



INCOME/EXPENSE MANUAL

Guidance for creating and managing
Income/Expense activities (F150)

Revised FY 2019

[Office of Financial Analysis & Budgeting](#)

ABOUT THIS MANUAL

This manual is intended as a guide for income/expense activities. All financial activity will be managed through the PeopleSoft financial system. All income/expense activities are expected to follow all University policies and procedures. Examples of policy topics to be familiar with include, but are not limited to: Purcard handling, business meals/hospitality, external billing, inventory, moveable equipment, records retention, travel. See individual policies for applicable contact information.

Questions or concerns about this manual can be directed to [your unit's FAB analyst](#).

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SECTION A: GENERAL PRINCIPLES

I/Es are self-supporting activities and are designed to generate sufficient revenue from the sales of specific goods or services to recover expenses associated with providing those goods or services. These activities are sometimes referred to as auxiliary services. Customers for these activities can be:

1. External constituents
2. Internal constituents like students, staff/faculty or departments
3. Grants

With the exception of certain external activities, I/E rates and budgets are developed to net \$0 to the activity.

The revenue/expenses associated with I/E activities are unrestricted and no party external to the University specifies its use. Nevertheless, each activity is expected to operate as reflected in the activity's Memorandum of Understanding (MOU).

PeopleSoft (PS) Finance records I/E-related budgets, actuals, encumbrances, liabilities, and net assets in Fund 150. Each I/E is assigned a unique source value in PS and retains its' net asset balance.

SECTION B: I/E ACTIVITY TYPES

I/E activities are classified into one of the three following types based on data provided on the EZ-IE Form or the Proposal to Establish an Income Bearing Activity Form:

- **Internal Activity:** An I/E activity with less than 15% of revenue charged to grants, and, the majority of revenue charged to on-campus University departments
- **External Activity:** An I/E activity with less than 15% of revenue charged to grants, and, the majority of revenue charged to off-campus (non-University) parties
- **Grant-Charging Activity** – Any I/E activity with 15% or greater annual revenue charged to grants.

Note: Classifications are assigned during the creation of an I/E activity based on data submitted on the proposal or EZ-I/E form. It is the responsibility of the activity and/or unit to notify FAB if, over time, the client base has evolved and the activity should be reclassified based on a new percent of internal/ external/grant revenue distribution. An addendum to the MOU is submitted to initiate this process.

SECTION C: DEVELOPING AN I/E ACTIVITY

The following five steps are followed in developing an I/E Activity

Step 1: Submit an EZ-IE Form or a Proposal to Establish an Income/Expense Activity

All Income/Expense activities must submit a [Proposal to Establish an Income/Expense Activity](#). This step can be bypassed for the much quicker/easier [EZ-IE Form](#) if the activity:

- Will not be charging grants **AND**
- Will not be subject to Unrelated Business Income Tax (UBIT) requirements **AND**
- Is not expected to have an annual budget greater than \$25,000.

Be aware that both forms require the submittal of a Rate Calculation **in Excel**. (Step 2)

STEP 2: Submit a Rate Calculation

The Rate Calculation is the calculation/rationale used to determine the rate that is being charged the customer whether internal, external or a grant. The rate must be “fully loaded” (i.e., it is based on the full cost of providing the service). In some cases, fully loaded rates end up being higher than the market can bear. In these instances, a subsidy can be included as a component of the rate, to help offset the full expenses. Accounting for that subsidy is listed below.

It is expected that consistent rates will be charged, and that all goods or services must be billed (no freebies). The rate used to bill sponsored projects cannot include any expense for equipment reserve.

Rate Types: The rate is what an activity charges its customers. An activity may have multiple rates to differentiate between internal or external clients, or, to address different services within the activity.

Internal & External Customer Rates: Rates charged to internal & grant-charging customers must be developed so the net revenue/expense is equal to \$0¹.

External Customer Rates: Rates charged to external customers may be developed so the net revenue/expense is greater than \$0 creating a surplus. Unrelated Business Income Tax (UBIT) may be applicable. Note that these rates may not be less than those charged to internal customers or grants for the same good or service.

Fully-Loaded Rate: A fully loaded rate calculation reflects all expenses associated with the product or service provided. Costs that directly relate to the provision of goods/services provided by the activity. Examples include salaries, benefits, and cost of materials, maintenance agreements and supplies.

Budget Development: In order to determine whether or not the rate is generating a surplus, the rate calculation takes the form of a budget for that activity. In this budget, all associated costs (as indicated above) should be accounted for as well as all related revenue. More detail on budget development is listed in the Appendix.

The rate calculation will be reviewed by FAB.

STEP 3: Approval by FAB

If the unit has submitted an *EZ-IE Form* in Step 1, and a Rate Calculation in Step 2, and both are approved by FAB, the unit can move on to STEP 5.

STEP 4: Submit a Memorandum of Understanding

Once the Proposal to Establish an Income/Expense Activity has been approved, a draft [Memorandum of Understanding \(MOU\)](#) should be submitted electronically to the FAB analyst.

¹ Sponsored Programs Administration (SPA) will be contacted when any externally generated revenue (non-UVM customers) is funded by federal dollars and the responsibility for a piece of the programmatic work is being passed on to UVM. This may result in the work being treated as a sponsored agreement depending on the requirements attached to the sponsored funds.

The following describes the issues that must be addressed in the MOU for each unique I/E. The University considers the MOU to represent the “business plan” for the activity and should include at minimum the following content:

- A. Purpose of Activity
- B. Management of Activity
- C. Responsible General Fund
- D. Types of Expenses
 - a. Direct Expenses
 - b. General Fund Support Cost (Indirect Recovery)
 - c. Space Use
 - d. Equipment
 - e. Tax Liability
- E. Types of Income
- F. Rate Calculation(s)
- G. Budget Projection
- H. Year-End Balances/Deficits
- I. Other Considerations

STEP 5: Long-Term Management

Once the EZ-IE Form or MOU have been approved, every I/E requires administrative support to ensure its successful management and adherence to University and federal guidelines.

Financial Monitoring – The I/E activity Director is responsible for monitoring and responding to its financial performance. This includes, but is not limited to the following:

- Review monthly financial operating reports
- Review net asset and equipment reserves annually
- Develop new annual rates, and/or adjust rates as appropriate
- Revise your MOU or submit an MOU addendum to reflect changes in operation

Record Keeping – It is imperative to maintain accurate records/logs of activity to support rate calculations in the event of an audit either an internal or external auditor of the University. Examples of records include dates of service, descriptions of service, amount charged, billable hours, and hourly rate.

Net Asset Level – 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. The Net Asset level of I/E activities for internal and grant-charging activities may reach a maximum to cover 60 business days of expenses. If the net asset grows to be larger than 60 days, the activity must use its net assets to adjust its rates (i.e., a subsidy) to be lower than 60 days. External activities can have Net Asset levels higher than 60 days.

Net Asset Deficits - If the activity has a sustained Net Asset deficit, 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 two years to achieve long-term break-even sustainability) and to receive approval from the Office of Financial Analysis and Budgeting (FAB) to budget accordingly.

Office of Audit Services - The Office of Audit Services may periodically audit activities to insure that they are functioning as specified in the MOU are in compliance with University policies, procedures and federal regulations. All activities must have an auditable record or log of usage that forms the basis for all billing

and rate calculations. 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.

SECTION D: MORE ON BUDGET DEVELOPMENT

The following are some details to remember upon development of the budget used for rate calculations.

Charging a Consistent Rate – 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.

Matching Revenue and Expenses – All expenses that are included in the billing rate computations should be charged to the I/E activity. Likewise, all expected revenue related to provision of goods or services identified in the budget should be credited to the activity as generated.

Unrelated Business Income Tax – 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. 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. 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 to support the mission. For more information, contact the [University Tax Services](#).

Indirect Charge/Rate – Each activity is charged an indirect charge (“indirect rate”) that it pays to the General Fund. This charge goes to cover expenses such as basic custodial services, utilities, payroll, accounting services, and general management borne by the General Fund. The indirect recovery rate charged is based on the activity classification. This is also referred to as “Contribution to the General Fund.”

Types of Indirect Rates – There are three types of indirect rates based upon the classification of the Activity.

Internal Indirect Rate – Calculated as a percent of actual expenses charged to activities classified as internal. The rate is 4% in FY17.²

External Indirect Rate – Calculated as a percent of actual expenses charged to activities classified as external. The rate is 20% in FY17.²

Space Cost Indirect – Grant-charging I/Es incur a cost-per-square-foot of the building space occupied. The square footage is pro-rated to reflect the percent of activity usage. These data come from the FAMIS space survey completed by the unit. The building cost-per-square-foot is based on the actual building in which the activity resides. Each campus building has a different cost and that cost is determined by the annual building cost analysis data received by Cost Accounting Services. Certain grant-charging activities are eligible for a subsidy to assist with offsetting the space cost. Grant-charging activities within Support Centers (SCs) are eligible to receive up to a 60% subsidy (FY17 rate)

² Indirect rates are calculated against all expense accounts - *including equipment (E8100), addition to fund balance (E8649), and internal funding transfers (E8201, E8202)* - excluding the indirect accounts (E8090, E8095) themselves.

from the General University. Grant-charging activities within Responsibility Centers (RCs) may receive subsidies determined by the individual RC.

Flat Rate – A flat cost applied to the activity that is negotiated with the University. Flat rates are not common, but can be appropriate for activities with a level of responsibility for paying certain utility, rent, facility and insurance expenses. They are not used for Grant-charging Activities.

Distinction between I/E Activities in Responsibility Centers vs. Support Centers/Hybrid Support Centers –

The indirect charge for I/E activities within Support Centers (SC) and Hybrid Support Centers is returned to the General University. The indirect charge for activities within Responsibility Centers (RCs) is returned to the RC's General Fund account since the RC is assessed a facilities cost under IBB.

Subsidy Use - If the activity uses a subsidy, 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.

Unique Income/Expense Budgetary Codes – Budgetary accounts exist in PeopleSoft to recognize I/E-related balancing commitments.

For example, the following are commonly used:

E4649	Prior Year Carry Forward – <i>Use of net assets</i>	E8090	Central I/E Reimbursement – <i>Indirect from SCs</i>
E4870	RC Subsidy – <i>Contribution from non-I/E source</i>	E8095	RC indirect Reimbursement – <i>Indirect from RCs</i>
E4890	Central I/E Support FAB Only	E8100	Equipment Txfr – <i>Use for equip depreciation</i>
E4895	RC Indirect Recovery – <i>Budget offset for F100</i>	E8649	Addition to Fund Balance – <i>Contribution to net assets</i>

Additional Resources – Annual budget guidelines with additional details related to budget building and templates are updated and published by the FAB Office each fiscal year

SECTION E: EQUIPMENT EXPENDITURES & DEPRECIATION SCHEDULES

Equipment is defined as an article of non-expendable, tangible property having a useful life of more than one year. I/E activities that have equipment requirements must establish an equipment depreciation schedule that is submitted with each annual budget and rate submission.

In such a case, the 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. Thus, current operations reflect the year's equipment use allowance rather than the actual cost of those purchases.

Equipment reserve chartstrings use a source value of 139xxx or 149xxx. The last three digits are the same as the activity's operation source value. The initial purchase of equipment will put the reserve chart string in deficit, and will be reduced by subsequent years of equipment depreciation expense, ultimately netting to zero.

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.

An example of an equipment depreciation schedule is below:

Equipment Depreciation Schedule Sample for FY 2019											
Item(s) of Equipment	Purchase Date	Purchase Price	Estimated Useful Life	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
XXXX	5/20/2015	\$ 3,000	5 yrs	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600			
YYYY	4/15/2017	\$ 10,000	4 yrs			\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500		
ZZZZ	11/3/2018	\$ 6,500	5 yrs				\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
Amount in budget/rate for equipment depreciation:				\$ 600	\$ 600	\$ 3,100	\$ 4,400	\$ 4,400	\$ 3,800	\$ 1,300	\$ 1,300

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 15 years and salvage value of \$0. However, with proper documentation, a unique useful life may be used for depreciation purposes.

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.

APPENDIX A: SAMPLE RATE CALCULATIONS

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	

*It is necessary to include the prior year fund balance (net asset reserve) into the next year's rate calculation(s).

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

For I/Es 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 B: FREQUENTLY ASKED QUESTIONS ABOUT INCOME / EXPENSE GUIDELINES

What's the difference between an MOU, an activity and a rate?

An MOU outlines the specifics about an activities sale of goods or services. Typically, an MOU contains one activity. However, there are instances where it is appropriate for an MOU to contain multiple activities when those activities are related to and share the same purpose and management.

An *activity* has a unique source value and fund balance. Rules about indirect levels and fund balance accumulation occur at the activity level. It is categorized as either internal, external or grant-charging based upon its' predominate customer base. An activity has one indirect based on its categorization: 4%, 20% or "space" for internal, external and grant-charging activities respectively.

A *rate* is what an activity wishes to charge its customers. An activity may have multiple rates.

What's the difference between a surplus and a positive fund balance?

There is a distinct difference. Surplus refers to revenue being greater than expenses *solely at the rate level*. A positive fund balance occurs when revenues in excess of expenses accumulate at the activity level.

Is it true that billing rates can be developed in I/E activities to recognize a surplus?

Internal Rates – No, the net revenue/expense must equal \$0.

Grant Charging Rates – No, the net revenue/expense must equal \$0.

External Rates – Yes, it is allowable for external rates to have the revenue/expense netting >\$0. Since every activity budget must net \$0 this is done by budgeting the surplus in E8649 Addition to Fund Balance. Be aware that Unrelated Business Income Tax (UBIT) may be applicable.

Can I have an external rate for my internal activity?

Yes. If the majority of customers become external or a substantial fund balance is accumulated, the classification of this activity, and therefore its indirect, may change.

Can I have an external rate for my grant-charging activity?

No. A grant-charging activity that wishes to charge external clients a higher external rate may do so by creating an associated external activity. *Please see below for more details.*

Is there a limit to the fund balance allowed? How can the fund balance be used? When? Who can use it?

All income/expense activities (internal, external, grant) are allowed to maintain a fund balance of 60 days. Any **external** activity fund balance exceeding 60 days of operating can be accessed for spending. Use of the fund balance above the 60-day reserve is determined at the Dean/VP level. Activity directors should work with their Dean/VP to develop plans for use. All use must be compliant with University Policies & Procedures. FAB can assist the Dean/VP business office in journaling the allowable fund balance to the appropriate spending chartstring. Spending will not take place within the income/expense activity chartstring.

If I have an external rate with a planned surplus does my annual budget still need to net \$0?

Yes, your activity annual budget will still be entered to net \$0. You will recognize the planned surplus by budgeting the amount in E8649 Addition to Fund Balance.

Will Responsibility Center (RC) activities still be charged indirect? If so, won't they be getting double charged?

Yes, RC activities will still be expected to budget and be charged the minimum University indirect (*indirect charged to Cost Centers (CCs) – i.e. 4%, 20% or space charge*).

However, RCs will not be double-charged because instead of reimbursing General University, the indirect will now be routed to reimburse the RC, at the Dean's office level. This happens via FAB directed monthly journal allocations in PeopleSoft. RC activities will use E-level **E8095 Responsibility Center Reimbursement** during budget building, instead of E8090 General University Reimbursement. This E-level is the mechanism FAB knows to direct these funds to the Dean's office.

Can a Responsibility Center elect to charge indirect greater than the University minimum?

Yes, only for external activities. An activity charged greater than the minimum will budget the entire indirect reimbursement in E8095.

Space and internal activities must stay at the University mandated minimum of 4% or space.

Can a Support Center elect to charge indirect greater than the University minimum? No.

Can any activity (RC or SC) elect to charge less than the University minimum? No. However, RC or SC may choose to subsidize the activity via use of account E4870 (Unit/Dept Support)

Are there new e-levels for FY17?

E5701 Other Comp Med Ben Rate (In addition to E5700 to budget by separate benefit rate)

E5702 Other Comp PT Ben Rate (In addition to E5700 to budget by separate benefit rate)

E5703 Other Comp No Ben Rate – Use for Cell Phone Stipends (In addition to E5700 to budget by separate benefit rate)

We have a grant charging activity – Can a secondary (and higher) rate be charged to external clients for the purposes of building a surplus? Will this rate be allowed to generate additional revenue (surplus)?

No. However, an addendum can be added to the existing grant-charging activity's MOU, creating a new activity with an external rate. This creates an external rate associated with the grant-charging activity. This secondary rate is only used for non-grant clients. All secondary rate transactions (budget, actuals, fund bal) must be recorded in PeopleSoft separately from the grant charging rate.

In order to develop a higher rate for the external activity the following will happen:

1. The activity will submit a detailed external rate calculation along with its' standard grant-charging rate calculation and budget submission to FAB.
 - a. The rate must be fully burdened (i.e. don't forget personnel effort, etc.).
 - b. Space cost is applicable and will be pro-rated by the percentage of activity charged the external rate.
 - i. For example: If an activity has a space cost of \$1,000 and 90% of the revenue is billed to grants and 10% is billed to external clients \$900 of the space cost is budgeted and factored within the grant-charging rate calculation; \$100 is budgeted as space cost and part of the external rate calculation.
2. A new unique source code value establishing a new associated external activity will be created to budget and track actuals and fund balance related to the external rate.
 - a. FAB will work with UFS to obtain the new source values
 - i. The source value will be requested once the new rate calculation is approved; FAB will then communicate the new source value so it can be entered into Axiom.
 - ii. Don't forget that a new source code value means a new chartstring. It will be important to remember to change combo codes, obtain a second purcard (if applicable), etc. There can be several initial steps related to new chartstrings that will need to happen in advance in order to keep the transactions clean and separate from the grant rate transactions.
 - iii. It is necessary to have a new unique source code value because the closing rules in PeopleSoft roll the year-end balances of all chartfield values to the source level. Only a new source code value can keep the fund balance of the external rate separate from the fund balance of the grant rate.
3. A new Addendum to the existing MOU must be submitted.
 - a. If the nature of the activity has changed – or there is a new branch of the activity not included in the original MOU, then a new/revised MOU will need to be submitted.

Is the UVM Medical Center considered an external client? Yes, it is.

Why is my activity charged the actual building cost per/sqft on my space target? Is it different from the \$/sq ft amount calculated for IBB purposes?

Responsibility Centers are charged \$32.94/sqft (FY16 rate) as part of IBB Algorithm 6. This is part of their overhead. The \$32.94/ sqft does not apply to Support Centers or to grant-charging income/expense.

Grant-charging activities – *even those residing within a Responsibility Center* – will continue to pay the actual cost per square foot to comply with federal guidelines. The Responsibility Center may subsidize the space cost to the activity.

APPENDIX C: QUICK REFERENCE GUIDE

INCOME / EXPENSE ACTIVITY CHARACTERISTICS

Defining Characteristic	External Activity	Internal Activity	Grant Charging Activity
	Majority of customers are External to UVM	Majority of customers are internal to UVM	>15% of revenue charged to grants
Submittal Process			
Is an income proposal required?	YES	YES	YES
Is a rate calculation required with the income proposal?	YES	YES	YES
Is an MOU to FAB required?	YES	YES	YES
Indirect			
What is the University mandated minimum indirect that will be charged of the I/E activity?	20%*	4%*	Based on actual Space Costs
Are Responsibility Centers allowed to charge a higher indirect than the University-mandated minimum?	YES	NO	NO
Are Cost Centers allowed to charge a higher indirect than the University-mandated minimum?	NO	NO	NO
Who receives the indirects that a Responsibility Center I/E activity pays?	The Associated Deans Office	The Associated Deans Office	The Associated Deans Office
Who receives the indirects that a Cost Center I/E activity pays?	General University	General University	General University
Fund Balance			
What is the Fund Balance reserve maximum ?	No maximum	60-Day	60-Day
Can the Dean/VP utilize excess reserves for purposes other than the I/E activity?	YES	NO	NO
Rate Calculation			
Are Multiple Rates allowed?	YES	YES	NO <i>If one wishes to charge external customers, one would create an Associated External Activity.</i>
Can the rate generate a surplus (i.e. budget for an addition to its Fund Balance)?	YES	Internal Rate: NO External Rate: YES	NO

*A select few are charged a flat indirect