THE UNIVERSITY OF ARIZONA
Financial Services

Rate Studies Handbook

Financial Management

University of Arizona – FSO – RSH

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Glossary of Acronyms & Definitions

Accounting period

An established time period into which a service/recharge center (SRC) may divide its economic activities for measurement. For purposes of completing a rate study this normally refers to the UA's fiscal year.

Administrative Service Charge [ASC]

Institutional F&A (indirect cost) assessments to accounts in the AX (Auxiliary Enterprise), Designated, and Designated – Recharge Fund Groups. These assessments are specifically related to revenue collected from external customers.

Allocable/related cost

Refers to an operating cost that is related (i.e., beneficial and/or assignable) to a service/recharge center (SRC) and its customers. See the RSH section "Properly Allocable" for further clarification.

Allocation

The systematic process of distributing expenses across goods/services that benefit from the incurrence of those expenses. See the Rate Studies Handbook (RSH) section "Properly Allocable" for further clarification.

Allowable cost/expense

Refers to service/recharge center (SRC) operating costs that are includible in (i.e., recoverable through) ISBRs. See the Rate Studies Handbook section "Primary Characteristics of Allowable Cost" for further clarification.

Amortization

A systematic, rational accounting process used to allocate the acquisition cost-basis of an intangible capital asset over the Useful Life of that asset.

Applicable credit

A receipt (or "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 Financials.

Examples:

- Trade discounts, sales discounts, rebates or 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]

The Arizona Board of Regents governs Arizona's universities, including Arizona State University, Northern Arizona University, and the University of Arizona and their branch campuses.

Bad debt expense and losses

This term refers to situations where deliverable-quality service/recharge center (SRC) goods/services have been provided or made available to a customer (consistent with original requests/orders and specifications) but, for whatever reason, the customer is:

- Unable or unwilling to pay for the goods/services;
- Unwilling to accept the goods/services; or
- 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 (ISBRs) (for internal customers) or premium rates (for external customers). It also includes applicable collection/legal costs.

Note: This term does not include (i) operating deficits caused by inadequate ISBRs, (ii) losses on disposal of capital equipment or (iii) situations where an SRC voluntarily opts to subsidize an IC.

Base unit

A base (or basis) unit essentially is the lowest, most elemental metric for which (i) an internal service billing rates (ISBR) is developed, and (ii) is the basis under which a good/service can be provided to customers/users. See the Rate Studies Handbook (RSH) section "Types of rate bases (i.e., units of goods/services)."

Billing rate

The price or fee an service/recharge center (SRC) assesses to a customer for an individual unit of a good/service. The following describes the different types of billing rates.

i. External customer [EC] (or "Premium") billing rate

A billing rate that applies to ECs. External rates are also referred to as "EC billing rates," "EC rates," or "premium billing rates."

There are essentially two major types of premium billing rates: Market (private sector) rates; and fully-burdened rates.

ii. Internal/service billing rate [ISBR]

A breakeven-basis billing rate that applies to internal customers (ICs). This type of rate recovers only unsubsidized service/recharge center (SRC) costs.

Breakeven-basis

A business model where the goal is to generate revenue equal to costs that are allowable during a specified period of time, preferably the accounting period. See the Rate Studies Handbook (RSH) section "Breakeven-basis."

Breakeven period

The specified accounting period over which an service/recharge center (SRC) plans to achieve breakeven. The most common breakeven period is a single fiscal year.

Breakeven Plan

A plan under which an service/recharge center (SRC) achieves breakeven within an authorized breakeven period – with Designated – Recharge Fund Group account balances within allowable limits.

Business Plan

A plan that comprehensively outlines the way a service/recharge center (SRC) intends to function, both financially and operationally. A mockup Business Plan is provided in "Appendix A – Service/Recharge Centers: Business Plan and Life Cycle Management".

Capital equipment

A piece of equipment/instrumentation with a cost-basis of at least $5,000 and a useful life greater than one year, per "UA Financial Policy, PMM 2.10 Capitalization of Tangible Assets."

Capital equipment expenditure

A UAccess Financials equipment transaction that is capitalized in accordance with "PMM 1.10 Introduction to the Manual" (Section V. Definitions) and "UA Financial Policy, PMM 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 F&A (i.e., indirect cost) proposals. In such matters, the Cognizant Agency for Indirect Costs acts on behalf of all Federal agencies. Department of Health & Human Services - Cost Accounting Services (Western Field Office) is UA's Cognizant Agency for Indirect Costs.

Comprehensive Annual Financial Report [CAFR]

The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and in conformance with standards of financial reporting as established by the Governmental Accounting Standards Board (GASB) using the guidelines as recommended by the Government Finance Officers Association of the United States and Canada (GFOA).

Conditional internal/service billing rate [ISBR]

Special ISBRs that reflect 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 Rate Studies Handbook section "Conditional Internal/Service Billing Rates [ISBRs] or Internal/Service Billings [IBs]."

Consistent

Refers to situations where a service/recharge center (SRC) follows and enforces operating and administrative/financial practices (e.g., GAAP, Federal Guidelines, ABOR/UA policies/procedures, and authorized plans) in a constant manner, in like/similar circumstances, without discriminating between internal customers or internal customer fund sources.

Contingency provision/reserve

Contributions or payments to reserves that are maintained as a hedge against future events/circumstances that cannot be foretold with certainty as to time, intensity, assurance of happening or precise outcome.

The terms contingency provision and operating reserves are separate and distinct. Whereas contingency provisions are specifically disallowed under Federal Guidance, operating reserves are permissible.

Cost pool

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

Customer

A client, user, consumer or beneficiary of an service/recharge center (SRC). There are two categories of customers:

i. Internal customer

A UA Community customer who acquires SRC goods/services with a UAccess Financials account. Charges related to internal customer usage normally are processed via IBs.

ii. External customer

Any person or entity that does not qualify as an internal customer. Examples of external customers include governmental agencies, other Institution of Higher Educations, for-profit companies and nonprofit entities (e.g., organizations, groups, individuals). External customers are also referred to as "outside parties," "the public," or "general public."

Debt service payments

Amounts paid to external creditors for funds borrowed to acquire SRC capital equipment. This term encompasses both the repayment of principal and payment of interest expense over a specified period of time, in accordance with the terms and conditions of the pertinent debt instrument (e.g., System Revenue Bonds, SPEED Revenue Bonds, Certificates of Participation, Commercial Paper, and capital leases).

Depreciation

A 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 [DR]

A fund/account that captures breakeven-basis revenues and expenses of an SRC.

Direct cost

Costs that can be identified specifically to a particular good/service.

Discretionary fund

Unrestricted accounts or sub-accounts that can be used in a broad, flexible manner. Except as noted, accounts within the following fund groups and sub-fund groups are considered discretionary funds:

Designated	Most Designated Fund Group Accounts qualify as discretionary. The following sub-fund groups, however, do not qualify as discretionary: ALUMNI; CLRNG; CRSFEE; FIXEDP; INSTSC; OTRCLR and TRDMRK.

DI	Most DI Fund Group Accounts qualify as discretionary. The following, however, do not qualify as discretionary: Project-oriented accounts; and IDCDEV, IDCPLS, and PATENT sub-funds.
DR	In light of the UA's obligations for complying with Federal Guidance, most DR Fund Group Accounts do not qualify as discretionary. The only exception are External Accounts. Such accounts qualify as discretionary funds.
OR	OR Fund Group Accounts with tight or narrow constraints in terms of use, including project-oriented RESGFT and STNONA sub-fund accounts, normally will not qualify as discretionary. RESGFT and STNONA accounts with loose or inexplicit constraints, however, may qualify as discretionary.
ST	Most ST Fund Group Accounts qualify as discretionary. The following, however, do not qualify as discretionary: Project-oriented accounts; and CLRROT, CLTEAC, FRDCTR and SUSGE sub-funds.
TR	TR Fund Group accounts with loose or inexplicit constraints in terms of use qualify as discretionary. Project-oriented TR Fund Group accounts, however, do not qualify as discretionary.

Distribution of Income and Expense [DI]

A DI document is to distribute the income or expense assets and liabilities from a holding account to one or more appropriate account. When one account has incurred expenses or received income on behalf of one or more other accounts. 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 benefits costs incurred by the UA on behalf of employees. Such costs are charged to the UAccess Financial accounts from which an employee's salary/wages are paid.

Equipment Reserve Expense

Equipment reserve expenses are only allowable for authorized SRCs. Includes the following:

- Depreciation of capital equipment.
- Gains/losses on disposal of capital equipment.
- Interest expenses paid to external creditors on debt service liabilities applicable to SRC capital equipment purchases.

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

Equipment Reserve Account

For RSH purposes, this term refers to a discrete account established in the Designated – Recharge Fund Group for the following purposes:

- Setting aside the recapture of depreciation and/or interest expenses related to SRC capital equipment.

- Accounting for capital equipment expenditures (e.g., acquisitions/enhancements) and/or applicable debt service payments to external creditors.

Expenditure

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

i. Current operating resources

These resources normally expire (i.e., are "used up") entirely in a single fiscal year, in which case they are reported as current operating expenses in the UA's CAFR. Current operating resources includes labor costs and basic operating costs.

ii. Multi-year resources

These 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 UA's CAFR. Instead, these resources are apportioned on a reasonable basis between the fiscal years to which the resources relate. Multi-year resources include the following: strategic maintenance costs; equipment reserve; and resale materials inventories and/or prepaid expenses that are reported to Financial Services Office - Operating Funds for inclusion in the CAFR.

Expense

Expenses are the subset of expenditures that expire (i.e., are "used up") within a particular fiscal year. Accordingly, this term refers to current operating resources used up in a particular year, as well as that portion of multi-year resources apportioned to that year.

Note: The terms "cost(s)" and "expense(s)" essentially are used interchangeably throughout the RSH. Use of either term implies an application of the "Expense Recognition Principle" in accordance with GAAP. Under this principle, UA reports expenses in the 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 the following mechanisms:

- F&A rates negotiated between the UA and the Cognizant Agency for Indirect Costs. Such rates apply to sponsored agreements (i.e., grants/contracts).
- ASC rates established by the UA

Financial Services Office [FSO]
Financial Services is 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 the defined breakeven period. Such costs essentially are unaffected by the SRC's level of activity within any accounting period. For example, S&W/ERE, time-related expenses being paid per month. Fixed costs may be allocated on a reasonable basis if not specifically identifiable to any 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

This term refers to the "net assets" of a particular UAccess Financials account or, where applicable, a group of related UAccess Financials accounts. 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]

A GEC document is used to correct inappropriate or erroneous accounting string data for general ledger entries generated from other financial transactions.

Generally accepted accounting principles. [GAAP]

The 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: (1) basic accounting principles and guidelines; (2) 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 [APB]; and (3) generally accepted industry (in UA's case, Institution of Higher Education) practices.

Goods/services

For RSH purposes, this term encompasses the following:

- Goods, items, products, commodities or deliverables that an SRC furnishes to customers.
- Customer access to and utilization of SRC facilities, equipment, machinery or instrumentation.
- Services that an SRC performs on behalf of customers.

Institution(s) of higher education. [IHE(s)]

In general, this term refers 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]

This is the overarching term for internal billing [IB] and service billing [SB] documents that an SRC can use to bill internal customers for goods/services provided by the SRC. IBs essentially record revenue to the SRC and expenses to the IC. Differences between IBs and SBs are as follows:

- IBs are routed (through UAccess Financials) to internal customers for authorization.

- SBs are not routed (through UAccess Financials) to internal customers for authorization. Use of SBs is restricted to only a few Financial Services Office-authorized SRCs. 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 (COGS), which means the lower cost of older products will be reported as inventory.

Maintenance

Activities that are performed on/for SRC equipment items (whether capitalized or not) in order to retain them in or restore them to productive working order. Maintenance enables an SRC to operate its assets according to the manufacturer's recommended specifications. By doing so, the SRC will minimize equipment breakdowns and downtime.

Examples of maintenance include inspecting, testing, or calibrating the equipment; renovating, rebuilding, refurbishing, overhauling, restoring, or altering equipment; replacing/servicing of components/parts; and performing corrective repairs of equipment.

For RSH purposes, there are two types of maintenance:

i) Strategic maintenance

Refers strictly to the management of SRC capital equipment/instrumentation maintenance activities authorized under a Strategic Maintenance Reserve (SMR) Plan.

ii) General maintenance

Refers to all SRC equipment maintenance activities other than strategic maintenance. As such, it largely includes general, unplanned, reactive, corrective, restorative, or condition-based maintenance necessary to return SRC equipment items to normal functionality.

Market (or "marketplace") rates

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

Material (or materiality)

This term refers to anything of significant importance or consequence. It essentially represents any item or determination that is 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, and (iv) other noteworthy characteristics, considerations, or conditions. For RSH purposes, 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

A UA organizational entity that primarily performs mission-oriented activities, i.e., Instruction, Research, and/or Public/Community Service.

Office of Management and Budget [OMB]

The 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, OMB's 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 RSH purposes, this term refers to the following types of costs:

i) Labor costs

This category includes the following types of resources or costs:

- Salaries/wages
- Employee Related Expense [ERE]

ii) Basic operating costs

This category includes the following types of resources or costs:

- Communications
- Consumables, materials, and operating supplies
- General maintenance , whether done by SRC 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)

iii) Strategic maintenance cost

This category includes costs incurred for the following types of resources or strategic maintenance:

- Multi-year maintenance agreements which essentially are paid up front, for example, 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 SRC staff or external service providers.

iv) 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

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

Operating surplus

An 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

The formal organizational/management hierarchy to which the SRC belongs, such as executive offices (e.g., vice-presidents, associate/assistant vice-presidents), college/division offices (e.g., deans/directors), and department heads/chairs.

Physical life

For RSH purposes, this term refers to the total length of time an item of capital equipment is actually physically retained and utilized within an SRC, including a period of time 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, SRC1:

> "SRC1" acquires a scientific instrument in July 2006. The useful life for that instrument is determined to be five years. By the end of FY 2011, the asset is fully depreciated. In July 2011, a replacement instrument is acquired. SRC1 however, did not 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

This term refers to an expenditure that is incurred in a particular 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 SRCs, 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]
The holder of an independent grant administered by a university and the lead researcher for the grant project.

Projected (or "estimated") costs

This term refers to anticipated labor costs, basic operating costs, and strategic maintenance costs that, using broadly-accepted cost estimating methodologies, can be reasonably and objectively predicted based on current knowledge and conditions.

Examples:

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

Reasonable costs

A 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 SRC's stakeholders (e.g., customers, State of Arizona, Federal Government) State of Arizona, Federal Government). , State of Arizona, Federal Government).

Recharge center [RC]

An RC is a specific type of SRC. Characteristics are described in the RSH section "Types of SRCs."

Records Management and Archives [RMAA]
Provides a comprehensive records management program for the UA and its departments. RMAA 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

This is a 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 ISBRs over a specified number of years. The two types of remediation plans are as follows:

i) Material Deficit Remediation Plan

This is a remediation plan that is designed to bring material deficit fund balances within allowable fund balance levels over multiple years.

ii) Excessive Surplus Remediation Plan

This is a remediation plan that is designed to shrink excessive fund balances to within allowable fund balance levels over multiple years.

Resale materials

Costs incurred for the following types of resources:

i) Stocked items

Goods/materials/deliverables that an SRC stocks and provides to customers, either with alteration by the SRC (e.g., as a result of incorporating the items into a production process) or without alteration.

ii) Pass-through items

Goods/deliverables provided directly to customers by an outside entity, normally without alteration by an SRC. For pass-through items, an SRC serves as a coordinator, intermediary, liaison, or middleman – but not as the "provider" per se.

Research and Development [R&D]

Research, Discovery & Innovation [RDI]

Salary Expense Transfer [SET]
Used to move salaries and benefit charges for a given employee for a accounting period (or set of periods) from one or more accounts to once or more other accounts.

Service Billing [SB]

Service center [SC]

An SC is a specific type of SRC. Characteristics are described in section "Types of SRCs."

Service/recharge center [SRC]

This is the overarching term for Recharge Centers, Service Centers and Specialized Service Facilities. Characteristics are described in section "Types of SRCs."

Specialized service facility [SSF]

An SSF is a specific type of SRC. Characteristics are described in section "Types of SRCs."

State Funds

See "UA Financial Policy FSM 2.01 ("Account Classification" section, "State Funds," paragraph 15.a.).

Strategic Maintenance Reserve [SMR] Plan

A plan under which strategic maintenance costs for an item of SRC capital equipment are allocated between the individual fiscal years to which the expenses appropriately relate. The primary aim of the SMR Plan is

to ensure that SRC capital equipment items are proactively retained (and functioning) in productive working order, thereby ensuring optimal efficiency and effectiveness throughout its useful life.

Subsidization

Discretionary funds that are made available for any of the following purposes:

- Paying for all or some SRC units of goods/services delivered to and/or consumed by all or some internal customers or activities, such as specific users (e.g., students, instruction-related users, or particular PIs, projects, or UA/college/departmental initiatives).
- Paying for some SRC costs, with the explicit intent of tempering either all ISBRs or just certain "preferred ISBRs."
- Providing an SRC with an infusion of "backstop/back-fill funding" to cover short-term or ongoing operating deficits.

Unallocable/unrelated costs

A cost that is not allocable according to Federal Guidance. This includes, but is not limited to, the following:

- Operating losses due to non-compliance with "UA Financial Policy FSM 18.10" and non-adherence to the RSH.
- 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-SRC activities, e.g., travel expenditures related to presentations of academic/R&D papers and educational or student related expenditures.

Unallowable costs

SRC costs that are not recoverable through ISBRs.

University [UA] Community

UA employees (faculty, staff, postdocs, hourly wage, etc.), students, departments and invited guests.

University [UA] department

A discrete budgetary or organizational entity within the UA. Most departments are organizational entities within colleges or divisions. Within UAccess Financials, each UA department is assigned a unique Organization Code.

University of Arizona [UA]

Established in 1885, the state's land-grant university with two medical schools

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

Unreasonable cost

A cost that a prudent person would, or should, avoid considering his/her stewardship responsibility to the SRC's stakeholders (e.g., customers, State of Arizona, Federal Government). , State of Arizona, Federal Government).

Useful life

The 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 life" and "physical life" are not interchangeable, but distinctly different terms. See "Example, SRC1."

Variable cost

SRC costs that will fluctuate materially during a defined breakeven period, typically as a result of changes in the volume (or levels) of activity.

1.00 Introduction

1.1 Purpose

SRC cost accounting and administrative practices are subject to (and must comply with) Federal Guidance and "UA Financial Policy FSM 18.10." FSM 18.10 is the UA's official policy-level interpretation and application of the Federal Guidance (including Cognizant Agency for Indirect Costs implementation constraints) as it pertains to SRCs. The RSH is an additional, more in-depth resource for interpreting and applying Federal Guidance and FSM 18.10. Adherence to the principles within the RSH constitutes a good faith effort to comply with Federal Guidance and relevant ABOR/UA policies. "Appendix D – Federal Guidance" provides an outline of sources of Federal rules most relevant to SRCs.

Notes: Since SSFs are a highly unique and rare type of SRC, the RSH is largely addressed to SCs and RCs.

Throughout the RSH, optional and recommended procedures or methods are branded with unique "Best Practice" and "Optional Practice" icons. Relevant language is identified with green, italicized font.

1.2 Compliance/adherence expectations

SRCs must operate in conformance with "UA Financial Policy FSM 18.10." Further, adherence to the principles within the RSH will ensure compliance with both Federal Guidance and FSM 18.10.

1.3 Failure to comply/adhere

Failure to comply with "UA Financial Policy FSM 18.10" and adhere to the principles of the RSH can lead to negative consequences for the UA and the SRC.

1.4 Customers must pay for the goods/services they receive

All goods/services provided by an SRC 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 SRC itself, an SRC's Internal Account can never absorb the cost of goods/services provided to others.

1.5 Principles applicable to internal customers [ICs]

(A) Breakeven, cost-based rates

An SRC must design the ISBR for any one good/service to recapture actual allowable breakeven-basis costs over a defined breakeven period as authorized by Financial Services Office – Rate Studies.

(B) Consistency

An SRC must consistently apply its cost accounting practices and ISBRs to all ICs, regardless of fund source. Such practices and rates cannot be changed without the explicit authorization of Financial Services Office – Rate Studies.

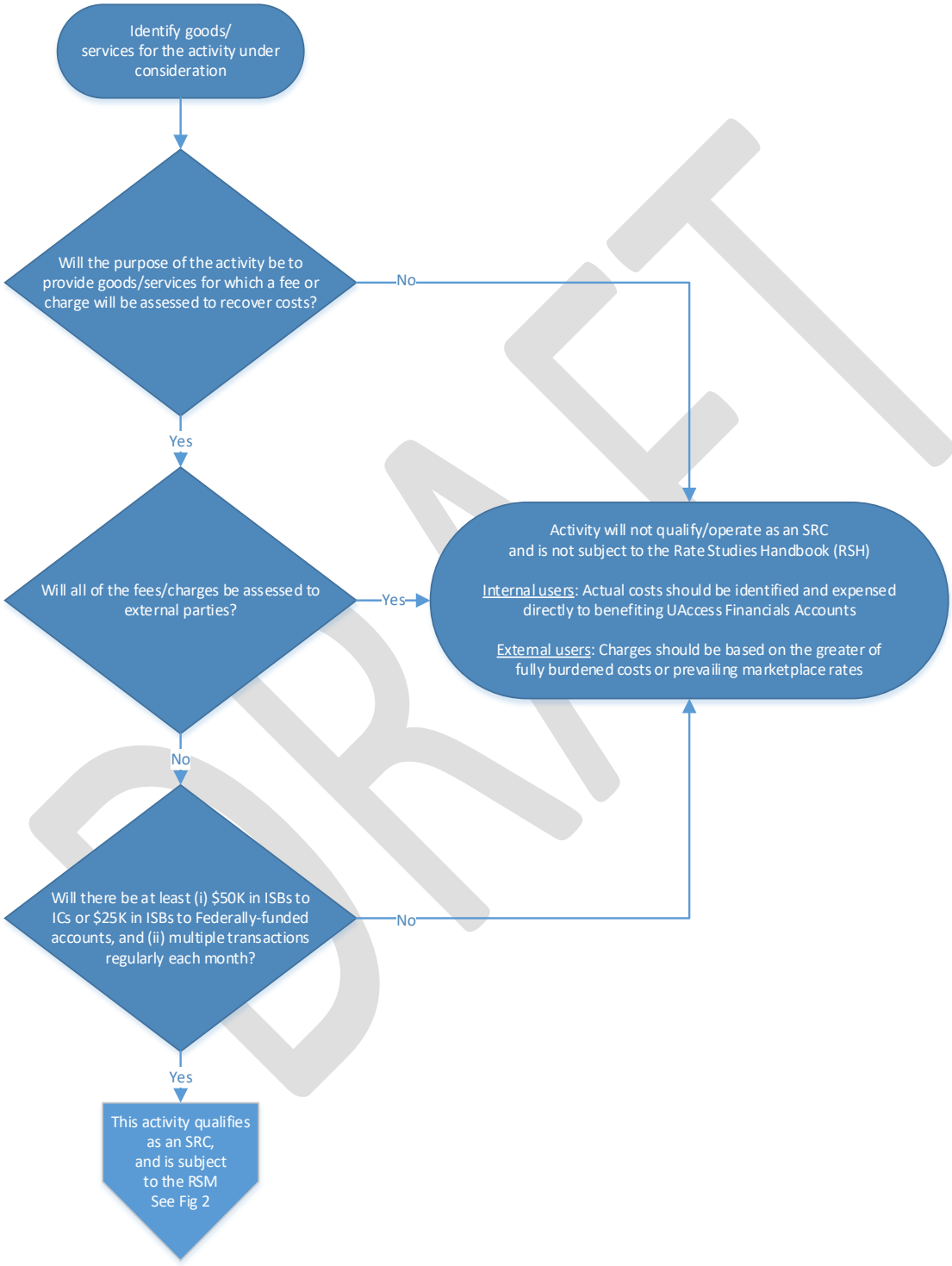
1.6 Principle applicable to external customers [ECs]

An SRC must determine and apply the most appropriate premium billing rate(s) to ECs.

1.7 Applicability

The figure on the following page should help determine whether the RSH is applicable to a particular activity.

Figure 1: Determining Whether Activities Qualify as a Service/Recharge Center [SRC]



Note: See the RSH section "Activities that do not reach the service/recharge center [SRC] threshold" for further guidance on handling activities that do not meet the SRC thresholds above.

1.8 Responsibilities

(A) General responsibilities

The following summarizes the general, overarching responsibilities of UA organizational entities with the most noteworthy obligations under the RSH.

(I) Service/recharge centers [SRCs] and parent organization

An SRC's general responsibilities include:

(1) Operating in compliance with UA Financial Policy FSM 18.10, and in adherence with the RSH.

SRCs will develop, maintain, propose, and implement necessary accounting and administrative practices.

Note: By complying with "UA Financial Policy FSM 18.10" and adhering to the RSH, an SRC will comply with Federal Guidance.

(2) Requesting exceptions to UA Financial Policy FSM 18.10 or the RSH

SRCs can submit requests for exceptions to Financial Services Office – Rate Studies for authorization. Where appropriate, FSO – Rate Studies may involve others, such as RDI, SRC Advisory Committee and, in certain cases, the SRC Executive Committee.

(3) Requesting Financial Services Office – Rate Studies assistance

An SRC can request Financial Services Office – Rate Studies assistance with any "UA Financial Policy FSM 18.10" or RSH matter. Where appropriate/necessary, FSO – Rate Studies may redirect the SRC to other, more appropriate contacts.

(II) Financial Services Office – Rate Studies and RDI

Financial Services Office – Rate Studies is UA's primary contact with the Cognizant Agency for Indirect Costs regarding SRC, F&A, ERE, and other cost allocation matters. Others (e.g., SRCs and parent organizations) should not directly contact the Cognizant Agency for Indirect Costs without prior authorization by FSO – Rate Studies. FSO – Rate Studies and RDI will collaborate to ensure SRC compliance with Federal Guidance and "UA Financial Policy FSM 18.10.

(1) Managing institutional practices related to SRCs

Financial Services Office – Rate Studies and RDI will develop, propose, maintain, implement, interpret/clarify, and/or update institution-level accounting and administrative policies/procedures applicable to SRCs.

(2) Granting exceptions to UA Financial Policy FSM 18.10 and/or the RSH

Financial Services Office – Rate Studies will review SRC requests for exceptions and either approve or reject such requests. Where appropriate, FSO – Rate Studies will refer these requests to the SRC Advisory Committee or, in certain cases, the SRC Executive

Committee. FSO – Rate Studies will also establish an appropriate duration for approved exceptions. Exceptions normally will be granted for only a limited period. Exceptions normally will be granted for only a limited period. Exceptions normally will be granted for only a limited period. Exceptions normally will be granted for only a limited period. Exceptions normally will be granted for only a limited period, e.g., 1-2 years.. Exceptions normally will be granted for only a limited period, e.g., 1-2 years.

(3) Guiding, training, and enabling SRCs

Financial Services Office – Rate Studies and RDI will provide guidance and education/training that will enable SRCs to comply with "UA Financial Policy FSM 18.10" and adhere to the Rate Studies Handbook. This includes facilitating an SRC's ability to develop and complete required rate studies. Ability to develop and complete required rate studies ability to develop and complete required rate studies.ability to develop and complete required rate studies.

(4) Ensuring SRC compliance/adherence

Financial Services Office – Rate Studies and RDI will ensure that SRCs comply with "UA Financial Policy FSM 18.10" and adhere to the Rate Studies Handbook. This includes performing periodic reviews on a selective, random, or institution-wide basis. This includes performing periodic reviews on a selective, random, or institution-wide bases. RSH. This includes performing periodic reviews on a selective, random, or institution-wide basis.

(III) SRC Executive Committee

This committee's general responsibilities include:

(1) Providing institution-level policy/programmatic guidance

The SRC Executive Committee provides SRC-related policy/programmatic direction to Financial Services Office – Rate Studies, RDI, and the SRC Advisory Committee.

(2) Providing guidance regarding problematic SRC matters or cases

The SRC Executive Committee will provide direction regarding cases/issues that have been forwarded by Financial Services Office – Rate Studies, RDI, or the SRC Advisory Committee. Such matters must be particularly material, precedent-setting, problematic, or unusual. Also, such matters normally should affect more than one UA college/division.

(3) Authorizing new/revised institutional policies/procedures applicable to SRCs

The SRC Executive Committee is the final authority for approving the adoption and implementation of institutional SRC policies/procedures recommendations that have been reviewed and approved by Financial Services Office – Rate Studies, RDI, and the SRC Advisory Committee.

(4) Meeting periodically

The SRC Executive Committee will meet as needed to discuss the UA's SRC environment. Such meetings will be coordinated by Financial Services Office – Rate Studies and RDI. SRC environment. Such meetings will be (i) scheduled by Financial Services Office – Rate Studies and RDI, with the concurrence of a majority of polled committee members, and (ii) coordinated by Financial Services Office – Rate Studies and RDI. .

(IV) SRC Advisory Committee

This committee's general responsibilities include:

(1) Providing a Capital Asset Management campus-wide forum for monitoring institutional SRC practices

The SRC 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 SRC environment that is beneficial to the UA's mission-based entities and programs, notably, R&D. Recommendations are subject to Financial Services Office – Rate Studies and RDI authorization. Material or precedent-setting recommendations may need to be forwarded to the SRC Executive Committee for their guidance and authorization. SRC Executive Committee for their guidance and authorization.

(2) Helping monitor Capital Asset Management campus-wide SRC issues

The SRC Advisory Committee will help Financial Services Office – Rate Studies and RDI monitor and address new, evolving, hot-button, or lingering issues affecting the operations of UA's SRCs. FSO – Rate Studies and RDI may forward particularly problematic issues to the SRC Executive Committee for resolution. Executive Committee for resolution.

(3) Meeting periodically

The SRC Advisory Committee will meet as needed to discuss the UA's SRC environment. Such meetings will be coordinated by Financial Services Office – Rate Studies and RDI. SRC environment. Such meetings will be (i) scheduled by Financial Services Office – Rate Studies and RDI, with the concurrence of a majority of polled committee members, and (ii) coordinated by Financial Services Office – Rate Studies and RDI. RDI.

(V) SRC User Committee

This committee's general responsibilities include:

(1) Providing a forum for users of an SRC

An SRC User Committee provides a forum for an SRC's users to identify, discuss, and propose revisions in the SRC's practices (e.g., policies/procedures, operations). The committee's primary purpose is to provide scientific direction for the SRC, while supporting efficiency and cost-effectiveness initiatives that are beneficial to the SRC's users.

(2) Helping monitor issues within the SRC

The SRC User Committee will help its SRC monitor and address new, evolving, hot-button, or lingering issues affecting the operations of the SRC.

(3) Meeting periodically

The SRC User Committee will meet as needed to discuss the state of affairs in the SRC. Such meetings will be (i) scheduled by the SRC with the concurrence of majority polled committee members, and (ii) coordinated by the SRC.

(B) Specific responsibilities

The individual sections of the RSH contain specific assigned responsibilities for SRCs (and parent organizations), Financial Services Office – Rate Studies, RDI and others. "Appendix E – Specific Responsibility Citations" identifies these responsibilities by RSH section.

1.9 Consequences of noncompliance/non-adherence

Failure to either comply with "UA Financial Policy FSM 18.10" or adhere to the RSH can result in negative consequences to an SRC. Possible outcomes include, but are not limited to:

- Debarment of the SRC, i.e., suspension from doing business with sponsored or Federally-funded Internal Customers.
- Reductions in financial support from the UA
- Disallowances of those portions of SRC 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 SRC amongst stakeholders within the UA Community.
- In egregious cases, forced closure of the SRC or imposition of disciplinary actions against offending (responsible) SRC employees according to applicable UA policies. Please see relevant policies/chapters within the Classified Staff Human Resources Policy Manual and University Handbook for Appointed Personnel.

1.10 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."

UA Financial Policy FSM 18.10 and Rate Studies Handbook [RSH] updates and review cycle

Changes in "UA Financial Policy FSM 18.10" or the Rate Studies Handbook can be proposed by Financial Services Office – Rate Studies or RDI. Agreed upon changes will be forwarded to the SRC Advisory Committee for evaluation and recommendations.

Note: Changes deemed necessary to ensure institutional compliance with Federal Guidelines will be forwarded to the SRC Advisory Committee as informational items only.

Changes proposed by SRCs or Capital Asset Management campus administrators should be forwarded to Financial Services Office – Rate Studies and RDI for review. FSO – Rate Studies will forward laudable changes and recommendations to the SRC Advisory Committee for review. Changes authorized by FSO – Rate Studies, RDI, and the SRC Advisory Committee will be forwarded to the SRC Executive Committee for final authorization.

Financial Services Manual 18.10 and the Rate Studies Handbook should be completely reviewed every four (4) years and either reconfirmed/reauthorized or updated/revised. Ideally, this should occur within the year following the completion of an F&A rate negotiation cycle resulting in new or extended Cognizant Agency for Indirect Costs-authorized F&A rates.

2.00 Types of Service/Recharge Centers [SRCs]

2.1 Characteristics common to all service/recharge centers [SRCs]

(A) Discrete operating units

SRCs function as discretely organized operating units.

(B) Discrete financial activity

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

Note: Where authorized by Financial Services Office – Rate Studies and RDI, SRCs may also (i) set-aside SMR and incur strategic maintenance expenditures (ii) set-aside EIR and incur capital equipment expenditures.

(C) Discrete equipment/instrumentation

SRCs normally should have their own equipment/instrumentation

(D) Discrete space

SRCs normally should have their own space

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

SRCs provide goods/services on a rate/fee basis. Internal Customers are the primary customer of SRCs. 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 SRC provides goods/services that are commonly available or readily obtainable from for-profit entities in an open market.

Examples:

- Vehicle rentals and vehicle 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 SRC'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 SRC 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 SRC provides goods/services that are **not** 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 SRC'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 SRC's annual total of IBs and 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 SRC 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 SRC'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.

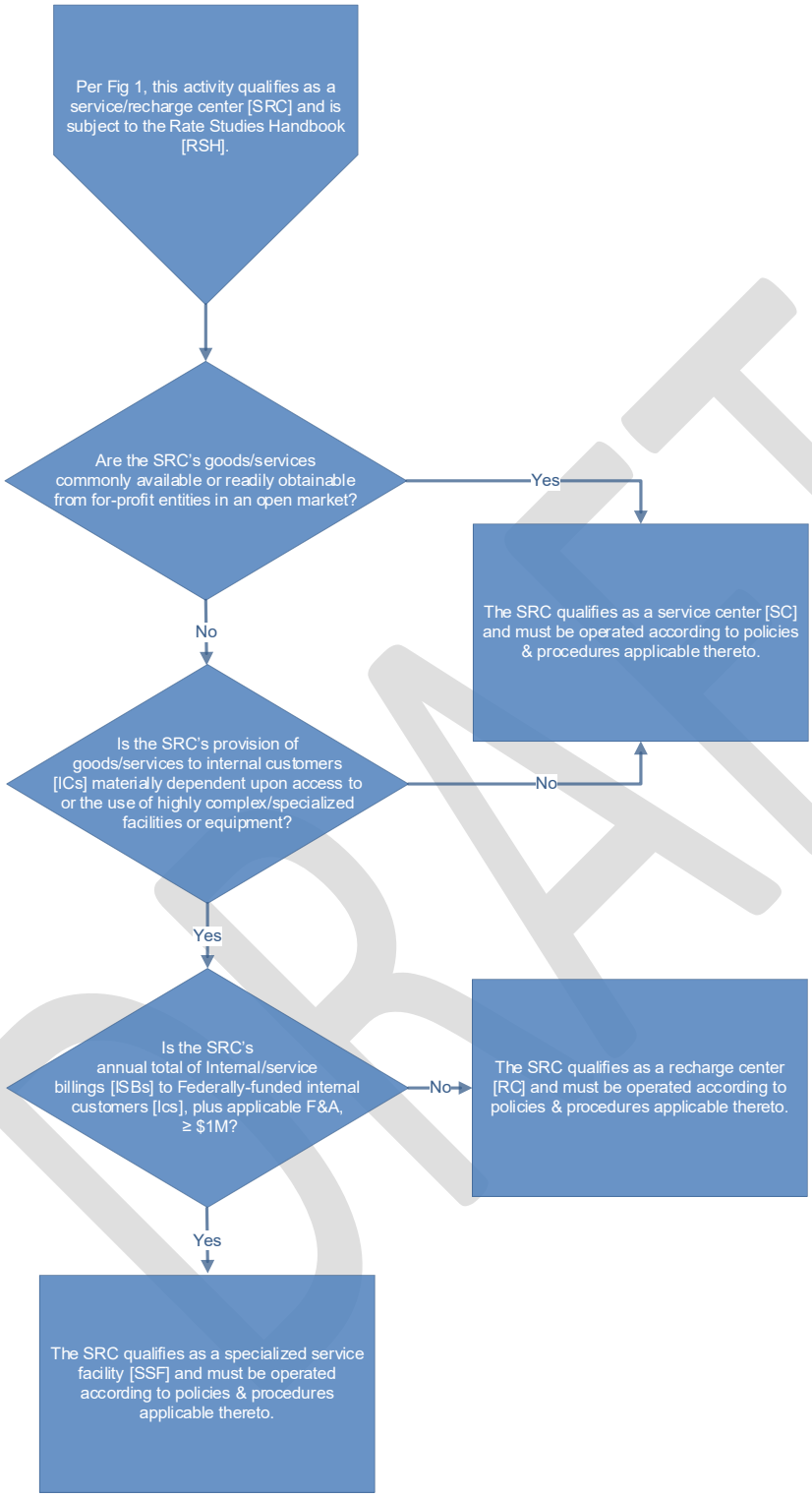
(C) >$1M in internal/service billings [IBs] to Federally-funded internal customers [ICs]

The SRC's annual total of IBs and F&A applicable to Federally-funded ICs is $1,000,000 or more in total.

2.5 Quick reference flowchart for determining the type of Service/Recharge Center [SRC]

For an activity that qualifies as an SRC according to Figure 1 in the RSH section entitled "Applicability," the figure below should help determine the appropriate type of SRC. This determination should be made annually.

Figure 2: Service/Recharge Center [SRC] Annual Classification Test



3.00 Establishing a Service/Recharge Center [SRC]

3.1 Minimum requirements for requesting and establishing a Service/Recharge Center [SRC]

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

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

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

(I) $50K from all ICs

(II) $25K from Federally funded ICs

(C) Operate as a discrete financial/budgetary entity

(D) Maintain sufficient professional and administrative staffing

SRCs or parent organizations must employ qualified professional and administrative staff who can and will manage the SRC in compliance with "UA Financial Policy FSM 18.10" and in adherence to the Rate Studies Handbook. Accordingly, such staff should be capable of (i) performing/updating billing rate studies with guidance from Financial Services Office – Rate Studies, and (ii) performing all other administrative/accounting tasks applicable to SRCs. SRCs. SRCs.

3.2 Additional requirements for specialized service facilities [SSFs] and authorized Equipment Investment Recapture [EIR] service/recharge centers [SRCs]

(A) Have its own discretely identifiable and assignable space

(B) Operate and maintain its own discretely identifiable equipment

3.3 Process for establishing a service/recharge center [SRC]

(A) Determine whether the activity qualifies

The requesting department/entity must first contact Financial Services Office – Rate Studies for assistance with determining whether an activity might qualify as an SRC. FSO – Rate Studies will provide recommendations, including alternatives to an SRC. The following steps apply:

(I) Determine whether the activity qualifies as a service/recharge center [SRC]

See Figure 1 in the RSH section "Applicability"

(II) If applicable, determine the activity's SRC type

See Figure 2 in the RSH section "Quick reference flowchart for determining the type of SRC"

(B) Develop a Business Plan and request authorization

If the establishment of an SRC is deemed appropriate, the requestor must develop a Business Plan. The SRC must submit the plan to Financial Services Office – Rate Studies for coordination with RDI and other appropriately interested parties. FSO – Rate Studies and RDI will review the plan,

identify necessary revisions, and authorize a final version for signatures by the FSO – Rate Studies, SRC, and the SRC's parent organization.

Note: Unrelated business activities and competition create extra concerns that must be evaluated by parties noted above and Financial Services Office – Tax Services. See the following RSH sections for additional guidance: "Unrelated business income;" and "Competition."

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

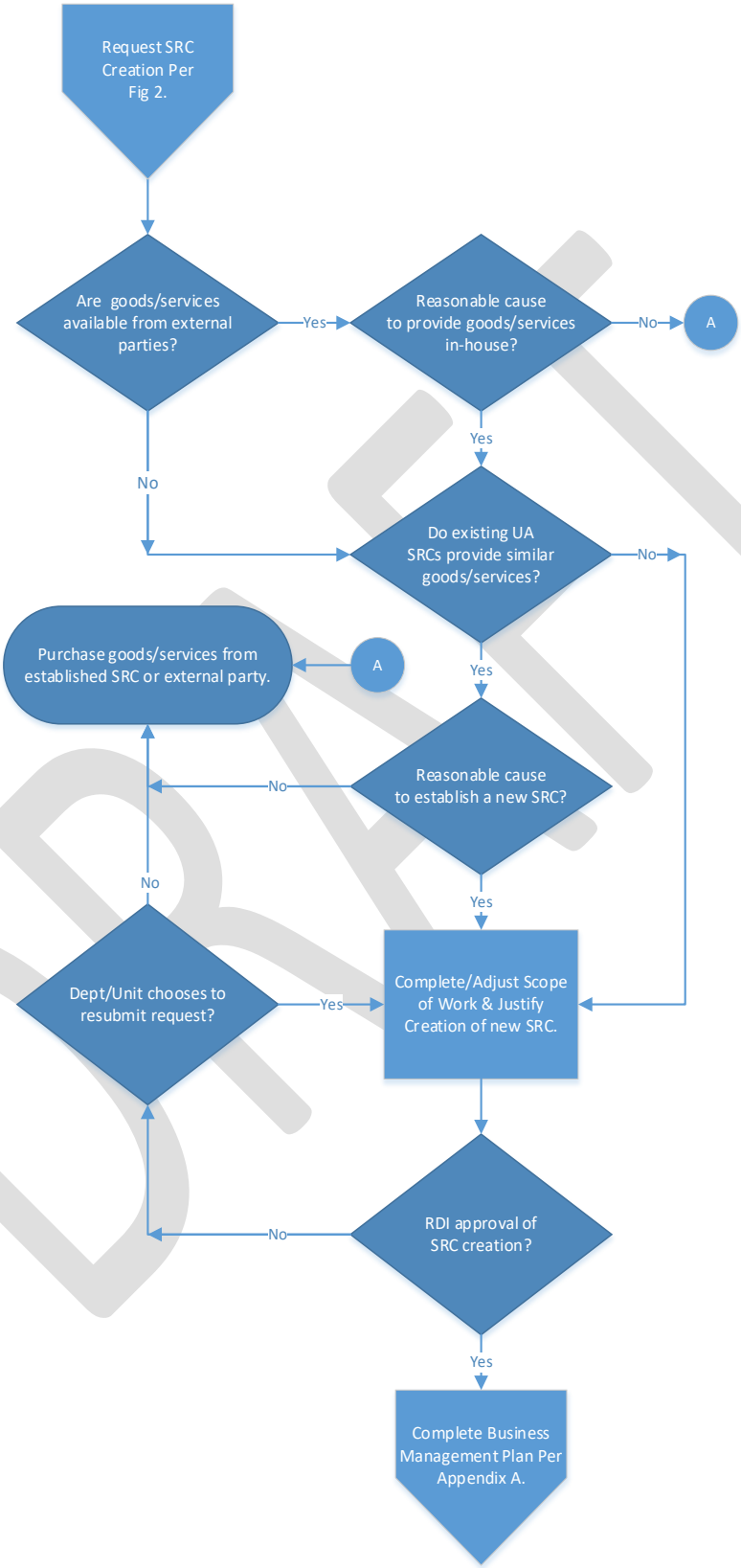
During review of their Business Plan, the requestor may be required to provide supplementary information to Financial Services Office – Rate Studies, RDI and other interested parties as appropriate. Meetings or communications may also be needed to clarify matters. clarify matters.

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

Upon authorization of an SRC by Financial Services Office – Rate Studies the SRC and/or its parent organization will establish necessary UAccess Financials accounts. Also, FSO – Rate Studies will help the SRC identify basic accounting and administrative practices that must be implemented. the SRC identify basic accounting and administrative practices that must be implemented.

The figure below maps out the steps in the process of establishing a new SRC.

Figure 3: Establishing a New SRC



3.4 Service/recharge center [SRC] use of federally-funded capital equipment

Capital equipment acquired under a Federal award may be used by an SRC under either of the following circumstances.

(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 the following 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 UA

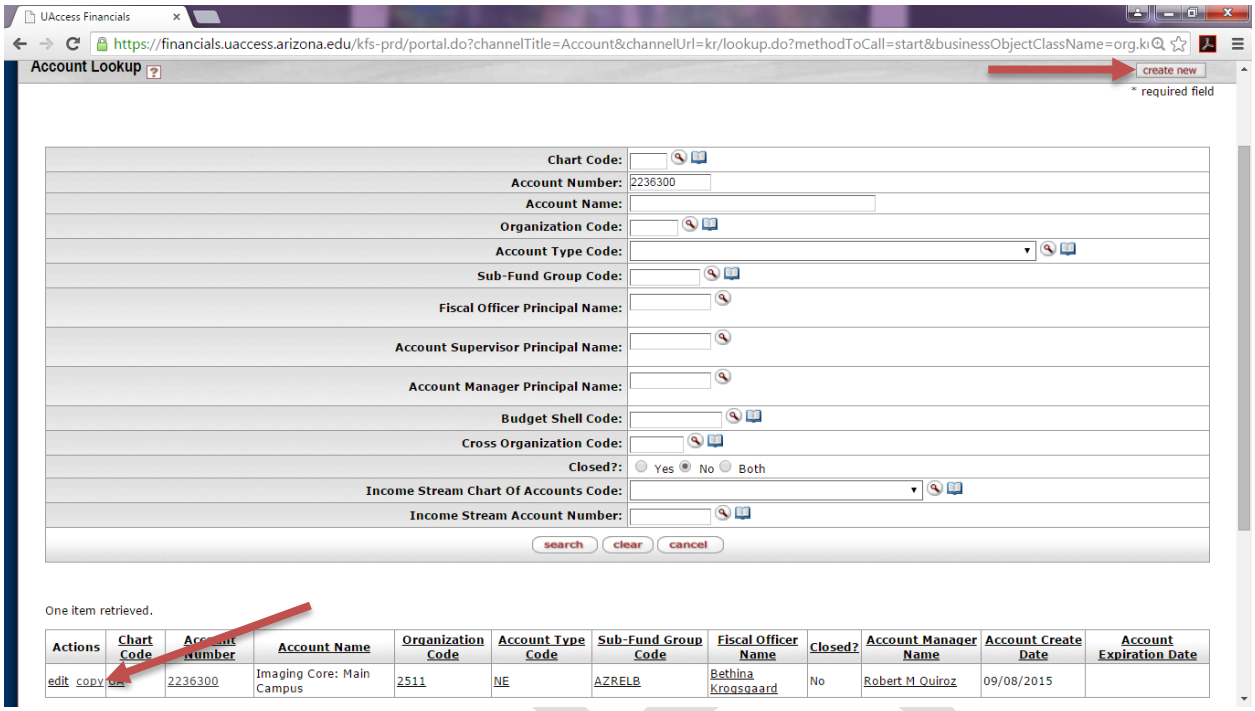
3.5 General service/recharge center [SRC] account/accounting information

UITS offers an extensive list of classes on how to process various transactions within UAccess Financials. You may peruse and register for any of these courses via the UITS Workshops website.

Departments must create new SRC accounts within UAccess Financials in accordance with "UA Financial Services Manual [FSM] Policies & Procedures." This can be done via the Accounts Lookup screen in UAccess Financials, either by creating a new account from scratch (top arrow in picture below) or by copying a specific account via the look up function (bottom arrow in the picture on the following page) and modifying as appropriate.

New SRC account requests are automatically routed to Financial Services Office – Rate Studies for authorization within UAccess Financials.

See the RSH section "Adding, changing or closing service/recharge center [SRC] accounts in UAccess Financials" for further guidance about creating new SRC accounts.



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

In cases where an activity does not qualify as an SRC, 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 Office - Operating Funds regarding the most appropriate cost distribution/transfer mechanism.

4.00 UAccess Financials Accounts

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

(A) Coordinate through Financial Services Office – Rate Studies

SRCs must submit the following requests to Financial Services Office – Rate Studies for authorization:

- Establishing new SRC accounts
- Changing SRC account attributes/characteristic

- Closing SRC accounts
- Transferring SRC revenues, expenses, or balance sheet items or making material SRC budget adjustments.

See "UA Financial Policy FSM 6.14, Adding/Changing/Closing Accounts, Adding a New Account."

(B) Creating SRC accounts

SRCs should contact Financial Services Office - Operating Funds for assistance.

(C) Revising SRC accounts

(I) SRC accounts cannot be repurposed

Like other UAccess Financials accounts, SRC 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. SRCs should contact Financial Services Office - Operating Funds for assistance.

(D) Closing SRC accounts

SRCs must contact Financial Services Office – Rate Studies for assistance. FSO – Rate Studies will coordinate with others, as necessary, e.g., FSO - Operating Funds, RDI, the SRC Advisory Committee, and the SRC Executive Committee.

4.2 Operating Cost-Designated Recharge [Internal] Accounts

(A) Separate Internal Accounts required

SRC 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 an SRC identify the following:

- Breakeven-basis revenues (i.e., cost recovery)
- Total allowable labor costs and basic operating costs, whether subsidized or unsubsidized.

  Note: T he 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 ISBRs.

- Authorized transfers between an SRC's Internal Account and any of the following sources: (i) the SRC's OC (SMR)-DR Sub-Account(s); (ii) the SRC's Equipment Reserve-DR Account(s); or (iii) discretionary funds.
- Breakeven-basis operating surpluses/deficits and fund balances

- Key financial data needed for developing and updating of breakeven-based ISBRs.

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

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

Where feasible, SRCs should create and utilize an Internal Sub-Account for each goods/services group. Financial Services Office – Rate Studies can help SRCs identify unique goods/services groups for which Internal Sub-Accounts should be established and maintained.

(B) Internal Account fund balance management

(I) Minimum fund balance

Absent a Breakeven Plan authorized by Financial Services Office – Rate Studies, an SRC 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, an SRC 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.

$$\text{Excessive fund balance} \cong \text{Year end fund balance} - \left(\frac{\text{Annual Labor costs} + \text{basic operating costs}}{6}\right)$$

Example, SRC2, #1:

> Annual labor costs and basic operating costs for "SRC2" total approximately $180K. SRC2's allowable average monthly fund balance is $30K. During the most recently completed fiscal year, however, SRC2 maintained an average monthly fund balance of $50K. SRC2's fund balance exceeded allowable limits by $20K.

Financial Services Office – Rate Studies can assist in determining appropriate fund balances for an Internal Account.

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, specifically, 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 IHEs.

(III) Handling excessive or deficit fund balances

In the event they occur, deficit or excessive fund balances must be eliminated by the SRC within a reasonable timeframe. In isolated cases, subject to authorization by Financial Services Office – Rate Studies and perhaps even the UA's Cognizant Agency for Indirect Costs, an SRC may establish a longer timeframe for very large surpluses or deficits. See the RSH section "Internal/service billing rate [ISBR] adjustments driven by fund balance levels." "

If excessive fund balances are not reduced in a reasonable timeframe, penalties can be incurred, such as refunds to Federal sponsors, inclusive of imputed interest.

The preferred method for reducing excessive fund balances is to reduce ISBRs at the earliest appropriate time.

Example, SRC2, #2:

> *Continuing with "Example, SRC2, #1," above, SRC2 must reduce its ISBRs slightly to achieve the equivalent of a $20K reduction in IB revenue for the next fiscal year.*

Subject to Financial Services Office – Rate Studies authorization, an SRC may use surplus Internal Account fund balances in part to alleviate deficits within relevant EIRR-DR Accounts or OC (SMR)-DR Sub-Accounts. Such uses are not permitted when doing so has the effect of shifting surpluses from one goods/services group to another, or from one customer group (or sponsor source) to another.

In cases involving ongoing operating deficits, an SRC (or its parent organization) must identify and provide backstop (subsidization) funding to cover such deficits.

(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 ISBR calculations and perhaps even alter the Breakeven Plan. Transfers are tightly controlled and possibly even unallowable. An SRC must submit to Financial Services Office – Rate Studies all subsidization, revenue, expenditure, and balance sheet transfer requests affecting the SRC's Internal Account(s). Such requests are subject to FSO – Rate Studies authorization. , or balance sheet items (e.g., cash, accounts receivable, accounts payable) can have a bearing on ISBR calculations and perhaps even alter the Breakeven Plan. Transfers are tightly controlled and possibly even unallowable. An SRC must submit to Financial Services Office – Rate Studies all subsidization, revenue, expenditure, and balance sheet transfer requests affecting the SRC's Internal Account. Such requests are subject to FSO – Rate Studies

authorization. calculations and perhaps even alter the Breakeven Plan. Transfers are tightly controlled and possibly even unallowable. An SRC must submit to Financial Services Office – Rate Studies all subsidization, revenue, expenditure, and balance sheet transfer requests affecting the SRC's Internal Account. Request are subject to FSO – Rate Studies authorization.

(I) Subsidization transfers

Transfers of subsidization funding in the interest of proactively managing an SRC's fund balances and/or stabilizing ISBRs are allowable. Subsidization can be transferred between an SRC's Internal Account and discretionary funds. *Relevant accounts must have sufficient funds to accommodate applicable transfers. sufficient funds to accommodate applicable transfers.*

Subsidization transfers must be initiated according to procedures provided in "Appendix F – Service/Recharge Center (SRC) Subsidy Transfer." The transfers can be made periodically or annually, 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 the following cases:

- Error corrections, such as transfers-out of revenue that more appropriately pertains to other accounts.
- Transfers-in of ISBR-based revenue applicable to external customer sales and services. See RSH "Appendix B – Illustrative Example: Cost Allocation to the External Customer-Designated Recharge Account for Services Provided to external customers" for a comprehensive example of how to record these entries in UAccess Financials.
- *Transfers-out of ISBR revenue that more appropriately pertain to Equipment* Reserve. *For Equipment Reserve authorized SRCs, 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 Financial Services Office – Capital Finance documentation/workbooks. See RSH "Appendix H, Illustrative Examples: EIRR Journal Entries."*

  For convenience of the SRC, these transfers can be made periodically or annually, provided the sum of the 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: An SRC cannot forego making Equipment Reserve transfers. Such transfers are mandatory. In limited cases, Financial Services Office – Rate Studies and RDI *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 an SRC's Internal Account. When exceptions are granted, however, the EIRR-DR Account eventually must be made whole again. fiscal years in order to prevent a*

short-term fund balance deficit in an SRC's Internal Account. When exceptions are granted the EIRR-DR Account eventually must be made whole again.

Revenue transfers must be processed using the most appropriate UAccess Financials procedures/documents (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.
- Distributions of intra-SRC administrative/overhead costs to pertinent internal accounts.

Transfers of expenditures in the interest of proactively managing an SRC's fund balances and/or stabilizing ISBRs. This is accomplished by transferring expenses between the SRC's Internal Account and a discretionary fund. Relevant accounts or must have sufficient funds to accommodate applicable transfers.

Note: For transfers of expenditures into an SRC's Internal Account, such expenditures must qualify as allowable expenses of the SRC.

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

(IV) Balance sheet transfers

Balance sheet transfers are not allowable.

Reminder: Cash transfers from an Internal Account for purposes of contributing to UA-wide, college-wide or departmental budgetary rescissions/sweeps are not allowable.

(D) Closures of Internal Accounts

(I) General

All requests to close Internal Accounts are subject to Financial Services Office – Rate Studies authorization. FSO – Rate Studies will coordinate with Financial Services Office - Operating Funds and RDI, as necessary..

(II) Discontinuation of a good/service group

When an SRC 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 the following manners:

- Subject to Financial Services Office – Rate Studies authorization, immaterial deficit or surplus cumulative fund balances must be transferred to an appropriate Internal Account within the SRC.

- 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 SRC and Financial Services Office – Rate Studies must perform an analysis to determine the customer fund sources that contributed to the fund balance. Based on this analysis, the SRC and Financial Services Office – Rate Studies will develop a dispensation strategy that is fair to identified customer sources, especially Federal internal customer funds. In extreme cases, the SRC may be required to refund the Federal portion to the Cognizant Agency for Indirect Costs.

(III) Complete dissolution of an SRC

When an SRC is completely closed and not reorganized or consolidated into another SRC, pertinent Internal Account fund balances must be closed out in one of the following manners:

- Subject to Financial Services Office – Rate Studies authorization, deficit fund balances or immaterial surplus fund balances can be transferred to an appropriate discretionary fund within the SRC's parent organization.

- In case of a material surplus fund balance, the SRC and Financial Services Office – Rate Studies must perform an analysis to determine the customer fund sources that contributed to the fund balance. Based on this analysis, the SRC and Financial Services Office – Rate Studies will develop a dispensation strategy that is fair to identified customer sources, especially Federally-funded internal customers. In extreme cases, the SRC may be required to refund the Federal portion to the Cognizant Agency for Indirect Costs.

(IV) SRC reorganization or absorption

When an SRC is reorganized or consolidated into another SRC, or when one of an SRC's goods/services groups is transferred to another SRC, pertinent Internal Account fund balances must be transferred to counterpart Internal Accounts in the surviving/recipient SRC. Financial Services Office – Rate Studies authorization is required.

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

(E) Separate SMR-DR Sub-Accounts are required

For SMR-authorized SRCs, SMR-DR Sub-Accounts must be created and maintained. Coordination between SRCs, Financial Services Office – Rate Studies, and RDI is appropriate. See the RSH section "Strategic Maintenance Reserve [SMR]."

Note: SRCs should create and utilize a separate SMR-DR Sub-Account for each goods/services group.

SMR-DR Sub-Accounts are useful for helping an SRC identify the following:

- *SMR-related revenue recovered through ISBRs*

- *Authorized transfers between an SRC's SMR-DR Sub-Account and either of the following sources: (i) the SRC's Internal Account; (ii) discretionary funds.*

- *Total allowable strategic maintenance expenditures*
- *Cumulative fund balances specifically related to an SRC's strategic maintenance requirements.*
- *Key financial data needed for developing and updating of an SMR Plan and ISBRs.*

SMR-DR Sub-Accounts are limited strictly to tracking assets and liabilities related to strategic maintenance. Accounts cannot be used for the following purposes.

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

  Note: All SRC maintenance costs should be incurred against its Internal Account
- *Covering deficits in an SRC's Internal Account or, if applicable, EIRR-DR Account*
- *Equipment Reserve set-asides, expenditures for capital equipment, or debt service payments .*
- *ASC assessments on sales/services to external customers*
- *Unallowable costs*
- *Unallocable/unrelated costs*

Where feasible, SRCs should create and utilize an SMR-DR Sub-Account for each good(s)/service(s) group. Financial Services Office – Rate Studies can help SRCs identify unique goods/services groups for which (SMR)-DR Sub-Accounts are mandatory.

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

Within an SMR-DR Sub-Account, an SRC 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 OC (SMR)-DR Sub-Account that is designed specifically to accommodate a material maintenance event should increase during the fiscal years prior to such event. When the event occurs, the cash balance should (approximately) zero out. Consistent with the SMR Plan, the cash balance should never materially exceed the amount needed for the planned one-time event.*

Financial Services Office – Rate Studies can assist in determining appropriate fund balances for SMR-DR Sub-Accounts.

When circumstances change materially, an SRC may request adjustments in the SMR Plan. Such requests must be submitted to Financial Services Office – Rate Studies for authorization. Authorized changes likely will require prospective adjustments to expense transfers between an SRC's Internal Account and SMR-DR Sub-Account.

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

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

Transfers of balance sheet items (e.g., cash, accounts receivable, accounts payable) normally are not allowable for (SMR)-DR Sub-Accounts.

(H) Closures of SMR-DR Sub-Accounts

(I) General

All requests to close SMR-DR Sub-Accounts are subject to authorization by Financial Services Office – Rate Studies. Financial Services Office – Rate Studies will coordinate with Financial Services Office - Operating Funds and RDI as necessary.

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

When a continuing SRC 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 Financial Services Office – Rate Studies authorization, immaterial fund balances must be transferred to another SMR-DR Sub-Account within the SRC or, if no sub-account exists, an appropriate SRC Internal Account within the SRC.*
- *In case of a material deficit fund balance, subsidization funding from the SRC's parent organization is required.*
- *In case of a material surplus fund balance, Financial Services Office – Rate Studies and the SRC must perform an analysis to determine the customer fund sources that contributed to the fund balance. Based on this analysis, the SRC must work with Financial Services Office – Rate Studies to develop a distribution strategy that will be fair to identified customer sources, especially Federally-funded ICs. In extreme cases, the SRC 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 even above allowable operating reserve limits. This effect may require the SRC to adjust its ISBRs.

(III) Complete dissolution of an SRC

When an SRC is completely closed and not reorganized or consolidated into another SRC, pertinent SMR-DR Sub-Account fund balances must be closed out in one of the following manners:

- *Subject to Financial Services Office – Rate Studies authorization, immaterial fund balances can be transferred to an appropriate discretionary fund of the parent organization.*
- *In case of a material deficit fund balance, an infusion of subsidization funding from the SRC's parent organization is required.*
- *In case of a material surplus fund balance, Financial Services Office – Rate Studies and the SRC must perform an analysis to determine the customer fund sources that contributed to the fund balance. Based on this analysis, the SRC must work with Financial Services Office – Rate Studies to develop a distribution strategy that will be fair to identified customer sources, especially Federally-funded ICs. In*

extreme cases, the SRC may be required to refund the Federal portion to the Cognizant Agency for Indirect Costs.

(IV) SRC reorganization or absorption

When an SRC is reorganized or consolidated into another SRC, or when one of an SRC's goods/services groups is transferred to another SRC, pertinent SMR-DR Sub-Account fund balances must be transferred to counterpart SMR-DR Sub-Accounts in the surviving/recipient SRC. Financial Services Office – 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. This effect may require the SRC to adjust its ISBRs.

4.4 Equipment Investment Recapture Reserve-Designated Recharge [EIRR-DR] Accounts

(A) Separate EIRR-DR Accounts are required

Financial Services Office – Rate Studies and RDI authorization is required prior to establishing EIRR-DR accounts. SRCs should forward requests for such accounts to FSO – Rate Studies for coordination with RDI. Once authorized, an SRC must create and utilize a separate EIRR-DR Account. Within UAccess Financials, these accounts must bear an Account Type Code of "RE."

EIRR-DR Accounts are useful for helping an SRC discretely identify the following:

- EIR-related revenue recovered through ISBRs.
- Total EIR-related capital equipment expenditures and/or debt service payments.
- Authorized transfers between an SRC's EIRR-DR Account and the SRC's Internal Accounts
- Gains/losses applicable to dispositions of capital equipment by EIR-authorized SRCs.

Use of EIRR-DR funds is limited strictly to: (i) SRC capital equipment expenditures (e.g., acquisitions/enhancements); and (ii) if applicable, debt service payments on SRC equipment. Such equipment must be assigned explicitly to, and used exclusively by, the SRC.

EIRR-DR funds cannot be used for the following purposes:

- Labor costs or basic operating cost

  Note: An SRC's labor costs and basic operating costs should be incurred against the SRC's Internal Accounts

- Covering deficits in an SRC's Internal Account or, if applicable, an SMR-DR Sub-Account
- Strategic maintenance costs

  Note: An SRC's strategic maintenance costs should be incurred against an authorized SMR-DR Sub-Accounts

- ASC assessments on sales/services to external customers
- Unallowable costs
- Unrelated costs

(B) EIRR-DR Account fund balance management

An SRC must maintain in its EIRR-DR Account a zero or positive fund balance by the end of each fiscal year

There is no ceiling on EIRR-DR Account fund balances

(C) EIRR-DR Account transfers-in and transfers-out

Transfers of revenues, expenditures, or balance sheet items (e.g., cash, accounts receivable, accounts payable) can have a bearing on ISBR calculations and perhaps even alter the Breakeven Plan. Transfers are tightly controlled and possibly even unallowable. An SRC must submit to Financial Services Office – Rate Studies all revenue, expenditure, and balance sheet transfer requests affecting the SRC's EIRR-DR Account. Such requests are subject to FSO – Rate Studies authorization. authorization.

(I) Revenue transfers

Revenue transfers are allowable in the following cases:

- Error corrections, such as transfers-out of revenue that more appropriately pertains to other accounts.
- Transfers-in of ISBR revenue that more appropriately pertain to EIR. For EIR-authorized SRCs, 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, respectively, UAccess Financials (Capital Asset Management) and Financial Services Office – Capital Finance documentation/workbooks. See RSH "Appendix H, Illustrative Examples: EIRR Journal Entries."

  For convenience of the SRC, 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: An SRC cannot forego making EIR transfers. Such transfers are mandatory. In limited cases, Financial Services Office – Rate Studies and RDI 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 an SRC's Internal Account. When exceptions are granted, however, the EIRR-DR Account eventually must be made whole again. fiscal years in order to prevent a short-term fund balance deficit in an SRC's Internal Account. When exceptions are granted, the EIRR-DR Account eventually must be

made whole again. RDI 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 an SRC's Internal Account. When exceptions are granted, however, the EIRR-DR Account eventually must be made whole again. fiscal years in order to prevent a short-term fund balance deficit in an SRC's Internal Account. When exceptions are granted, the EIRR-DR Account eventually must be made whole again.

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

(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 SRC capital expenditures in the interest of proactively managing an SRC's EIRR-DR Account balances or subsidization levels. This is accomplished by transferring capital expenditures between the SRC's EIRR-DR Account and discretionary funds. Relevant accounts must have sufficient funds to accommodate applicable transfers.

  Note: The capital expenditures must relate to SRC capital equipment.

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

(III) Balance sheet transfers

Balance sheet transfers are not allowable.

Reminder: Cash transfers from an EIRR-DR Account for purposes of contributing to UA-wide, college-wide or departmental budgetary rescissions/sweeps are not allowable.

(D) Closures of EIRR-DR Accounts

(I) General

All requests to close EIRR-DR Accounts are subject to authorization by Financial Services Office – Rate Studies. Financial Services Office – Rate Studies will coordinate with Financial Services Office - Operating Funds and RDI as necessary. RDI as necessary.

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

When a continuing SRC completely discontinues providing a particular goods/services group, pertinent EIRR-DR Account fund balances can be closed out in one of the following manners:

- Subject to Financial Services Office – Rate Studies authorization, surplus fund balances or immaterial deficit fund balances can be transferred to either of the following sources: (i) EIRR-DR Accounts of other good(s)/service(s) groups within the same SRC; or (ii) a discretionary fund within the SRC's parent organization.

- In case of a material deficit fund balance within the EIRR-DR Account, an infusion of subsidization funding from the parent organization is required.

(III) Complete dissolution of an SRC

When an SRC is completely closed and not reorganized or consolidated into another SRC, pertinent EIRR-DR Account fund balances can be transferred to a discretionary fund within the SRC's parent organization.

(IV) SRC reorganization or absorption

When an SRC is reorganized or consolidated into another SRC, or when one of an SRC's goods/services groups is transferred to another SRC, pertinent EIRR-DR Account surplus fund balances should be transferred to appropriate EIRR-DR Accounts in the surviving/recipient SRC. Relevant parent organizations may negotiate different dispositions of EIRR-DR 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 compliance rules.

(B) Separate External Accounts

Subject to Financial Services Office – Rate Studies approval, a service/recharge center (SRC) 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 SRC's Internal Account. Requests should be submitted to Financial Services Office – Rate Studies for authorization. Within UAccess Financials, these accounts must bear an Account Type Code of "EX."

Example, SRC4:

"SRC4" has an annual breakeven budget of $100K. Its total budget, including subsidization funding, is $200K. About 20% of SRC4's goods/services are provided to external customers. Such customers are invoiced for services based on a full-cost basis as adjusted for the UA's current ASC. SRC4 estimates that it should be able to generate ~$16K in operating surplus from sales/services to external customers. (See summary, below). SRC4 and Financial Services Office – 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: Admin Service Charges (9.5%)	$ 3,800
Less: Internal Rates ($100K x 20%)	$20,000
Net Income from External Activity	$16,200

External Accounts are useful for helping an SRC identify the following:

- Revenues from goods/services provided to external customers – based on premium billing rates.
- SRC costs applicable to goods/services provided to external customers – based specifically on internal service billing rates (ISBR).
- Authorized transfers between an SRC's External Account and any of the following sources: (i) the SRC's Internal Account(s); or (ii) discretionary funds.
- ASC assessments on sales/services to external customers.
- Surplus funds that are generated from application of premium billing rates.

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

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

(C) External Account fund balance management

An SRC must maintain in its External Accounts a zero or positive fund balance by the end of each fiscal year. There are no ceilings on External Account fund balances.

(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 ISBRs (and/or full-cost rate) calculations and perhaps even alter the Breakeven Plan. Accordingly, such transfers are tightly controlled, possibly even unallowable. An SRC must submit for approval to Financial Services Office – Rate Studies all subsidization, revenue, expenditure, and balance sheet transfer requests affecting the SRC's External Account(s).

(I) Subsidization transfers

Transfers of subsidization funding in the interest of proactively managing an SRC's Internal Account balances (e.g., reducing surpluses or deficits) or subsidization levels or stabilizing ISBRs are allowable. Such subsidization can be transferred between the SRC's External Subsidization Account and the SRC's Internal Account. Relevant accounts must have sufficient funds to accommodate applicable transfers.

Subsidization transfers must be initiated according to procedures provided in "Appendix F – Service/Recharge Center (SRC) 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 in the following cases:

- 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 an SRC 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 their 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 SRC fund balances, subsidization levels, or ISBRs. This is accomplished by transferring expenditures from an SRC's Internal Account to its External Account. The External Account must have sufficient funds to accommodate applicable transfers.

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

(IV) Balance sheet transfers

Balance sheet transfers are not allowable.

Note: External Accounts are considered to be discretionary funds. Cash transfers for purposes of contributing to UA-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 of the following sources: (i) the SRC's Internal Account; or (ii) a discretionary fund within the parent organization.

5.00 Equipment Reserve

5.1 Eligibility requirements

A service/recharge center (SRC) can include equipment reserve in its internal service billing rates (ISBRs). An SRC must submit equipment reserve requests to Financial Services Office – Rate Studies for authorization.

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

- No annual subsidization resulting in ISBR reductions for the SRC.
- The SRC has its own discretely identifiable space.
- The SRC 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, an SRC normally **will not be permitted** to reverse course at a later date. Accordingly, equipment reserve authorization must be considered as permanent, applying to each year of an SRC's existence. Under extraordinary circumstances, Financial Services Office – Rate Studies and RDI can, on a one-time basis, permanently remove equipment reserve authorization. Deauthorization will not be reversed again in the future, regardless of circumstances, regardless of circumstances. , regardless of circumstances.

The following conditions must be met for Financial Services Office – Rate Studies and RDI to consider deauthorization:

- Demand for the SRC's goods/services materially declines.

When an SRC is deauthorized, annual depreciation, gains/losses on disposals of capital equipment, and interest expenses applicable to the SRC will be included in future F&A rate calculations and, as a result, recovered through negotiated F&A rates rather than ISBRs.

5.3 Separate Equipment Reserve-Designated Recharge [EIRR-DR] Accounts required

SRCs that are authorized to recover equipment reserve through ISBRs must create and utilize EIRR-DR Accounts. SRCs must coordinate such requests through Financial Services Office – Rate Studies. For further guidance, see the following RSH sections: "General SRC account & accounting information;" and "EIRR-DR 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 SRC may be recovered through ISBRs. The SRC 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, an SRC cannot be included in ISBRs. This limitation essentially pertains to equipment reserve of equipment items that an SRC shares with non-SRC activities.

5.5 Items explicitly excluded from equipment reserve

For equipment reserve-authorized SRCs, ISBRs cannot include equipment reserve applicable to the following:

(A) Federally-funded portions of capital equipment depreciation

(B) Capital equipment claimed through Federal Surplus Property procedures

(C) 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).

(D) 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.

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

This includes capital equipment items that (i) cannot be located, or (ii) are unusable, unneeded or unused (other than idle equipment). This includes items relinquished to Financial Services Office - Procurement & Contracting Services – Surplus Property for disposition.

(F) Fully depreciated capital equipment items

(G) 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 ISBRs.

5.6 Idle capital equipment of authorized equipment reserve service/recharge centers [SRCs]

Equipment reserve recovery is allowable for idle capital equipment of an equipment reserve-authorized SRC if either of the following 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 ISBRs, but only for a reasonable period of time, 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

In cases where an equipment reserve-authorized SRC needs to borrow funds in order to obtain necessary capital equipment, the SRC is encouraged to seek a loan from internal sources, e.g., parent organization, or RDI.

If external financing is required, an equipment reserve-authorized SRC must submit a request to Financial Services Office – Rate Studies for coordination with Financial Services Office – Capital Finance. In turn, Financial Services Office – Capital Finance will coordinate with the Senior Vice President for Business Affairs. All institutional debt obligations are subject to the Senior VP's authorization.

Note: Interest expenses incurred on loans from external (i.e., non-UA) sources are allowable and recoverable within ISBRs. Interest expenses applicable to internal loans are not includible and recoverable in ISBRs. and recoverable in ISBRs.

5.8 Accounting for equipment reserve

For an equipment reserve-authorized SRC, the SRC must set aside equipment reserve in discrete accounts that can be used only for capital equipment acquisitions or, if applicable, debt service payments. See section "EIRR-DR Accounts" (including subsections).

5.9 Equipment reserve calculation data sources

UAccess Financials Capital Asset Management, Financial Services Office – Capital Finance, and Financial Services Office-Property Management are the official sources of SRC 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 (e.g., debt instruments, terms/conditions, asset descriptions and annual principle and interest payments) and related supporting documentation is maintained by and available from Financial Services Office – Capital Finance.

Gain/loss information pursuant to disposal of capital equipment is maintained by and available from Financial Services Office – Property Management.

EIR-authorized SRCs can request Financial Services Office – Rate Studies help with obtaining necessary equipment information.

5.10 Capitalizable equipment

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

5.11 Capital equipment inventories for authorized equipment reserve service/recharge centers [SRCs]

An SRC must inventory its capital equipment in accordance with "UA Financial Policy, PMM 12.30 Performing Physical Inventories."

Capital equipment assets that are assigned to and used exclusively by an equipment reserve-authorized SRC must be discretely tracked within UAccess Financials Capital Asset Management. This can be achieved by establishing and maintaining a unique Inventory Unit code for each specialized service facility (SSF) or equipment reserve-authorized SRC.

Financial Services Office – Rate Studies and Financial Services Office – Property Management will provide guidance to SRCs regarding equipment inventory matters.

5.12 Depreciation method and convention

Equipment reserve-authorized SRCs must follow UA depreciation methods and conventions. The UA 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, SRC5:

> "SRC5" 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, beginning with FY 2013 and ending with FY 2017.

5.13 Useful service lives

Standard UA-wide useful lives are established for various classes of capital equipment. The determination of an appropriate useful life for individual items or classes of capital assets is 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 SRC 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.

Financial Services Office – 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. Instead, such expenditures are considered immaterial and treated as basic operating costs, similar to consumable supplies.

6.00 Strategic Maintenance Reserve [SMR]

6.1 Strategic maintenance reserve [SMR] eligibility requirements

When certain conditions are met, an SRC can include SMR in its ISBRs. An SRC may submit requests for approval to establish an SMR to Financial Services Office – Rate Studies. For reference purposes, such SRCs are designated as "SMR-authorized SRCs."

In general, SMR circumstances will be recognized when strategic maintenance expenditures meet all the following conditions:

(A) Material expenditures

The SMR expenditures must (i) be material, and (ii) represent a material portion of the SRC's operating costs.

(B) Multi-period benefits

Although the expenditures occur at points in time in the useful life of a capital equipment item, they technically relate to (i.e., benefit) two or more fiscal years. .

(C) Distortion of ISBRs

Inclusion of the expenditures within the ISBRs of any single fiscal year will cause those ISBRs to be materially different than ISBRs in other years.

(D) Material deficits

Incurring the expenditures against an SRC'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 SRCs. See "Appendix C – Illustrative Examples: Journal Entries throughout the Life Cycle of Strategic Maintenance Reserves" to see how prepaid maintenance agreements and periodic strategic maintenance events are handled.

BEST PRACTICE

SRCs that are authorized to employ special strategic maintenance costing procedures will create and utilize Internal (SMR)-Sub-Accounts. For further guidance, see the following RSH sections: "General service/recharge center [SRC] account & accounting information;" and "Internal (SMR)-Sub-Accounts."

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 for the SRC and its customers.

(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 events normally occur not 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. refurbishments or key component replacements.

6.4 Strategic Maintenance Reserve [SMR] Plan

SMR-authorized SRCs must develop a financial and operational SMR Plan. The plan must be submitted and authorized by Financial Services Office – Rate Studies. An SMR Plan must identify the following elements:

(A) Necessary strategic maintenance requirements

An SMR-authorized SRC must substantiate all strategic maintenance requirements using objective information from reliable industry sources. Strategic maintenance is reasonably determinable based on manufacturer-defined parameters/specifications and recommendations, as well as operational/monitoring information (e.g., system health, utilization data) from either (i) embedded sensors or warning devices, or (ii) reliance upon 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 SRC 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 SRC 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 [SRC] Activities

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

An SRC and its parent organization will determine the level of available subsidization and the way the subsidization is provided and used. Such subsidization should be specified in the SRC's Business Plan that is subject to approval by Financial Services Office – Rate Studies, RDI, and other appropriately interested parties.

Note: An SRC must ensure that its ISBRs are sufficient to cover its breakeven-basis costs. Accordingly, the SRC must obtain subsidization as necessary to achieve breakeven. SRCs are encouraged to consult with Financial Services Office – Rate Studies regarding subsidization options and rate effects.breakeven-basis costs. Accordingly, the SRC must obtain subsidization as necessary to achieve breakeven. SRCs are encouraged to consult with Financial Services Office – Rate Studies regarding subsidization options and rate effects.

7.2 Subsidization sources

SRC subsidization can be provided from only either of the following discretionary fund sources:

- *An SRC's External Account; or*
- *Other discretionary funds provided by the SRC's parent organization and/or other interested/vested organizations.*

7.3 Subsidization methods/models

There are three general methods of subsidization available to SRCs. Descriptions of each of these methods, as well as relative advantages and disadvantages, are provided below.

(A) Utilization Subsidization

(I) Brief description

This is the UA's preferred form of subsidization. Under this method, using authorized full-cost ISBRs, 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 funds (e.g., grants/contracts). Most of the

delivered/consumed units normally are billed to internal customer fund sources, with remaining units billed to the subsidization funds.

Example, SRC7, #1:

> *SRC7 estimated that it will cost $100K to provide a total of 1,000 goods/services units customers during the upcoming year. Prior to any consideration of subsidization, SRC7's ISBR was $100/unit. SRC7's parent organization, however, set aside some discretionary funds for purposes of subsidizing 20% (i.e., $20K) of SRC7's internal customers.*

(II) Advantages

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

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

  Scenario: When PIs prepare their sponsored agreement proposals, required SRC goods/services are budgeted based upon the published ISBRs in existence at that time. Under the Utilization Subsidization Model, ISBRs are based upon the full-cost of providing these goods/services.

  Under the Utilization Subsidization Model, sponsored agreement budgets will be sufficient to cover the full-cost of providing these goods/services throughout the term of the agreements, whether any units of service ultimately are subsidized or not.

(III) Disadvantages

In terms of management and administrative/accounting support, it probably is the most burdensome of all subsidization models. An SRC 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, UA still believes the benefits of the Utilization Subsidization Method outweigh the accompanying additional costs/burdens. See Appendix G, SRC Tools, "iLab Core Facilities Operations Software" for information regarding a comprehensive SRC management software that removes the burden of accounting for this type of subsidization.

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

(B) Internal/Service Billing Rate [ISBR] Subsidization

Subsidized ISBRs are breakeven-basis rates that have been discounted (reduced) for some portion of an SRC's allowable operating costs or other discretionary fund sources – rather than by the SRC's Internal Accounts. The two types of subsidized ISBRs are described below.

(I) General ISBR Subsidization

(1) Brief description

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

Example, SRC8, #1:

> In Year-1 of operation, SRC8's parent organization used discretionary funds to pay for a portion of labor costs applicable to SRC8's technician. For simplicity, assume the technician's labor applies to the delivery of services to all of SRC8's internal customers. The parent organization and SRC8 decide to apply this ISBR subsidization in a non-preferential, indiscriminate manner to all the technician's activities. By doing so, all of SRC8's breakeven-basis ISBRs are reduced to not recover the subsidized costs. Also, all of SRC8's customers benefit from the parent organization's subsidization funding.

(2) Advantages

- All of an SRC's internal customers – rather than some subset of internal customers – effectively derive a proportional subsidization benefit via toned-down, breakeven-basis ISBRs. ISBRs.
- 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.

(3) Disadvantages

- Subsidized costs result in the use of artificially suppressed ISBRs.
- It applies subsidization to all ISBRs. As a result, this method precludes the SRC and/or its parent organization from directing subsidization to preferred internal customers.
- By subsidizing costs applicable to an SRC's ISBRs, the full financial picture applicable to running the SRC can be blurred. This can lead to hidden/ "stealth" subsidization. In either case, it can result in suboptimal strategic financial decision-making by the SRC's parent organization.
- Grants/contracts funded based on suppressed ISBRs will be underfunded if the ISBR subsidization is removed or reduced in future years.

  Scenario: When PIs prepare sponsored agreement proposals, an SRC's goods/services are budgeted based upon the published ISBRs in existence at that time. Assuming the project is awarded as proposed, the

award budget will (i) be less than it could have been due to the artificially suppressed ISBRs, and (ii) 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 SRCs that follow the General ISBR Subsidization Methodology, a common error when selling goods/services to external customers is to base their pre-ASC (or pre-F&A) external customer billing rates on breakeven-basis ISBRs. As a result, external customers inappropriately derive a benefit from subsidized rates.

  Note: In many cases involving external customers, SRCs should use premium billing rates. This is especially true where there is little or no convergence of interests between UA and the external customer. Fully-burdened cost-based rates are a type of premium rate. See the RSH section "Application of external custom [external customer] (premium) billing rates." The use of premium rates prevents external customers from receiving a hidden subsidization by UA.

(II) Targeted ISBR Subsidization

(1) Brief description

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

Example, SRC8, #1:

SRC8 has multiple technicians. The technicians are interchangeable. Also, all of them work on all of SRC8's goods/services. SRC8's parent organization decides to subsidize technician labor costs applicable to one particular service/rate. By doing so, SRC8's breakeven-basis costs required to deliver that particular 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 SRC8's other services do not.

(2) Advantages

- It allows the SRC (or its parent organization) to direct available subsidization toward specific ISBRs. This is accomplished by charging subsidization sources for some or all operating costs of the chosen good/service.
- Since each pertinent 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.

(3) Disadvantages

Shortcomings of the Targeted ISBR and General ISBR Subsidization methods are the same. Accordingly, see the RSH section "Disadvantages" (under the General ISBR Subsidization section).

Notes: In the event General or Targeted ISBR Subsidization funding is eliminated or materially reduced, ISBRs will need to be increased in a timely manner to (i) recoup labor costs and/or basic operating costs previously incurred against discretionary funds, and (ii) prevent a fund balance deficit greater than planned or expected. As a practical matter, such rate increases can have severe budgetary impacts on internal customers that utilize an SRC extensively, notably, sponsor-funded internal customers.

In cases where subsidization reductions adversely affect sponsored agreements, affected PIs must pursue supplemental funding from relevant parent organizations, RDI, the Budget Office, or Senior Vice President for Business Affairs. Under no circumstances, is it permissible for an SRC to provide a customer with goods/services for which the customer isn't billed. For purposes of the RSH, provision of goods/services on an unbilled basis is considered to be a type of bad debt – hence, unallowable.

OPTIONAL PRACTICE

(C) Subsidization Infusion

(I) Brief description

This scheme is similar to the ISBR Subsidization Method in that discretionary funds are provided to defray an SRC's operating costs, thereby creating artificially suppressed breakeven-basis ISBRs. The following facets, however, differentiate the Subsidization Infusion Method from the ISBR Subsidization Method. Each of these facets must be explicitly addressed in an SRC's authorized Business Plan.

(1) All the SRC's operating costs will be incurred against its Internal Account

None of the SRC's operating costs can be incurred against Discretionary Funds.

(2) Ongoing structural operating deficits in the SRC's Internal Account are expected

The SRC and its parent organization expressly intend to utilize ISBRs that likely will result in structural operating deficits in its Internal Account each month.

(3) Parent organization will backstop and backfill all deficits

The SRC's parent organization or some 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.

(II) Advantages

- *It provides a comprehensive financial picture of all costs and revenues (cost recovery) applicable to an SRC.*
- *It results in the use of true, full-cost ISBRs – rather than artificially suppressed ISBRs. Such full-cost ISBRs will greatly simplify the development of fully-burdened rates applicable to external customers.*

Note: This does not preclude the use of artificially suppressed ISBRs. The use of such rates will likely lead to operating deficits.

- *Since all an SRC'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 an SRC's internal customers – rather than some subset of internal customers – effectively derive a proportional subsidization benefit via toned-down, breakeven-basis ISBRs.*

(III) **Disadvantages**

- *It applies subsidization to all ISBRs. As a result, this method precludes the SRC and/or its parent organization from directing subsidization to preferred internal customers.*

- *For SRCs that follow the Subsidization Infusion Methodology, a common error when selling goods/services to external customers is to base their pre-ASC (or pre-F&A) external customer billing rates on breakeven-basis ISBRs. As a result, external customers inappropriately derive a benefit from subsidized rates. See relevant Note in the General ISBR Subsidization section.*

Notes: In the event Subsidization Infusion funding is eliminated or materially reduced, ISBRs will need to be increased in a timely manner in order to prevent fund balance deficits greater than previously planned or expected. As a practical matter, such rate increases can have severe budgetary impacts on internal customers that utilize an SRC extensively, notably, sponsor-funded internal customers.

In cases where subsidization reductions adversely affect sponsored agreements, affected PIs must pursue supplemental funding from relevant parent organizations, RDI, the Budget Office, or Senior Vice President for Business Affairs. Under no circumstances is it permissible for an SRC to provide a customer with goods/services for which the customer isn't billed. For purposes of the Rate Studies Handbook (RSH), provision of goods/services on an unbilled basis is a type of bad debt, hence, unallowable.

7.4 Accounting and recordkeeping for subsidization

SRCs must discretely track subsidization. The specific accounting practices used to track such subsidization should be identified in the SRC's Business Plan.

- Supplementary recordkeeping and other procedures. See the RSH section "Supplementary financial records."

- Also, see the RSH section "General SRC account & accounting information."

7.5 Internal Customers versus External Customers

Ideally, subsidization should be limited to just internal customers. While external customers with convergent interests may benefit from some subsidization, such subsidization should never be material in aggregate. SRCs should rarely if ever engage in sales/services activities that result in subsidization benefiting private sector entities. See the Rate Studies Handbook (RSH) section "External customer ("Premium") billing rates."

8.00 Billing Practices

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

An SRC cannot provide free, bartered or unbilled goods/services to customers because this would inappropriately shift the cost of those goods/services to other paying customers. Accordingly, an SRC must bill each customer for goods/services supplied to that customer, provided the goods/services meet proper or specified quality standards. Applicable internal service billings cannot be borne by an SRC's Internal Accounts. They can be borne by non-SRC subsidization funding. See the RSH section "Subsidization of Service/Recharge Center [SRC] Activities."

8.2 Internal/service billing rates [ISBRs] should be posted

An SRC should post and maintain on its website a schedule of current billing practices and ISBRs. Also, an SRC should advise internal customers to become familiar with the SRC's practices and ISBRs prior to requesting/ordering goods/services. SRCs should post a notice of any upcoming changes in ISBRs at least 30 days prior to implementation. A longer advance notification period is preferable. SRCs may request Financial Services Office – Rate Studies feedback regarding the SRC's website practices.

8.3 Uniform application of internal/service billing rates [ISBRs]

SRCs must bill internal customers for goods/services delivered/provided to them. Such billings must be based solely on ISBRs authorized by Financial Services Office – Rate Studies. SRCs cannot charge internal customers using rates other than those that have been expressly authorized by Financial Services Office – Rate Studies. Authorized ISBRs must be applied on a consistent, nondiscriminatory basis to all internal customers, regardless of funding source or organizational affiliation within the UA.

Note: Prorated portions of approved ISBRs 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

An SRC should have internal customers identify appropriate fund sources, i.e., UAccess Financials accounts, that can be billed for goods/services delivered/provided to the internal customers. Also, in the case of sponsored agreements, an SRC should obtain project termination dates. These pieces of information will (i) facilitate the identification and use of appropriate ISBRs, and (ii) ensure that internal customer sources pay for their goods/services.

8.5 Internal/service billings (IB) and external customer invoicing

(A) Internal/service billing processing

An SRC must follow appropriate UAccess Financials internal service billing procedures.

(I) Internal customers

(1) Object codes applicable to internal customers

SRCs must use an appropriate UAccess Financials object code (e.g., 0616, Services – Internal) for recording of internal service billing revenue to the SRC'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, an SRC must process IBs in a timely manner, preferably within 30 days of providing goods/services.

Where feasible, SRCs should process IBs on a monthly basis. This is especially important for SRCs that regularly serve sponsor-funded internal customers. SRCs that follow a monthly processing cycle can minimize if not entirely 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 SRC or negative financial complications for the internal customer's parent organization.

(3) IBs allowable only after goods/services are provided to internal customers

An SRC can process IBs against an internal customer's UAccess Financials account only **after** the goods/services have been completed and delivered to the internal customer. In limited circumstances, subject to Financial Services Office – Rate Studies authorization, an SRC can also process IBs according to recognized "work-in-progress" or "percentage of completion" practices. "work-in-progress" or "percentage of completion" practices.

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

An SRC cannot bill an internal customer when doing so effectively represents a prepayment for goods/services, even if/when 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, SRCs 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) IBs applicable to external customers

SRCs 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 ISBRs rather than premium billing rates. Such revenue belongs to the SRC's Internal Account. At the same time, object code 4218 (Service Center Cost) must be used to record expenditures to the SRC's External Account. .

Note: By recording object code 4218 expenditures into the External Account, the SRC efficiently and effectively allocates (i.e., recognizes) breakeven-basis

costs applicable to goods/services provided to external customers. As a result, 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

An SRC 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 following are acceptable timing options for invoicing external customers:

- 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

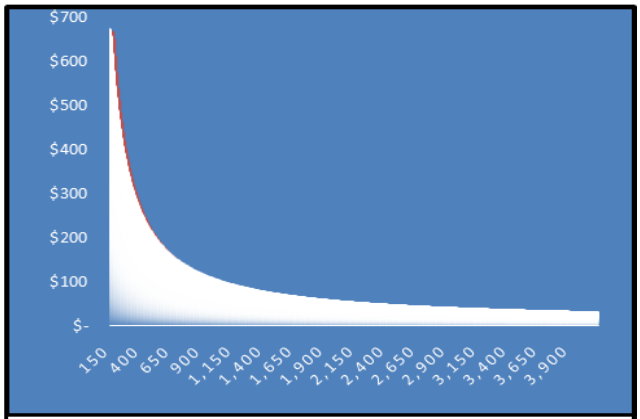
Many estimates and assumptions need to be made in order to formulate ISBRs for new SRCs, but historical data will eventually be the basis upon which ISBRs are formulated. The two factors that will ultimately determine ISBRs over an SRC's life are costs and utilization. Mathematically ISBRs are defined by the following equation:

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

Example:

The graphical depiction below illustrates changes in calculated ISBR based on changes in utilization from 150 to 4,150 hours with fixed operating costs of $100,000 and variable (i.e., marginal) costs of $4.50 per hour. The figure below well illustrates both the vertical asymptote at zero and the horizontal asymptote at average marginal cost.

Figure 4: Changes in ISBR with Changing Use



Hourly Rate: fixed costs of $100,000; marginal costs of $4.50 per hour & usage from 150 – 4,150 hours.

The cost component within these equations is comprised of both variable and fixed costs. Variable costs increase essentially 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 SRCs in order to mitigate ISBRs. 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 ISBRs, regardless of the level of utilization within the SRC.

Based on the equation above, it is also evident that the level of utilization of the SRC's goods/services is the other (and perhaps more important) driver of ISBRs. The equation below describes the change in ISBR as a result of changes in utilization.

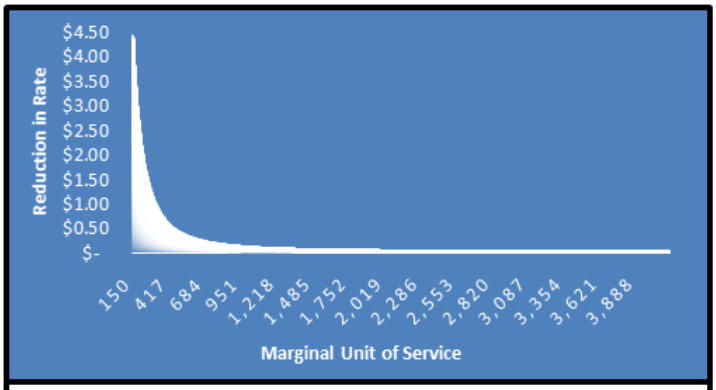
$$\Delta \text{ Rate} = \text{Fixed Costs } \left(\frac{1}{n} - \frac{1}{(n-1)}\right), \text{ where}$$

n = last marginal unit of service sold, and sales are made in discrete units.

Example:

The figure below is a graphical depiction of the change in ISBR per hour for every hour of change in utilization time, within the range of 150 to 4,150 hours.

Figure 5: Rate of Change in ISBR with Changing Use



Δ in hourly rate per Δ in usage: fixed costs of $100,000; marginal costs of $4.50 per hour & usage from 150 – 4,150 hours.

9.2 Sources of data & information

(A) Official data sources

SRCs must develop ISBRs and full-cost rates primarily from data drawn from official UA enterprise systems.

The following UAccess systems contain official institutional financial related data that is needed for purposes of developing ISBRs 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 F&A rates and SRC ISBRs. This system is managed and maintained by Planning Design & Construction - Space Management.

(B) Supplemental sources

As necessary, an SRC can supplement UAccess or Archibus data with subsidiary records. Such information, however, must be consistent with (and periodically reconciled to) data drawn from applicable UA enterprise systems. See the RSH section "Supplementary recordkeeping."

An SRC should reconcile its subsidiary financial records with UAccess Financials data on a monthly basis.

9.3 Consistent practices

An SRC must consistently follow established rate setting and cost accounting practices. Cost accounting practices cannot be changed merely for budgetary or administrative convenience.

An SRC must apply authorized ISBRs in a consistent, nondiscriminatory manner to all internal customers, regardless of fund source.

An SRC must request Financial Services Office – Rate Studies authorization prior to making changes in cost accounting practices and/or ISBRs. Depending on the nature and potential significance of the changes, Financial Services Office – Rate Studies may need to seek Cognizant Agency for Indirect Costs authorization.

9.4 Breakeven-basis

An SRC must design its individual ISBRs to recapture only allowable breakeven operating costs, including:

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

    Note: A critical objective here is to match strategic maintenance costs with applicable fiscal periods and customers benefited.
- Equipment reserve, where authorized by Financial Services Office – Rate Studies.

ISBR calculations normally cannot include either of the following:

- Costs borne by an SRC's Subsidization Account
- Projected equipment reserve

9.5 Goods/services groups

An SRC 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.

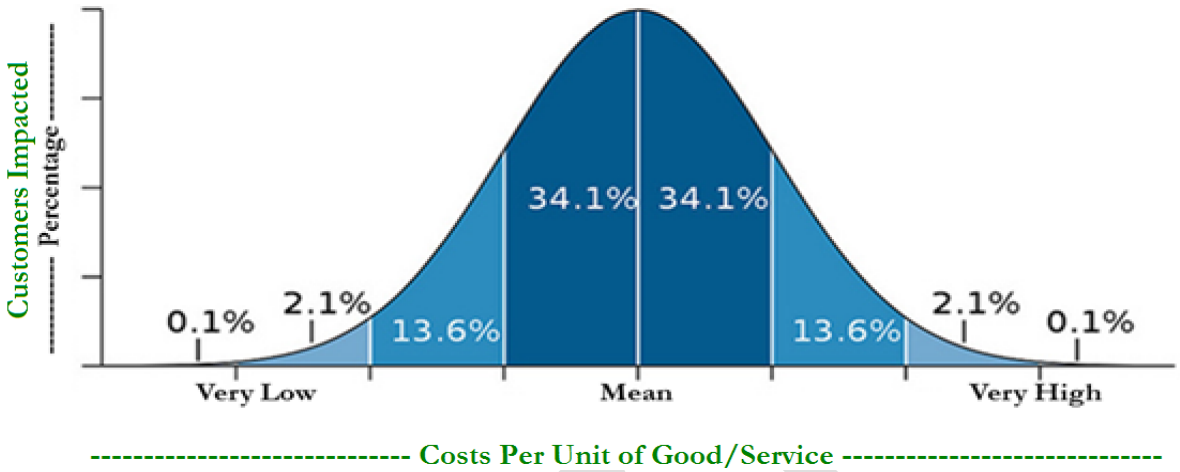
9.6 A separate rate for each distinct good/service

Key principles for ISBRs are as follows:

- *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).*

  Note: Think of this in terms of the following illustration of a normal distribution, or "bell curve". See the figure below.

Figure 6: Normal Distribution of Cost per Unit Service



In general, a unique ISBR must be developed for a good/service when the following 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 (i.e., units of goods/services)

The two most common bases and "average unit rates" are as follows:

(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.

Example, SRC9:

SRC9 provides an employee who provides technician services.

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

Annual costs include: (i) the technician's annual salary for the most recent fiscal year; (ii) minor supplies; (iii) authorized salary adjustments for the coming fiscal year; (iv) projected ERE based on Federally-negotiated fringe benefits rates; and (v) 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, SRC10:

SRC10 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; (ii) supplies/materials consumed while running standard assays; (iii) authorized salary adjustments for the coming fiscal year; (iv) projected ERE based on Federally-negotiated fringe benefits rates; and (v) adjustment for an Internal Account fund balance surplus for the most recent fiscal year.

9.8 Breakeven required

(A) Annual breakeven

In most cases, an SRC must design ISBRs 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, an SRC will develop an appropriate Breakeven Plan. The goal of this plan is to achieve breakeven by the end of the established breakeven period. Accordingly, the goods/services group is not necessarily expected to achieve breakeven in any one fiscal year. SRCs must submit the plan to Financial Services Office – Rate Studies for authorization. Where appropriate/necessary, Financial Services Office – Rate Studies may involve RDI and other interested parties (e.g., Budget Office).

Example, SRC11:

> *Due to high "start-up costs" for a new service, "SRC11" expects the costs for one of its goods/services groups will exceed revenues by $25K over the first 2 years of availability. SRC11, however, plans on recapturing and eliminating that deficit in Years 3 and 4. Accordingly, SRC11 develops a Breakeven Plan and forwards it to Financial Services Office – Rate Studies and, where appropriate/necessary, the Budget Office for authorization.*

(C) Monitoring and revising the Breakeven Plan

An SRC must routinely monitor progress toward achieving breakeven according to the Breakeven Plan. When necessary to maintain the integrity of the original plan, or when material changes occur, an SRC can request Financial Services Office – Rate Studies authorization to modify the Breakeven Plan and/or ISBRs. Where appropriate/necessary, Financial Services Office – Rate Studies may involve RDI and other interested parties (e.g., Budget Office).

9.9 Internal allocations of operating costs

SRCs must distribute operating costs between goods/services groups and/or between individual goods/services using a sound cost allocation methodology. Such methodology is one that 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 [ISBRs]

(A) Historic data

When performing a rate study to update existing ISBRs, an SRC's calculations must be based primarily on historic (actual) data. The following types of historic (actual) data are required for ISBR development:

- 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 an SRC's Internal Account fund balance, including, where possible, an initial breakdown of the fund balance by goods/services group. This information is especially needed for an SRC 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 ISBRs. This information must be based on the same time period for which allowable cost data pertains.

  Examples:

  - 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 an SRC; utilization statistics (e.g., units of service); or other material factors. Such data, however, must be based on known or reasonably predictable evidence or information. Such data 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 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 [SRCs] or new internal/service billing rates [ISBRs]

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

9.12 Primary characteristics of allowable costs

An SRC can include only allowable operating costs in its ISBRs. The allowability of costs should be determined prior to the incurrence of the costs. When in doubt, an SRC should seek guidance from Financial Services Office – Rate Studies. The absence of prior approval from Financial Services Office – Rate Studies will not affect the ultimate determination of allowability. The following general rules apply for purposes of determining whether an SRC cost is allowable:

(A) Necessary and reasonable

The cost must be necessary and reasonable for the provision of goods/services. In this regard, an SRC 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 SRC 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 UA Community, the SRC and various other stakeholders (e.g., Federal Government, State of Arizona, Board of Regents, sponsors/donors, taxpayers)
- Established practices and policies. Deviations cannot result in materially higher costs and unjustifiable increases in ISBRs

(B) Properly allocable

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

- The cost relates to a specific ISBR.
- The cost relates to multiple ISBRs but can be distributed equitably between the ISBRs 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, SRC12:

SRC12 provides two different types of testing services. SRC12 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 the following:

- GAAP
- The rate studies handbook, which embodies pertinent Federal Guidelines
- Relevant UA policies and procedures

An SRC's operating costs must be applied in a consistent, uniform, non-discriminatory manner to all internal customer fund sources. Specific F&A types of costs applicable to an SRC must be treated consistently (in like circumstances) and uniformly as includible in and recoverable through either ISBRs or institutional F&A rates – but not both at the same time. ISBR and F&A 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 RSH section on Primary Characteristics of Allowable costs. An SRC cannot recover such costs through ISBRs. An SRC should seek guidance from Financial Services Office – 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, the following:

- 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 "UA Financial Policy FSM 18.10" or adhere to the RSH
- Required/mandated refunds/reimbursements to internal customers

Note: Refunds/reimbursements normally should be achieved by reducing relevant ISBRs. 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 [SRC'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 (educational) 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 UA-wide, college-wide, or departmental budgetary rescissions/sweeps.

(F) Administrative Service Charges [ASCs] do not apply to internal customers internal customers

UA assesses ASC only against external customer sales/services activities. Goods/services provided to an internal customer are exempt from ASC.

(G) 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 (UA) parties.

Note: Equipment reserve-authorized SRCs are permitted to include equipment reserve in their ISBRs. Equipment reserve explicitly excludes principal/interest on internal loans.

9.14 Frequency of rate adjustments

In most cases, ISBRs normally should be used for at least an entire year, preferably a fiscal year. Mid-year adjustments can be justified in cases where (i) subsidization funding is eliminated or materially reduced, or (ii) 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. An SRC must submit all rate changes to Financial Services Office – Rate Studies for authorization. for authorization.

9.15 Frequency of billing rate studies

An SRC must perform a comprehensive billing rate study at least once every two years in order to update each of its ISBRs, based on contemporary actual costs and units of service. The study must be submitted to Financial Services Office – 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 Financial Services Office – Rate Studies review and authorization.

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

An SRC 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 to be excessive.

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

In cases of particularly large deficits or surpluses, however, a longer remediation period will be required to not affect ISBRs in any one year too materially. In these instances, a reasonable Remediation Plan must be developed – unless the surpluses/deficits are already part of an authorized Breakeven Plan. The SRC must submit the proposed Remediation Plan to Financial Services Office – Rate Studies for authorization. authorization.

Table 1: Timetable for Eliminating Deficits/Surpluses in Internal Accounts

Deficit/Excessive Surplus Stated as a % of Annual OCs		*Remediation Plan*
From	*To*	
0%	*14.99%*	*1 year*
0%	*-14.99%*	
15%	*29.99%*	*2 years*
- 15%	*- 29.99%*	
30%	*44.99%*	*3 years*
- 30%	*- 44.99%*	
45%	*59.99%*	*4 years*
- 45%	*- 59.99%*	
60%	*Beyond*	*Financial Services Office – Rate Studies will negotiate with the UA's Cognizant Agency for Indirect Costs*
- 60%	*- Beyond*	

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

For years when rate studies are not performed, SRCs must maintain their Internal Account fund balances within allowable limits. Appropriate ISBR adjustments must be made where deficit or excessive fund balances are present or reasonably anticipated. An SRC must submit such adjustments to Financial Services Office – Rate Studies for authorization prior to implementation.

9.18 Advance notifications of possible rate adjustments

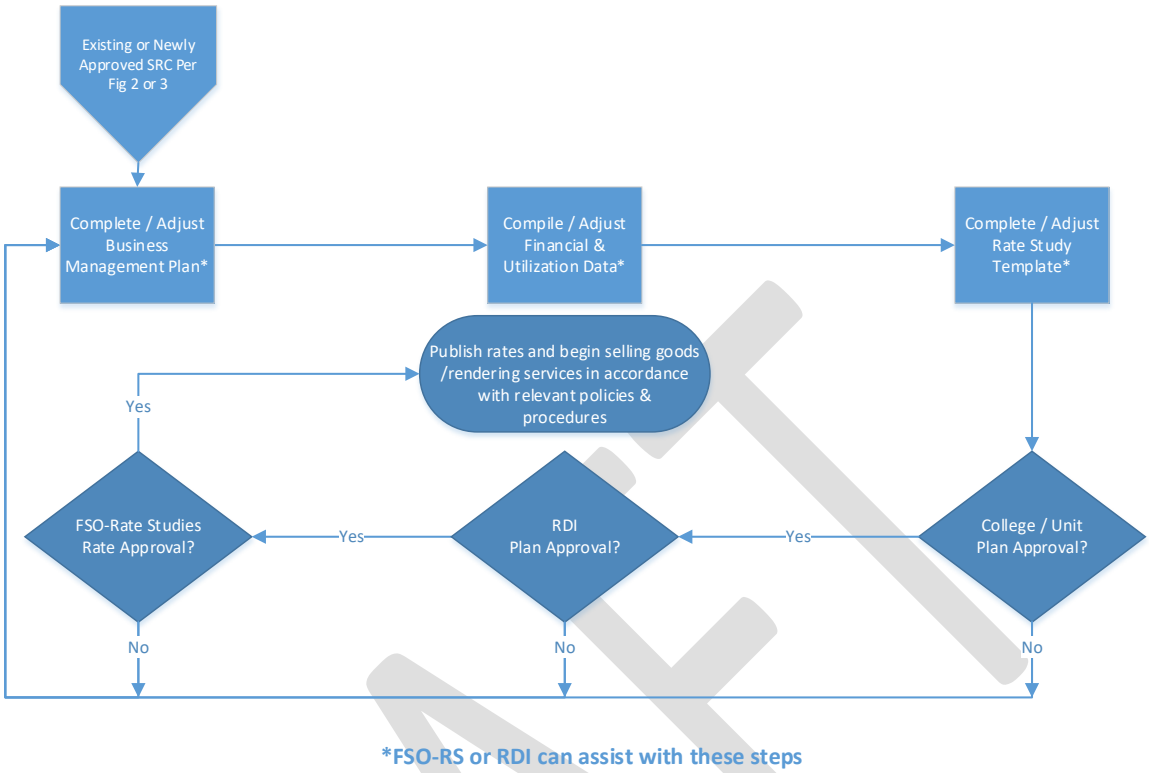
SRCs must give internal customers a reasonable forewarning of changes in ISBRs, or of anticipated rate studies, since these normally result in adjustments to existing ISBRs. This can be accomplished through direct correspondence with internal customers (including email) or appropriate website announcements, advisories, or bulletins.

An SRC should provide advance notifications to internal customers 30-60 days prior to implementation of new/adjusted ISBRs.

9.19 Rate study completion steps

The figure below provides an overview of the major steps during a rate study:

Figure 7: Rate Study Process for Existing or Newly Authorized SRCs



9.20 Conditional internal/service billing rates

Conditional ISBRs 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 ISBRs must be applied consistently and uniformly to all internal customers, regardless of fund source.

SRC requests to establish and use such rates must be submitted to Financial Services Office – Rate Studies for authorization. Such requests 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

An SRC 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, SRC13:

"SRC13" provides a type of assay service. Charges to ICs are based on instrument cycles. Technician labor and supplies/materials are the major input costs. According to a special study performed by its technician, SRC13 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, SRC13 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

An SRC 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:

- An SRC's established and posted operating policies and procedures must distinguish between normal and abnormal workflow processes. Accordingly, the SRC's policies/ procedures must specifically (i) address normal scheduling or sequencing of jobs/orders, and (ii) accommodate urgent/priority customer requirements.

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

  Example, SRC14:

  A researcher asks SRC14 to perform a particular service within 24 hours. In order to satisfy this request, SRC14 must set aside the other customer orders already in progress. SRC14 will track the additional costs of (i) setting aside those other orders, and (ii) 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 his/her good/service, then (s)he must seek Sponsored Projects & Contracting Services (SPCS) authorization before incurring priority/urgent service charges. SPCS may require sponsor authorization.

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

An SRC 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).

An SRC's established and posted operating policies and procedures must explicitly (i) identify the normal working hours, and (ii) 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 ISBRs, off-peak hour ISBRs must be based on actual costs of the service.

Example, SRC15:

SRC15 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, SRC15 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), SRC15 determines that off-peak hour access rates will be lower than the weekday rates.

(D) Customer "no-show" fees

An SRC 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 SRC 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 RSH section "External customer (premium) billing rates."

Note: While the SRC 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).

9.21 Recovery of Facilities & Administration [F&A] through internal/service billing rates [ISBRs]

Indirect types of costs cannot be simultaneously included in and recovered through an SRC's ISBRs and UA's F&A rates. Accordingly, indirect types of costs that are included in ISBRs must be excluded from UA F&A rate mechanisms. Conversely, indirect types of costs that are included in UA's F&A rate mechanisms must be excluded from ISBRs. UA's F&A rate practices normally take precedence over SRC ISBR practices. An SRC should seek Financial Services Office – Rate Studies guidance in determining whether particular costs are recoverable through F&A or ISBRs.

9.22 Depreciation and interest expenses applicable to equipment

(A) Equipment reserve-authorized SRCs

An equipment reserve-authorized SRC (including SSFs) must include within its ISBRs 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 SRC. SRCs cannot pick and choose which items to include within or exclude from ISBRs. Accordingly, all an SRC's equipment reserve expenses are recoverable only through the SRC's ISBRs. Within the UA's F&A

Rate Proposal, Financial Services Office – Rate Studies allocates equipment reserve-authorized depreciation and interest expenses entirely to the "Other Institutional Activities" category. This action has the effect of removing all equipment reserve expenses of equipment reserve -authorized SRCs from the UA's F&A rates. F&A Rate Proposal, Financial Services Office – Rate Studies allocates equipment reserve-authorized depreciation and interest expenses entirely to the "Other Institutional Activities" category. This action has the effect of removing all equipment reserve expenses of equipment reserve -authorized SRCs from the UA's F&A rates.

(B) Equipment reserve unauthorized SRCs

An equipment reserve unauthorized SRC cannot include within its ISBRs 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 SRC or indirectly allocable to the SRC. Accordingly, none of the SRC's equipment reserve expenses are recoverable through the SRC's ISBRs. Instead, all such equipment reserve are included in UA's F&A Rate Proposals by Financial Services Office – Rate Studies and reallocated to the F&A (base) categories of the SRC's customers. This reallocation is based on an analysis of the SRC's revenue by customer source. This action has the effect of including all equipment reserve expenses of equipment reserve unauthorized SRCs in pertinent UA F&A rates.

9.23 Depreciation and interest expenses applicable to buildings & improvements

(A) Specialized service facilities [SSFs]

Within UA's F&A Rate Proposals, Financial Services Office – 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 to an SSF or indirectly allocable to the SSF, such as building systems/infrastructure. This action has the effect of removing all such costs from the UA's F&A rates. At the discretion of UA executive management, an SSF may be required to include (and recover) these costs in part or whole through its ISBRs.

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

(B) Service/Recharge Centers [SRCs]

An SRC cannot include any buildings & improvements depreciation and interest expenses within its ISBRs. This applies to all buildings & improvements assets directly assignable to an SRC or indirectly allocable to the SRC. Financial Services Office – Rate Studies includes these expenses in the UA's F&A Rate Proposals and reallocates them to the F&A (base) categories of the SRC's customers. This reallocation is based on an analysis of the SRC's revenue by customer source. This action has the effect of incorporating all SRC buildings & improvements depreciation and interest expenses into benefiting UA F&A rates.

9.24 Institutional operations and maintenance [O&M] costs

(A) Specialized service facilities [SSFs]

Within UA's F&A Rate Proposals, Financial Services Office – 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 directly 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 UA's F&A rates. At the discretion of UA executive management, these costs may be included in part or whole in an SSF's ISBRs.

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

(B) Service/Recharge Centers [SRCs]

An SRC cannot include within its ISBRs any institutional O&M costs. This includes institution-level O&M costs that are directly assignable to an SRC or indirectly allocable to an SRC, such as utilities, building security, and maintenance of building systems/infrastructure. Accordingly, none of these expenses are recoverable through an SRC's ISBRs. Instead, Financial Services Office – Rate Studies includes these costs in the UA's F&A Rate Proposals and reallocates them to the F&A (base) categories of the SRC's customers. This reallocation is based on an analysis of the SRC's revenue by customer source. This action has the effect of incorporating all SRC O&M expenses into benefiting UA's F&A rates.

9.25 Service/recharge center [SRC] overhead costs

An SRC must include its own indirect types of costs in its ISBRs, provided such costs are explicitly identifiable to the SRC. An SRC can choose to subsidize such costs using discretionary funds.

College/Departmental Administration types of costs that are explicitly assignable/beneficial to an SRC may be incurred against the SRC's Internal Account. When this happens, applicable costs must be (i) included in the SRC's ISBRs, and (ii) allocated entirely to the "Other Institutional Activities" category within the UA's F&A Proposal. The latter action removes all such costs from the UA's F&A rates.

Note: College/Departmental Administration costs directly assignable to an SRC may also be incurred against the SRC's External Account or some other discretionary fund source. In such cases, the costs cannot be included in or recovered through the SRC's ISBRs.

An SRC must exclude College/Departmental Administration and UA-level General Administration & General Expenses costs from its ISBRs. Instead, Financial Services Office – Rate Studies includes these costs in the UA's F&A Rate Proposals and allocates them to pertinent F&A (base) categories according to standard College/Departmental Administration and General Administration & General Expenses allocation methodologies. This action has the effect of incorporating all SRC College/Departmental Administration and General Administration & General Expenses costs into benefiting UA F&A rates.

9.26 Table 2: Cost Recovery Mechanisms for Major Types of Facilities & Administration [F&A] Costs Applicable to Service/Recharge Centers [SRCs]

Facilities & Administration F&A Cost Pool Category Type of SRC	Costs will be included in & recovered through …	
	… relevant F&A Rates	… ISBRs
Facilities		
Depreciation and Interest Expenses that are related to SRC-utilized equipment		
Recharge Centers [RCs] and Service Centers [SCs] that are equipment reserve authorized		✓ 1
SRCs that are equipment reserve unauthorized	✓ 2	
Specialized Service Facilities [SSFs]		✓ 1
Depreciation and Interest Expenses that are related to SRC-occupied space (buildings/improvements)		
SRCs	✓ 2	
SSFs		✓ 1
Operations & Maintenance [O&M] costs that are related to SRC-occupied space		
SRCs	✓ 2	
SSFs		✓ 1
Administration		
College/Departmental Administration [College/Departmental Administration] costs that are explicitly/directly related to SRC activities		
SRCs		✓ 1
SSFs		✓ 1
College/Departmental Administration costs that are ***not*** explicitly/directly related to SRC activities		
SRCs	✓ 3	
SSFs		✓ 1
General & Administration [G&A] costs applicable to SRC activities		
RCs, SCs and SSFs	✓ 3	

Notes/explanations:

1 Within each 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 F&A rates. At the discretion of executive management, these costs may be included in part or whole through ISBRs. Costs that are excluded from ISBRs essentially represent another form of institutional subsidization of SRCs.

2 Within each F&A Proposal, these costs are reallocated to the F&A base (or, if applicable, pool) classification related to an SRC's customers. This reallocation is based on an analysis of the SRC'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 F&A rates.

3 Within each 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 (i) each F&A Rate Proposal, and (ii) the UA's CAS Disclosure Statement [DS-2].

Note: IBs represent expenditures to SRC customers. As such, those expenditures ultimately are embedded in appropriate F&A Modified Total Direct Cost [MTDC] bases. As a result, customer IB expenditures receive an appropriate allocation of College/Departmental Administration and General Administration & General Expenses cost pools.

9.27 Administrative Service Charge [ASC] assessments

ASC is not assessed against an SRC's IB transactions. An SRC cannot include any ASC assessments in its ISBRs.

9.28 External customer [EC] (premium) billing rates

For goods/services furnished to ECs, an SRC must invoice the ECs using the most appropriate premium rate(s). The rate to be used is dependent upon the relationship of the customer to the UA.

(A) Types of premium billing rates

At minimum, goods/services furnished to ECs must be invoiced by SRCs using minimally-augmented ISBRs. The following describes the various types of premium rates:

(I) Private sector EC rates

These are rates the private (for-profit) sector charges for similar goods/services.

(II) Burdened, cost-based EC rates

There are three such rates. The following table depicts the three types and the types of costs that must be recovered.

Table 3: Cost-Based External Customer [EC] Rates

Cost Element	No (N)/Partial (P)/Full (F) 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 SRCs only)	F	F	F
Equipment reserve (authorized SRCs)	F	F	F
Subsidized Costs			
Labor [1]	N	*P* [2]	*F*
basic operating costs [1]	N	*P* [2]	*F*
SMR (SMR-unauthorized SRCs only) [1]	N	*P* [2]	*F*
Unallowable Costs [1]	N	*P* [2]	*F*
Facilities & Administrative			
ASC (for all SRCs)	F	F	F
Equipment reserve (for unauthorized SRCs only), if determinable [1]	N	*P* [2]	*F*
F&A Rate Differential (for equipment reserve -authorized SRCs only) [1]	N	*P* [3, 2]	*F* [3]
F&A Rate Differential (for equipment reserve -unauthorized SRCs only) [1]	N	*P* [4, 2]	*F* [4]

Notes/explanations:

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

[2] *The SRC determines how much of this cost element it wants to include in the EC rate.*

[3] *Differential = [Applicable Cognizant Agency for Indirect Costs-approved F&A rate] – [equipment reserve Components of the F&A rate] – [ASC rate]*

[4] *If equipment reserve is readily determinable for the SRC: See Differential per Note 3, above;*

Or,

If equipment reserve is not readily determinable for the SRC: Differential = [Applicable Cognizant Agency for Indirect Costs-approved F&A rate] – [ASC rate]

BEST PRACTICE

(B) Application of external customer [EC] (premium) billing rates

BEST PRACTICE

The type of rate that an SRC should apply to an EC depends on (i) programmatic interrelationships between the UA and the EC, and (ii) the type of customer.

Note: An SRC can never invoice ECs using rates that are less than ISBRs.

BEST PRACTICE

(I) Convergent programmatic interests

For goods/services provided to EC activities in which the EC and UA have convergent programmatic interests, an SRC can invoice the EC based on minimally-augmented ISBRs. In certain cases, marginally-augmented ISBRs may be more appropriate.

UA and EC interests are considered as converged when one or both of the following conditions are met:

- *SRC goods/services will assist EC activities in which UA will be substantively engaged and formally recognized as a fundamental collaborator/contributor.*
- *SRC goods/services will assist EC activities the success of which will substantively enhance UA's activities, programs or projects.*

BEST PRACTICE

(II) Non-convergent programmatic interests

In the absence of convergent programmatic interests, an SRC's relationship with an EC will be considered to be that of a "vendor providing goods/services." The following applies:

(1) State of Arizona and Federal entities

For goods/services provided to the following types of ECs, an SRC can invoice the ECs based on marginally-burdened ISBRs. In certain circumstances, fully-burdened ISBRs 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 (i.e., K-12) 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. Upon request, Entities should provide the applicable Federal award number or, alternatively, the pertinent Catalog of Federal Domestic Assistance [CFDA] reference.*

(2) All other entities

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

For goods/services furnished to these types of organizations, an SRC can invoice the ECs based on marginally-burdened ISBRs. Application of fully-burdened ISBRs is encouraged.

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

For goods/services furnished to such entities, an SRC can invoice the ECs based on fully-burdened ISBRs. Application of private sector EC billing rates is encouraged.

(III) Quick reference table for identifying types of premium billing rates by EC type

Table 4: Application of Premium Billing Rates by External Customer [EC] Type

Key: [Yes (Y)/No (N)/Maybe (M)]				
	Cost-Based Rates			
Relationship to UA Programmatic Interests and Type of External Customers (EC)	**Minimally-Augmented ISBR**	**Marginally-Augmented ISBR**	**Fully-Augmented ISBR**	**Private Sector (Marketplace) Rates**
EC & UA programmatic interests converge	**Y**	***M****	***N***	***N***
EC & UA programmatic interests don't 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) Organizations]	***N***	***N***	***Y***	***M****
Private Sector (For-Profit) Entities	***N***	***N***	***Y***	***M****
Others (Not Identified Above)	***N***	***N***	***Y***	***M****

* M = Maybe (i.e., it depends on the circumstances)

10.00 Closures, Consolidations, or Reorganizations of Service/Recharge [SRCs] or Goods/Services Groups

10.1 Circumstances warranting closure or reorganization

(A) Discontinuation of a goods/services group

An SRC 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 [SRC]

At the point it becomes clear that an SRC can no longer sustain itself on a breakeven-basis, the SRC should develop a Closure Plan.

(C) Service/recharge center [SRC] reorganization or absorption

At the point greater efficiencies and effectiveness can be achieved by reorganizing/consolidating an SRC into another SRC, the pertinent SRCs should develop a Consolidation Plan. The SRCs should submit the plan to the following parties for authorization: Financial Services Office – Rate Studies; RDI; and the SRC's parent organization(s).

Note: Where feasible, SRCs should consult with Financial Services Office – Rate Studies at least three months prior to any planned closures, consolidations, or reorganizations of good(s)/service(s) groups or SRCs.

10.2 Dispensation of service/recharge center [SRC] fund (account) balances

SRCs must dispense with remaining fund balances in accordance with the RSH section entitled "UAccess Financials Accounts." Such dispensations are subject to Financial Services Office – Rate Studies authorization and, in some cases, RDI as well. In particular, see the following RSH sections: "Closing SRC accounts;" "Closures of Internal Accounts;" "Closures of OC (SMR)-DR Sub-Accounts."

10.3 Dispensation of service/recharge center [SRC] equipment

(A) Closure of a good(s)/service(s) group

When a goods/services group is completely closed, but the SRC itself will continue operating other goods/services groups…

(B) Complete dissolution of a service/recharge center [SRC]

When an SRC is closed entirely…

(C) Service/recharge center [SRC] reorganization or absorption

When an SRC *is reorganized/consolidated into another SRC…*

the SRC may handle pertinent capital equipment in one of the following manners:

(I) Repurpose

The SRC may repurpose the equipment within the SRC or the SRC's parent organization.

(II) Transfer

The SRC may transfer the equipment to another SRC or department.

(III) Dispose of

An SRC may dispose of equipment according to relevant UA disposal policies/procedures in "UA Financial Policy, PMM 3.20 University and Sponsor Equipment." The following additional rules apply:

(1) Equipment reserve authorized SRC treatment

For equipment reserve authorized SRCs, the proceeds should be deposited into the SRC's equipment reserve account.

(2) Equipment reserve unauthorized SRC treatment

For equipment reserve unauthorized SRCs, depending on the circumstances, the proceeds may be deposited into (i) an appropriate Internal Account of the SRC, or (ii) a discretionary fund source of the parent organization.

(D) Notifications and authorizations regarding equipment dispensation

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

(I) Financial Services Office – Rate Studies and RDI authorizations

(1) For an Equipment Reserve Authorized SRC

Financial Services Office – Rate Studies and RDI authorization is required prior to repurposing, transferring, or disposing of pertinent equipment. The SRC must submit the request to Financial Services Office – Rate Studies for coordination with RDI.

(2) For an Equipment Reserve Unauthorized SRC

BEST PRACTICE

The SRC should consult with Financial Services Office – Rate Studies prior to repurposing, transferring, or disposing of pertinent equipment.

(II) Notifications to Financial Services Office – Property Management

An SRC must notify Financial Services Office – Property Management at the point pertinent equipment is repurposed, transferred, or disposed of. at the point pertinent equipment is actually repurposed, transferred, or disposed of.

(1) Notification information

The notification must identify any changes in Organization Code, building-room location or Inventory Unit Code, and other key UAccess Financials (Capital Asset Management) data elements.

In the case of SRC consolidations, the successor SRC is responsible for notifying Financial Services Office – Property Management .

11.00 Service/Recharge Center [SRC] Organization and Management

11.1 Structure of a service/recharge center [SRC]

With assistance from Financial Services Office – Rate Studies, Financial Services Office - Operating Funds, and other interested parties as necessary, an SRC must establish and manage itself as a discrete financial/budgetary and operational entity. SRCs 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-UA) service entity that reports to an executive officer.

BEST PRACTICE

11.2 Service/recharge center [SRC] committees

(A) Service/Recharge Center [SRC] 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 (or the Comptroller) will coordinate the formation and maintenance of an SRC Executive Committee. Management aspects of the committee are as follows:

(I) Composition

The committee should be composed of representatives from the following UA offices or areas:

- *Provost's Office*
- *RDI*
- *Office of the Senior Vice President for Health Sciences*
- *Office of the Senior Vice President for Business Affairs*
- *SRC Advisory Committee Chairperson*

(II) Committee resources

- *Sponsored Projects & Contracting Services*
- *Budget Office*
- *Financial Services Office (Rate Studies and Operating Funds)*
- *RDI*

Note: Financial Services Office – Rate Studies and RDI will provide primary staff support services to the SRC Executive Committee.

(III) Meetings

The SRC Executive Committee should meet as needed, based on issues/recommendations forwarded by the SRC Advisory Committee, Financial Services Office – Rate Studies, or RDI.

(B) Service/Recharge Center [SRC] Advisory Committee

The SRC Executive Committee will provide membership recommendations to Financial Services Office – Rate Studies and RDI. Financial Services Office – Rate Studies and RDI will form and maintain an SRC Advisory Committee.

(I) Composition

The committee should be composed of SRC representatives selected or recommended by the SRC Executive Committee. A chairperson shall be selected by the committee. The chairperson shall also serve on the SRC Executive Committee. The following identifies possible representation for the SRC Advisory Committee:

(1) Central administrative offices

- *RDI*
- *Sponsored Projects & Contracting Services*
- *Budget Office*
- *Financial Services Office (Rate Studies and Operating Funds)*

Note: Financial Services Office – Rate Studies and RDI will provide primary staff support services to the SRC Advisory Committee.

(2) Central support units

- *UITS*
- *Facilities Management*

(3) SRCs and/or parent organizations

- *One participant from each SRC that qualifies as an SSF*
- *One participant from each SRC with annual operating budgets ≥ $500,000, or with IB revenue from Federal (internal customer) sources ≥ $250,000*
- *Several participants from selected SRCs with annual operating budgets between $200,000 and $499,999, or with IB revenue from Federal (internal customer) sources between $100,000 and $249,999.*
- *Several participants from selected SRCs with annual operating budgets ≤ $199,999, or with IB revenue from Federal (internal customer) sources ≤ $99,999.*

(4) College-level administrative offices

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

(II) Committee resources

Financial Services Office – Rate Studies and RDI will provide primary staff support services to the SRC Advisory Committee.

(III) Meetings

The SRC 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 [SRC] User Committees

Each SRC should form a committee composed of internal customers of the SRC.

(I) Composition

The SRC should form a committee representing a cross-section of the SRC's internal customers, e.g., principal investigators, departmental administrators.

(II) Committee resources

The SRC will provide primary staff support services to the SRC User Committee. Financial Services Office – Rate Studies and RDI 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 UA's enterprise systems (e.g., UAccess Financials), SRCs will still need to establish and implement supplementary financial and statistical recordkeeping practices. By their very nature, supplementary records need to be maintained by the SRC rather than by central-UA offices and/or enterprise systems.

(A) Reasons for supplementary recordkeeping

Supplementary recordkeeping is needed for the following purposes:

- Maintaining detailed financial information applicable to individual goods/services and goods/services groups
- Accumulating all financial and statistical data necessary for calculating individual ISBRs
- 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

SRCs should seek Financial Services Office – Rate Studies assistance with determining and establishing necessary supplementary record keeping.

(I) Supplementary financial records

An SRC needs to establish and maintain supplementary financial records in cases where critical information is unavailable from the UA's enterprise systems (e.g., UAccess Financials).

Examples of supplementary financial recordkeeping:

- 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, ISBRs applied to goods/services delivered to the customer (whether they are an internal or external), UAccess Financials accounts that were 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 ISBRs and cost-based external customer billing rates

- Narratives and rationale describing allocation methodologies/algorithms

An SRC must ensure that supplementary financial information is consistent with (i.e., derived from and reconcilable with) official UA enterprise system (e.g., UAccess Financials) data.

(II) Supplementary statistical records

An SRC 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 ISBRs 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

An SRC needs to establish and maintain a variety of other supplementary documentation that will be needed for ongoing management purposes.

Examples:

- 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 SRC 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

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

UA:

- RMAA website: http://rmaa.arizona.edu/

- Electronic Mail (Email) Policy: https://rmaa.arizona.edu/efinal
- Retention Schedule Policy: http://rmaa.arizona.edu/retention
- Common Records Retention and Disposition Schedule:

  https://rmaa.arizona.edu/sites/rmaa/files/inline-files/common_retention_schedules.pdf

Other:

- Arizona State Library, Archives and Public Records: http://www.azlibrary.gov/records/

  Note: This web site will link you to the relevant Arizona Revised Statutes pertaining to state records laws and other information. For UA business purposes, however, do not rely entirely on the State retention schedules as they: (i) may differ from RMAA retention guidelines; (ii) may not reflect the special requirements applicable to Federal grants/contracts at UA; or (iii) may not address all operational circumstances or financial audit requirements.

12.2 Inventories of supplies/materials

(A) Inventory controls are required

An SRC 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, an SRC may need to report such inventories to Financial Services Office - Operating Funds for CAFR purposes. An SRC should consult with Financial Services Office - 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

An SRC must consistently follow the same inventory procedures, including valuation method, from year-to-year. The "FIFO" convention is the UA's preferred valuation methodology. Depending on the circumstances, other alternative inventory methods may be appropriate. Examples include, but are not limited to, LIFO, and average-cost methods. SRCs must request Financial Services Office - Operating Funds authorization prior to (i) revising inventory practices, or (ii) implementing alternative inventory practices.

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

Example, SRC16**:**

During FY 2015 SRC16 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	260,000
Supplies available for sale or use during FY 2015	$300,000
Less: FY 2015 ending supplies inventory (FIFO)	100,000
FY 2015 Supplies Expense	$200,000

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

In cases where inventory items are transferred into an SRC, or between SRCs, the receiving SRC 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. An SRC can request assistance from Financial Services Office – Rate Studies. Financial Services Office – Rate Studies will coordinate with Financial Services Office - Operating Funds.

12.3 Space/occupancy

An SRC must discretely identify its space within Archibus, the UA's official enterprise system for inventorying and surveying space. The SRC must coordinate this with Planning Design & Construction – Space Management, the central UA entity responsible for maintaining Archibus. Space Management will coordinate and consult with Financial Services Office – Rate Studies.

An SRC normally should have discrete space that is dedicated entirely to the SRC's provision of goods/services to customers. In cases where an SRC shares space with non-SRC activities, integrating the calculations of F&A rates and ISBRs becomes much more complicated. Accordingly, sharing of space with non-SRC 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

An SRC 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 an SRC should not provide certain goods/services to customers, whether they are internal customers or external customers. SRCs should consult with Financial Services Office – Rate Studies and Financial Services Office – 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 the RSH section "UA Financial Policy FSM 20.10 Unrelated Business Income Tax."

An SRC should consult with Financial Services Office – Tax Services when attempting to determine whether a particular good/service might qualify as unrelated business. Also, an SRC must provide data requested by Financial Services Office – Tax Services for purposes of filing UA's 990-T, Exempt Organization Income Tax Return.

13.3 Competition

(A) Competition between service/recharge centers [SRCs]

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

An SRC can undercut the ISBRs of a second SRC only when the first SRC can provide pertinent goods/services with higher utilization, greater efficiency, and lower operating costs than the second SRC. An SRC cannot undercut the ISBRs of another SRC merely as a result of having access to higher levels of operating cost subsidization funding.

BEST PRACTICE

Also, an SRC should provide only those goods/services that are clearly distinct from the goods/services of other SRCs. In instances where competition exists, disputes about operating practices, pricing, etc. can be forwarded to Financial Services Office – Rate Studies by one or more of the competing SRCs – or by internal customers. Financial Services Office – Rate Studies will coordinate with RDI *and, if necessary, the SRC Advisory Committee. If/when it becomes involved, the SRC Advisory Committee will review such disputes and make recommendations to the SRC Executive Committee for a final determination. SRC Advisory Committee. If/when it becomes involved, the SRC Advisory Committee will review such disputes and make recommendations to the SRC Executive Committee for a final determination.*

BEST PRACTICE

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

In general, SRCs should avoid providing goods/services to internal customers when such goods/services 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) SRC goods/services that external customers can readily obtain from the private sector

An SRC 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).

BEST PRACTICE

When providing goods/services to external customers, an SRC should obtain one or both of the following:

- *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 an SRC's external customers. The indifference of affected private sector entities should be periodically reconfirmed.*

An SRC must maintain a permanent file of such statements/waivers for public inspection.

An SRC should seek assistance from Financial Services Office – Rate Studies and Financial Services Office – 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.

Appendix A – Service/Recharge Centers: Business Plan and Life Cycle Management

Demographics

Service Recharge Center (SRC) Background

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

Description of Goods/Services

Describe each good(s)/service(s) group. Also, describe 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 SRC 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.

Management Structures

Describe both the administrative (i.e. financial) management structure and the operational (i.e. scientific) management structure of the SRC. 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?

Describe the SRC'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?

Provide a list of all SRC 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.

Administrative Policies & Procedures

- Describe the ongoing administrative responsibilities of the SRC, and how and by whom they will be carried out. Examples include:
  - Establishing necessary and proper financial and managerial accounting practices; and ensuring that they are followed
  - Establishing and implementing ISBRs 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 SRC
  - Complete periodic Rate Studies, including:
    - Estimating annual units of goods/services based upon the prior year's usage and projected user demand for services.
    - Accurately recording all SRC expenses, whether charged to the designated recharge SRC account or expended against appropriate subsidization fund sources sub-accounts. Some costs will need to be appropriately apportioned across applicable goods/services.
    - For new SRCs, 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 SRCs on Capital Asset Management, their cost structures can be referenced as support for estimates for the new SRC.
    - Working with Financial Services Office – 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 the administrative responsibilities of the home college, division or department.

Operational Policies & Procedures

Provide a description of all operational policies & procedures within the SRC, including:

- Who will manage the SRC'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 particular 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.

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 SRC costs or will subsidization funding be necessary?

How will the SRC identify and communicate with potential customers? How will potential customers be made aware of the SRC and familiarize themselves with the goods/services offered? Is there a marketing plan for the SRC?

Address potential competition with other SRCs within the University, and with private sector entities, especially those within the State of Arizona.

Website

Provide current web home page address for the SRC, if any.

Location

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

Contact Information

Provide titles and names of key contacts at the college, department, and SRC, 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, and (optional) cell phone numbers.

Financial Matters

General

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

Budgetary Breakdown of Financial Resources and Operating Costs

Provide a breakdown of available and required financial resources (by fund source). Also provide a breakdown of all operating costs, including the following: 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.

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 SRC.

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?

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.

Cost Allocation Methodologies and Billing Rate Calculations

Describe billing rate allocation methodologies (e.g. time-and-motion studies, standard cost inputs/throughputs, precise measurement, other). Also, provide documentation for the following:

- 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 costs.
- 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 of whether the SRC 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 particular good/service group.
- Preliminary rate calculations, showing all cost input/throughput elements, including:
  - 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 SRC.

Rate Study Calculations and Summary of Billing Rates

Provide rate study documentation. List and describe the following: 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 SRCs are available from RDI or Financial Services Office – Rate Studies. They can also assist in completion of the rate study calculations and establishing optimum accounting structure and practices.

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: ASC must be incorporated into external billings].

SRC administrative staff 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, inclusive of ASC, followed by IBs to the external sales/service account based on internal rates.]

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

Inventory Procedures

Describe inventory valuation methods for resale materials and other supplies/consumables, including (i) whether a periodic or perpetual inventory system is utilized, and (ii) 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.

Attachments

[See following pages.]

Attachment A: Business Plan Approvals

---------- *College/Division* ----------

_____ _____

Dean/Director *Date*

_____ _____

College Financial Officer *Date*

---------- *Department* ----------

_____ _____

Department Head *Date*

_____ _____

SRC Manager *Date*

----- *Research, Discovery & Innovation* ------

_____ _____

Vice President *Date*

_____ _____

Associate/Assistant Vice President *Date*

---------- *Financial Services Office* ----------

_____ _____

Associate Vice President/Comptroller *Date*

_____ _____

Assistant Comptroller *Date*

---------- *Budget Office* ----------

_____ _____

Associate Vice President *Date*

Attachment B: Document Version History

Version	*Date*	*Reason for Updating/Revising this Document*	*Revisions Made By*

Attachment C: Important MOAs/MOUs and Correspondence

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

Attachment D: Current Rate Study

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

Attachment E: User Access Request Forms

(Insert copies of standard SRC access request forms applicable to students, faculty/staff, and external parties.)

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 SRC goods/services, or prior to accessing and using SRC facilities.)

Attachment G: User Subsidization Request Forms

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

Attachment H: Additional Items

(Insert additional items for permanent memorialization)

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

General

In a service/recharge center (SRC), 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 customers or ECs. Revenue from internal customers is also posted to the Internal Account, but revenue from ECs is posted to the External Customer-Designated Recharge Account. This is done in order to prevent commingling of income and fund balances generated by billings to internal customers and ECs. However, without transference of cost from the Internal Account to the External Account, internal customers would ultimately incur the costs of the ECs' utilization, and the External Account would only hold revenue collected from ECs less related ASC expenses. This cost transfer is accomplished by processing an IB within UAccess Financials for the cost of the goods/services provided to the EC based on ISBRs.

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 as follows:

Service revenue	$5,000
Less: Cost of service provided (IB)	2,540
Less: ASC Charge (9.5% of $5,000)	475
Net Income (i.e., change in fund balance) $	1,985

A screenshot of a UAccess Financials IB transaction to transfer expense between an Internal and External Account is attached below.

Internal Billing

Doc Nbr:	4272577	Status:	SAVED
Initiator:	pearsonf	Created:	02:27 PM 09/04/2015

- Document was successfully saved.

expand all | collapse all

* required field

Document Overview [show]

Accounting Lines [hide]

Accounting Lines [hide detail]

Income [import lines]

	* Chart	* Account Number	Sub-Account	* Object	Sub-Object	Project	Org Ref Id	* Amount	Actions
add:								0.00	add
	* Chart	* Account Number	Sub-Account	* Object	Sub-Object	Project	Org Ref Id	* Amount	Actions
1	UA University of Arizona-Management	2469601 MAC RS Internal Services		0618 Service Center Cost Recovery				2,540.00	delete bal inquiry

Total: 2,540.00

Expense [import lines]

	* Chart	* Account Number	Sub-Account	* Object	Sub-Object	Project	Org Ref Id	* Amount	Actions
add:								0.00	add
	* Chart	* Account Number	Sub-Account	* Object	Sub-Object	Project	Org Ref Id	* Amount	Actions
2	UA University of Arizona-Management	2469602 MAC RS EXTERNAL Services		4218 Service Center Cost				2,540.00	delete bal inquiry

Total: 2,540.00

Items [show]

Capital Edit [show]

General Ledger Pending Entries [show]

Notes and Attachments (1) [hide]

Notes and Attachments

	Posted Timestamp	Author	* Note Text	Attached File	Actions
add:				Browse... CANCEL	add
1	09/04/2015 04:11 PM	Fredrick A Pearson	Balancing entry to transfer revenue recovery to the internal account for services provided an external customer.		

Ad Hoc Recipients [show]

Route Log [show]

submit | save | reload | close | cancel | copy

Appendix C – Illustrative Examples: Journal Entries Throughout the Life Cycle of Strategic Maintenance Reserves [SMR]

Prepaid maintenance agreements

Introduction

Service contracts are often available for newly or recently-acquired instruments, whether the items are brand-new or in excellent, low-use condition. Such contracts can provide a proactive way of keeping expensive items of SRC 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 SRC and its customers.

Determining whether to prepay for service contracts

When an SRC is interested in pursuing prepaid maintenance agreements, a determination must be made as to whether prepayment is in the best economic and operational interests of the SRC, 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 Financial Services Office - Investment Office. Prepayment of the service contract is warranted in cases where (i) the imputed discount rate exceeds the University's cash return rate, thereby providing a relatively risk-free means of achieving a return on the cash that exceeds the University's market-based investment opportunities, and (ii) the total imputed dollar differential is material.

An SRC should seek Financial Services Office – Rate Studies and RDI assistance when attempting to determine whether a prepaid service agreement makes sense economically.

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

If the SRC believes that a prepaid service arrangement should be pursued, it must develop an SMR Plan See the RSH section "Strategic Maintenance Reserve (SMR) Plan." The plan and a request to establish an OC (SMR) Sub-Account must be submitted to Financial Services Office – Rate Studies and RDI for evaluation and authorization.

Submitting the Requisition

UAccess Financials does not allow the use of object code 8640 (Prepaid Expenses) within requisitions. Therefore, the SRC 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. See screenshot below.

ITEMS

Object Code and Sub-Object Code inquiries and descriptions have been removed because this is a prior year document.

CURRENT ITEMS

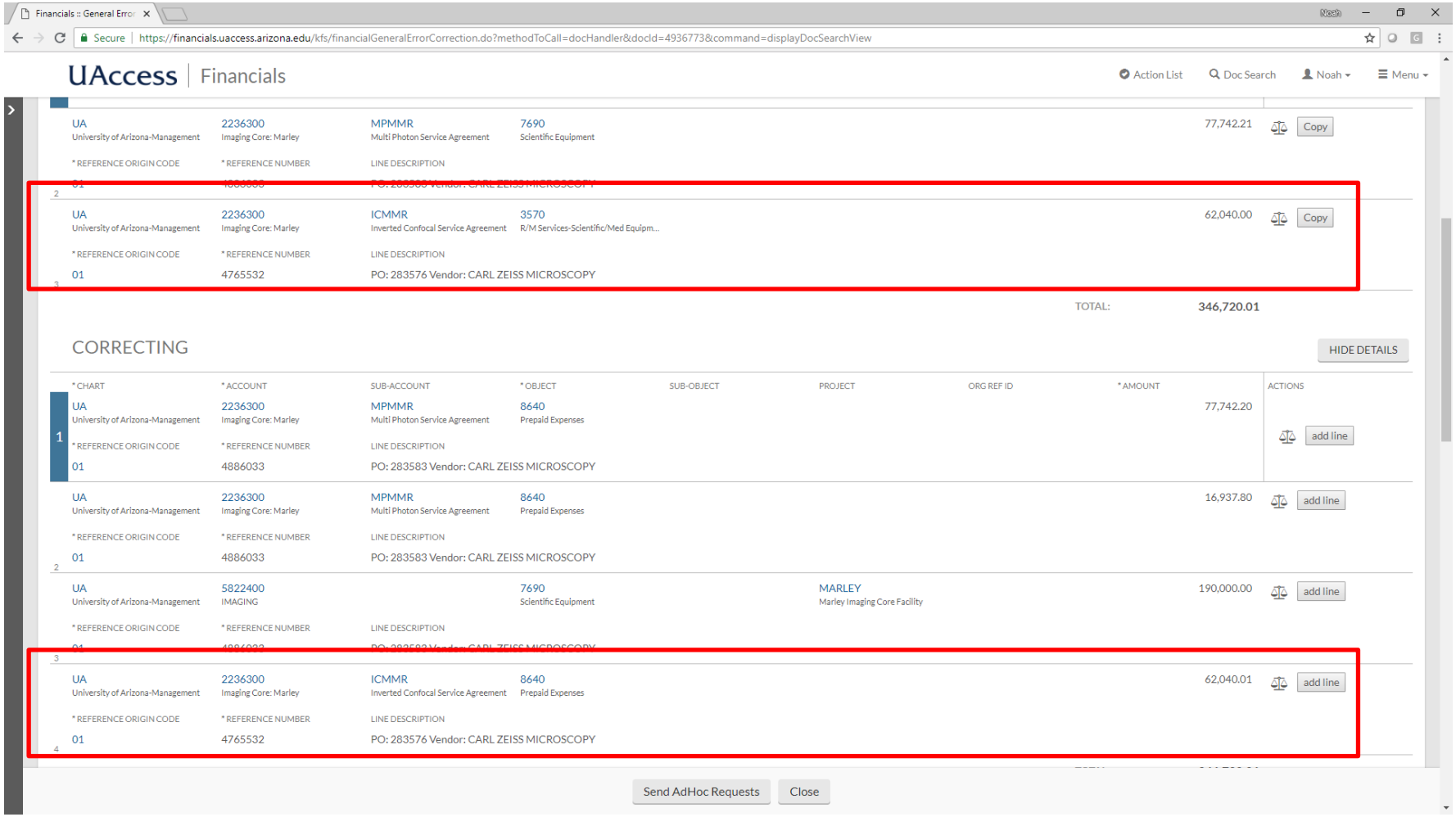
	ITEM TYPE	QUANTITY	UOM	CATALOG #	DESCRIPTION	UNIT COST	EXTENDED COST	TAX AMOUNT	TOTAL AMOUNT	RESTRICTED	ASSIGNED TO TRADE IN	ACTIONS
1	QUANTITY TAX EXEMPT	1.00	EA EACH		LSM 880 34 Channel System on an inverted Axio Observer Microscope with live cell incubation equipment	574,527.00	574,527.00		574,527.00	No	Yes	
2	SERVICE TAX EXEMPT			4107990000400000	3 YRS Premium Protection for LSM 880, 34ch GaAsp Detector and CW Laser (net of 20% discount).	62,040.01	62,040.01		62,040.01	No	No	

* CHART	* ACCOUNT	SUB-ACCOUNT	* OBJECT	SUB-OBJECT	PROJECT	ORG REF ID	PERCENT	AMOUNT	ACTIONS
UA University of Arizona-Managem...	2236300 Imaging Core: Marley	ICMMR Inverted Confocal Service Agre...	3570				100.00	62,040.01	

ADDITIONAL CHARGES Hide

Convert R/M expenditure to a prepaid asset

After the vendor has invoiced the UA and the expenditure for the service contract has posted to the OC (SMR)-Sub-Account, the SRC 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). See screenshot below.



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

Fiscal Year	Chart Code	Account Number	Sub-Account Number	Object Code	Sub-Object Code	Balance Type Code	Object Type Code	Beginning Balance Line Amount	Contracts Grants Beginning Balance Amount	Account Line Annual Balance Amount
2016	UA	2236300	ICMMR	3570	---	AC	EX	0.00	0.00	0.00

July	0.00	October	0.00	January	0.00	April	(62,040.00)
August	0.00	November	0.00	February	62,040.00	May	0.00
September	0.00	December	0.00	March	0.00	June	0.00
						Year End	0.00

Fiscal Year	Chart Code	Account Number	Sub-Account Number	Object Code	Sub-Object Code	Balance Type Code	Object Type Code	Beginning Balance Line Amount	Contracts Grants Beginning Balance Amount	Account Line Annual Balance Amount
2016	UA	2236300	ICMMR	8100	---	AC	AS	0.00	0.00	(62,040.01)

July	0.00	October	0.00	January	0.00	April	(0.01)
August	0.00	November	0.00	February	(62,040.00)	May	0.00
September	0.00	December	0.00	March	0.00	June	0.00
						Year End	0.00

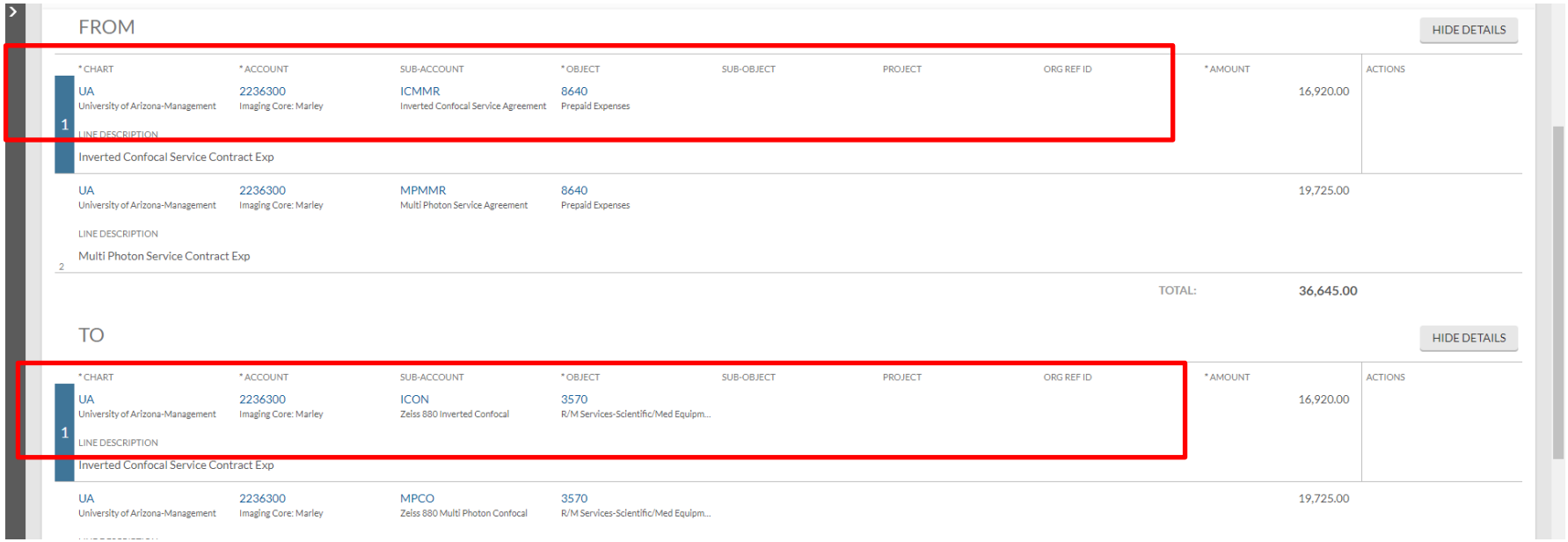
Fiscal Year	Chart Code	Account Number	Sub-Account Number	Object Code	Sub-Object Code	Balance Type Code	Object Type Code	Beginning Balance Line Amount	Contracts Grants Beginning Balance Amount	Account Line Annual Balance Amount
2016	UA	2236300	ICMMR	8640	---	AC	AS	0.00	0.00	62,040.01

July	0.00	October	0.00	January	0.00	April	62,040.01
August	0.00	November	0.00	February	0.00	May	0.00
September	0.00	December	0.00	March	0.00	June	0.00
						Year End	0.00

Export options: CSV | spreadsheet | XML

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. See screenshot below.



FROM

HIDE DETAILS

	* CHART	* ACCOUNT	SUB-ACCOUNT	* OBJECT	SUB-OBJECT	PROJECT	ORG REF ID	* AMOUNT	ACTIONS
1	UA University of Arizona-Management	2236300 Imaging Core: Marley	ICMMR Inverted Confocal Service Agreement	8640 Prepaid Expenses				16,920.00	
	LINE DESCRIPTION: Inverted Confocal Service Contract Exp								
2	UA University of Arizona-Management	2236300 Imaging Core: Marley	MPMMR Multi Photon Service Agreement	8640 Prepaid Expenses				19,725.00	
	LINE DESCRIPTION: Multi Photon Service Contract Exp								
							TOTAL:	36,645.00	

TO

HIDE DETAILS

	* CHART	* ACCOUNT	SUB-ACCOUNT	* OBJECT	SUB-OBJECT	PROJECT	ORG REF ID	* AMOUNT	ACTIONS
1	UA University of Arizona-Management	2236300 Imaging Core: Marley	ICON Zeiss 880 Inverted Confocal	3570 R/M Services-Scientific/Med Equipm...				16,920.00	
	LINE DESCRIPTION: Inverted Confocal Service Contract Exp								
	UA University of Arizona-Management	2236300 Imaging Core: Marley	MPCO Zeiss 880 Multi Photon Confocal	3570 R/M Services-Scientific/Med Equipm...				19,725.00	

As the expense is recognized in the appropriate sub-account, the prepaid expense decreases and cash increases within the OC (SMR)-Sub-Account. See screenshot below.

Search Results

1-2 of 2

Fiscal Year	Chart Code	Account Number	Sub-Account Number	Object Code	Sub-Object Code	Balance Type Code	Object Type Code	Beginning Balance Line Amount	Contracts Grants Beginning Balance Amount	Account Line Annual Balance Amount
2018	UA	2236300	ICMMR	8100	---	AC	AS	(62,040.01)	0.00	16,920.00

July	0.00	October	0.00	January	0.00	April	0.00
August	0.00	November	0.00	February	0.00	May	16,920.00
September	0.00	December	0.00	March	0.00	June	0.00
						Year End	0.00

Fiscal Year	Chart Code	Account Number	Sub-Account Number	Object Code	Sub-Object Code	Balance Type Code	Object Type Code	Beginning Balance Line Amount	Contracts Grants Beginning Balance Amount	Account Line Annual Balance Amount
2018	UA	2236300	ICMMR	8640	---	AC	AS	62,040.01	0.00	(16,920.00)

July	0.00	October	0.00	January	0.00	April	0.00
August	0.00	November	0.00	February	0.00	May	(16,920.00)
September	0.00	December	0.00	March	0.00	June	0.00
						Year End	0.00

Export options: CSV | spreadsheet | XML

Material maintenance events

Introduction

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

Determining whether future maintenance qualifies for a strategic maintenance reserve

When an SRC is interested in pursuing the establishment of a strategic maintenance reserve there are three key pieces of information and documentation that must be provided:

- Documentation showing that the 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 such 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 RDI assistance when attempting to determine whether a strategic maintenance reserve would be allowable for their instrumentation.

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

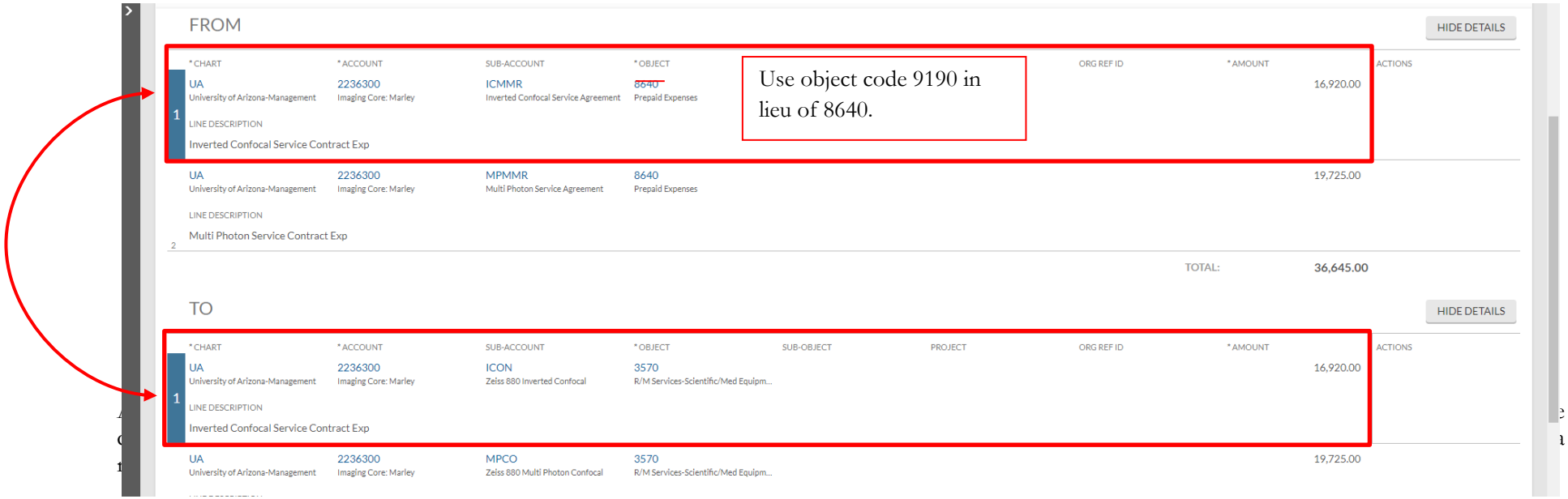
If the SRC believes that a strategic maintenance reserve should be established, it must develop an SMR Plan See the RSH section "Strategic Maintenance Reserve (SMR) Plan." The plan must be submitted to Financial Services Office – Rate Studies and RDI for evaluation and authorization.

Recognize annual expense and accumulate the liability

Every year, as the interval between major maintenance events elapses, it is necessary to accumulate the SRC's liability by recognizing the expense related to the current fiscal period via submission of a DI. This can be done annually (i.e. it is not necessary to do monthly). Such transactions will look similar to the screenshot shown below. However, two important changes will 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.

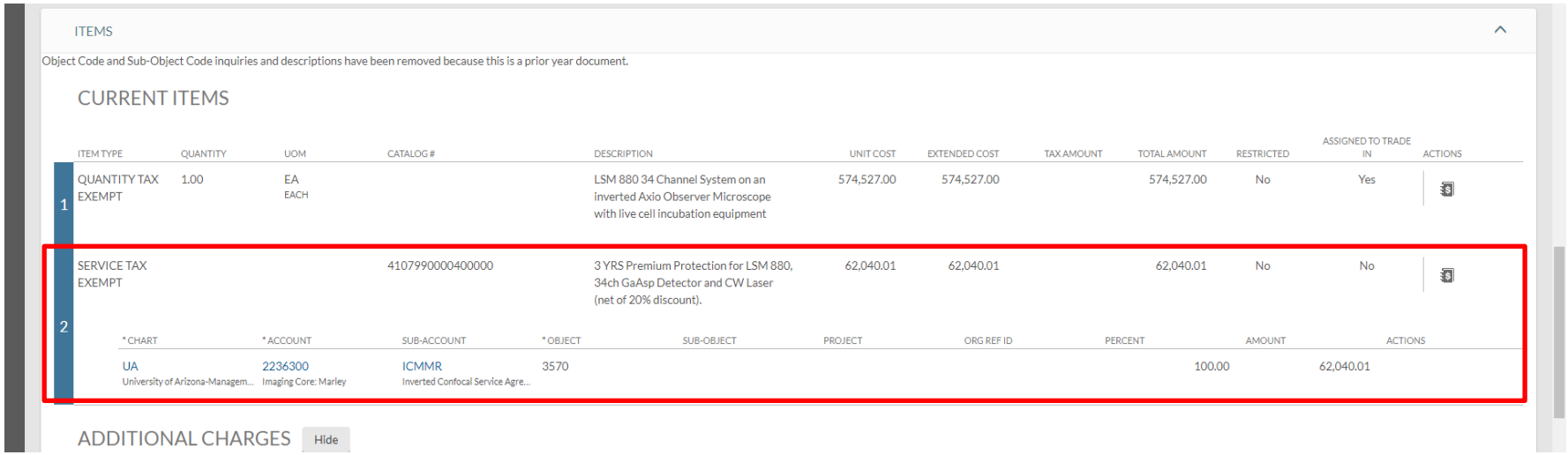
2. Utilize object code 9190 (Miscellaneous Payables) in lieu of 8640 (Prepaid Expenses) to create/increase the liability in the OC (SMR)-DR Sub-Account.



After these DIs post the OC (SMR)-DR Sub-Account 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 reclassed as a reduction of the liability. See the section "Offset previously accrued liability with R/M expenditure," below, about reclassing of this expenditure.

Submitting the Requisition

UAccess Financials does not allow the use of object code 9190 (Miscellaneous Payables) within requisitions. Therefore, the SRC 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. See screenshot below.



ITEMS

Object Code and Sub-Object Code inquiries and descriptions have been removed because this is a prior year document.

CURRENT ITEMS

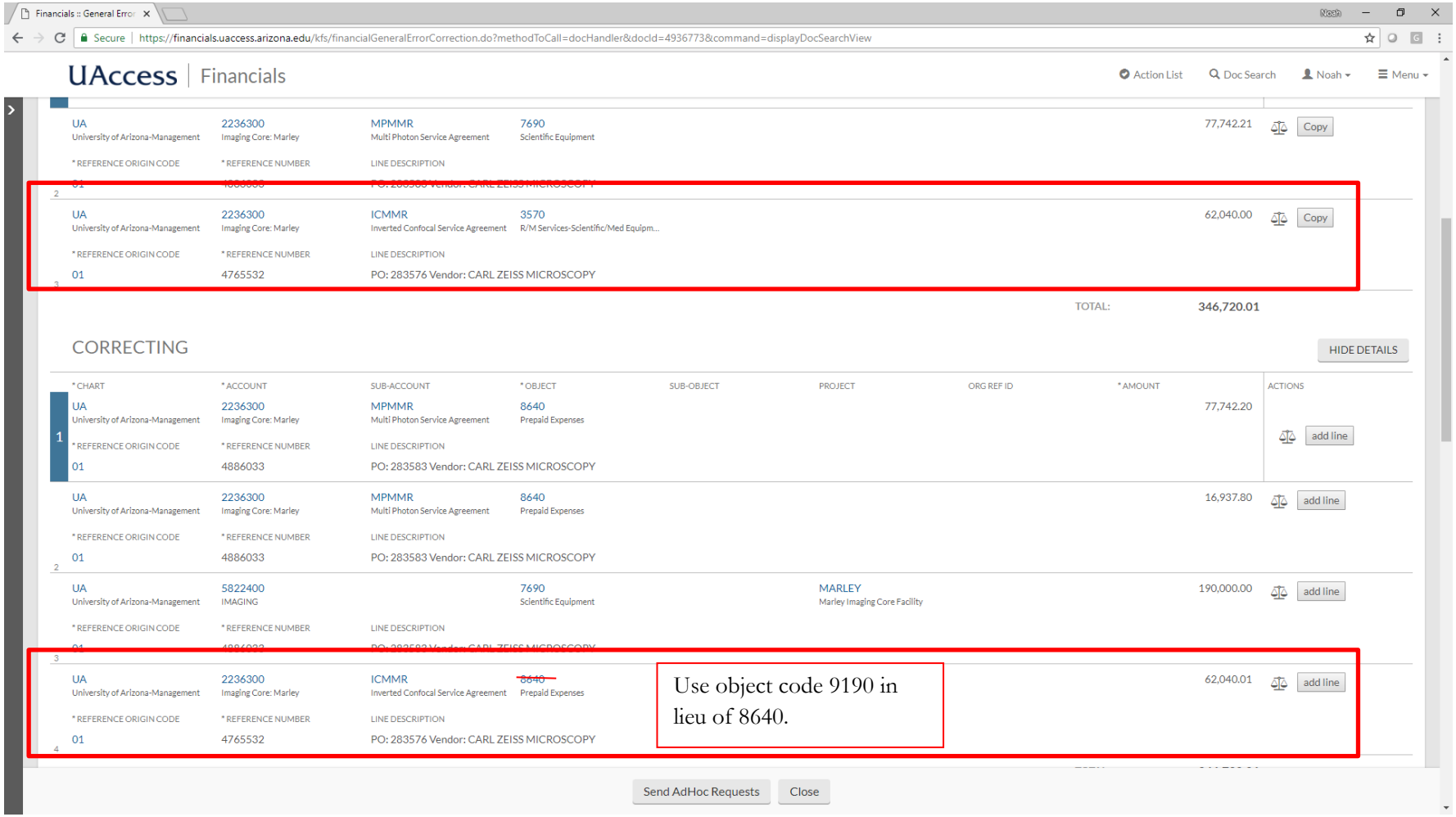
	ITEM TYPE	QUANTITY	UOM	CATALOG #	DESCRIPTION	UNIT COST	EXTENDED COST	TAX AMOUNT	TOTAL AMOUNT	RESTRICTED	ASSIGNED TO TRADE IN	ACTIONS
1	QUANTITY TAX EXEMPT	1.00	EA EACH		LSM 880 34 Channel System on an inverted Axio Observer Microscope with live cell incubation equipment	574,527.00	574,527.00		574,527.00	No	Yes	
2	SERVICE TAX EXEMPT			4107990000400000	3 YRS Premium Protection for LSM 880, 34ch GaAsp Detector and CW Laser (net of 20% discount).	62,040.01	62,040.01		62,040.01	No	No	

* CHART	* ACCOUNT	SUB-ACCOUNT	* OBJECT	SUB-OBJECT	PROJECT	ORG REF ID	PERCENT	AMOUNT	ACTIONS
UA University of Arizona-Managem...	2236300 Imaging Core: Marley	ICMMR Inverted Confocal Service Agre...	3570				100.00	62,040.01	

ADDITIONAL CHARGES Hide

Offset previously accrued liability with R/M expenditure

After the vendor has invoiced the UA and the expenditure for the major maintenance event has posted to the OC (SMR)-Sub-Account, the SRC 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). This will look identical to the screenshot below, except the object code in the CORRECTING section will be 9190.



Once this GEC posts, the expenditure for the maintenance event should remove the liability from the OC (SMR)-DR Sub-Account.

Appendix D – Federal Guidance

Code of Federal Regulations. [Code of Federal Regulations]

2 Code of Federal Regulations 200

Title 2, Grants and Agreements

Subtitle A, Office of Management and Budget [OMB] Guidance for Grants and Agreements

Chapter II, OMB Guidance

Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards [commonly referred to as "Uniform Guidance"]

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 [IHEs]."
- Appendix XI, "Compliance Supplement."

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

Executive Branch (White House)

(A) Office of Management and Budget [OMB]

(I) Office of Federal Procurement Policy [OFPP]

(1) Cost Accounting Standards Board. [Cost Accounting Standards Board]

(a) Structure

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

(b) 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.

(c) Cost Accounting Standards. [CAS]

- 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.

"Compliance Supplement" (see the most current version)

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.

(B) Cognizant agencies for UA matters

(I) Cognizant agency for indirect costs

(1) 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).

(a) 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).

(b) 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.

(II) Cognizant agency for audits

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

(a) 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.

(b) 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.

(C) Sponsoring agencies

(I) 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.

(II) 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, Financial Services Office – Rate Studies and RDI have filled the void with interpretations based on the following sources: (i) verbal guidance from the UA's Cognizant Agency for Indirect Costs; (ii) written or verbal guidance from national practice consultants; (iii) UA experience with pertinent matters; and/or (iv) policies/procedures of UA's peer institutions according to ABOR.i) verbal guidance from the UA's Cognizant Agency for Indirect Costs; (ii) written or verbal guidance from national practice consultants; (iii) UA experience with pertinent matters; and/or (iv) policies/procedures of UA's peer institutions according to ABOR.

Appendix E – Specific Responsibility Citations

Section Names/Headings		Note(s)	Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [4]
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 Responsibilities.		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 Responsibilities.		1.08(B)	(Listed in this appendix)	(Listed in this appendix)	(Listed in this appendix)	(Listed in this appendix)
Consequences of noncompliance/ non-adherence.			1.09	AD			

Section Names/Headings			Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [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 [SRC].	Determine whether the activity qualifies as a service/recharge center [SRC].		3.03(A)	AD			RS
	Develop a business plan and request authorization.		3.03(B)	AD	✓		RS; TS
	Meet with and provide supplementary 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 [SRC] use of federally-funded capital equipment.			3.04	AD			
General service/recharge center [SRC] account/accounting information.			3.05	AD			RS
Activities that do not reach the service/recharge center [SRC] threshold.			3.06	AD		✓	OF

Section Names/Headings			Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [4]
		Note(s)					
Adding, changing, or closing service/recharge center [SRC] accounts in UAccess Financials.	Coordinate through Financial Services Office – Rate Studies .		4.01(A)	AC; AD	✓		RS
	Creating SRC accounts.		4.01(B)	AD			OF
	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 transfers-out.		4.02(C)	AD			RS
	Closures of Internal Accounts.		4.02(D)	AD			RS
		Discontinuation of a 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

Section Names/Headings			Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [4]
		Note(s)					
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
	Closures of OC (SMR)-DR Sub-Accounts.	General.	4.03(D)(I)	AD	✓		OF; RS
		Discontinuation of a good(s)/service(s) group.	4.03(D)(II)	AD	✓		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

Section Names/Headings			Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [4]
		Note(s)					
Equipment Investment Recapture Reserve-Designated Recharge [EIRR-DR] Accounts.	Separate EIRR-DR Accounts are required.		4.05(A)	AD	✓		RS
	EIRR-DR Account fund balance management.		4.05(B)	AD			
	EIR-DR Account transfers-in and transfers-out.		4.05(C)	AD	✓		
	Closures of EIRR-DR 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 transfers-out.		4.06(D)	AD			RS
	Closures of External Accounts.		4.06(E)	AD			RS
Equipment investment recapture [EIR] eligibility requirements.			5.01	AD	✓		RS
Duration of Equipment Investment Recapture [EIR] authorization.			5.02	AD	✓		RS
Separate Equipment Investment Recapture Reserve-Designated Recharge [EIRR-DR] Accounts required.			5.03	AD	✓		RS
Selective inclusion/exclusion of capital equipment items is prohibited.			5.04	AD			RS
Items explicitly excluded from equipment investment recapture [EIR].			5.05	AD			
Financing of equipment acquisitions.			5.07	AD	✓		CF; RS
Accounting for equipment investment recapture [EIR].			5.08	AD			
Equipment investment recapture [EIR] calculation data sources.			5.09	AD			CF; PM; RS
Capitalizable equipment.			5.10	AD			PM

Section Names/Headings		Note(s)	Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [4]
Capital equipment inventories for authorized equipment investment recapture [EIR] service/recharge centers [SRCs].			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
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 recordkeeping for subsidization.		7.04	AD			
	Internal Customers [ICs] versus External Customer [ECs].		7.05	AD			
Customers must be charged for the goods/services they receive from a service/recharge center [SRC].			8.01	AD			

Section Names/Headings			Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [4]
		Note(s)					
Internal/service billing rates [ISBRs] should be posted.			8.02	AD			RS
Uniform application of internal/service billing rates [ISBRs].			8.03	AD			RS
Identification of customer fund sources for billing purposes.			8.04	AD			
Internal/service billings [IBs] and external customer [EC] invoicing.	Internal/service billing [IB] processing.		8.05(A)	AD			
		Internal customers [ICs].	8.05(A)(I)	AD			OF; RS
		IBs applicable to external customers [ECs].	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			
	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 [OCs].			9.09	AD			RS
Data needed for updating of existing internal/service billing rates [ISBRs].	Historic data.		9.10(A)	AD			
	Projected data.		9.10(B)	AD			RS

Section Names/Headings		Note(s)	Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [4]
Data needed for new service/recharge centers [SRCs] or new internal/service billing rates [ISBRs].			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 [OCs].		9.13(A)	AD			
	Noncompliance/non-adherence losses and refunds/reimbursements.		9.13(B)	AD			
	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/sweeps.		9.13(E)	AD			
	Administrative Service Charges [ASCs] do not apply to internal customers [ICs].		9.13(F)	AD			
	Capital equipment acquisitions, debt service payments, and interest on internal loans.		9.13(G)	AD			

Section Names/Headings		Note(s)	Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [4]
Frequency of rate adjustments.			9.14	AD			RS
Frequency of billing rate studies.			9.15	AD	✓	✓	RS
Internal/service bill rate ISBR 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 [IBs].		9.20(B)	AD		✓	
	Off-peak hour (e.g., time-of-day, night/weekend) rates.		9.20(C)	AD			
Recovery of indirect types of costs through internal/service billing rates [ISBRs] or Facilities & Administration [F&A].			9.21	AD			✓
Depreciation and interest expenses applicable to equipment.	EIR-authorized SRCs.		9.22(A)	AD			RS
	EIR-*un*authorized SRCs.		9.22(B)	AD			RS
Depreciation and interest expenses applicable to buildings and improvements.	Specialized service facilities [SSFs].		9.23(A)	AD			RS
	Service centers [SCs] and recharge centers [RCs].		9.23(B)	AD			RS

Section Names/Headings			Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s).[1]	RDI[2]	SPCS[3]	FSO[4]
		Note(s)					
Institutional operations and maintenance [O&M] costs.	Specialized service facilities [SSFs].		9.24(A)	AD			RS
	Service centers [SCs] and recharge centers [RCs].		9.24(B)	AD			RS
Service/recharge center [SRC] overhead costs.			9.25	AD			RS
Administrative Service Charge [ASC] assessments.			9.27	AD			
External customer [EC] (premium) billing rates.			9.28	AD			
	Types of premium billing rates.		9.28(A)	AD			
	Application of external customer [EC] (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	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [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 [SRC].		10.01(B)	AC; AD; EX	✓		RS
	Service/recharge center [SRC] reorganization or absorption.		10.01(C)	AC; AD; EX	✓		RS
Dispensation of service/recharge center [SRC] fund (account) balances.			10.02	AD			RS
Dispensation of service/recharge center [SRC] 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 [SRC].		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 [SRC] 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.	Financial Services Office – Rate Studies and RDI authorizations.	10.03(D)(I)	AD	✓		RS

Section Names/Headings			Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [4]
		Note(s)					
		Notifications to Financial Services Office – Property Management .	10.03(D)(II)	AD	✓		PM; RS
Structure of a service/recharge center [SRC].			11.01	AD			OF; RS
Service/recharge center [SRC] committees.	Service/Recharge Center [SRC] 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 Center [SRC] Advisory Committee.		11.02(B)	AC; AD; EX	✓		RS
		Composition.	11.02(B)(I)	AC; AD; EX	✓	✓	OF; RS
		Committee resources.	11.02(B)(II)	AD	✓		RS
		Meetings.	11.02(B)(III)	AC; AD			
	Service/Recharge Center [SRC] User Committee(s).		11.02(C)	AD; UC			
		Composition.	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
		Supplementary financial records.	12.01(B)(I)	AD			
		Supplementary statistical records.	12.01(B)(II)	AD			
		Other supplementary records.	12.01(B)(III)	AD			
	Retention of supplementary records.		12.01(C)	AD			

Section Names/Headings			Section Number	SRC Committees or SRC Admin (or its Parent Orgnztn(s). [1]	RDI [2]	SPCS [3]	FSO [4]
		Note(s)					
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 service/recharge center [SRC].		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 [SRCs].		13.04(A)	AC; AD; EX	✓		RS; TS
	Service/recharge center [SRC] goods/services that internal customers [ICs] can readily obtain from the private sector.		13.04(B)	AC; AD; EX	✓		RS; TS
	SRC goods/services that external customers [ECs] can readily obtain from the private sector.		13.04(C)	AC; AD; EX	✓		RS; TS

Notes and/or Abbreviations:

[1] Service/Recharge Center = SRC
Admin. and/or Parent Organizations Committees = AD
Advisory Committee = AC
Executive Committee = EX
User Committee = UC

[2] Research, Discovery and Innovation = RDI

[3] Sponsored Projects & Contracting Services = SPCS

[4] Financial Services Office = FSO
Capital Finance = CF
Operating Fund = OF
Property Management = PM
Rate Studies = RS
Tax Services = TS

Appendix F – Service/Recharge Center (SRC) Subsidy Transfer

Initiating a transfer to subsidize service/recharge center

Overview

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

Procedure Detail

- All SRC 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 appropriate Budget Office individual to initiate a cash transfer (budget fund "swap") using a TF (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 (Designated), and DI-IDC (Designated-Indirect) accounts.
- The following object codes must be used: (i) For the account providing the subsidization funding, expenditure object code 7930 (Voluntary Transfer-Out); (ii) for the account receiving the subsidization funding, revenue object code 0930 (Voluntary Transfer-In).
- Example (next page)

Example: Doc # 7725030

UAccess | Financials

Action List | Doc Search | Steven | Menu

Transfer Of Funds

Doc Nbr : 7725030 Status : FINAL
Initiator : kennedym Created : 11:24 AM 05/09/2018

EXPAND ALL | COLLAPSE ALL

DOCUMENT OVERVIEW

OVERVIEW

* Description : Service Center Subsidization - ARL

Explanation : See RBC154164

Organization Document Number :

FINANCIAL DOCUMENT DETAIL

Total Amount : 85,300.00

ACCOUNTING LINES Import Templates

FROM

HIDE DETAILS

	* CHART	* ACCOUNT	SUB-ACCOUNT	* OBJECT	SUB-OBJECT	PROJECT	ORG REF ID	* AMOUNT	LINE DESCRIPTION	ACTIONS
1	UA University of Arizona-Management	2557990 BCA UA ASC		7930 Voluntary Transfer Out			SRCTF	85,300.00		
							TOTAL:	85,300.00		

TO

HIDE DETAILS

	* CHART	* ACCOUNT	SUB-ACCOUNT	* OBJECT	SUB-OBJECT	PROJECT	ORG REF ID	* AMOUNT	LINE DESCRIPTION	ACTIONS
1	UA University of Arizona-Management	2236300 Imaging Core: Marley		0930 Voluntary Transfer In			SRCTF	45,500.00		
2	UA University of Arizona-Management	2236430 Small Animal Medical Imaging Core Int	7TSAM SAMIS 7T	0930 Voluntary Transfer In			SRCTF	39,800.00		
							TOTAL:	85,300.00		

Related Documents and Links (Optional)

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

Flowcharts:	
Websites:	Financials: https://financials.uaccess.arizona.edu/kfs/ Description of Object Codes: https://www.fso.arizona.edu/financial-management/object-codes
Related Documents:	E-doc # 7725030
Links:	
UPK Tutorials:	

Definitions, Acronyms and Abbreviations (Optional)

The following table shows acronyms and abbreviations used in this procedure.

Term:	***Description:***
FSO	Financial Services Office
Double-Click here to add row	

Revision History

Name:	***Date:***	***Description:***
Double-Click here to add row		

Appendix G – Service/Recharge Center (SRC) Toolkit

iLab Core Facilities Operations Software.

This multi-faceted, scalable software can help most (if not all) SRCs meet their administrative, accounting, and data/statistics needs. Please contact RDI for more information about iLab.

Appendix H – Illustrative Examples: EIRR Journal Entries

DI documents must be used.

An example of an equipment reserve transfer is shown in the screenshot below. 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 SRC's 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 SRC's revenue more transparent in terms of funding capital equipment expenditures.