



# Department Administrative Policy and Procedures

**Subject: Service Center Policy and Manual**

**Date: May 17, 2021**

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## **I. PURPOSE**

The University of Wyoming (UW) service centers (SCs) share a common mission of providing needed services to the community while recovering the costs of operations. The purpose of this Service Center Procedures Manual is to set forth a framework of information to assist academic and research units in successfully managing service center financial operations. The procedural statement that follows is based upon sound business practices, federal regulations, and UW policy.

Use of this manual and adherence to the procedures contained herein is required for all units having current activity under its control that meets the definition of a UW SC. For the purpose of this document, the term “department” is defined as the UW administrative unit, college, division, or department that is responsible for the SC. It is expected that such SC operations will meet the standards of consistency and allowability in rate development as set forth in this manual.

## **II. DEFINITIONS**

**Service Center (SC)**- A UW service center (SC) is defined as an operation or activity that has been created for the purpose of providing a service or group of services to a benefiting user community at UW, with the objective to recover the costs of those services through an internal billing to the users. While benefiting users are primarily the research community, it is also common for SCs to provide service for instructional or outreach purposes to entities outside UW. For the purpose of this document, auxiliary operations, such as Dining Services, Copy Centers, and similar operations, are not included. Rather, UW SCs provide complex services primarily to funded research projects often involving federal funding sources, and thus must comply with federal guidelines described in the Code of Federal Regulations Title 2, Subtitle A, Chapter II, Part 200-Uniform Administrative Requirements, Cost Principles, and Audit Requirements (UG). These federal guidelines allow universities broad latitude to establish policies governing financial management of service centers. UW recognizes two types of SCs:

- **Specialized Service Facilities (SSFs)** offers highly complex and technical services that are not readily available from outside vendors and has annual expenses equal to or greater than \$1 million.
- **Recharge Centers (RCs)** operate with annual fiscal year expenses of between \$20,000 and <\$1 million. Recharge Centers (RCs) generally provide services to externally funded research projects throughout the UW community, but services also may be readily available to external users.

Any operation providing services that have fiscal year expenses of less than \$20,000 are excluded from the procedures described in this document.

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# 1. INTRODUCTION

## 1.1 PURPOSE AND USE OF THIS MANUAL

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Use of this manual and adherence to the procedures contained herein is required for all units having current activity under its control that meets the definition of a UW SC. For the purpose of this document, the term “department” is defined as the UW administrative unit, college, division, or department that is responsible for the SC. It is expected that such SC operations will meet the standards of consistency and allowability in rate development as set forth in this manual.

## 1.2 DEFINITIONS

**Service Center (SC)**- A UW service center (SC) is defined as an operation or activity that has been created for the purpose of providing a service or group of services to a benefiting user community at UW, with the objective to recover the costs of those services through an internal billing to the users. While benefiting users are primarily the research community, it is also common for SCs to provide service for instructional or outreach purposes to entities outside UW. For the purpose of this document, auxiliary operations, such as Dining Services, Copy Centers, and similar operations, are not included. Rather, UW SCs provide complex services primarily to funded research projects often involving federal funding sources, and thus must comply with federal guidelines described in the Code of Federal Regulations Title 2, Subtitle A, Chapter II, Part 200-Uniform Administrative Requirements, Cost Principles, and Audit Requirements (UG). These federal guidelines allow universities broad latitude to establish policies governing financial management of service centers. UW recognizes two types of SCs:

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Any operation providing services that have fiscal year expenses of less than \$20,000 are excluded from the procedures described in this document.

## 1.3 CHARACTERISTICS OF A SERVICE CENTER

SCs operate under different principles than other entities and activities at UW, and as such require unique accounting procedures. The most important characteristic that distinguishes SCs from other entities and activities is that **SCs do not operate with a fixed annual operating budget or predictable expectation of the level of activity in the near or long term.** SCs respond to service needs of internal and external users on an *ad hoc* basis that generally do not follow normal fiscal-year cycles. Requests for services and the revenue that is generated from delivering the services often vary month-to-month and year-to-year, are unpredictable, and are not often in sync in the short-term. Direct costs incurred by SCs to meet a requested service may precede the recovery of cost for the service by weeks or months. SCs recover the cost of providing the service

through fees to the users of the service, and thus the direct costs and revenue are dynamically changing, and overall can vary by up to 50% year-over-year. This universal feature and quality of SCs is recognized across US universities, and federal guidelines allow universities to treat SCs in a unique manner with allowable financial procedures that ensure sustainability and compliance with federal rules.

The essential features of the financial operation of SCs that are practiced across US universities and comply with federal rules include:

1. Allowance for continuous operating capital managed in a recharge account.
2. Allowance for mark-up charged to external users in excess of internal break-even costs of services provided.
3. Allowance for allocation of mark-up revenue to a non-recharge (facilities renewal) account to be used at the discretion of the SC. These funds are typically used for replacement of capital assets or development of new or improved services.

#### 1.4 HOW WILL SERVICE CENTER FINANCIAL ACTIVITIES BE TRACKED IN THE UNIVERSITY'S FINANCIAL SYSTEM?

SCs will be established and operated through two separate designated operating funds, one for operations and another for facility renewal reserve. ORED will approve and initiate the establishment of these accounts.

#### 1.5 WHO MUST FOLLOW THIS PROCEDURE?

- All UW entities, whether organized within units, colleges, institutes, or other units, that fit the SC description in Section 1.1 are required to follow the procedures described in this document.
- It is the responsibility of the assigned administrative unit (e.g., department, college, institute, etc.) of SCs to ensure that the procedures described in this document are followed for federal compliance.

#### 1.6 REGULATION

SC activities usually result in charges to federal grants and contracts. To receive these research funds, a university must comply with the cost principles under the Code of Federal Regulations Title 2, Subtitle A, Chapter II, Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The UW Office of Sponsored Programs (OSP) is responsible for ensuring compliance with these regulations.

The principles set forth in the Uniform Guidance provide recognition of the full-allocated costs of such research work under generally accepted accounting principles. No provision for profit or other increment above cost is provided for in charging accounts that will be billed or eventually allocated to the federal government. The Uniform Guidance stresses the need for consistency in treatment of costs as it pertains to services provided to projects with federal funding. For this reason, the SC *recharge account* and SC *non-recharge account* must be held separately with detailed records maintained.

#### 1.7 COMPLIANCE RESOURCES

Other resources, in addition to this document, are available to SCs, including the following:

- UW website: <http://www.uwyo.edu/research/policies-and-procedures>

- Uniform Guidance – [2 CFR 200](#)
- Cost Accounting Standards Disclosure Statement (DS-2):
- Best practices for reviewing rates on biennial basis ([2 CFR 200.468](#)).
- [https://grants.nih.gov/grants/policy/core\\_facilities\\_faqs.html](https://grants.nih.gov/grants/policy/core_facilities_faqs.html)
- <https://grants.nih.gov/grants/guide/notice-files/not-od-13-053.html>

## 1.8 PROCEDURAL STATEMENT

UW procedures relating to the operation of SCs incorporate the following assumptions:

- 1.8.1 All SCs should calculate rates annually on a July 1st to June 30th fiscal year basis with a common goal of achieving a breakeven financial position (recovering no more than the cost to operate the SC) over a period of time not to exceed 2 years.
- 1.8.2 All SCs may be subject to rate reviews at least annually as determined by UW OSP.
- 1.8.3 Net operating surplus or deficit should be incorporated into the subsequent year's rate. In addition to full recovery of actual costs, SCs may establish and maintain - through its charges - a fund balance to recognize fluctuations in business. This balance should not exceed 120 days of annual operating expenses. Under-recoveries will be subsidized by the sponsor department if an adjustment of the rate is not feasible.
- 1.8.4 All SCs should operate in separate General Ledger accounts, created solely for the purpose of recording revenues and expenditures related to the service(s) provided.
- 1.8.5 Equipment purchase costs should be recorded in a designated facility renewal account. Transfers of external mark-up and depreciation recovered in calculating break-even sample cost will be made at least annually to the SC's facility renewal reserve account (or similar). The SC can decide to keep the mark-up and depreciation in the operating account to keep costs low for internal users.
- 1.8.6 Only the actual amount of depreciation will be acknowledged as an expense for determining the SC's financial results and rate(s) for any given year. If equipment is purchased with federal funds, any relevant depreciation must be excluded from the SC rate (see section 4.3). Purchases of equipment will not be funded through any surpluses generated from operations.
- 1.8.7 Pricing of services performed for internal users must be consistent among users and billings to external users may include facilities and administrative costs (F&A Costs, also known as indirect costs) using the current applicable state or federal rate and may also include a reasonable surcharge.

## 2. CREATION OF SERVICE CENTERS

### 2.1 PLANNING FOR SERVICE CENTERS

UW's SCs should provide consistent service and recover costs while achieving breakeven. Realizing these goals requires careful planning and preparation on the part of administrators and faculty. One way to accomplish this is to address issues such as those listed below:

- Determine whether there is a current and continuing need for the type of SC being contemplated.
- Determine if the service is available elsewhere within or outside UW.
- Determine whether the SC will be in competition with local outside vendors.

If, after having dealt with these and other relevant issues, the department plans to initiate a new SC, the information explained in the following section should be provided as directed to UW Office of Research and Economic Development (ORED) and UW OSP prior to the commencement of any operation.

### 2.2 REVIEW AND APPROVAL OF NEW SERVICE CENTERS

Initiation of a new SC requires the prior review and approval by the Associate Vice President, Office of Research and Economic Development (ORED). The reasons that this process is required include:

1. To provide assistance, as required by the initiating department;
2. To become familiar with the type of operation being proposed, and;
3. To ensure that all new SCs have established adequately documented rate structures, controls, and operating methodologies.

A New Service Center Request Form (Exhibit 2-1), New Service Center Estimated Budget Worksheet (Exhibit 2-2) and one of the two Service Center Rate Calculation forms (attached to this procedure) must be completed and submitted to ORED 60 days prior to the requested commencement of operations so as to allow sufficient time for review, feedback, account creation, and approval. ORED will coordinate this activity with OSP. It is highly recommended that new SC operation coincide with the start of the next fiscal year for the purpose of monitoring activity, allowing for rate adjustments and providing a complete picture of operations at the end of the first year.

When a completed New Service Center Request Form is received and approved by ORED, they will forward the request to the Manager of Costing and Reporting in OSP. OSP will schedule a review of the request to determine whether the proposed operation is sufficiently documented. Any questions or concerns arising out of the review process will be addressed either in a memo or email from OSP to the originator of the request or, if necessary, via a meeting.

Exhibit 2-1 New Service Center Request Form

UNIVERSITY OF WYOMING

NEW SERVICE CENTER REQUEST FORM

(Please complete all information and return this form to ORED, Old Main 304, at least 60 days prior to the start of the fiscal year -July 1.)

Service Center Name: \_\_\_\_\_

Initiating Department: \_\_\_\_\_

Anticipated Service Center Start Date: \_\_\_\_\_

Responsible Person	Title	Department	Phone #
_____	_____	_____	_____

Description of activity, including products and services and anticipated users (attach a separate sheet, if necessary):

Describe the base to be used in the rate calculation (i.e., labor hours, number of units processed, etc.):

Describe how records of usage will be accumulated and maintained:

Before submitting this completed form to ORED, please attach an estimated budget (example on following page) for the first full operating fiscal year of the service center and an illustration of how proposed rates were calculated. (If it is proposed that the service center begin operations on a date other than July 1, please provide a proposal and budget for the part of the year in which the service center will be operating.) Any questions regarding the completion of information on this form or on the required attachments may be addressed to ORED.

Unit Approval Signatures:

Responsible Person: \_\_\_\_\_ Date: \_\_\_\_\_

Department Chair: \_\_\_\_\_ Date: \_\_\_\_\_



**Exhibit 2-2 New Service Center Estimated Budget Worksheet**

Service Center Name		
Fiscal Year		
Income	External billings at cost	
	External mark-up	
	Internal billings	
	<b>Total</b>	
Expenses	Salaries	
	Fringe Benefits	
	Travel	
	Equipment (Depreciation only)	
	University Services	
	Other	
	<b>Total</b>	
Net Operating Surplus/Deficit		
Less: Depreciation transfer to Facility Renewal Reserve		
Less: External billing transfer to Facility Renewal Reserve		
Less: 120-day Working Capital carryforward		
Equals: Net Operating Surplus/Deficit included in sample calculation		
Subsidy (if appropriate)		
Operating Account String		
Facility Renewal Reserve Account String		
Contact Person		
Email		
Telephone		

### 3. ACCOUNTING, BUDGETING, AND BILLING CONSIDERATIONS

#### 3.1 FISCAL YEAR ACCOUNTING

UW's business cycle operates on a fiscal year that starts July 1st and ends on June 30th. The reason for using this timeframe for SC operations relates to the need to capture each fiscal year's operating results and to incorporate these results into annual financial statements. To maintain consistency with UW's financial cycle, it is required that all UW SCs account for operations during the same time period.

Questions about UW's fiscal year accounting cycle may be addressed to Manager of Costing and Reporting, OSP or the Controller's Office.

#### 3.2 BUDGETING FOR SERVICE CENTERS

Clarification of the unique features of SCs specifically related to UW's Financial System budgets are:

- UW and department subsidies to SCs are included in budget.
- SCs are usually indirect recipients of federal grants and do not have budgets or grants with federal agencies. Therefore, the estimated amounts on UW's Financial System budget for revenue and expenses are simply estimates and should not be used for calculation of break-even service costs or allocations to recharge and non-recharge accounts.
- Working capital carry-over allowance is included in the budget.
- Estimated external mark-up and estimated depreciation for transfer to separate non-recharge (facility renewal reserve) activity code or account is included in the budget. *Actual year-end transfers are based on actual activity and may differ from budget.*
- Capital equipment purchases budgeted from facility renewal reserve are included in budget. *Actual year-end transfers are based on actual activity and may differ from budget.*
- If a department wishes to modify an SC budget of subsidized support during the fiscal year, contact OSP as soon as the need becomes known.
- SCs may take advantage of ORED's accountant that is dedicated to providing accounting services to SCs. If you wish to take advantage of this service, this cost should be budgeted. Contact ORED for details.

Departments responsible for SC's must prepare budgets for all SC accounts. This will facilitate greater ease in measuring actual operating performance and developing charge rates. If a department wishes to modify the SC budget during the fiscal year, contact OSP as soon as the need becomes known. If the modification is significant, a mid-year rate review may also be done by OSP.

#### 3.3 ANNUAL FINANCIAL REPORTING

Annual financial and management reports must be prepared by SCs to document financial sustainability and to ensure compliance with the regulations described in this document. The annual financial reports are approved by OSP and copies of approved reports are made available to ORED.

The annual financial reports prepared by the SC at year-end will include all of the reports required in this documentation. Penalties to UW and units for noncompliance are great and these reports are vital to support future audits.

SCs establish and maintain accounting details using software that at a minimum completes the basic tasks listed below. These details are required for audit purpose.

- Organize details and classification of internal and external users.
- Implement approved sample price lists that are consistently charged to users with separate

- pricing for internal and external pricing clearly stated.
- Use an invoicing system that summarizes sales and units of production by internal and external activity reports.
- Establish online invoicing and maintain and collect accounts receivables.

### 3.4 THE “BREAKEVEN” EXPECTATION

Code of Federal Regulations Title 2, Subtitle A, Chapter II, Part 200-Uniform Administrative Requirements, Cost Principles, and Audit Requirements (UG) is the federal regulation that provides guidance to all universities on issues concerning cost allowability for direct and indirect costs.

UG specifies in 2 CFR 200.468 Specialized Service Facilities that, “Charges for the use of specialized facilities should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the institution and the cognizant Federal agency.” Further, the section states, “Accordingly, it is not necessary that the rates charged for services equal the cost of providing those services during any one fiscal year as long as rates are reviewed periodically for consistency with the long-term plan and adjusted if necessary.”

SCs should strive to operate at breakeven (i.e., revenues=expenses) over a specific timeframe. The federal government allows for over-recoveries and under-recoveries if upon determining that breakeven was not achieved, rates are adjusted accordingly by incorporating such over-recoveries and under-recoveries into subsequent years’ rates. SCs are permitted to maintain a 120-day fund balance to provide for business fluctuations.

Operating at breakeven means there is no significant profit or loss as a result of charging users for services provided in any particular period, and no profit or loss over the long run. If the SC ends a given fiscal year with an operating surplus, a threshold of a 120-day working capital allowance can be used as guidance of how much may be carried-forward into the calculation of the next year’s rate. The amount above the 120-day working capital allowance would be factored into the calculation for the next fiscal year.

**SCs as a whole are not required to break-even. Instead, recharge account funds must break even whereas the facility renewal funds need not. Facility renewal reserves funds must be held in separate accounts for this purpose.**

SC rates are generally calculated based on budgeted projections of operating expenses and projected volume of the services or products to be provided. The goal of the SC is to calculate a rate that will ensure that revenues reasonably offset expenses.

Operating deficits will be reviewed as a part of the closing process on an individual basis and approved by ORED and OSP. Funding plans describing the measures that will be taken to reduce the deficit over a reasonable period of time must be submitted.

### 3.5 WORKING CAPITAL

In addition to full recovery of actual costs, SCs may retain an allowance in the operating fund (recharge) for working capital needs.

- The working capital allowance should not exceed 120 days of annual operating expenses for the most recent full fiscal year. Any exception must be documented by the SC and approved by OSP during the annual financial report cycle.
- SC facility renewal reserve is used by the SC management for purchases of equipment and other expenses based on the long-term vision of the SC management.
- The SC facility renewal reserve is not subject to break-even and therefore the cash funds that accumulate are not governed by federal break-even policy.

### 3.6 USE OF TRANSFERS TO/FROM RECHARGE ACCOUNTS

Transfers to/from are generally considered unallowable. Exceptions are listed below:

- An amount less than or equal to the SCs annual capital equipment depreciation documented on the approved depreciation schedule may be transferred from the SC's recharge account to a SC's facility renewal reserve.
- Net income resulting from external and commercial sales may be transferred from the recharge account to a facility renewal reserve account.
- Transfers-in of department subsidy to eliminate recharge account deficits.

### 3.7 MONTHLY BILLINGS AND PAYMENTS

Invoicing: SCs are responsible for timely invoicing of all customers. Prebilling is not allowed. Invoices should be processed within 30 days of providing the goods and services. Invoices should include:

- 1) The name of user.
- 2) Service performed.
- 3) Date of service.
- 4) Amount of service provided (i.e. number of hours, tests, or other appropriate unit of measure).
- 5) The billing rate.
- 6) The total amount.

The following are the approved methods for payment for services:

- 1) Credit card payments are accepted when established through UW Touchnet Marketplace.
- 2) Cores may be given administrative access to Invoice Processing Platform (IPP) as an invoicing tool. This is a tool that federal agencies may grant access to vendors.
- 3) Payment methods include IDTs (Inter-Department Transfer), check, or wire transfers.

So that the revenues recorded in the accounting system are closely aligned with the timing of the expenditures incurred that generated the revenues, it is recommended that billings for goods and services be accomplished on a monthly basis. At year end, billings for the month of June should be prioritized so that they are recorded on the accounting system before fiscal year end. Only by posting all entries for each year's fiscal activity can a reasonable determination be made of the operating results for the SC.

### 3.8 DOCUMENTATION OF COSTS

It is the responsibility of departments that oversee SC operations to maintain and provide, as requested, all copies of documentation pertinent to the activities of service centers. Examples of situations where such documentation would be requested include:

- In the event of questions arising from billed users, the department should provide copies of all records showing the time period for services rendered, calculation of relevant amounts, etc.
- Under audit, copies of source documents (e.g. vendor invoices, PO's etc.), internal and external billings, supporting calculations, etc. must be provided.
- During rate reviews and subsequent fiscal year activities, copies of documentation that support current rates and operating results must be provided.

### 3.9 CLOSING AN INACTIVE SERVICE CENTER

Should it become necessary for the SC to close, notify the Associate Vice President, ORED and the Manager of Costing and Reporting, OSP. Once all activity of the SC has ceased, the fund balance must be brought to zero as part of the closing process. If the SC ends with a deficit balance, the responsible department is required to fund the deficit. If the SC ends with a surplus balance, the SC must perform an analysis of the SC users within the last fiscal year to determine the extent to which Federal users were charged. A refund should be calculated, and a credit provided to the federal projects charged during the period with a surplus.

## 4. ALLOWABLE AND UNALLOWABLE COSTS

Costs incurred by SCs should be in accordance with UW policy and Code of Federal Regulations Title 2, Subtitle A, Chapter II, Part 200-Uniform Administrative Requirements, Cost Principles, and Audit Requirements. The following information should be considered by departments having SC responsibility prior to the incurrence of actual costs:

### 4.1 SALARIES, WAGES, AND FRINGE BENEFITS

The costs of salaries, wages, and fringe benefits of personnel directly involved with (i.e. devoting effort to) SC activities are allowable. These costs should be included in the preparation of each rate proposal so that each individual's function, relationship to the SC (i.e., working under the umbrella of a different department), and estimated level of effort to be devoted, are stated clearly. Significant variances will require adjustment of estimates in subsequent rate proposals. Fringe benefits should be charged in the same relative percentage as the level of effort and at UW approved non-sponsored program rates.

### 4.2 MATERIALS, SERVICES, AND SUPPLIES

Materials, services, and supplies necessary to carry on the business of SC are allowable.

### 4.3 EQUIPMENT DEPRECIATION

#### Non-depreciable Equipment

Equipment included in UWs indirect cost rate (F&A) and equipment purchased with federal funds cannot be included in SC rate proposals. If matching funds were required for purchase of equipment with federal funds, the required matching funds cannot be included in depreciation calculations. Any non-federal funds in excess of required match may be included in depreciation calculations.

#### Depreciable Equipment

If equipment is to be depreciated, it should be shown in rate proposals. The amount of depreciation charged must be calculated using the appropriate estimated useful life of the asset and the straight-line method (i.e., equipment cost, including freight, set-up charges, etc., divided by the estimated useful life in years or part of a year). Recommended useful lives for equipment purchased at UW are based on UW policy for asset inventory management.

Scientific Equipment 7 years  
Computer Equipment 3 years

All depreciation calculations are done by the UW Asset Management Office in coordination with OSP. Contact the OSP Manager of Costing and Reporting for current year amounts.

### 4.4 TRAVEL

The costs of travel related directly to and necessary for the operation of SCs (i.e., conferences, meetings, local travel) are allowable.

### 4.5 OTHER DIRECT COSTS

Other direct costs not identified above are allowable to the extent that they relate directly to and are

necessary for the operation of the SC and are not specifically unallowable under UW policy or the UG.

#### 4.6 INDIRECT COSTS

Recovery of facilities and administrative costs (F&A costs; also known as indirect costs) at the current state or federally negotiated rate from external users of SCs is allowable. This amount may be added to the standard billing rate when performing services for external users.

For Specialized Service Facilities, an indirect cost rate for the facility should be calculated and the rate should be included in the billing rate. Indirect costs will be excluded when charging externally funded grants and contracts.

#### 4.7 UNALLOWABLE COSTS

Unallowable costs are those expenses specifically unallowable under UW policy or the UG. Examples of unallowable costs include, but are not limited to, the following:

- Alcoholic beverages
- Bad debts
- Donations and contributions to organizations/individuals
- Entertainment or anything remotely connected
- Fines and penalties
- Goods or services for personal use
- Housing and personal expenses
- Interest expense
- Memberships in professional or other organizations
- Profits and losses on disposition of plant equipment or other capital assets
- Scholarships and student aid

Any questions regarding allowability of expenses to service centers may be addressed to Manager of Costing and Reporting, OSP or the Associate Vice President, Office of Research and Economic Development.

## 5. RATE DEVELOPMENT

Operating at breakeven means there is no significant profit or loss as a result of charging users for the services provided in any particular period, and no profit or loss **over the long run**.

SC rates are generally calculated based on actual prior year costs and budgeted projections of operating expenses and projected volume of the services or products to be provided. The goal of the SC is to calculate a rate that will ensure revenues reasonably offset expenses.

### 5.1 THE BASIC RATE CALCULATIONS FOR RECHARGE RATES

- SC rates are normally calculated for a fiscal year and modified as needed to break-even based on federal guidelines.
- External and commercial rates are calculated separately and discussed later in this section. In rare cases the SC manager may find it prudent to make rate adjustments during the year to accommodate changing circumstances and to assure break-even.
- When an SC is established mid-year, rates may be set for longer than twelve months so that the end of the first break-even period coincides with a fiscal year-end.
- When establishing a new SC and actual units and costs are unknown, market analysis for establishing initial and reasonable rates should be included in the request. After the initial year, actual prior year usage and costs, consideration of operating surplus and deficit and market analysis are used to document proposed rates for the next fiscal year.

The determination of recharge rates should consider the following:

- Billing rates should be designed to recover the total allowable direct operating costs of providing the services on an annual basis. No costs other than the costs incurred in providing the services should be included in the billing rates when charging a federal grant.
- The costs charged to federal grants should exclude unallowable costs and be net of applicable credits.
- The computation of the billing rates charged to federal grants for SCs should not include the facility's allocable share of institutional indirect costs.
- Billing rates should be computed annually for the start of each fiscal year. Each rate needs to be approved annually by the SCs director and the department, and at least biennially by OSP.

Please see the following guidelines concerning which costs to exclude and include in your rate calculation.

SC rates may be defined as the cost per unit of output to recover the expenses and achieve a breakeven financial position. In its most basic form, SC rates may be expressed, as follows:

$$\frac{\text{Actual and Allowed Expenses}}{\text{Level of Activity (Usage Base)}}$$

The budgeted usage base can be further defined as the volume of “activity” estimated to be performed or produced, expressed in terms of units. Examples are labor hours, machine hours, or any other unit of measurement appropriate to the type of activity. The resulting rate is then charged to SC users based upon actual services performed and/or products delivered.

For example, a microscope costs approximately \$100,000 per year to operate and has an estimated usage (activity level) of 1,500 hours during the year. The resulting hourly rate would be calculated as  $\$100,000/1,500 \text{ hours} = \$66.67$  per hour. A researcher using the microscope for 4 hours would then be charged  $\$266.68$ , or  $4 \times \$66.67$ .



While many SCs have rates that are more complicated by virtue of offering multiple services, by having pricing that is contingent upon types and/or levels of usage, most rates can be reduced to a simple fraction such as the one illustrated above.

## 5.2 TYPES OF USAGE BASES

The usage base, or activity level, is used to arrive at a billing rate that, when applied to actual usage, reasonably allocates SC costs in proportion to the customers receiving its benefits. Selection of an appropriate usage base is essential to ensuring that users are charged only their fair share of the actual costs of operating the SC.

Two approaches to rate development are available to determine an appropriate usage base: consumption and output. Both distribute costs based on a unit of measurement, such as hours.

The consumption approach is used when expenses are directly proportional to how much of a unit of measurement is consumed. The output approach is used when expenses are related to the number of units produced in a year. Examples of both approaches are explained and illustrated on Exhibit 5-1.

## 5.3 PRICING OF MULTIPLE SERVICES

Departments with SCs offering multiple services should calculate rates appropriate for each service. Where the calculation of separate rates for multiple services is not feasible, an average rate may be calculated, provided that the user base of the different services is approximately the same and the basis for rate setting is equitable.

## 5.4 PRICING OF SERVICES TO EXTERNAL AND COMMERCIAL USERS

Providing services to external and commercial users can provide income to SCs that can be used for long-term planning. Many universities and research centers use this method for creating self-sufficient SCs and these procedures comply with federal regulations.

SCs should use several methods when pricing their services for external and commercial users.

- These methods may include the inclusion of UW indirect costs but other factors include market analysis of applicable universities offering the same services.
- The charge should be reasonable. These pricing justifications should be included in the annual report documentation.
- Sales tax, when applicable, must be charged to external users who do not provide tax-exempt certificates.
- Income received from external users may be subject to Unrelated Business Income Tax (UBIT), i.e. federal income tax on net income from activities unrelated to the exempt mission of UW for education, research and public service.
- The portion of sample cost charged to external users over the internal (recharge) cost are allowed to be transferred annually to the SC facility renewal reserve all or in part, per the discretion of the SC Manager/Director based on the vision and long-term goals of the SC. Detailed reports to document the transfer request are provided with annual operating reports.

Internal/federal cost = sample break-even charge and remains in the SC operating recharge cash account.

	University Including Federal	off Campus Non-University (External)
Cost Recovery from Billing Rates	\$30.00	\$30.00
External mark-up	<u>0.00</u>	<u>20.00</u>
Total amount billed	<u>\$30.00</u>	<u>\$50.00</u>

#### NIH Guideline 5 Best Practices

“There is no limit to the amount of external income a core facility can receive per year. In general, if you generate an overall profit of more than 2–3 months of income, then you will need to take action to adjust your business plan for the following year. Actions may include: lowering the base direct-cost recovery rate, hiring new staff, or incurring additional appropriate expenses. Similarly, if you generate an overall deficit, you would take action to reduce expenses or raise rates the following year to recoup the loss. Either way, careful records must be maintained and made available to federal officials when requested. In short, the income generated from external customers is an excellent way to garner additional income, which can be used to keep rates low for internal customers while growing your operation (adding staff, renovating space). **In particular, revenue generated from external users can be an excellent way to fund new equipment purchases**, which would otherwise not be appropriate expenses for a core that served only internal users. If this approach is taken, **accurate and precise accounting is necessary to ensure that new equipment purchases are made only from non-recharge/externally generated funds**. More generally, external revenue is an effective way to reduce internal subsidies and pay for amenities that are otherwise not billable to clients paying with federally sponsored funds.”

### 5.5 TREATMENT OF OPERATING SURPLUS AND DEFICITS

It normally is not possible to predict exactly what rate(s) will result in having achieved a breakeven financial position at the end of the fiscal year. For this reason, it is necessary to account for over-recoveries (surpluses) and under-recoveries (deficits) annually so that they may be factored into any new rates.

If a SC ends a given fiscal year with an operating surplus, a threshold of a 120-day working capital allowance can be used as a guide of how much may be carried forward into the calculation of the next year’s rate. The amount above the 120-day working capital allowance would be factored into the calculation for the next fiscal year.

Any over recovery or under recovery for a given fiscal year should be considered as a separate line item in subsequent year’s budgets submitted as a part of the annual rate proposal process.

### 5.6 RATE APPROVAL

After approval of rates by OSP, rates will be included in the UW Fee Book for approval by the Board of Trustees.

## Exhibit 5-1

### The University of Wyoming SAMPLE RATE CALCULATIONS

The following examples provide a general overview of two common approaches to calculating SC rates. The “consumption” approach is preferred in more labor-intensive situations, while the “output” approach is used to equitably distribute costs of a common measurable product. It is important that the selected activity base relate directly with the elements of the operation that drives costs (i.e. labor or output) to keep rate calculations as simple as possible while yielding reasonable and consistent results.

#### EXAMPLE 1: ESTIMATING LABOR HOURS (CONSUMPTION APPROACH)

A machine shop estimates that total expenses for the next year will be \$225,000. Given that there are 2 full time and 1 half time employees working in this service center and that the operation runs Monday through Friday during normal University business hours, the following method could be used to develop a reasonable rate to be charged.

1. Calculate estimated production hours per person @ 100% time:

40 hours/week * 52 weeks	2,080 hours
Subtotal	2,080 hour

Total estimated hours per person 2,080 hours/year

1. Multiply times the number of employees:

Number of employees = 2.5 \* 2,080 hours/year 5,200 billable hours

3. Divide total estimated annual costs of operation by the number of billable hours to arrive at an hourly rate:

$$\text{Consumption Rate} = \frac{\$225,000 \text{ Total Costs}}{5,200 \text{ Billable Hours}} = \$43.27 \text{ per hour}$$

#### EXAMPLE 2: ESTIMATING UNIT COST (OUTPUT APPROACH)

A department with several copiers determines that the total cost of operating the machines for a year is \$75,000 and that 1.2 million copies are made by various users. The method below may be used to determine a unit cost per copy to charge users:

$$\text{Unit Cost} = \frac{\$75,000 \text{ Total Costs}}{1,200,000 \text{ Copies}} = .0625 \text{ or } \$0.06 \text{ per copy}$$

## 6. MONITORING PERFORMANCE

### 6.1 ANNUAL RATE PROPOSAL AND REVIEW PROCESS

The steps for accomplishing the rate proposal and review process for all SCs when requested by the OSP Manager of Costing and Reporting, is as follows:

1. All SC operation cycles should begin on July 1st and end on June 30th with the closing of UWs books.
2. Once the initial rate structure of a SC has received approval; rate proposal information for all subsequent fiscal years should be submitted by October 31 and include the following:
  - a. Annual financial operating report for the year just ended.
  - b. Proposed rate structure for the current year. If rates are based upon calculations previously approved by the OSP and there have been no changes in methods, only a listing of proposed rates is required.
  - c. Revenues and expenses incorporating the final surplus/deficit for the year just ended, if any.
  - d. Description of any changes in methods from those previously approved by the OSP. If there have been any changes in methods used in calculating rates, a new rate proposal may be requested by the OSP.
3. OSP will review and approve all rate proposals, including those that are based upon previously approved rate structures and will notify units when completed. The reviewed and approved rate structures will take effect at the start of the next fiscal year.
  - a. After review and approval by OSP, rates will be included in the UW Fee Book and receive final approval from the Board of Trustees.
4. A midyear review of SC operations may be conducted by the OSP based upon the first six months of fiscal year operations. SCs that experience an exceptional operating surplus/deficit as of this date may be requested to adjust rates to be charged during the second half of the fiscal year.

For all proposed new SCs, rates should be submitted at least 60 days prior to the start of the fiscal year, as specified in Chapter 2: Creation of Service Centers. The above steps will become effective after the first complete year of operation.

### 6.2 ANNUAL FINANCIAL OPERATING REPORTS

It is essential in any operation that a periodic assessment of performance be conducted. To

facilitate this review and provide a format for summarizing revenues earned and expenditures incurred, a financial operating report should be prepared. As stated above, an annual financial operating report is required as part of the rate proposal and review process. The results of operation will be used to determine among other things, that SCs are operating at or near breakeven and that expenses are allowable and properly allocated to SC accounts.

Combine annual reports into one pdf document. Submit final reports to the SC department. Reports are submitted and approved by the department of the SC and then submitted to the OSP for compliance review and must contain the following key elements:

Exhibit 6-1 shows the format that must be used when preparing annual operating reports.

1. Statement of the time period for which the report is being prepared (preferably, this period will coincide with the UW's fiscal year from July 1 to June 30).
2. Breakdown of revenues by source. At a minimum, the breakdown should include revenues from external and internal billings. It also is recommended that usage for instructional purposes be segregated from usage for research purposes.
3. Breakdown of expenditures by cost element. This section of the report should include at least the types of expenses shown on Exhibit 6-1.
4. Totals for revenue and expenses and a total showing the result of subtracting expenses from revenues to yield net surplus/deficit from operations.
5. Calculation of 120-day working capital allowance.
6. The amount of any UW or other subsidy.
7. All financial operating reports should state clearly the name of the SC, responsible department, org/department account number, reserve account number (if any), and contact person's name and telephone number.
8. Designated operating fund and facility renewal fund ending/carryover balances reconciled to WyoCloud
9. Accounts receivable
10. Accounts payable/encumbrances

Any questions regarding the preparation of annual financial operating reports may be addressed to the Manager of Costing and Reporting, OSP.

**Exhibit 6-1 Service Center Income and Expense Operating Report**

Service Center Name		
Fiscal Year		
Accrual method for calculating income and expenses		
Income	External billings at cost	
	External mark-up	
	Internal billings	
	<b>Total</b>	
Expenses	Salaries	
	Fringe Benefits	
	Travel	
	Equipment (Depreciation only)	
	University Services	
	Other	
	<b>Total</b>	
Operating Surplus/Deficit		
Less: Depreciation transfer to Facility Renewal Reserve		
Less: External transfer to Facility Renewal Reserve		
120-day Working Capital to carryforward (must be less than 25% of total expenses)		
Net Operating Surplus/Deficit included in sample calculation (the amount over allowed working capital)		
Subsidy (if appropriate)		
YE balances that carry over to next FY:		
Designated Operating Fund (limited c/over to 25% of annual expenses)		\$
Designated Facility Renewal Fund		\$
Accounts Receivable		\$
Accounts Payable		\$
Operating Account String		
Facility Renewal Reserve Account String		
Contact Person		
Email		
Telephone		

In completing this form the Service Center acknowledges that it has reviewed and complied with University of Wyoming’s Service Center Procedures Manual

## **Exhibit 6-2 Service Center Annual Report Checklist**

The following checklist lists the documents/calculations required for the Annual Report:

- Y Service Center Income and Expense Report (Exhibit 6-1)
- Y Calculation of external mark-up calculation with dates of transfers from designated operating account to designated facility renewal fund.
- Y Current rates for specific products/services.
- Y Equipment inventory list /depreciation schedule.

A narrative documenting the following information:

- Y Summary of the staff job titles and roles of the SC primary personnel
- Y Software and process used to track service center revenues, expenses and financial details.
- Y Description of the rate(s) setting process including sample calculations and justification for proposed sample pricing. New pricing begins in the next fiscal year unless otherwise specified and approved by OSP.
- Y Description of billing practice.
- Y Summary of long-term goals for using Facility Renewal Recharge funds.

## **7. POST-OPERATION REQUIREMENTS**

### **7.1 RECORD RETENTION**

Department copies of source documents for revenues and expenditures of SCs should be maintained by departments for a period of no less than 7 years following the end of each fiscal year. Other documentation, such as original time logs which are the basis for determining amounts to be billed, should be maintained for at least 7 years, in accordance with Internal Revenue Service requirements.

### **7.2 AUDITS**

Audits of UW may require participation by departments responsible for SC operations when the scope of these audits warrants it. In such cases, the department employee designated as having responsibility for a SC will be contacted as far in advance as possible by OSP. An appropriate OSP staff member will assist SC personnel in locating any documents selected for the audit.