

## **Office of Sponsored Programs - Research Service Centers**

### **Purpose**

The purpose of this standard is to document the expectations and treatment of Research Service Centers (RSCs) at the University.

### **Procedure**

#### **I. Allowable RSC Operating Costs**

All costs recovered by established RSC recharge rates must be allowable under Federal and University guidelines. Charges must meet all Cost Principles and be allowable as direct costs.

#### **Direct Costs**

Direct costs are recovered through the rates charged to users. These costs can be easily attributed to RSC activities with a high degree of accuracy. Direct costs include both personnel and non-personnel costs.

#### **Indirect Costs**

Costs not specifically attributed to the RSC are not direct costs. These are categorized as indirect costs and should not be budgeted into RSC recharge rates or charged to the RSC.

## **Unallowable Costs**

Select cost types are considered unallowable from being charged to RSC operation funds and cannot be included in the RSC recharge rate calculation:

- Scholarship/Fellowships
- General Office Supplies
- Entertainment Costs/Alcoholic Beverages
- Bad Debts
- Advertising and Publicity/Public Relations
- Goods or services for personal use
- Fines and penalties resulting from violations of (or non-compliance with) Federal, State, or local laws and regulations
- Donations and Contributions
- RSC operations costs used as a source for cost sharing

## **II. RSC Rate Development**

RSC rates charged should be designed to achieve a break-even operation over a long-term period, usually two (2) years. Rates should be formally reviewed at least annually at the department level and every two (2) years by the Research Accounting (RA) unit in the [Office of Sponsored Programs \(OSP\)](#). Written approval by (RA) is required whenever a new rate or fee is added, revised, or deleted.

This rate is determined as follows:

***Break-even Direct Cost Rate = Total Estimated Annual Direct Cost ÷ Total Estimated Annual Usage***

### **Internal Users**

These users are generally charged the break-even direct cost rate. This rate should include all the appropriate allowable direct costs associated with providing the service. Examples include personnel costs for individuals conducting the RSC usage activities; materials and supplies for RSC usage activities; maintenance and repairs for equipment used for RSC usage activities; select cases of equipment; and other costs allocable and directly benefiting RSC usage activities.

Internal users or sponsored agreements are to be charged the break-even rate. Subsidies are only allowed when pre-identified groups are provided a reduced fee and the subsidized portion is charged to a prescribed and appropriate funding source when services are invoiced.

### **External Users**

RSCs are established primarily to meet the needs of the University's research community. However, it is possible that external users may wish to use RSC services. External users are defined as entities governed and administered independently from the University. This includes UNC Hospitals, UNC System Office and its other constituent institutions, other institutions of higher learning, state and local governments, non-profit organizations, and commercial enterprises. External users are charged the higher of

either the prevailing market rate or the internal break-even direct cost rate. External users are also charged the applicable negotiated on-campus organized research indirect cost rate.

Sales to external customers fall under special scrutiny due to which addresses government agencies conducting business operations. These sales are also subject to the [IRS Unrelated Business Income regulations](#) which deal with non-profit organizations (including schools and universities) realizing gross income from regularly conducted business that is not substantially related to its educational and other exempt purpose.

### **Other Pricing Models**

Volume discounts or other special pricing mechanisms may be allowable. However, they must be equally available to all users who meet the criteria and must not be subsidized by other users of RSC services. The RSC must be able to demonstrate that the Federal government is not paying more than the cost of the service it is receiving. The sources and nature of RSC subsidies must be fully documented and disclosed in the operating plan. Discount rate calculations must be presented on the rate development schedules.

### **III. Required Rate Documentation**

RSC rates and revision to rates must be submitted to the RA unit in OSP for institutional approval. RA reviews rate proposals and rate revisions to ensure compliance with Federal regulations.

The proposal submission materials should include:

- **RSC Operating Plan** documenting key personnel, a description of operations, and the resources used for RSC operations.
- **Rate Development Worksheets** and supporting documents which are used to calculate rates for each service or product. An updated operating plan and related rate calculations and support schedules must be submitted to RA for review with each rate proposal.

#### **IV. Rate Proposal Requirements**

##### **Infrastructure Details**

RSC's key contacts and management personnel, movable equipment, space resources, funding subsidies, and potential customers.

##### **Services List**

A description of all services to be provided and rates for those services based on the type of user.

##### **Annual Operating Budget**

- Documentation for all direct costs by account group, including salaries and benefits of RSC staff, materials, and supplies needed for services, equipment maintenance and repairs, equipment lease or rental costs, machine and lab supplies, and other direct expenses.
- Unallowable costs must be specifically excluded from the RSC direct cost budget

- Total budgeted direct cost for each account group must be distributed to the proposed rate or service category that the cost item benefits, accurately reflecting the causal and beneficial relationship between the budgeted cost, proposed service, and rate to be charged.
- Identify costs that benefit more than one service. Provide a list of the costs and benefiting services or an allocation plan accurately measuring the relationship between the budgeted cost and service category.

### **Estimated Services Usage**

Estimated usage or output for each service, such as a number of units for each service category. Documentation of historical usage rates can be used to inform these estimates.

### **Rate Calculations**

- Calculate the direct cost based rate for services provided for each type of user as appropriate.
- Include supporting information, usage logs, objective calculations, and other documentation to support rate and costing compliance.

### **Administrative Unit Approval**

The proposal should be signed by the responsible dean, director, or department head of the school, center, or institute as a guarantee to cover operating shortfalls.

## **RSC Administration and Operations**

RSCs must maintain separate accounting records for operating expenditures and revenue collection. Worktags will be established for new RSCs. For revised rate plans, OSP will provide updated documentation and notify the RSC when they can institute the newly approved rates.

The break-even rate is meant to recover the total direct cost required for RSC activities over the operating cycle. It is important that operating units review new RSC fund balances frequently to ensure the accuracy of the estimated rate. New RSCs are to monitor and improve their cost structure moving forward. This will reduce variance between budget estimates and actual costs.

## **V. RSC Requirements**

### **Records and Reconciliation**

- RSCs are required to maintain sufficient documentation for operations which may be required for periodic RSC review. Financial and operational records must:
- Capture all equipment usage and RSC output
- Identify the rate charged for all activities performed
- Adequately track charges and identify the customer paying for the service
- Reconcile billed amounts with payments made by customers

- RSCs are required to retain all documentation supporting the pass-through of direct material expenditures billed to UAF departments and external users.
- RSC monthly activity must be reconciled to ensure all services and output are accounted for and invoiced to customers per the approved rate schedule.

### **Internal Billing**

- RSCs must invoice for all services to internal and external customers on a monthly basis. Invoicing RSC customers on a regular and timely basis ensures that revenue is appropriately recovered.
- Allowable activities incurred on a project scheduled to end during the billing period should be charged within 60 days of the end date of the project.
- RSCs may not charge Federal sponsored projects in advance of performing the services.
- RSCs are not responsible for charges if the internal customer has provided an incorrect worktag for billing.

### **External Billing**

- For external customer billing, please refer to the required special monitoring and documentation procedures for external revenue
- Invoice external customers no less frequently than monthly at approved external rates.



- Invoices for external use should specify a "due date" no more than 30 days from the invoice date. Deposit payments with the University Cash Management Office.
- For guidelines regarding the collection of billings due to the University, please refer to Fayetteville Policies and Procedures 301.2.
- Uncollected external revenue is the responsibility of the departmental unit. The original revenue transaction must be reversed and charged to a departmental worktag. The cost of uncollected revenues cannot be charged to, or absorbed by, other RSC customers or sponsored projects.

## **Reviews and Proposal Submissions**

Notify OSP RA when RSC rates should be revised and forward the rate materials, including the proposed new rate schedule, for review.

## **VI. Special Costing Issues**

### **Capital Equipment and Equipment Depreciation**

Capital equipment is [defined](#) as equipment with an acquisition cost of \$5,000 or more and a useful life of more than two (2) years. Generally, capital equipment may not be included in RSC rates; however, in certain circumstances, equipment depreciation may be included in RSC rates.

- Depreciation must be included in the OSP approved RSC rate structure
- The depreciation is not related to equipment purchased with sponsored funds

- The RSC must maintain a strict accounting of the operating surplus generated from charging the depreciation component of the approved RSC rate
- Depreciation reserves must be used solely to purchase capital equipment
- All depreciation funded equipment purchases must be approved by OSP in advance
- Surplus operating account fund balances that are not generated by an approved depreciation rate component may not be used to purchase capital equipment

### **Incorporating Equipment Depreciation**

An RSC may include annual equipment depreciation in the break-even rate calculation when all of the following apply:

- The equipment is tagged and accounted for by [UAF Property Accounting](#)
- The annual depreciation amount is in accordance with the University's schedule of annual depreciation
- The equipment was not purchased with sponsored funds
- The equipment item is used only by the RSC, or a usage log accurately supports the proportion of the use being proposed
- An allocation plan for the annual depreciation is created to benefit activities/services
- The amount generated from charging depreciation must be tracked as a separate reserved portion of the RSC's balance, and department management accepts

responsibility to set up, generate, monitor, and account for the equipment depreciation balance.

## **External Revenue**

Special monitoring and documentation are required when carrying out transactions with external parties. External revenue is comprised of two components: break-even portion of external revenue and above-cost portion of external revenue. Both components of external revenue must be monitored and separately documented by the operating unit.

- **Break-Even External Revenue:** The break-even portion of external revenue is defined by the applicable internal rate multiplied by the quantity of service output supplied to the external patron:

$$\textit{Break-even External Revenue} = \textit{Approved Internal Rate} * \textit{Quantity Supplied}$$

- **Above-Cost External Revenue:**

**The above-cost portion of external revenue is determined by multiplying the service output provided to the customer by the difference between the approved external rate and the applicable internal rate.**

Both the break-even and above-cost components of external revenue must be documented to monitor financial compliance and reconcile balances for rate adjustment purposes. The external revenue operating surplus is not subject to rate carryforward adjustments and can be set aside to be used by RSC management solely for the benefit and improvement of the RSC's operations.

## **Fund Balance**

The *fund balance* is the difference between recorded revenues and expenditures from the time the RSC was first established to the present.

Any external revenue or depreciation components contained in approved service center rates will cause a planned surplus. Depreciation and the amount charged to external customers above the break-even rate will exceed the actual direct cost.

## **Reconciling**

***Book Fund Balance = Posted Revenues – Posted Expenditures***

RSCs should not accumulate large surpluses or deficits. Federal regulations specify that rates should be established to achieve a break-even operation over an operating cycle.

The *actual fund balance* is the book fund balance that has been analyzed and adjusted for timing differences (e.g, receivables, ), equipment depreciation, and external revenue reserves contained in book fund balance.

***Actual Fund Balance = (Book Fund Balance ± Timing Differences) – Conceptual Reserves***

RSC reviews the actual fund balances and billing rates to avoid the accumulation of unallowable surpluses and deficits.

## **Fund Balance Ratio and Working Capital**

Actual fund balance should not exceed 60 days of working capital or approximately 17% fund balance ratio surplus or deficit.

First, determine the fund balance ratio percentage:

$$\textbf{\textit{Fund Balance Ratio \% = Actual (Reconciled) Fund Balance \div Average Annual Expenditures}}$$

Next, calculate days of working capital (stated in number of days):

$$\textbf{\textit{Days of Working Capital = Fund Balance Ratio * 360}}$$

Regularly reconcile the fund balance and calculate the fund balance ratio as well as the days of working capital. After allowing for timing differences and reserves, actual fund balance should be zero. Pay particular attention to actual surplus and deficit fund balances and the trend. The RSC should understand the possible causes of fund balance trends: timing differences, depreciation, external sales, rates are too low, rates are too high, etc.

An excessive surplus fund balance is eliminated by reducing current rates in future periods or crediting overcharges back to users. An operating fund balance surplus may not be reduced by purchasing equipment or incurring other expenditures which would not be reasonably expensed in normal operations.

An excessive deficit fund balance is eliminated by increasing rates in future periods, back charging users, or charging the default or other designated departmental worktag.

Rate adjustments are made by submitting a proposal to OSP for rate(s) review and modification at least every two (2) years and more often if necessary, before the actual fund balance surplus or deficit consistently exceeds 60 days of working capital. If the RSC has a surplus or deficit book fund balance that is consistently greater than 60 days of working capital, OSP may request that an interim proposal (between biennial reviews) to modify rates be submitted for review and carryforward adjustments. When establishing new rates to eliminate excessive surpluses or deficits, OSP targets a fund balance ratio of ten (10)% surplus or one month of working capital.

### **Other Compliance Requirements**

#### **Conflict of Interest and External Professional Activities for Pay**

All employees performing activities associated with a RSC must observe the University's [Conflicts of Interest](#) and [External Pay](#) policies and procedures.

#### **Value of Year-end Inventory and Accounts Receivable**

The University's annual financial statements must be prepared in accordance with Generally Accepted Accounting Principles.

## **Unrelated Business Income (UBI) from External Revenue**

The University is [required](#) by the Internal Revenue Service to monitor and report UBI. Units conducting relationships with outside parties to generate external revenue should complete and submit the [questionnaire](#) developed by UAF's Finance Office for review and to determine if UBI exists.

## **Percentage of Effort**

The amount of salaries for any employee charged to the RSC operating worktag must be commensurate with that individual's percentage of effort expended in direct support of the RSC.

## **Document Retention**

Document all operating activities and usage and maintain records according to [the University's Records Management Policy](#) to support expenditures, billings, and transfers. These records include:

- Documentation on how the rate was calculated
- Published rate schedules
- Usage logs supporting equipment utilization and level of activity
- Time cards for hourly staff used to allocate time to multiple services
- Billing records

- Invoices and receipts documenting the pass-through of direct material expenditures billed to UNC departments and external users

### **Contact Information**

For questions regarding this procedure and its related operating standard, please contact [resacctg@uark.edu](mailto:resacctg@uark.edu).