PREFACE
This manual is intended as a guide for potential and established income/expense activities. Detailed information and specific examples are provided, from the initial proposal through the creation of a memorandum of understanding (MOU), development of the rate calculation, and ongoing management of the activity.

If you have questions or concerns, please contact the Office of Financial Analysis & Budgeting: Nancy Towle (656-1160, e-mail Nancy.Towle@uvm.edu) or Carrie Roy (656-1302, e-mail Carrie.Roy@uvm.edu).

ADDITIONAL RESOURCES

HELP ON SPECIFIC TOPICS
Procurement Services: http://www.uvm.edu/~procure/
Sponsored Projects Administration http://www.uvm.edu/spa/

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INTRODUCTION

An income/expense (I/E) activity at the University of Vermont is an activity that is designed to generate sufficient revenue from the sale of specific goods or services to recover expenses associated with providing those goods or services. These activities, sometimes called “auxiliary enterprises,” support the primary programs of instruction, research, and public service at the University.

Examples:

- Instruction: EM Luse Center – Communications Disorders, Childcare Center, Groundwater Remediation Course
- Public Service: Extension Service and Sales
- Academic Support: Instrumentation and Model Facility (IMF) – Technical Services Program (TSP), Fleming Museum Sales, Radiation Safety
- Student Services: Residence Hall Systems; Center for Health and Wellbeing
- Institutional Support: University Stores, Print and Mail Center, Telecommunications

The distinguishing characteristic of income/expense activities is that they are managed as essentially self-supporting activities. PeopleSoft Finance is the official record of the University’s budgeting and financial transactions; which includes budget and revenue/expense transactions, encumbrances, liabilities and net assets. Each income/expense activity should be accounted for separately using a group of self-balancing accounts within fund 150.

Both the revenue and expenditures in the OPREV_BUD and OPS_BUD_CH accounts are unrestricted, as no party external to the University specifies their use. However, even though the income/expense activities are unrestricted, they are “designated” for special purposes. Although all income/expense activities are found in OPREV_BUD and OPS_BUD_CH accounts, not all OPREV_BUD and OPS_BUD_CH accounts belong to income/expense activities.

The income/expense activities are distinguished from other OPREV_BUD and OPS_BUD_CH accounts, which are part of the General Fund, because each income/expense chartstring or group of chartstrings has its own unique source code and its own net asset balance separate from the General Fund.
FIRST STEP: The Proposal. Before beginning the process for establishing an income/expense activity

- After discussion with your dean or director, complete a “Proposal to Establish an Income-Generating Activity”
- The proposal, along with projected rate calculations (in Excel), must be submitted electronically to FAB for initial review and evaluation; then,
- Forward the proposal to the Budget Office signed by the dean or department director. FAB will obtain approval from the relevant vice president.

The proposal will be reviewed and, if determined appropriate for the University, a decision will be made about the type of activity needed. If approved as an Income/Expense activity, the next step is to review the Income/Expense Manual and begin to develop the Memorandum of Understanding. Proposals that are incomplete or lack required signatures will be returned without evaluation.


SECOND STEP: Using the Manual. This manual, a reference guide for establishing and managing income/expense activities (I/E) at the University of Vermont, describes

- general principles of income/expense activities
- how to create a new income/expense activity
- ongoing management policies and procedures of income/expense activities, including:
  - billing procedures
  - income and expense account code definitions
  - department or unit subsidy
  - PeopleSoft Financial reports
  - budget changes
  - new year budget process
  - potential audit review

and includes a glossary of terms and appendices designed to further support the content within the manual. When applicable, related areas are referenced.

Web Link: Memorandum of Understanding (MOU) http://www.uvm.edu/~ofabweb/?Page=IE_Activities.html
**SECTION I**

**GENERAL PRINCIPLES**

There are certain general principles primarily defined by federal regulations that are used to guide the development of all income/expense activities. These include the following:

**Full Cost Recovery, No Surplus.** The financial goal of each activity should be to recover the legitimate full cost of producing a good or service, but not to make a “profit.” This does not preclude maintaining an allowable reasonable net asset balance. Higher education institutions have confirmed with federal officials that the net asset of income/expense activities may reach a maximum sufficient to cover 60 business days without a change in rates; however, the University will review any surplus. An activity’s overall financial goal is to generate sufficient income to break even.

**Break-Even Budget.** Budgetarily, each income/expense activity is expected to “break even.” That is, projected annual revenue less all expenses is planned to equal zero. If the income/expense activity is supported by a college, a department, or other resource, the budgeted revenue will include the authorized subsidy (in a separate account code) so that the activity is always budgeted with a net of zero. The Memorandum of Understanding (MOU) should describe the process concerning any subsidy.

Although the activity is budgeted to break even, in most cases the actual results of operations net to something other than “0” in a given year. However, if the activity has a recurring deficit or surplus, it will be required to develop a “break-even plan” with a timeline (i.e., plan submitted during budget submission to adjust rate calculations over 2 years to achieve long-term break-even sustainability) and to receive approval from the Office of Financial Analysis and Budgeting (FAB) to budget accordingly.

**Consistent Rates Applied To Clients.** All clients/users must be charged at the same rate for the same goods or services provided. However, a subsidy can partially or totally offset this charge so that the actual amount paid by certain clients/users could be less than the full rate. If this is the case, it must be discussed in the MOU. Records must be maintained that support the rates applied to clients/users, a requirement for billing federal or state grants or contracts.

In addition to charging the same rate to all clients/users, all goods and/or services must be billed, including those provided to students, educational activities, or research whether or not funded by a grant or contract. Managers must avoid providing “freebies” or bartering (i.e., *a quid pro quo* trade in which you provide services in exchange for services or favors). Federal regulations require that all users be billed on the same basis.

**Match Income and Expenses.** All expenses that are included in the billing rate computations must be charged to the income/expense activity. Likewise, all revenue related to provision of goods or services must be credited to the related income/expense activity.

**Unrelated Business Income Tax.** Generally, unrelated business income tax (UBIT) is levied on net income from a continuing trade or business activity that is not substantially related to the University’s exempt purposes. Income from a continuing trade or business is not subject to UBIT if the business activity contributes to the accomplishment of the University’s mission in some manner other than simply producing revenues with which to support the mission.
As an example, consider a potential income/expense activity entitled “Technical Services Program,” which tests, services, and repairs laboratory and hospital equipment. The sale of such services to University departments, programs, and activities, are interdepartmental sales and would not be subject to UBIT. Similarly, the sale of services to Fletcher Allen Hospital, with whom the University of Vermont College of Medicine has an affiliation agreement, would not be considered UBIT. However, Technical Services Program also sells services to other hospitals and laboratories. These sales do not contribute importantly to the University’s mission; therefore, assuming the requisite profit motive exists, the net income would be considered unrelated business income (UBI). The net income from that activity would be subject to UBIT because the testing, servicing and repairing of hospital equipment does not substantially relate to the University’s mission.

Web Link: University Tax Administrator http://www.uvm.edu/~cntrllrs/?Page=tax.html

Equipment Expenditures. Income/expense activities that have equipment requirements must establish an equipment depreciation schedule with the assistance of the Office of Financial Analysis and Budgeting (see Appendix D, for a sample equipment depreciation schedule). In such a case, current year budget and current year rate are based on a planned expense amount or annual use allowance, which is calculated by dividing the total cost of equipment purchased through the activity’s reserve chartstring by the number of years of the equipment’s useful life. Because of federal regulations, the straight-line method of depreciation is recommended (this method is further defined in the Glossary of Terms). Thus, current operations reflect the year’s equipment use allowance rather than the actual cost of those purchases.

The depreciation schedule does not include any future planned equipment expenditures. Federal guidelines prohibit billing federal grants or contracts for future replacement or new equipment not yet been acquired. This University policy of billing only the existing equipment’s depreciation cost assures our compliance with federal policy regardless of the type of clients expected to be billed in the future for the goods or services.

General Fund Support Costs (Indirect Costs). An appropriate share of General Fund Support Costs will be identified for every income/expense activity that is created. New year levels will be set as part of the annual budget process. When grants or contracts are involved, only space related costs (e.g., building maintenance) will be assessed, thus assuring that there is no duplication of the general fund support cost (indirect) rate developed in line with the Federal A-21 Guidelines.

Net Asset. Each income/expense activity has its own net asset that carries forward from one fiscal year to another. This allows a surplus or deficit from operations in one year to be carried over to subsequent years. As part of the University’s management policies driven by federal regulations, a surplus cannot be transferred to unrelated activities, but must be used to reduce the rates for the services in future years.

Keep it Simple. It is recommended that the number of different prices or billing rates to be charged to University chartstrings be kept to a minimum. Income/expense activities often attempt to have separate charges for relatively small services. If these services are really insignificant in terms of the total operation, try to avoid establishing separate charges for these items. The record keeping that would be necessary to justify the separate charges generally far exceeds any benefit that would be gained.
SECTION II
CREATING A NEW OR REVISING AN EXISTING INCOME/EXPENSE ACTIVITY

The first step in considering a new income/expense activity is to submit a completed “Proposal to Establish an Income Bearing Activity” to Financial Analysis and Budgeting (FAB). This form can be downloaded from Appendix A or from the FAB website (http://www.uvm.edu/~ofabweb/?Page=Forms1.html). FAB is available to assist you in this process.

If the activity is approved as an income/expense activity, a draft Memorandum of Understanding (MOU) should be submitted to the FAB office. Once the MOU is in final format and approved by the appropriate dean/director, it will be reviewed by representatives of the Controller’s Office and FAB before being circulated for administrative approval and signature. It is, therefore, necessary to begin the process of creating an activity well in advance of the anticipated start date.

Completing a Memorandum of Understanding.
The following describes the issues that must be addressed in the MOU, as required by federal regulations, for each unique income/expense activity. The University considers the MOU to represent the “business plan” for the activity and should include at the minimum the following content:

A. Purpose of Activity
B. Management of Activity
C. Responsible General Fund Budget
D. Types of Expenses
   1. Direct Expenses
   2. General Fund Support Cost (Indirect Expenses)
   3. Space Use
   4. Equipment
   5. Tax Liability
E. Types of Income
F. Rate Calculation
G. Budget Projection
H. Year-End Balances/Deficits
I. Other Considerations

A. Purpose of Activity: Describe the goods or services that will be provided, how the activity relates to the department’s mission, and the type of clients who potentially will use the services or acquire the goods. As part of this section, please address these questions, if applicable:

• are there other University sources from which similar goods or services may be obtained?
• if similar goods or services may be obtained from non-University sources or other University sources, why create this proposed activity?
• if goods or services have been provided free of charge in the past, why now charge for the goods or services?

B. Management of Activity: Include descriptions of positions responsible for the management of the activity, the methods of record keeping, the reconciliation of the budget reports, MOU, and rate revision. It will be
assumed that all non-University billing will go through Accounts Receivable billing procedures for the University. If not, any special accounting procedures must be worked out with the Controller's Office and be documented.

A copy of such agreements should be attached to the MOU. If cash receipts are anticipated, it should be noted in the MOU and cash handling procedures followed.

http://www.uvm.edu/~cntrllrs/?Page=cash.html
Ref:  Section V. Ongoing Management of Income/Expense Activities: “Billing Procedures”

C. Responsible General Fund Budget. Every income/expense activity is expected to “break even”. That is, projected annual revenue less all expenses is planned to equal zero.

Addition to Net Assets – If a deficit balance exists, all or a portion needs to be built into the next fiscal year rate calculation as an expense in order to understand the amount necessary to collect as revenue to offset the deficit. Account E8649 should be budgeted for this purpose.

D. Types of Expenses. Describe the expenses that will be charged to this chartstring.
1. Direct Expenses: Typical direct expenses include salaries, wages, benefits, operating expenses (e.g., supplies, telephone, postage, rental of facilities), rental/lease of equipment, small equipment purchases, equipment depreciation. Important: the rate used to bill the federal government cannot include any expense for equipment reserve (see 4. Equipment below). Attach a budget schedule that details the projected expenses to the MOU.

Ref:  Appendix C. “Sample Rate Calculation and Budget Projection for Income/Expense Activities”
     Section III. Developing a Budget and Billing Rates: “Direct Expenses”

2. General Fund Support Cost (Indirect Expenses): the costs assessed by the University (FAB) to cover certain costs of administering and supporting income/expense activities that do not appear as direct expenses in the income/expense activity. Expenses for items such as custodial services, utilities, mail services, accounting services, and central management are borne by the General Fund. To assure that we are not duplicating the general fund support costs included in the federal grants and contracts, only space related costs (e.g., building maintenance costs) are reflected in the general fund support costs assessed to income/expense activities charging grants. In order to determine the income necessary to cover the full cost, these general fund support costs must be budgeted and built into the rate calculation for the income/expense activity.

The criteria used by FAB to charge general fund support cost to an activity are based on who the anticipated users will be, level of income, use of the University's facilities (space needs), and the relation to the primary mission of the University. You will need to contact FAB to determine if, and by what method, your activity will be charged.

Ref:  Section III. Developing a Budget and Billing Rates: “Expenses/General Fund Support Costs”

3. Space Use: Identify actual building(s) and room(s) to be used by the activity. If shared, note who other user(s) will be and the percent of time and space dedicated to the income/expense activity.
4. Equipment:

**Existing Equipment:** Federal regulation requires that if the proposed activity uses any pre-existing equipment, you must identify the type of equipment, date of purchase, the purchase order number, the vendor, the original cost, the funding source of the original purchase, and the UVM inventory tag number.

**Purchase of Equipment:** Any equipment purchase that could have a significant impact on the annual rate should be made from the activity reserve chartstring. A depreciation schedule must be developed and the annual expense included in the rate. This schedule, which must be submitted with the budget and rate calculation each year, prevents the rate from being distorted for any one year of operation and allows a more appropriate matching of costs with revenue each year.

Ref:  Appendix D, “Sample Depreciation Schedule”

E. Tax Liability: Provide the following tax information for purposes of determining tax liability.

**Sales Tax:** If the proposed activity will sell or rent tangible personal property (goods) to external clients (including University employees), explain whether the activity is subject to Vermont sales tax reporting and sales tax collection requirements.

**Unrelated Business Income Tax (UBIT):** If the proposed activity will sell goods or services to individuals or entities, consider whether the activity generates Unrelated Business Income, including whether the activity is a trade or business, with a profit motive, and whether the activity is regularly carried on. Explain whether (and how) the conduct of the activity contributes importantly (i.e., is substantially related) to the University’s educational, research, or public service mission. If it does not, consider whether the convenience exception applies.

F. Types of Income. Describe the types of income to be generated by charges to clients; that is, sales of goods, services, and rental usage. Also, include other sources of income available to the activity. For instance, if a college, school, or department plans to provide a subsidy to this activity, the amount must be identified on the budget page attached to the MOU.

Any income that is determined to result in Unrelated Business Income must be separately budgeted and deposited so the University will have proper information to report to the Internal Revenue Service for tax purposes. Please refer to the Financial Operations Manual section 5.14 (specifically 5.14.4 Unrelated Business Income) regarding the activity’s annual reporting obligations.


Also, estimate the percentage of users by the following categories:

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Departments (Fund 100)</td>
<td></td>
</tr>
<tr>
<td>Other Income/Expense Activities (Fund 150)</td>
<td></td>
</tr>
<tr>
<td>Grants and Contracts (Fund 300)</td>
<td></td>
</tr>
<tr>
<td>Students</td>
<td></td>
</tr>
</tbody>
</table>
Non-University Parties ________ %
Other (please define) ________ %
Total 100.0 %

G. Rate Calculation. Include a general description of the methodology used to develop the billing rates and the measurable units of goods or services. Submit the initial rate calculation as an attachment to the MOU. Keep in mind that a separate rate must be established for each unique class of goods or services provided by the activity. Section III. “Developing a Budget/Billing Rates,” details how to develop the rates.

As discussed in other sections, the rate calculation schedule, including the methodology and the projected billable units, is required each year with the submission of the new year budget for each activity.

H. Budget Projection. The initial budget projection must be attached to the MOU and a new year projection submitted annually.

For specific details as to how to build the budget projections, go to Section III, “Developing Budget/Billing Rates.” Also, Appendix C. “Sample Income/Expense Budget Projections and Rate Calculations” provides a sample outline for building the rates and corresponding budgets. The budget and rate calculation should include details estimating the expected level of activity including income and expenses as well as billable units of goods or services.

In addition to the standard budget categories (salaries, wages, operating, equipment, benefits), this budget should outline other income and expense pertinent to the activity; e.g., general fund subsidy (E4890), use of net assets (E4649), college/unit subsidy (E4870), general fund support cost (E8090), addition to net assets (E8649), equipment depreciation expenses (E8100), and/or tax liability.


I. Year-End Balances/Deficits. Address what will happen to any year-end balance or deficit in this activity. Typically, the balance will carry forward automatically. Since the current year balance is not known until after the next fiscal year rates are developed and approved, either the surplus or the deficit should be included in the future rates two years out.

Ref: Section III. Developing Budget/Billing Rates: “Prior Net Assets”

J. Other Considerations

Special Year-End Procedures: Identify any special accounting entries that must be made at year end.

Other Operating/Management Characteristics: Address any other operating/management issues unique to this income/expense activity that have not been covered in other parts of the MOU. Any exceptions to the basic operating principles outlined in this manual must be documented in the MOU.

Attached Schedules.

_____ Equipment Depreciation Schedule (see Section III and Appendix D of manual)
Budget Projections (see Section III and Appendix C of manual)
Rate Calculation (see Section III and Appendix C of manual)
Other Required Schedules or Documentation

**Signatures.** The responsibilities acknowledged by the required signatures are described below:

**Budget Manager**  
Responsible for the implementation of the MOU and compliance with appropriate regulations, policies and procedures.

**Dept. Chair**  
Responsible for management of the activity and its compliance with appropriate regulations, policies, and procedures.

**Dean/Director**  
Responsible for the compliance of appropriate regulations, policies, procedures, including any recurring deficit.

**Director, FAB**  
Agrees that the activity has a compelling reason to be created, has a sound business plan, has adequate financial management to support the activity, and the materials are complete and accurate.

**Asst. Controller**  
Agrees that the activity meets and complies with appropriate federal regulations.

**Controller**  
Agrees that the activity complies with general accounting principles and Internal Revenue Service requirements.

**Tax Administrator**  
Agrees that the MOU satisfactorily describes the activity's sales tax and Unrelated Business Income Tax reporting obligations, if applicable.

**Provost or VP**  
Agrees that the activity is a valid enterprise and relates to the mission Finance and of the institution; holds the unit responsible to comply with the MOU Administration and all related regulations, policies, and procedures.
SECTION III
DEVELOPING A BUDGET AND BILLING RATES

When a budget is being developed for an income/expense activity, it is important to include only the general ongoing costs in the activity’s budget and rate calculation. Any incremental costs specific to an individual grant or project (e.g., special travel, long-distance calls, or salaries for additional staff working on that particular project) should be charged directly to the grant or project or billed directly to clients through Accounts Receivable.

As discussed, the budget must net to zero, although the actual results of operations will most likely be something other than zero. The actual results of operations (surplus/deficit) will be part of future rate calculations for the activity. As with all budgets, this is an estimate and may be revised during the fiscal year to reflect significant changes in the level of activity expected.

The budget and billing rates for an income/expense activity can be developed by following these steps:

A. identify the total expenses and break these down by administration and by each category of service;

B. identify any prior-year net asset (+ or -) from the previous fiscal year for next year and include it in the appropriate totals;

C. for multiple service activities, determine the basis of allocating the administrative overhead to each service and complete the allocation to each service;

D. determine the estimated units of billable services of each service category;

E. calculate the billing rate for each service (e.g., per hour rate, per piece rate);

F. project the income based on the billing rate and the estimated billable units for the activity.

Ref:
Appendix C. "Sample Rate Calculation and Budget Projection for Income/Expense Activities"
 Appendix E. "Sample Rate Calculation for Activity with Two Service Areas"

A. Expenses: Every income/expense activity will have expenses to identify and budget. All will have direct expenses (expenses that directly relate to the activity) and many will be charged general fund support costs that will be assessed by the University. All expenses must be included in the budget and thus become part of the rate calculation.

1. Direct Expenses: Costs that can be consistently and specifically identified with the provision of goods or services of the activity are direct expenses.

Salaries: All faculty and staff who perform functions, including the required administrative functions, that directly relate to the provision of the goods and/or services should be budgeted and charged to the income/expense activity.
**Wages:** Again, any temporary or hourly employee who performs functions that directly relate to the provision of the goods and/or services should be budgeted and paid by the income/expense activity.

**Benefits:** All income/expense activities are charged the benefit costs for salaries and/or wages expended. The University has identified two different rates for assessing benefit costs. One rate is for ongoing faculty and staff salaries and is based on the composite General Fund rate that is calculated annually. The second rate is based on the University’s tax obligation for “temporary employees,” that is, employees who do not receive University benefits but for whom the University pays federal and state income tax. See the “Glossary of Terms” for a more detailed definition of temporary employee. The benefit rate can be found on the FAB website.

Web Link: Current Benefit Rate, [http://www.uvm.edu/~ofabweb/?Page=BBM1.html](http://www.uvm.edu/~ofabweb/?Page=BBM1.html) (choose current year, then Income/Expense Parameters)

**Operating:** Expenses such as operating supplies and maintenance contracts that directly relate to the provision of the goods and/or services should be budgeted and expended to the income/expense activity. Expenses that may jointly benefit the income/expense activity and other unrelated activities should be split-funded on an objective (i.e., supportable) basis. For example, if a purchase of equipment will equally serve two separately accounted-for activities (e.g., the income/expense and the home department); the expense should be charged 50% to each chartstring. Travel expenditures must be directly attributable to the services provided to be allowable by the income/expense activity. Because of federal regulations, travel costs incurred to present papers at seminars, or conference, and convention fees are not allowable on income/expense activities. Likewise, any “hospitality” type of expenses should be budgeted and expended carefully to assure that they directly relate to the activity and the subsequent billing rate.

**Equipment:** Any equipment purchase that could have a significant impact on the annual rate should be made from the Fund 200 (Unrestricted Equipment Reserve). A depreciation schedule ([Appendix D](#)) must be developed and the annual expense included in the rate calculation. This process prevents purchases from distorting any one year’s operation and meets federal requirements to bill only those expenses actually incurred. In addition, the cost of lease/purchase agreements should be budgeted and expended in equipment chartstrings.

**Taxes:** An activity that sells tangible personal property to external clients (including University employees) may be required to collect Vermont sales tax. If collection is required (as determined in consultation with the University tax administrator), contact the Controller’s Office concerning procedures for depositing, reporting, and submitting these funds.

Keep in mind that to be exempt from unrelated business income tax (UBIT) the conduct of the activity must substantially relate to the University’s mission. In addition, the type of external user of the good or service can also determine the impact on the tax liability of the net income. Sales not related to the University’s educational, research, or public service mission will be reported as unrelated business income and will be subject to federal income tax regulations. For planning purposes, managers should estimate a potential 20% tax rate. However, this rate is subject to change depending on the University’s tax liability in any given year. Use income Account code “45001” (Produce/Serv Sales on Acct) for budgeting and depositing such UBIT revenues. Given the complexity of this issue, it is best to contact the Tax Administrator if you have any questions or need further clarification.
2. General Fund Support Costs (Indirect Costs): General fund support expenses will be assessed on all income/expense activities, but actual charges may be waived based on type of users, level of direct expenses, and the relationship of the activity to the mission of the university. If Financial Analysis and Budgeting determines that there will be a charge, the expense must be included in both the budget and the rate calculation.

B. Net Asset: All income/expense activities have a separate net asset that continues from one fiscal year to the next. Obviously, for new income/expense activities, there will not be any prior net asset to include in rate calculations. However, it should be noted that, in general, any balance (+ or -) carried over should be built into the future rate(s). For activities with multiple service areas, unless easily identified to a specific service, the net asset would be included in the allocating of “overhead” costs described below.

C. Multi-Service Activities: Determining the Basis of Allocating "Overhead" Costs.
Identify expenses for each service. The building of the annual budget provides the framework for identifying all the expenses for the income/expense activity. Create a schedule for all expenses by each service. If an expense cannot be identified with a specific service (e.g., monthly phone charges), group the expense into an administration or "overhead" category. Appendix E ("Sample Rate Calculation for Activity with Two Service Areas") demonstrates how to distribute "overhead" to each service when calculating the billing rate for two or more services.

It may be difficult to assess the most equitable distribution of administrative “overhead” costs to each service for a new income/expense activity. It is most important to document the selected method and to be consistent in the allocation between each service provided. The recommended basis is dollar volume of direct expenses or, if applicable, the personnel effort in each service. It is not recommended to use revenue to allocate the administrative overhead category.

D. Determining "Billable Units" for Each Service. When creating a new income/expense activity, there are no records or logs to assist in determining the billable units for each service. Therefore, the billable units must be projected based on knowledge of the market conditions and an educated estimate. Document the methodology. Keep in mind when determining billable units that some portion of the full-time staff effort (1950 hours) is not available for billable units due to vacation and sick leave that reduces those hours to less than 1950 hours (full-time equivalency).

E. Calculating Billing Rates. The University’s general principles require that the billing rate must be based on the full cost of providing the service, that consistent rates will be charged, and that all goods or services must be billed (no freebies). The rate used to bill the federal government cannot include any expense for equipment reserve. If a subsidy is approved, a client may be billed less than the full rate, but the unit providing the subsidy will be billed the offsetting amount so that in fact the full rate has been charged consistently.

Ref: Appendix C. "Sample Rate Calculation and Budget Projection for Income/Expense Activity"

F. Income. Income is based upon the estimated units of service provided multiplied by the applicable rates. Federal regulations state that if any federal grant or contract is charged, all University chartstrings must be charged at the same rate.
Pricing based on “what the market will bear” is only allowable for external customers, and only if those rates exceed those charged to University customers. This eliminates any potential subsidy by the University to external clients and allows funding to cover UBIT charges.

When budgeting income be aware that the University uses separate account codes to record cash, accounts receivable, interdepartmental income, and general fund subsidy. These codes are further described in Section V. Ongoing Management of Income/Expense Activities: "Income and Expense Account Code Definitions".

Web Link: Listing of University-defined Account Codes, http://www.uvm.edu/hrs/?Page=skills/manuals/coa/chartfieldvalues.html
This link provides Excel spreadsheets that list each of the PeopleSoft chartfield values recognized at UVM.
SECTION IV
SUBMISSION OF MATERIALS FOR REVIEW/APPROVAL

When the MOU and supporting schedules have been prepared, all materials should be submitted electronically (Word, Excel) to the Office of Financial Analysis and Budgeting (FAB) to begin the review process.

If the activity is approved as an income/expense activity, a draft Memorandum of Understanding (MOU) should be submitted to the FAB office electronically. A group meeting with the Controller’s Office, FAB, and the department business manager may be part of the process depending on the complexity and nature of the activity. Once the MOU is in final format it will be routed for approval by the appropriate dean/director. The MOU is submitted to FAB and routed for remaining signatures. FAB will return a fully-executed copy to the activity's budget manager and create a chartstring to be used for the new income/expense activity.

Creating and maintaining an income/expense activity is a privilege and not a right and carries significant responsibilities with it. Therefore, a department should not assume an income/expense activity will be established until after the review by FAB and the Income/Expense Review Team.

Following is a general checklist of issues that will need to be addressed to complete the process of submitting a Memorandum of Understanding for a new income/expense activity:

MOU Checklist: Have you addressed/included:
   Purpose of the Activity
   Management of the Activity
   Identification of the Responsible General Fund Budget
   Equipment/Equipment Depreciation Schedule
   The issues of assessing General Fund Support Costs
   The issues of whether there is a potential Tax Liability
   Rate Calculation Worksheet
   Types of Income and estimated Percentage of Types of Users
   Budget Projections
   Year-End Balances/Deficits
   Special Year-End Procedures
   Any other Management Characteristics
   Any other required documentation/schedules
   Your unit’s required signatures
SECTION V
ONGOING MANAGEMENT OF INCOME/EXPENSE ACTIVITIES

Every income/expense activity requires significant administrative support to insure its successful management and adherence to University and federal regulations. Management of an income/expense activity requires a variety of skills, including financial, management, and technical skills. The following is a synopsis of those issues that need to be addressed during any given year. The Office of Audit Services, the Controller’s Office, and the Office of Financial Analysis & Budgeting are available to assist with any issues, concerns, or questions.

A. Income and Expense Account Definitions. The five-digit account code related to salary expense is in the range of 5XXXX - 59XXX. There are three variable digits that further define the account by salary type. These codes are used with each specific transaction to identify the category of income and expense involved. For example: ’010’ - TT Faculty, ’020’ - Non TT, ’030’ - Research Faculty, ’200’ Salaried Staff, ’300’ Hourly Staff, ’910’ Full Benefit Rate, ’912’ Federal Benefit Rate, etc.

In most cases, the last three digits of the Account Code are available for further definition. This gives the unit the opportunity to track specific types of income or expense. For instance, if you wanted to keep the administrative operating expenses separate from the technical services operating expenses and from the rental services operating expenses, you might define the codes as follows:

- 60000-60019 = General Supplies & Materials
- 60020-60089 = Supplies Technical
- 63500-63519 = Supplies Rental
- 60100-60109 = Photocopying and Faxing

You can do the same with the income categories as well. The University keeps track of different types of income by the following Account Codes that could be further broken down to track separate activities. For example:

- 45001= Produce/Serv Sales on Account
- 45201= IC – Produce 1 Internal Sales

The University does have some specifically identified (predefined) Account Codes that apply to income/expense activities. They are as follows:

- 80001 – IE Equipment Transfer
  Annual expense for use of equipment. This Account Code identifies the annual expense for use of equipment purchased from the reserve chartstring. The expense is included in the rate calculation and budgeted in the activity’s chartstring, and an amount is transferred monthly to reimburse the equipment reserve.

- 80901 – IC – General Fund Support Cost (Indirect Expenses)
  Used to budget the estimated amount of general fund support expense to be charged against the activity, based on the rate identified in the MOU or by the Budget Office.
45151 – Sales/Services User Outside
Used when billing outside clients for sales that are not substantially related to the University’s mission and therefore are subject to Federal Income tax reporting requirements (UBIT).

This type of identification of specific codes is useful to assure proper rate calculation and adherence to all policies and procedures of the University and federal regulations.

Web Link: Listing of University-defined Chartfield Values:
http://www.uvm.edu/hrs/?Page=skills/manuals/coa/chartfieldvalues.html This link provides Excel spreadsheets that list each of the PeopleSoft chartfield values recognized at UVM.

B. Billing Procedures. The University has standard billing procedures with record retention requirements for both University clients and non-University clients. Due to federal regulations and audit requirements, all billing records must be maintained for seven years after the fiscal year in which the bill was generated.

1. University Clients: Billing to other University chartstrings (General Fund departments, other income/expense activities, and grants and contracts) is accomplished by using PeopleSoft Finance.

   Electronic Media: Files are prepared by the income/expense activity manager, sent to Accounting Information Services (AIS) electronically (via File Transfer Process (FTP)), and are processed. If this method is chosen, contact AIS for more details.

   On-Line: Managers of income/expense activities may process inter-departmental transactions in PeopleSoft Financials. This process requires more controlled record keeping by the income/expense activity but ultimately saves time and manual effort for several departments involved. The distribution of charges is more immediate and the manager has more control over the income/expense activity’s income and budget dollars.

   The income/expense activity must maintain billing information including:
   
   • User authorization for service
   • Date of request for service
   • Department name and chartstring to be billed
   • Description of service being provided and the appropriate documentation of hours spent, etc.

   Please contact General Accounting for more details related to any of the above:


2. Non-University Clients: Normally, when it is necessary to bill a non-University client for whom there is no formal contract, the billing is processed through Accounts Receivable using the methods listed above. Please note that prior to billing non-University clients through Accounts Receivable; an Accounts Receivable account number must be assigned. Contact Accounts Receivable (6-1967) for further information. Actual billing for any activity with annual expenses over $50,000 must be done on a monthly basis.
It may be desirable in some cases for an activity to handle its own billing—either because there
would be many small transactions, or because the bill should include detailed descriptions or be
handled in a time frame that the Accounts Receivable system cannot accommodate. If the
department is allowed to do direct billing, the manager must demonstrate an ability to carry out
this procedure responsibly and must make appropriate year-end entries to properly record income
that is receivable at year end. Note that direct billing will be subject to close scrutiny by internal
and/or external auditors. All exceptions to normal billing procedures must be approved by the
Controller’s Office and be described in the MOU.

As noted in other sections of this manual, revenue generated from the conduct of an activity not
substantially related to the University’s mission should be credited to a designated Account Code
(45151 ) that tracks income potentially subject to Unrelated Business Income Tax (UBIT).

When a bill is entered into Accounts Receivable, the appropriate income is credited immediately to
the income/expense activity, even though the University may not receive the actual payment for
some time. Until payment has been received by the University, the income/expense account
continues to be responsible for the collection. The budget manager of the income/expense
activity may be called upon for assistance in collection of delinquent accounts. If, after two years,
the University turns the “bad debt” over to a collection agency, or if the account is written off as
uncollectible, the income/expense activity will be charged back for the “bad debt.” If the
collection agency is successful, the income expense account will be credited the receipt of the
income, less the collection expenses incurred.

C. Department or Unit Subsidy: If department or unit funds will be used to subsidize the use of the activity
for certain users, the following steps must be taken:

- All costs of operations must be accounted for in the income/expense account.

- The General Fund subsidizing the activity will be used solely as a subsidy account; no other
  expenses will be allowed.

The subsidy can be handled in one of two different ways:

1. In most cases, if a subsidy is to reduce the rates for department or unit users, or some subset of
   that group, the subsidy will be part of the actual billing on the Inter-Departmental billing. The total
   bill would be divided into the portion charged to the subsidized user department and the portion
   charged to the general fund subsidy chartstring.

   For example:

   Full rate = $100.00. The subsidized unit (Department A) receiving the services will be billed $80
   and the General Fund subsidy chartstring will be billed $20. The full rate has been billed but the
   unit receiving the services only sees $80 of the full cost due to the subsidy of the remaining $20. If
   the unit receiving the service is not subsidized (Department B), that unit would receive a bill for
   $100. See the following diagram:
Thus, even though a service must be billed at single rate, a subsidy can be called upon to cover a portion of that basic rate for a specific group of users.

2. If all users are to be subsidized, a monthly recurring journal could be set up to prorate 1/12 (1 month/12 months) of the total subsidy amount budgeted. The journal would credit the income/expense chartstring under a 48701 Account Code.

D. **Cash Handling Procedures.** Cash handling should be minimized as much as possible. Preferable alternatives include use of debit card technology (i.e., CATCard), directly depositing income to the Cashier’s Office, and/or billing services centrally through accounts receivable. When circumstances require cash to be collected by an income/expense activity, the Cash Receipts and Cash Security policies should be followed. These policies can be found at [http://www.uvm.edu/policies/](http://www.uvm.edu/policies/)

1. **Income should be deposited intact and on a timely basis:**

   - Receipts should be deposited in their entirety. No receipts may be used for any purpose (e.g., to cover related expenses) before being deposited.
   - Deposits should follow UVM guidelines, which require deposits to be made at least once a week. Activities that receive more than $100 a day in currency, coins, and checks must deposit those funds on a daily basis. Any accumulation of $100 or more for any period must be deposited by the end of the business day for that period.

2. **Safeguarding of Receipts:**

   - All checks should be made payable to the University of Vermont.
• A restrictive endorsement should be placed on checks as soon as they are received (i.e., UVM for DEPOSIT ONLY).

• Access to receipts should be restricted to those individuals responsible for collecting receipts and/or making deposits.

• Receipts not deposited should be kept in a locked and secure container. A cash register is a preferred device.

• Deposits should be transported in a locked bag (available from the Cashier’s Office) and preferably by Police Services with amounts in cash of over $250.

• If collected cash is transferred within a department for safekeeping, a receipt should be given.

• Do not mail cash to the cashier’s office.

3. **Separation of Duties:**

   • Different individuals should perform the tasks of receiving monies versus preparing and making deposits versus reconciling budget accounts.

   • Compensating controls should be in place if a single individual performs more than one of these duties. Compensating controls could be an unannounced review by management and periodic rotation of duties (i.e., through vacation).

4. **Adequate Record Keeping:**

   • An audit record should exist for all income (both cash and checks) received. This record may consist of a register tape or pre-numbered receipts.

   • The record should include at a minimum, the date, the amount received for each transaction, a description of the good or service purchased, and the type of payment.

   • Records should be kept in enough detail to perform “completeness reconciliation.” This reconciliation should be able to trace total amounts deposited to the quantity of items sold multiplied by the cost per item.

If you have any questions, contact Audit Services for further information.

**E. Inventory Procedures.** For those income/expense activities that handle “goods” or the manufacturing of “goods,” a physical inventory must be maintained by the activity and updated at year-end. The Office of Audit Services’ general guidelines (Appendix F, “Guide to Conducting Physical Inventories”) should be followed when conducting an inventory.

**F. Budget Changes:** When necessary, budgets can be adjusted during the fiscal year by processing a budget transfer to more clearly identify projected revenue or expense. All budget changes must net to zero.
G. PeopleSoft Reports. Reports should be run on a regular basis for review and reconciliation by the unit responsible for the income/expense activity. These reports are available via PeopleSoft Finance Mini Manuals. https://www.uvm.edu/hrs/?Page=skills/develop_skills.html

Unless otherwise instructed, all net assets carry over at year end to effect subsequent years’ rates. It should be pointed out that the accounting principle of recording income and expense in the correct year should be followed. There is still a need for prompt billing and prepaid expense and deferred income accounts when appropriate.

Net assets are closed to the activity’s unique source value, not program, purpose, or property fields that might be used for internal management.

H. New Year Budget Process. In January each year, FAB will post preliminary income/expense parameters on its website. These parameters will be updated as additional information becomes available and should be used to begin rate and budget development for the upcoming fiscal year. The new year budget process begins in early spring (April) and should be based on the guidelines posted, the current year actual results of operations, and any prior net assets (surplus or deficit) that should be built into the new year’s rate calculation.

1. Budget Building Materials: FAB posts budget building guidelines, salary guidelines, preliminary general fund support cost targets, and general guidance in terms of inflationary factors for salary/wage pool increases, benefits rates, and other operating expenses through its website. This information is designed to be used in preparing and submitting the New Year budget through PeopleSoft - EPM.

For more information regarding the annual budget building process, refer to the Section VI, "Glossary of Terms," the FAB website, http://www.uvm.edu/~ofabweb/?Page=BBM1.html&SM=Sub_BBM.html and/or contact FAB.

2. Review of Current MOU: A careful review of the MOU by the responsible unit should be done and a revised MOU should be submitted if changes are warranted.

3. Revised Rate Calculation: A revised rate calculation is required to be submitted to FAB annually in Excel format. Calculations should incorporate the following: inflation factors, current actual results of operations, any new general fund support cost target, and any prior net assets in excess of 60 days operating expense.

Detailed information about building an appropriate budget and calculating reasonable rates can be found in Section III, "Developing a Budget and Billing Rates."

In addition to the information referred to above, there are other issues that must be addressed in subsequent rate calculations:

Prior Net Assets: As discussed in earlier sections, all income/expense activities have a separate net asset that carries over from one fiscal year to the next. In general, any balance (+ or -) carried over should be built into the future rate(s).
Records/Logs of Activity: As noted in several sections of this manual, it is imperative to maintain accurate records/logs of activity to support rate calculations in the event of an audit by either an internal or external auditor of the University. For example:

- Dates of Service
- Description of Services
- Account to Charge
- Billable Hours
- Hourly Rate Amount

Equipment Depreciation Schedule: Because the New Year budget might reflect changes in equipment expense (as a result of either new purchases or completed depreciation of existing equipment), a current depreciation schedule must be submitted with the annual budget.

4. Submission of New Year Budget: In addition to the electronic budget submission, the following materials (electronically) need to be sent to FAB:

- Revised MOU, if necessary
- Revised Rate Calculation
- Equipment Depreciation Schedule
- Any other documentation related to the activities (e.g., loan agreements)

I. Audit Review. The Office of Audit Services may periodically audit activities to insure that they are functioning as specified in the MOU, and that they are in compliance with University policies and procedures and federal regulations.

All activities must have an auditable record or log of usage that forms the basis for all billing and rate calculation. The Office of Audit Services must be satisfied that billing documentation guidelines and other internal controls are being met. There is also the potential of an outside examination by state or federal auditors if grants or contracts are billed for any services.

In a typical situation, an auditor (although not limited to) will test that

- the rate used for the service reflects only the costs (direct and indirect) of providing the service and does not provide any surplus or profit for the center
- the rate is consistent with the institution’s approved rate structure for the income/expense activity

The income/expense activity’s financial records are consistent with the University’s PeopleSoft Finance system

- if the financial statement shows a surplus or loss, the rate is adjusted in future years
- if the income/expense activity provides more than one service, expenses have been allocated reasonably in the calculation of each rate
• adequate records of supporting schedules are maintained, if applicable (e.g., equipment depreciation schedule)

• the activity’s usage recording system is complete and well-controlled by ensuring
  - total units billed to users reflect total units of services rendered
  - users are consistently charged for usage

In addition, if a physical inventory is maintained by the income/expense activity, the auditor may test the inventory to confirm that

• inventory instructions and procedures are documented and followed
• inventory counts are accurate
• all items have been counted
• proper sales, receiving, and shipping cutoffs are performed
• obsolete items are segregated and have not been counted
• the cost figures used to value the inventory items are reasonable and can be substantiated

Ref:   Appendix F: "Guide To Conducting Physical Inventories"

If the auditors discover irregularities or incomplete records, payments for work already completed or planned may be disallowed. If this is the result of the activity not following procedures and policies as defined in this document and in its MOU, the responsible General Fund budget noted in the MOU will be liable for covering any lost income.

It must be stressed that the dean or director who has income/expense activities within his/her college, school, or administrative unit has primary responsibility for such activities. It is, therefore, necessary that at least one individual on a dean’s or director’s staff be knowledgeable about the details of income/expense activity management.
### SECTION VI
### GLOSSARY

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit Rate</td>
<td>A comprehensive benefit rate is calculated by estimating the total benefit expense less costs associated with student/temporary worker, federal appointed Extension Service employees, and those in the University Medical Group. Net costs are then divided by the payroll base (salary &amp; permanent wage employees) and adjusted plus or minus for any under- or over-recovery two years prior.</td>
</tr>
<tr>
<td>Direct Expenses</td>
<td>Costs that can be consistently and specifically identified with the provision of the goods or services by an activity. Examples of such costs are salaries, employee benefits, and cost of materials, maintenance agreements and supplies.</td>
</tr>
<tr>
<td>Equipment</td>
<td>An article of non-expendable, tangible personal property having a useful life of more than one year.</td>
</tr>
<tr>
<td>Equipment Depreciation</td>
<td>Estimated decrease or loss in value of a piece of equipment because of wear, age, or other causes. An equipment depreciation schedule is set up for activities with equipment expenses to estimate loss in value over time and to determine annual expense for use of equipment. The life of the equipment is determined, and the cost of the purchase of the equipment is spread over the life of the equipment.</td>
</tr>
<tr>
<td>Fully-Loaded Rate</td>
<td>The calculated rate that reflects all expenses associated with the product or service provided. A billable rate is based on, but may differ from, the fully-load rate when a subsidy is applied.</td>
</tr>
<tr>
<td>Net Assets</td>
<td>Value of assets compared to liabilities in any fund group or subgroup; may be equated to commercial equity.</td>
</tr>
<tr>
<td>General Fund</td>
<td>A portion of current operations utilizing net tuition, state appropriation, and other unrestricted, general income as revenue in support of academic and administrative departments.</td>
</tr>
<tr>
<td>General Fund Subsidy</td>
<td>Funds designated by a department or college to support an income/expense activity for all users or a designated subgroup of users of the service.</td>
</tr>
<tr>
<td>General Fund Support Costs</td>
<td>There are certain costs of administering and supporting income/expense activities that are not readily identifiable with the provision of particular goods or services by activity but they benefit and are properly allocable to an activity.</td>
</tr>
</tbody>
</table>

For income/expense activities, this “indirect costs” assessment is
determined by FAB based on the level of sales, the relationship of the activity to the mission of the University, and space usage by the activity. This is not the same calculation as the indirect costs associated with the restricted funds.

**General Ledger**

The principal ledger, which contains all of the balance sheet (assets, liability, equity) and income statement accounts for the university funds (e.g., General Fund, Equipment Reserve Fund, various Income/Expense funds). In other words, the general ledger holds all the financial records of the institution.

**Income/Expense Activity**

Those activities (businesses) that are expected to stand on their own financially. Revenue generated by their sales or services is expected to cover total costs, including general fund support costs.

**Restricted Funds**

A sponsored grant or contract, gift, or endowment income that must be spent for a specific purpose designated by an external sponsor or donor. Restrictions may be broad or specific.

**UBIT**

If sales are not substantially related to the University’s mission (education, research, and public service), proceeds from the sales are considered to be unrelated business income and are subject to Federal income tax reporting requirements. Unrelated business income tax (UBIT) applies when:

- the activity is a trade or business;
- the trade or business is regularly carried on; and
- the trade or business is not substantially related to the university’s exempt purposes.
Function Code Descriptions:

General Fund revenues are distinguished from I/E revenues by unique function codes:

<table>
<thead>
<tr>
<th>Function</th>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition &amp; Fees</td>
<td>101</td>
<td>RevTuit Used when recording revenues generated through operating tuition and fees</td>
</tr>
<tr>
<td>Grants &amp; Contracts</td>
<td>105</td>
<td>RevGrt&amp;Cnt Used when recording revenues generated through the university's contracts or federally sponsored programs. Used in connection with direct revenues, as well as, recovery of Facilities and Administrative costs.</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>109</td>
<td>RevOther Used when recording all operating revenue not identified as tuition and fees, auxiliary, government grants and contracts, athletics fees, or sales and service.</td>
</tr>
</tbody>
</table>

I/E Revenues:

<table>
<thead>
<tr>
<th>Function</th>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auxiliary Enterprises</td>
<td>103</td>
<td>RevAux Used when recording revenues generated in connection with the Universities auxiliary enterprises, including Res Life, etc.</td>
</tr>
<tr>
<td>Sales &amp; Service Educ Activities</td>
<td>107</td>
<td>RevSls&amp;Srv Used when recording revenue associated with Sales and Service of educational activities. Examples include revenues generated through sponsorship of conferences, sales of Conf and Evnt services, etc.</td>
</tr>
</tbody>
</table>

Net Assets

Each college, auxiliary, enterprise, capital project, sponsored grant / contract and cost center, and agencies in the general ledger require a self-balancing set of accounts for recording assets, liabilities (i.e., net assets), revenues, expenditures, and transfers. Each has a source of funding, whether it is revenue from external or internal sources, or a transfer of funds from another account that can be specifically identified. The identification of the source of funds must precede any expenditure. If the expenditures, excluding depreciation expense within a general ledger account exceed the funding sources, a deficit occurs. In other words, a deficit results when the sum of its revenues (including accrued and deferred amounts) is less than the current year to date expenses. Stated another way, a deficit results when liabilities exceed assets.
**APPENDIX B: UVM CHARTFIELD MAPPING - Continued**

**Chartfields:**

**Account Codes:**

Used for General Fund Support (Indirect) and Subsidies:

- **48901**  IC-Overhead (Revenue into GF ‘-’)  
- **80901**  IC-Indirect (Expense out of unit ‘+’) based on space, flat or %

Used for Equipment Depreciation:

- **49900**  Internal Funding-Transfer from (Revenue to payback net asset ‘-’)  
- **81001**  I/E-Equipment Transfer (Expense out of unit ‘+’) based on depreciation schedule

**Fund:**

- **150**  Unrestricted Inc&Exp

**Source:**

Effective FY2013, each I/E activity will be mapped to a unique source code:

- **13xxx, 14xxx** reflect I/E activity  
- **139xx, 149xx** reflect I/E activity reserves

**Function:**

- **109**  Revenue Other  
- **103**  Revenue Auxiliary  
- **107**  Revenue Sales & Srv  
- **201**  Instruction  
- **461**  Auxiliary Enterprises  
- **501**  Academic Administration  
- **519**  Other Academic Support  
- **701**  Student Admin & Services
### APPENDIX C: SAMPLE I/E RATE CALCULATION AND SAMPLE BUDGET

#### APPENDIX C

**SAMPLE I/E RATE CALCULATION AND SAMPLE BUDGET**

Rate Calculation: Testing Services

**Estimated Clients Per Year**

<table>
<thead>
<tr>
<th>Description</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>UVM GF Users</td>
<td>86</td>
</tr>
<tr>
<td>Student Users</td>
<td>200</td>
</tr>
<tr>
<td>Outside Users</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total Clients</strong></td>
<td><strong>586</strong></td>
</tr>
</tbody>
</table>

**Subsidized Expenses**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>E5600-Other Comp &amp; Wages (.25 fte)</td>
<td>$8,000</td>
</tr>
<tr>
<td>E5594-Benefits @ 8.7%</td>
<td>$696</td>
</tr>
<tr>
<td>E5200-Staff Salary (1.0 fte)</td>
<td>$51,000</td>
</tr>
<tr>
<td>E5591-Benefits @ 42.3%</td>
<td>$21,573</td>
</tr>
<tr>
<td>E6XXX-Operating</td>
<td>$48,261</td>
</tr>
<tr>
<td>E6320-Telephone</td>
<td>$2,097</td>
</tr>
<tr>
<td>E8100-IE Equipment Depreciation</td>
<td>$1,200</td>
</tr>
<tr>
<td>E8090-GF Support Costs (Indirect)</td>
<td>$14,758</td>
</tr>
</tbody>
</table>

**Total Expense** = $147,585

**Cost per Sample (Fully Loaded Rate)** = $251.85

**Subsidized Rate (UVM GF & Student)** = $221.45

---

#### FY 2013 ANNUAL BUDGET: Testing Services

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>E5200</td>
<td>Staff Salary (.1 fte)</td>
<td>$51,000</td>
</tr>
<tr>
<td>E5600</td>
<td>Other Comp &amp; Wages (.25 fte)</td>
<td>$8,000</td>
</tr>
<tr>
<td>E5991</td>
<td>Benefits @ 42.3%</td>
<td>$21,573</td>
</tr>
<tr>
<td>E5994</td>
<td>Benefits @ 8.7%</td>
<td>$696</td>
</tr>
<tr>
<td>E6000</td>
<td>Other Operating Expenses</td>
<td>$48,261</td>
</tr>
<tr>
<td>E6320</td>
<td>Telephone &amp; Related Charges</td>
<td>$2,097</td>
</tr>
<tr>
<td>E8090</td>
<td>GF Support Costs (Indirect)</td>
<td>$14,758</td>
</tr>
<tr>
<td>E8100</td>
<td>IE Equipment Depreciation</td>
<td>$1,200</td>
</tr>
<tr>
<td><strong>Total Operating</strong></td>
<td><strong>$66,316</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td><strong>$147,585</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>E4501</td>
<td>Sales &amp; Services (External Clients)</td>
<td>$75,555</td>
</tr>
<tr>
<td>E4800</td>
<td>Sales &amp; Services (GF Users &amp; Students)</td>
<td>$63,334</td>
</tr>
<tr>
<td>E4649</td>
<td>Prior Year Fund Balance Reserve</td>
<td>50</td>
</tr>
<tr>
<td>E4870</td>
<td>Unit Subsidy</td>
<td>$8,696</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>$147,585</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Unit Subsidy** = sum of subsidized expenses

---

**ASSUMPTIONS:**
- Fringe: 42.3%
- Wages: 8.7%
- Telephone: TBD/port/month
- Mileage: .55 cents/mile

**FUND BALANCE:** To find your July 1, 2012 fund balance in PeopleSoft you will go to:
- General Ledger -> Review Financial Information
  - Ledger
    - "30000" Account
    - "xxxx" Department
    - "150" Fund
    - "xxxx" Program or Purpose
  - Remember: "." is a positive balance in GL
### SAMPLE EQUIPMENT DEPRECIATION SCHEDULE

**Depreciation Schedule for FY 2012**

Account Title: University Technical Services

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXXX</td>
<td>5/20/2007</td>
<td>$3,000</td>
<td>5</td>
<td>$600</td>
<td>$600</td>
<td>$600</td>
<td>$600</td>
<td>$600</td>
<td>$600</td>
<td>$600</td>
<td>$600</td>
<td>$600</td>
<td></td>
</tr>
<tr>
<td>YYYYY</td>
<td>4/15/2009</td>
<td>$7,500</td>
<td>5</td>
<td>$1,500</td>
<td>$1,500</td>
<td>$1,500</td>
<td>$1,500</td>
<td>$1,500</td>
<td>$1,500</td>
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</tr>
<tr>
<td>ZZZZZZ</td>
<td>3/17/2011</td>
<td>$15,000</td>
<td>5</td>
<td></td>
<td></td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

**Amount in budget/rate for equipment depreciation**

$5,100

**NOTE:** For consistency purposes in developing the depreciation schedule, the University has established the useful life of moveable equipment to be 5 years and fixed equipment to be 16 years and salvage value of $0. However, with proper documentation, a unique useful life may be used for depreciation purposes.
### APPENDIX E: RATE CALCULATIONS

**SAMPLE RATE CALCULATION FOR ACTIVITY WITH TWO SERVICE AREAS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Admin/Overhead</th>
<th>Technical Services</th>
<th>Rental Services</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary</td>
<td>$11,000</td>
<td>$15,000</td>
<td>$3,000</td>
<td>$29,000</td>
</tr>
<tr>
<td>Wages</td>
<td>$1,000</td>
<td></td>
<td>$1,000</td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td>$7,900</td>
<td></td>
<td>$6,500</td>
<td>$14,400</td>
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<tr>
<td>Equip Depreciation</td>
<td>$3,600</td>
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<td>$1,500</td>
<td>$5,100</td>
</tr>
<tr>
<td>Benefits</td>
<td>$4,205</td>
<td>$5,625</td>
<td>$1,125</td>
<td>$10,955</td>
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<tr>
<td>Indirect Cost</td>
<td>$570</td>
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<td></td>
<td>$570</td>
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<tr>
<td><strong>Step 2:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior Fund Balance</td>
<td>$8,799 *</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>TOTAL EXPENSES</td>
<td>$28,275</td>
<td>$20,625</td>
<td>$12,125</td>
<td>$61,025</td>
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<tr>
<td><strong>Step 3:</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocate Overhead</td>
<td>($17,807)</td>
<td>$17,807</td>
<td>$ -0-</td>
<td></td>
</tr>
<tr>
<td>Technical Services</td>
<td>$20,625/(20,625+12,125) =</td>
<td>$12,125/(20,625+12,125) =</td>
<td>$ -0-</td>
<td></td>
</tr>
<tr>
<td>Rental Services</td>
<td>($10,468)</td>
<td>$10,468</td>
<td>$ -0-</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>$ -0-</td>
<td>$38,432</td>
<td>$22,593</td>
<td>$61,025</td>
</tr>
<tr>
<td><strong>Step 4:</strong></td>
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</tr>
<tr>
<td>Rate Calculation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billable Units (Hours)</td>
<td>75% x 1950</td>
<td>15% x 1950</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Based on Technician’s</td>
<td>1,462.5 hrs</td>
<td>292.5 hrs</td>
<td>1,755 hrs</td>
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</tr>
<tr>
<td><strong>Step 5:</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Calculated Rates:</td>
<td>($26.30 $77.00)</td>
<td>($26.30 $77.00)</td>
<td>($26.30 $77.00)</td>
<td></td>
</tr>
</tbody>
</table>

---

**Sample Rate Calculation for Activity with Two Service Areas**

*The prior fund balance is less than the allowed 60 day maximum balance. Therefore, it is not necessary to include the prior fund balance into the next year’s rate calculation.

**Presumes that some portion of the full-time effort of staff is not available for billable units due to potential use of vacation and sick leave.

**For activities with only one rate or service**, administrative services do not need to be broken out. If the above example had only one service, the rate would be calculated as follows:

Total Expenses/Billable Units = \$61,025/1755 hrs = \$35 per hour
APPENDIX F: GUIDE TO CONDUCTING PHYSICAL INVENTORIES

Physical Inventory Planning

The key to a successful physical inventory is the quality of the planning effort. We suggest that the department and Audit Services have a planning meeting at least a couple of weeks prior to the date of physical inventory. The topics discussed in this guide should be addressed at the meeting. Written procedures should be developed from that meeting and shared with everyone involved in counting the inventory.

Management of the department whose inventory is being counted is responsible for the accuracy of the physical inventory. The internal or external auditors may (1) observe the physical inventory process, (2) test the accuracy of the counts, and (3) attest to the reasonableness of the inventory figure.

All locations where inventory is stored should be identified. Building or room diagrams are helpful to ensure that all areas are included.

To facilitate inventory taking, management should attempt to reduce the inventory to a low level. This can be accomplished by reducing the amount of items ordered prior to the physical inventory.

Items to include in inventory are:
- items purchased for resale,
- materials that go into final product,
- finished goods available for sale, and
- work in process at time of inventory count.

Items to exclude from inventory:
- office supplies and furniture,
- equipment,
- obsolete items, and
- any items not listed above.

Inventory Procedures

The following procedures should be instituted to ensure physical inventory accuracy:
- Items to be counted should be physically arranged to facilitate counting.
- Items should not be moved while the physical inventory is being conducted.
- Inventory should be counted in a systematic consistent manner (e.g. left to right, top to bottom).
- Inventory counts should be documented on pre-numbered inventory sheets or pre-numbered multi-part tickets. A log should be used to account for all tickets/sheets issued to the individual counters, voided, and unused. A department supervisor should maintain the log. All unused tickets/sheets should be returned to the supervisor.
- Inventory sheets/tickets should contain the location, room description, shelf number, pallet number and/or row number. Counters and checkers should initial each sheet/ticket.
• Errors should be corrected and initialed on the sheets/ticket.

• The items counted must have a physical marking or indication that they have been counted in order to ensure they are not counted twice or not counted at all. If multi-part tickets are used, at least one part should be left with the item while another part is removed to record the inventory count. If sheets are used, a sticker or tag should be placed in each inventory section indicating the section has been counted.

• Items which will not have any activity prior to the physical inventory may be pre-counted. Reserve stock areas are commonly counted in advance of the physical inventory date. Pre-counting items helps alleviate the pressures during the physical inventory as long as the pre-counted items are not subsequently moved from the storage facility prior to the physical inventory date.

Sales, Shipping and Receiving Cutoffs
Proper sales and receiving cutoffs are required to ensure that the accounting records supporting transactions are consistent with the physical goods being counted.

The last day of recording sales and receipts should be agreed upon at the aforementioned planning meeting. Supporting documentation such as receiving reports, sales register receipts and shipping reports for the last week of activity should be available for the auditors. Items received during the counting should be segregated from the other stock and not counted.

For production centers, the best approach to ensure an accurate inventory is to shut down operations during the inventory count and after all current year production jobs have been completed. If this is not possible, the center should estimate what materials will be needed to complete the remaining production jobs for the fiscal year and set these materials aside to be excluded from the inventory count.

In general, sales during the inventory should not be permitted. However, if it is unavoidable, the items sold should be counted as part of the physical inventory and sales documentation should be marked "After Inventory/New Year." Sales of merchandise after the inventory counting period will be deferred to the next fiscal year.

Obsolete / Slow Moving Items
Inventoried items must be in saleable or usable condition. Damaged goods should be segregated and excluded from physical counts. Inventory is valued at the "lower of cost or market." Thus, inventory items that are saleable within one fiscal year (i.e. not obsolete items) are valued in the inventory at what the University paid for them (i.e their original cost). Slow moving items are valued at less than their original cost if the market demand (i.e., retail price) has dropped below the original cost.

Items with zero value should be isolated and not counted. After the inventory is finished, obsolete items should be discarded (i.e. scrapped, donated to another entity, etc.).

Consignment Inventory and Inventory at Outside Locations
Goods that UVM is holding on consignment for non-UVM organizations should not be counted because UVM does not own the items.
Inventory owned by the University that is stored at outside locations should be included in the physical inventory. These items should either be counted or a letter should be sent to the vendor or warehouse, requesting them to confirm in writing the description and quantity of the item(s) that they are holding for the University.

**Accounting for Inventory Sheets/Tickets**

It is critical to account for all inventory sheets/tickets issued to counters because the used sheets/tickets will become the basis for summarizing and recording the inventory in the accounting records. Inventory sheets/tickets must be pre-numbered for accurate accountability. If sheets are used, the department supervisor should ensure that all used and unused sheets are received back from the counters and posted to the control log. If tickets are used, the top copy of the ticket should be removed from the goods, placed in numerical sequence and returned to the supervisor for posting to the control log.

**Recording the Inventory in the University's Accounting Records and Determining Inventory Shrinkage**

The priced-out physical inventory will be recorded in the accounting records of the University after its accuracy has been verified.

Calculating the amount of merchandise loss (shrinkage) is a good management tool for ensuring operational efficiency. If a perpetual inventory system exists, the physical inventory should be compared with the perpetual records. Adjustments are then made to the perpetual records based on the results of the physical inventory count. For periodic inventories an adjustment is also made to accounting records to reflect the current inventory count. Here, however, shrinkage cannot be determined just by viewing the difference between the accounting inventory balance and the physical inventory count. Operating results for the period need to be calculated to determine shrinkage.

**APPENDIX G: MEMORANDUM OF UNDERSTANDING TEMPLATE**

Please refer to the following link for the most updated MOU template:

http://www.uvm.edu/~ofabweb/?Page=IE_Activities.html