



The
UNIVERSITY
of **VERMONT**

INCOME/EXPENSE MANUAL

Establishing and Managing Income/Expense Activities

Financial Analysis and Budgeting

March 2004

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, 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: Stephanie Dion (656-4368, e-mail Stephanie.Dion@uvm.edu) or Ann Barnes (656-1162, e-mail Ann.Barnes@uvm.edu).



ADDITIONAL RESOURCES

Accounting and Budgeting Policies, Procedures, and Guidelines.
<https://www.uvm.edu/~training/peoplesoft/>
University Financial Services. <http://www.uvm.edu/~cntrllrs/>
Financial Analysis & Budgeting. <http://www.uvm.edu/~ofabweb/>

HELP ON SPECIFIC TOPICS

Accounts Payable/Billing: <http://www.uvm.edu/~acctpays/>
Grant Accounting <http://www.uvm.edu/~gcaacct/>
Cash Handling: Assistant Controller for University Financial Services.
<http://www.uvm.edu/~cntrllrs/>
Inventory Procedures: Audit Services: <http://www.uvm.edu/~auditwww/>
Tax Liability: Tax Administrator. <http://www.uvm.edu/~cntrllrs/>



INTRODUCTION

An income/expense 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

- Instruction: EM Luse Center – Communications Disorders, ECDC Preschool, Buckham Overseas Program, EM Groundwater 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. The University’s accounting system (FRS) allows us to link the income and expenses of such an activity by recording all transactions (income and expense) in a ledger 3 account. No other ledger of accounts (University owned funds) manages both income and expense transactions in one account.

Both the revenue and expenditures in the ledger 3 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 ledger 3, not all ledger 3 accounts belong to income/expense activities. The income/expense activities are distinguished from other ledger 3 accounts, which are part of the General Fund (or unmapped), because each income/expense account or group of accounts is mapped (i.e., has its own fund 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” ([Appendix A](#)),
- Obtain approval and signatures of the budget director, the dean or department director, and the relevant vice president
- Forward proposal to the Budget Office.

The proposal will be reviewed and, if determined appropriate for the University, a decision will be made about the type of account needed. If approved as a Ledger 3 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.

Web Link: “Proposal to Establish an Income-Generating Activity”,
<http://www.uvm.edu/~ofabweb/?Page=Forms1.html>

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 subcode definitions
 - department or unit subsidy
 - budget changes
 - Financial Reporting System (FRS) reports
 - 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.

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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 fund balance. Higher education institutions have confirmed with federal officials that the fund balance 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 object 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” 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,” which sells microcomputers to University departments, programs, and activities. Such interdepartmental sales would not be subject to UBIT. Technical Services also sells microcomputers to employees, students and the general public. The sale of microcomputers to students is substantially related to the university’s education mission because microcomputers are used for coursework. The sale of microcomputers to the general public does not contribute importantly to the University’s mission; therefore the net income would be considered unrelated business income (UBI). The net income from that activity would be subject to UBIT because the personal use of the computer does not relate to the University’s mission.

Web Link: University Tax Administrator <http://www.uvm.edu/~cntrllrs/staffemail.htm>

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 plant fund account 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 indirect cost (overhead) rate developed in line with the Federal A-21 Guidelines

Fund Balance. As illustrated in [Appendix B](#). “UVM Account Mapping,” income/expense accounts are mapped to a separate fund balance (general ledger 0-18xxx) linked to the subsidiary account(s). Each income/expense activity has its own fund balance 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 accounts 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 (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 personnel 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/~uvmppg/ppg/acct/list.html>)

Ref: [Section V](#). Ongoing Management of Income/Expense Activities: “Billing Procedures”

C. Responsible General Fund Budget. Every income/expense account must have a specifically identified, base-budgeted general fund account that will be responsible for covering any recurring deficit in the income/expense activity account. At year end it will be determined by FAB if the recurring deficit will be covered by the responsible general fund budget.

D. Types of Expenses. Describe the expenses that will be charged to this account.

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, and indirect costs. 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. *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 indirect costs included in the federal grants and contracts, only space related costs (e.g., building maintenance costs) are reflected in the indirect costs assessed to income/expense activities charging grants. In order to determine the income necessary to cover the full cost, these indirect costs must be budgeted and built into the rate calculation for the income/expense activity.

The criteria used by FAB to charge indirect 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 plant fund. 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”

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

Sales Tax: If the proposed activity will sell tangible personal property (goods) to external clients (including University employees), explain whether the activity is subject to Vermont sales tax regulations.

Unrelated Business Income Tax (UBIT): If the proposed activity will sell goods or services to individuals or entities, explain whether the conduct of the activity contributes (i.e., is substantially related) to the University’s educational, research, or public service mission.

E. 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 unrelated to the educational, research, and public service mission of the University must be separately budgeted and deposited so the University will have proper information to report to the Internal Revenue Service for tax purposes.

Web Link: Tax Administrator <http://www.uvm.edu/~cntrllrs/staffemail.htm>

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

General Fund Departments (ledger 2-)	_____	%
Other Income/Expense Activities (ledger 3-)	_____	%
Grants and Contracts (ledgers 4-, 5-, 6-)	_____	%
Students	_____	%
Non-University Parties	_____	%
Other	_____	%
Total	<u>100.0</u>	%

F. 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.

G. 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 account; e.g., general fund subsidy, college/unit subsidy, indirect costs, equipment depreciation expenses, and/or tax liability.

Web Link: “Income/Expense Parameters” <http://www.uvm.edu/~ofabweb/?Page=BBM1.html>

H. Year-End Balances/Deficits. Address what will happen to any year-end balance or deficit in this account. 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 Fund Balance”

I. 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.
Director, Audit Svcs	Agrees that the activity is in compliance with appropriate regulations, policies, and procedures and that adequate system of internal controls have been addressed.
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 accurately describes the activity's sales and Unrelated Business Income Tax
Provost or VP for Finance and Administration	Agrees that the activity is a valid enterprise and relates to the mission of the institution; holds the unit responsible to comply with the MOU 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 fund balance (+ 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 indirect 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> (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 account. 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 plant fund. 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 subcodes.

Ref: [Appendix F](#). "Accounting for Income/Expense Activities"

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 (and the University tax administrator should make that determination), 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 object code "0505" 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)*: Indirect 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. Prior Fund Balance: What about 60 Business Day Balance? All income/expense activities have a separate fund balance that continues from one fiscal year to the next. Obviously, for new income/expense activities, there will not be any prior fund balance 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 fund balance 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 "guesstimate." 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 accounts 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 object 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 Subcode (Object) Definitions"

Web Link: [Listing of University-defined Subcodes](#),
http://www.uvm.edu/~cntrllrs/subsidiary_ledger_subcodes.htm

FRS: Screens H01 - H05

**SECTION IV
SUBMISSION OF MATERIALS FOR REVIEW/APPROVAL**

When the MOU and supporting schedules have been prepared, all materials should be submitted (electronically if possible) 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. 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. FAB will return a fully-executed copy to the activity's budget manager and request an account(s) be created 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 account 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:	Completed
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 Subcode (Object) Definitions. Following the basic six-digit account code there are four variable digits known as subcode (object) definitions. These codes are used with each specific transaction to identify the category of income and expense involved. For instance, the last four digits in 3-xxxxx-1400 represent staff salary expense.

In most cases, the fourth digit of the object code is available for further definition within the three digit specified 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:

3300 = Supplies-Administrative (typically, the University's standard code)

3301 = Supplies-Technical Services

3302 = Supplies-Rental Services

3620 = Photocopy Services

3621 = Photocopy-Technical Services

3622 = Photocopy-Rental Services

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

050x = Cash

0501 = Cash Technical Services

0502 = Cash Rental Services

051x = Accounts Receivable (all outside users except UBIT clients)

0511 = A/R Technical Services

0512 = A/R Rental Services

061x = Interdepartmental

0611 = IDP Technical Services

0612 = IDP Rental Services

The University does have some specifically identified (predefined) 4-digit codes that apply to income/expense activities. They are as follows:

3987 = Annual Expense for Use of Equipment

This subcode (object code) identifies the annual expense for use of equipment purchased from the plant fund. The expense is included in the rate calculation, budgeted in the activity's equipment transfer account, and a prorated amount transferred monthly to reimburse the plant fund.

Ref: [Appendix F. "Accounting for Income/Expense Activities"](#)

7330 = Ledger 3 Indirect

Used to budget the estimated amount of indirect expense to be charged against the activity, based on rate identified in the MOU or by the Budget Office.

0505 = Sales/Services User Outside

This subcode must be 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 Subcodes:](#)

http://www.uvm.edu/~cntrllrs/subsidiary_ledger_subcodes.htm

FRS: [Screens H01 - H05](#)

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 accounts (General Fund departments, other income/expense activities, and grants and contracts) is accomplished by using UVM inter-departmental billing procedures. There are several ways to process these billings:

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 directly on-line or in batch (Data Collect) in FRS. 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.

Paper: Journal entries may be prepared with substantiating backup as another method of billing University clients. This method is only useful for a small

number of transactions.

The income/expense activity must maintain billing information including:

- User authorization for service
- Date of request for service
- Department name and account number to be billed
- Description of service being provided and the appropriate documentation of hours spent, etc.

Please contact Accounts Payable for more details related to any of the above billing steps.

Web Link: Interdepartmental Billing Procedure, <http://www.uvm.edu/~uvmppg/ppg/acct/idp.htm>

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 (6-4346) 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 object code (0505) that tracks income potentially subject to Unrelated Business Income Tax (UBIT). For instance, the sale of computers to University departments, programs, or activities contributes to the mission of the University and thus would not be subject to UBIT. However, sale to employees for personal use does not relate to the University's mission and the net income is subject to UBIT. Any questions about the procedures should be addressed to the Tax Administrator (6-0674).

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:

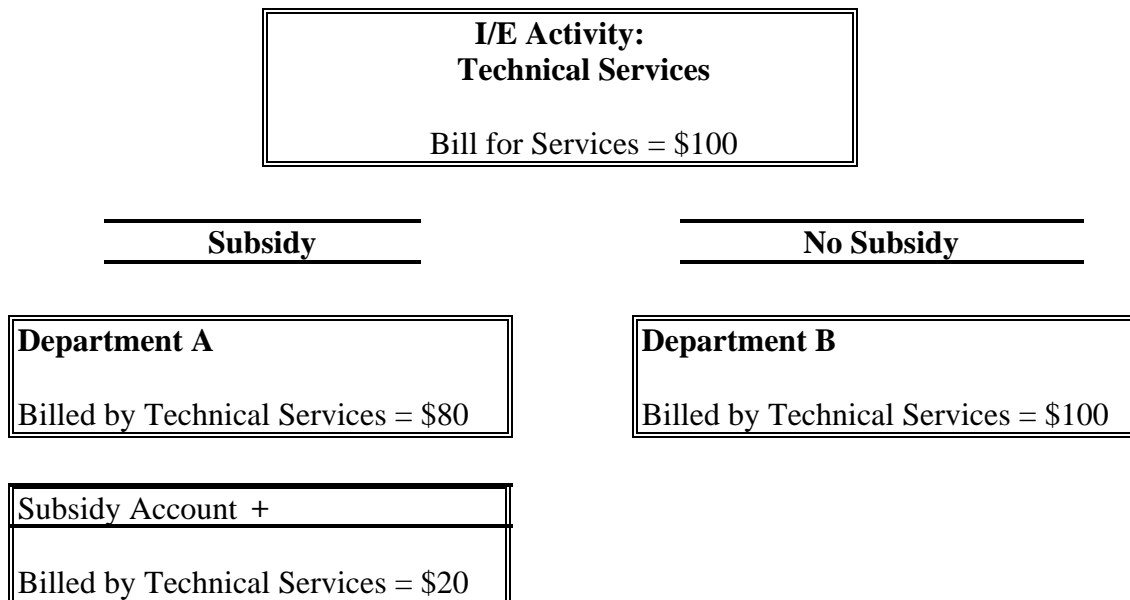
- All costs of operations must be accounted for in the income/expense account.
- The General Fund subsidizing the account will be used solely as a subsidy account; no other expenses will be allowed.

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 account.

For example:

Full rate = \$100.00. The subsidized unit (Department A) receiving the services will be billed \$80 and the General Fund subsidy account 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. In this case, the General Fund subsidy account would not be frozen, but there would be no expenditures against that account other than the income/expense activity's billings.

2. *If all users are to be subsidized*, a monthly mechanical entry could be set up to prorate 1/12 (1 month/12 months) of the total subsidy amount budgeted. The mechanical entry would credit the income/expense account under a 095x object 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/~uvmppg/ppg/acct/list.html>.

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 G](#). "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 using a Budget Change Order (BCO) form. Income/expense activities use BCOs only to revise their budgets to more accurately reflect their most current estimate of revenue and expense. All budget changes must net to zero.

A BCO cannot be used to make reallocations (transfers) to other unrelated accounts. To initiate a transfer to other unrelated accounts, a request for transfer of funds from an activity's own fund balance to the unrelated account's fund balance must be written to FAB, who will approve the request if it is in line with the principles identified in this manual and submit it to the Controller's Office for processing. This transaction will show up on the fund balance general ledger report (ledger 0-18xxx) posted on a monthly basis with the subsidiary ledger (ledger 3-) reports.

Web Link: [On-Line Monthly Budget Reports, http://giraffe.uvm.edu/controller-bin/frs_pers_access.cgi](http://giraffe.uvm.edu/controller-bin/frs_pers_access.cgi)

G. FRS Reports. On a regular basis, the Financial Records System generates reports for review and reconciliation by the unit responsible for the income/expense activity. These reports are available on the web and include a summary of the activity's subsidiary ledger (ledger 3-

account) in whole dollars and the supporting report of transactions for the current month. The reports should be reviewed and reconciled for accuracy on a monthly basis. At the bottom of the summary report the current fund balance for the activity is shown. Also available as a monthly web report is the general ledger (0-18xxx) account linked (mapped) to the ledger 3- account. This summarizes all the subsidiary ledger transactions along with any fund balance transactions that affect only the fund balance of the ledger 3- account.

Web Link: On-Line Monthly Budget Reports, http://giraffe.uvm.edu/controller-bin/frs_pers_access.cgi

For the month of June, there will be the first and second run of year-end reports. For most units, the second run in June represents the fiscal year-end final results of operations. The third run of the fiscal year includes year-end adjustments that typically are not meaningful to the unit but are necessary for the University's year-end financial reporting.

Unless otherwise instructed, all fund balances carry over at year end to effect subsequent years' rates. It should be pointed out that the use of a ledger 3- account does not take the place of the accounting principle of recording income and expense in the correct year. There is still a need for prompt billing and prepaid expense and deferred income accounts when appropriate.

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 fund balance (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 indirect cost targets, and general guidance in terms of inflationary factors for salary/wage pool increases, benefits rates, and other operating expenses through its website and by the 0-18000 list serve. This information is designed to be used in preparing and electronically submitting the New Year budget through the BULLSEYE server. For more information regarding BULLSEYE and the BULLSEYE electronic process, refer to the [Section VI](#). "Glossary of Terms," the FAB website, 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 annually. Calculations should incorporate the following: inflation factors, current actual results of operations, any new indirect cost target, and any prior fund balance 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 Fund Balance: As discussed in earlier sections, all income/expense activities have a separate fund balance 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 (hard copy) 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 FRS records
- 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 G:](#)"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

Benefit Rate	In FY 2004, UVM has a composite benefit rate of 38% for faculty/staff, and a temporary employee fringe benefit rate of 8%.
Direct Expenses	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.
Equipment	An article of non-expendable, tangible personal property having a useful life of more than one year.
Equipment Depreciation	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.
Fully-Loaded Rate	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.
Fund Balance	Value of assets compared to liabilities in any fund group or subgroup; may be equated to commercial equity.
General Fund	A portion of current operations utilizing net tuition, state appropriation, and other unrestricted, general income as revenue in support of academic and administrative departments.
General Fund Ledger 3	Ledger 3 accounts that record both income and expense but do not have a separate fund. All these accounts (160) roll up a single general fund, 0-18000
General Fund Subsidy	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. A separate account is set up in ledger 2 to cover only the subsidy expenditure.
General Fund Support Costs	<p>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.</p> <p>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.</p>

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, Plant Fund, various Income/Expense funds). In other words, the general ledger holds all the financial records of the institution. See subsidiary ledger.
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 indirect costs. They are designated, but unrestricted, and are accounted for within ledger 3. (However, not all ledger 3- accounts are income/expense activities; see general fund ledger 3).
Mapped Ledger 3 Accounts	Income/Expense accounts, so named because one (or several activity-related) ledger 3 account links or "maps" to a separate and distinct general ledger account (0-18xxx). See general fund ledger 3 accounts.
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.
Subsidiary Ledger	A subsidiary ledger is a group of accounts that pertains to a specific activity or fund (i.e., general fund, income/expense, gifts, endowments, etc.). The subsidiary ledger provides the planning (budget) and recording (bookkeeping) of the activity. Accounting controls manage the translation from the subsidiary ledger and tie them to the general ledger. See general ledger.
UBIT	<p>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:</p> <ul style="list-style-type: none"> • 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.

APPENDIX A

PROPOSAL TO ESTABLISH AN INCOME BEARING ACTIVITY: (Submit to Financial Analysis & Budgeting)

Date Prepared: _____

Proposed Activity: _____

Budget Manager _____ Location _____ Extension _____

Dean/Director _____

Statement of Purpose _____

Gen'l Fund Responsible Base Budget (Acct #) _____ Date(s) of trip, conference, etc: _____

Primary Type of Activity

_____ Recurring or _____ One Time
_____ Sales of Goods
_____ Use of Equipment
_____ Professional Services
_____ Conferences, Institutes, Camps
_____ Academic Trip
_____ Other

Clients to be Served

UVM Students _____
UVM Faculty/Staff _____
General Public _____

Est %

Primary Purpose of Activity

_____ Support Service (Department)
_____ Support Service (University)
_____ Instruction (UVM students)
_____ Outreach (Community)
_____ Student Services
_____ University Advancement
_____ Provide Instructional Materials to Students at Cost
_____ Other

Areas to be Billed

General Fund (Ledger 2) _____
Other I/E Activities (Ledger 3) _____
Grants & Contracts (Ledgers 4, 5) _____
Students _____
Outside Users _____
Other _____

Est %

What will be the benefit to UVM? To the larger community? _____

Indicate space and equipment requirements. If space would be shared, note location, other occupants, and % of space to be used by each. _____

Anticipated expenses, including wage, salary or benefits. What position(s) would be involved or requested? Explain.

SUBMITTED FOR APPROVAL:

APPROVAL TO ESTABLISH AN ACTIVITY FOR PURPOSES STATED ABOVE:

Budget Director Date

Provost or VP for Finance Date

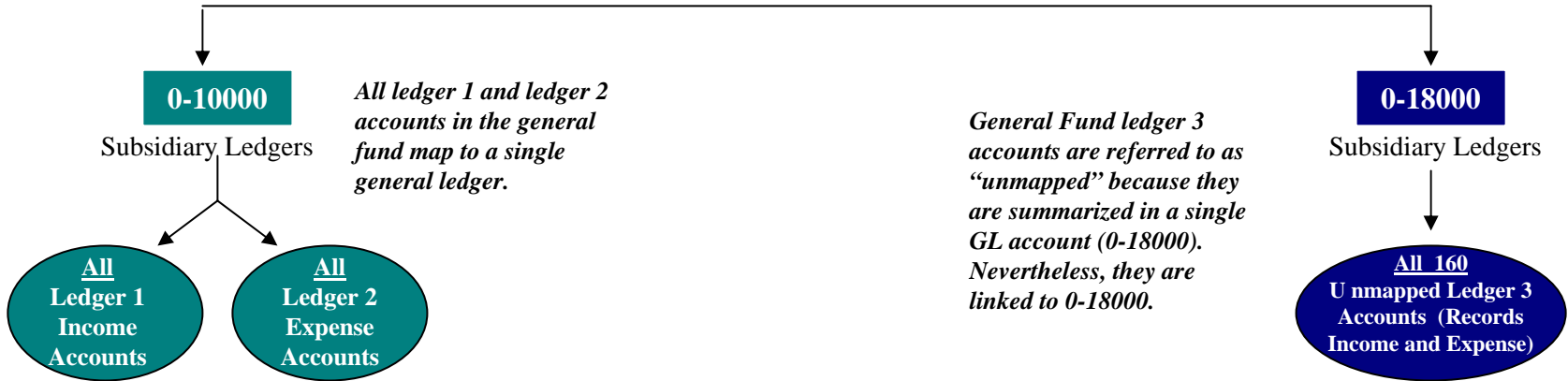
Dean or Director Date

Director of FAB Date

For FAB Use: If approved, activity to be considered as Ledger 3 Mapped _____ Ledger 3 Unmapped _____ EZ3 _____ Other _____

APPENDIX B Account Mapping

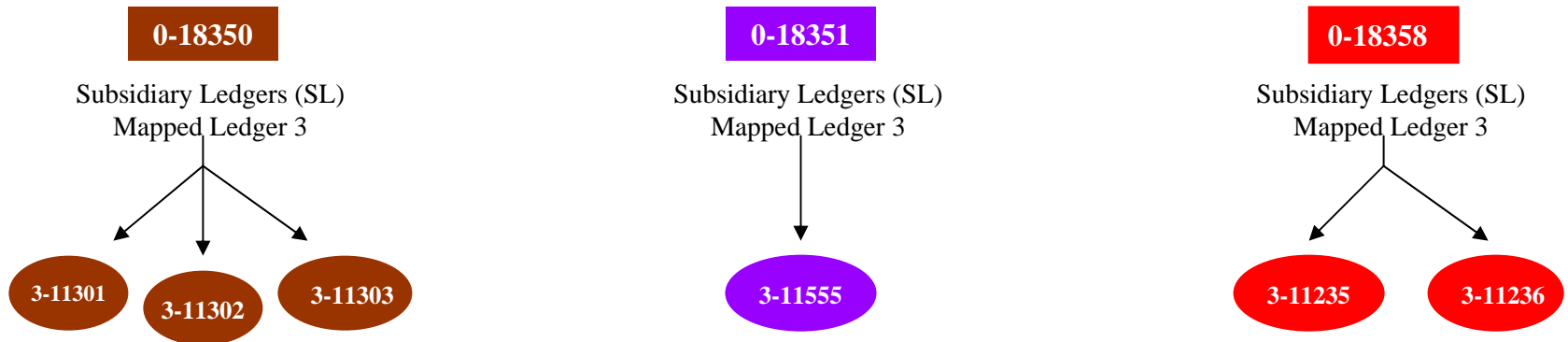
General Fund General Ledgers (GL)



Subsidiary Ledger Accounts Record the Detailed Financial Activities. General Ledger Accounts Summarize Aggregated Activity for All Associated (or Linked) Subsidiary Ledger Accounts.

Income/Expense Funds General Ledgers (GL)

One or More Activity-Related Income/Expense Account Can Be Mapped to One General Ledger Account



APPENDIX C

SAMPLE INCOME/EXPENSE RATE CALCULATION AND SAMPLE BUDGET

RATE CALCULATION: Laboratory Testing

Estimated Samples Per Year

Subsidized Users	{ UVM GF Users	400
	{ Student Users	200
	Outside Users	<u>75</u>
	Total Samples	675

Salary (.05 FTE)	\$ 6,500	} Subsidized Expenses
Benefits	2,425	
Supplies/Materials	6,471	
Service & Maintenance	1,000	
Equipment Use Allowance	500	
Indirect @ 5%	<u>845</u>	
	17,741	

Cost per Sample (fully loaded rate)	\$ 26.28 *
Subsidized Rate (UVM GF & stdts)	\$ 11.41 **

* Full Rate = Total Expense DIVIDED by Total # Samples (\$17,741/675=\$26.28)

** Subsidized Rate = # Subsidized Samples (400+200=600) MULTIPLIED by Full Cost Per Sample (600*\$26.28=\$15,768) LESS Subsidy (\$15,763-\$8,925=\$6,843) DIVIDED by # of Subsidized Samples (\$6,760/600=\$11.41)

ANNUAL BUDGET: Laboratory Testing

Budget in Ledger 3-xxxx0 Activity & 3-xxxx1 Transfer Accounts

Ledger 3-xxxx0		
0505	Sales/Service User Outside	\$ 1,971
0506	Sales/Service User (Students)	2,282
0610	GF Users	4,563
	GF Support	<u>8,925</u>
TOTAL REVENUE		17,741
1130	Salary (.05 FTE)	\$ 6,500
3301	Lab Supplies	6,471
3720	Service & Maintenance	1,000
5900	Benefits	2,425
7330	Indirect @ 5%	845
Ledger 3-xxxx1 Transfer Account		
3987	I/E Depreciation (Equipment Use Allowance)	500
TOTAL EXPENSE		\$ 17,741

APPENDIX D
SAMPLE EQUIPMENT DEPRECIATION SCHEDULE

Depreciation Schedule for FY 04
 Account Title: University Technical Services
 Account Number: 3-XXXXX

Item(s) of Equipment	Purchase Date	Purchase Price	Estimated Useful Life	Depreciation of Equipment									
				FY 99	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	
XXXXX	5/20/1998	\$3,000	5	\$600	\$600	\$600	\$600	\$600					
YYYYY	4/15/2001	\$7,500	5			\$1,500	\$1,500	\$1,500	\$1,500	\$1,500			
ZZZZZ	3/17/2003	\$15,000	5					<u>\$3,000</u>	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
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

SAMPLE RATE CALCULATION FOR ACTIVITY WITH TWO SERVICE AREAS

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

*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:

$$\text{Total Expenses/Billable Units} = \$61,025/1755 \text{ hrs} = \$35 \text{ per hour}$$

APPENDIX F

ACCOUNTING FOR INCOME/EXPENSE ACTIVITIES



LEDGER 3 ACCOUNTS

Subsidiary Ledger 3 Activity Account 3-xxxx0

Revenue and Expense are posted to this account. Exception: Equipment is bought from plant account (7-6abcd) and annual use cost is budgeted to and expended from Ledger 3 equipment transfer account and fund transferred to plan fund (0-6abcd).

Combined
Budgets
Must
Net to "0"

Subsidiary Ledger 3

Equipment Transfer Account 3-xxxx1

Annual cost for use of equipment (based on depreciation schedule) is budgeted & expended to this account. Each month 1/12 of the annual expense is transferred to the plant fund from which the equipment was purchased (0-6abcd).

General Ledger Fund 0-18xxx

Reflects all budgeted \$ and transactions for associated Ledger 3 Accounts (3-xxxx0 & 3-xxxx1)
The combined budgets of all Ledger 3 accounts mapped to a single General Ledger must net to "0."



PURCHASE OF EQUIPMENT

Subsidiary Ledger 7 Plant Account 7-6abcd

Equipment is purchased from this account. Annual cost of equipment use (based on the depreciation schedule) is budgeted to the Income/Expense activity's Ledger 3 equipment transfer account (3-xxxx1) and the funds are transferred to the 0-6abcd general ledger fund.

General Ledger Plant Fund 0-6abcd

Funds for annual cost of equipment use are transferred to this General Ledger account from Equipment Transfer Account 3-xxxx1.
Reflects all budgeted \$ and transactions for associated Ledger 7 account, 7-6abcd.

Transfer funds
for annual
equipment use
(purchase
repayment)



APPENDIX G
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.

**UNIVERSITY OF VERMONT
MEMORANDUM OF UNDERSTANDING (MOU)**

**This template can be downloaded from the FAB website
(<http://www.uvm.edu/~ofabweb/?Page=Forms1.html>)**

Activity Name:

Space Identified for Activity (Building and Room nos.):

FAB USE ONLY:

G/L Acct:

S/L Acct:

I/E Transfer Account:

Plant Fund Acct:

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?

Management of Activity:

Include descriptions of personnel 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/~uvmppg/ppg/acct/list.html>).

Responsible General Fund Base Budget:

Every income/expense account must have a specifically identified, base-budgeted general fund account that will be responsible for covering any recurring deficit in the income/expense activity account. At year end it will be determined by FAB if the recurring deficit will be covered by the responsible general fund budget.

Types of Expense: Describe the expenses that will be charged to this account.

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, and equipment depreciation. Important: the rate used to bill the federal government cannot

include any expense for equipment reserve. Attach a budget schedule that details the projected expenses to the MOU.

2. 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 indirect costs included in the federal grants and contracts, only space related costs (e.g., building maintenance costs) are reflected in the indirect costs assessed to income/expense activities charging grants. In order to determine the income necessary to cover the full cost, these indirect costs must be budgeted and built into the rate calculation for the income/expense activity.

The criteria used by FAB to charge indirect 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.

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.

<u>Equip Type</u>	<u>Purchase Date</u>	<u>PO Number</u>	<u>Account No.</u>	<u>UVM ID Tag #</u>

Purchase of Equipment: Any equipment purchase that could have a significant impact on the annual rate should be made from the plant fund. 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.

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

Sales Tax: If the proposed activity will sell tangible personal property (goods) to external clients (including University employees), explain whether the activity is subject to Vermont sales tax regulations.

Unrelated Business Income Tax (UBIT): If the proposed activity will sell goods or services to individuals or entities, explain whether the conduct of the activity contributes (i.e., is substantially related) to the University's educational, research, or public service mission.

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 unrelated to the educational, research, and public service mission of the University must be separately budgeted and deposited so the University will have proper information to report to the Internal Revenue Service for tax purposes.

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

General Fund Departments:	%
Other I/E Activities:	%
Grants/Contracts:	%
Students:	%
Non-University Parties:	%
Other:	%
Total	<u>100.0</u> %

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.

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.

Year-End Balances/Deficits:

Address what will happen to any year-end balance or deficit in this account. 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.

Special Year-End Procedures:

Identify any special accounting entries that must be made at year end.

Other Management Characteristics:

Address any other operating/management issues unique to this income/expense activity that has 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

Final Approval Signatures:

Budget Manager Date

Department Chair/Supervisor Date

Dean/Director Date

Provost or VP Finance and Admin. Date

Director FAB Date

Director, Audit Services Date

Assistant Controller Date

Controller Date

Tax Administrator Date