s)					
	Closures of Equipment Reserve Accounts.	4.05(D)	AD	✓		RS
External Customer-Designated Recharge [External] Accounts.	Separate External Accounts may be useful.	4.06(B)	AD			RS
	External Account fund balance management.	4.06(C)	AD			
	External Account transfers-in and -out.	4.06(D)	AD			RS
	Closures of External Accounts.	4.06(E)	AD			RS
Equipment Reserve eligibility requirements.		5.01	AD	✓		RS
Duration of Equipment Reserve authorization.		5.02	AD	✓		RS
Separate Equipment Reserve Accounts required.		5.03	AD	✓		RS
Selective inclusion/exclusion of capital equipment items is prohibited.		5.04	AD			RS
Items explicitly excluded from Equipment Reserve.		5.05	AD			
Financing of equipment acquisitions.		5.07	AD	✓		CF; RS
Accounting for Equipment Reserve.		5.08	AD			
Equipment Reserve calculation data sources.		5.09	AD			CF; PM; RS
Capitalizable equipment.		5.10	AD			PM
Capital equipment inventories for authorized Equipment Reserve service/ recharge centers		5.11	AD			PM; RS
Depreciation method and convention.		5.12	AD			
Useful service lives.		5.13	AD			PM; RS
Strategic maintenance reserve [SMR] eligibility requirements.		6.01	AD	✓		RS
Accounting for strategic maintenance.		6.02	AD			RS

Section Names/Headings		Section Number	Service/ Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴
	Note(s)					
Strategic Maintenance Reserve [SMR] Plan.		6.04	AD	✓		RS
Subsidization requires coordination with parent organization and other interested parties.		7.01	AD	✓		RS
Subsidization sources.		7.02	AD			
Subsidization methods/models.	Utilization Subsidization.	7.03(A)	AD			
	Internal/Service Billing Rate [ISBR] Subsidization.	7.03(B)	AD			
	Subsidization Infusion.	7.03(C)	AD			
	Accounting and record keeping for subsidization.	7.04	AD			
	Internal Customers vs. External Customer.	7.05	AD			
Customers must be charged for the goods/services they receive from a service/recharge center		8.01	AD			
Internal/service billing rates should be posted.		8.02	AD			RS
Uniform application of internal/service billing rates		8.03	AD			RS
Identification of customer fund sources for billing purposes.		8.04	AD			
Internal/service billings and external customer invoicing.	Internal/ service billing processing.		8.05(A)	AD		
		Internal customers	8.05(A)(I)	AD		OF; RS
	IBs applicable to external customers	8.05(A)(II)	AD			
	Invoicing ECs should be based on premium billing rates.		8.05(B)	AD		OF; RS
Sources of data & information.	Official data sources.	9.02(A)	AD			

Section Names/Headings		Section Number	Service/Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴
	Note(s)					
	Supplemental sources.	9.02(B)	AD			
Consistent practices.		9.03	AD			RS
Breakeven basis.		9.04	AD			RS
Goods/services groups.		9.05	AD			RS
A separate rate for each distinct good/service.		9.06	AD			RS
Breakeven required	Annual breakeven	9.08(A)	AD			
	Longer-term breakeven	9.08(B)	AD	✓		RS
	Monitoring and revising the Breakeven Plan	9.08(C)	AD	✓		RS
Internal allocations of operating costs		9.09	AD			RS
Data needed for updating of existing internal/service billing rates	Historic data	9.10(A)	AD			
	Projected data	9.10(B)	AD			RS
Data needed for new service/recharge centers or new internal/service billing rates		9.11	AD			RS
Primary characteristics of allowable cost(s).		9.12	AD			RS
	Necessary and reasonable.	9.12(A)	AD			
	Properly allocable.	9.12(B)	AD			
	Determinable.	9.12(C)	AD			
	Consistent application.	9.12(D)	AD			
	Not used to meet cost share obligations.	9.12(E)	AD			
	Not expressly unallowable	9.12(F)	AD			
	Adequate documentation	9.12(G)	AD			
Unallowable cost(s).		9.13	AD			RS
	Expressly unallowable operating costs	9.13(A)	AD			
	Noncompliance /non-adherence losses and refunds/reimbursements.	9.13(B)	AD			

Section Names/Headings		Section Number	Service/ Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴
	Note(s)					
	Speculative or hypothetical cost forecasts.	9.13(C)	AD			
	Costs that are not related or not allocable to a service/ recharge center's [SRC's] goods/services.	9.13(D)	AD			
	Contributions to budgetary rescissions	9.13(E)	AD			
	Administrative Service Charges no longer applies to billings.	9.13(F)	AD			
	Capital equipment acquisitions, debt service payments, and interest on internal loans.	9.13(G)	AD			
Frequency of rate adjustments		9.14	AD			RS
Frequency of billing rate studies.		9.15	AD	✓	✓	RS
Internal/service bill rate rate adjustments driven by fund balance levels		9.16	AD	✓		RS
Rate updates in years when a cost study is not performed		9.17	AD			RS
Advance notifications of possible rate adjustments.		9.18	AD			
Rate study completion steps.		9.19	AD	✓		RS
Conditional internal/service billing rates [ISBRs] or internal/service billings [IBs].		9.20	AD			RS
	Volume-based rates.	9.20(A)	AD			
	Priority (or urgent) internal/service billings	9.20(B)	AD		✓	
	Off-peak hour night/weekend) rates	9.20(C)	AD			

Section Names/Headings		Section Number	Service/Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴	
	Note(s)						
Recovery of indirect types of costs through internal/service billing rates or Facilities & Administration		9.21	AD			✓	
Depreciation and interest expenses applicable to equipment.	Equipment Reserve-authorized SRCs.	9.22(A)	AD			RS	
	Equipment Reserve-unauthorized SRCs.	9.22(B)	AD			RS	
Depreciation and interest expenses applicable to buildings and improvements.	Specialized service facilities	9.23(A)	AD			RS	
	Service centers and recharge centers	9.23(B)	AD			RS	
Institutional operations and maintenance costs.	Specialized service facilities [SSFs].	9.24(A)	AD			RS	
	Service centers and recharge centers	9.24(B)	AD			RS	
Service/recharge center overhead costs.		9.25	AD			RS	
Administrative Service Charge assessments.		9.27	AD				
External customer (premium) billing rates.		9.28	AD				
	Types of premium billing rates	9.28(A)	AD				
	Application of external customer (premium) billing rates.		9.28(B)	AD	✓		RS
		Convergent programmatic interests.	9.28(B)(I)	AD	✓		RS
		Non-convergent programmatic interests.	9.28(B)(II)	AD	✓		RS

Section Names/Headings		Section Number	Service/ Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴	
		Note(s)					
Circumstances warranting closure or reorganization.	Discontinuation of a good(s)/ service(s) group.		10.01(A)	AD		RS	
	Complete dissolution of a service/ recharge center		10.01(B)	AC; AD; EX	✓	RS	
	Service/ recharge center reorganization or absorption.		10.01(C)	AC; AD; EX	✓	RS	
Dispensation of service/recharge center fund (account) balances.			10.02	AD		RS	
Dispensation of service/recharge center equipment.	Closure of a good(s)/ service(s) group		10.03(A)	AD			
		Repurposed	10.03(A)(I)	AD			
		Transferred	10.03(A)(II)	AD			
		Disposed of	10.03(A)(III)	AD			
	Complete dissolution of a service/ recharge center			10.03(B)	AD		
		Repurposed		10.03(B)(I)	AD		
		Transferred		10.03(B)(II)	AD		
		Disposed of		10.03(B)(III)	AD		
	Service/ recharge center reorganization or absorption			10.03(C)	AD		
		Repurposed		10.03(C)(I)	AD		
		Transferred		10.03(C)(II)	AD		
		Disposed of		10.03(C)(III)	AD		
	Notifications and authorizations regarding equipment dispensation.	Rate Studies and RDI authorizations.		10.03(D)(I)	AD	✓	RS
		Notify Property Management		10.03(D)(II)	AD	✓	PM; RS
Structure of a service/ recharge center			11.01	AD		OF; RS	
Service/recharge center committees.	Service/Recharge Center Executive Committee.		11.02(A)	AD; EX			
		Composition	11.02(A)(I)	AC; AD; EX	✓		
		Committee resources	11.02(A)(II)	AD	✓	✓	OF; RS
		Meetings	11.02(A)(III)	AC; AD; EX	✓		RS
	Service/ Recharge			11.02(B)	AC; AD; EX	✓	RS
		Composition.		11.02(B)(I)	AC; AD; EX	✓	✓

Section Names/Headings			Section Number	Service/ Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴	
		Note(s)						
	Center Advisory Committee.	Committee resources	11.02(B)(II)	AD	✓		RS	
		Meetings	11.02(B)(III)	AC; AD				
	Service/ Recharge Center User Committee(s).			11.02(C)	AD; UC			
		Composi-tion.		11.02(C)(I)	AD; UC			
		Committee resources		11.02(C)(II)	AD; UC	✓		RS
		Meetings		11.02(C)(III)	AD; UC			
Supplementary recordkeeping.			12.01	AD				
	Types of supplementary records		12.01(B)	AD			RS	
		Financial records		12.01(B)(I)	AD			
		Statistical records		12.01(B)(II)	AD			
		Other records		12.01(B)(III)	AD			
	Retention of supplementary records		12.01(C)	AD				
Inventories of supplies/materials.	Inventory controls are required		12.02(A)	AD			OF	
	Inventory practices		12.02(B)	AD			OF	
	Transfers of inventory into a center		12.02(C)	AD			OF; RS	
Space/occupancy.			12.03	AD			RS	
Broad discretion with respect to types of goods/ services that can be provided.			13.01	AD			RS; TS	
Sales/services to external customers [ECs].			13.02	AD				
Unrelated business income.			13.03	AD			TS	
Competition.	Competition between service/ recharge centers		13.04(A)	AC; AD; EX	✓		RS; TS	

Section Names/Headings		Section Number	Service/ Recharge Center Committees or Admin (or Parent Organization(s) ¹	RII ²	SPCS ³	FNSV ⁴
	Note(s)					
	Service/ recharge center goods/services that internal customers can readily obtain from private sector	13.04(B)	AC; AD; EX	✓		RS; TS
	Goods/services external customers can readily obtain from private sector	13.04(C)	AC; AD; EX	✓		RS; TS

Key

- ¹ SRC=Service/Recharge Center
- ² RII=Research, Innovation & Impact
- ³ SPCS=Sponsored Projects & Contracting Services
- ⁴ Financial Services
- AC=Advisory Committee
- AD=Admin. and/or Parent Organizations Committees
- CF=Capital Finance
- EX=Executive Committee
- PM=Property Management
- OF=Operating Fund
- RS=Rate Studies
- TS=Tax Services
- UC=User Committee

15.6 Appendix F – Service/Recharge Center Subsidy Transfer

(A) Initiating a transfer to subsidize service/recharge center

In order to track all true costs of a service/recharge center expenses and better manage fund balances, which include the elimination of deficits, a transfer will be made by the Budget Office to provide necessary subsidization.

(B) Procedure Detail

- All center related expenses, (i.e. operational, payroll, etc.) will be captured in the Internal Account.
- On a quarterly or year-end basis, the department will contact the Budget Office to initiate a cash transfer (budget fund swap) using a Transfer of Funds document with an Org Ref code of SRCTF (Service Center Transfer) to cover the subsidy
- Subject to Budget Office authorization, sources for the transfer may include state, Designated, and Designated-Indirect accounts.
- These object codes must be used:
 - For the account providing subsidization funding, expenditure object code 7930 (Voluntary Transfer-Out)
 - For the account receiving subsidization funding, revenue object code 0930 (Voluntary Transfer-In)

(C) Related Documents and Links (Optional)

The table below lists all related documents and links for this procedure.

Flowcharts:	
Websites:	Description of Object Codes
Related Documents:	E-doc # 7725030
Links:	
UPK Tutorials:	

15.7 Appendix G – Service/Recharge Center (SRC) Toolkit

(A) iLab Core Facilities Operations Software.

This multi-faceted, scalable software can help most (if not all) service/recharge centers meet their administrative, accounting, and data/statistics needs. Please contact RII for more information.

15.8 Appendix H – Illustrative Examples: Equipment Reserve Journal Entries

(A) DI documents must be used.

Instead of making direct cash transfers within UAccess Financials, revenue object code 0616 (Services – Internal) will be used to transfer equipment reserve-related set-asides from the centers Internal Recharge Account to the Equipment Reserve Account. This object code should be used on both the From and To sides of the DI. This procedure will make the center’s revenue more transparent in terms of funding capital equipment expenditures.