

Guidelines for Implementing and Maintaining Educational Business Activity (EBA) Usage Rates

Introduction

The University of Florida uses the term Educational Business Activities (auxiliaries, service centers, recharge centers and specialized facilities) to represent a number of revenue generating activities that support the mission of the University.

Purpose of Guidelines

Provide guidelines on the procedures for establishing and maintaining usage rates and financial administration for educational business activities. Ensure accurate cost allocation, consistent timely billing practices, and compliance with federal government cost principles.

Regulations / Guidelines

All educational business activities, no matter the size, are subject to the cost principles set forth in the U.S. Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 C.F.R. §200 Subpart E §200.468 (“Uniform Guidance”).

http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl

Educational business activities are subject to an annual rate review if they meet the criteria set forth by the University. The rate review is required as part of the single audit required by the Uniform Guidance, Subpart F §200.500 (Audit Requirements). The Auxiliary Enterprise Committee, headed by the Chief Financial Officer (CFO), reviews the operations and financial strength of the educational business activities to ensure they are in compliance with all regulations.

The Uniform Guidance sets forth the cost principles for universities. The regulations address the questions of service center pricing, both specifically and in general. In general, the principles are designed to provide recognition of the fully allocated costs of such research work under generally accepted accounting principles. No provision for profit or other increment above cost for internal users is provided for in the Uniform Guidance. The rules set forth in the Uniform Guidance do allow that break-even may be achieved over a long-term basis, if agreed to by the recipient and the cognizant governmental agency, and they provide for the mutual agreement on alternative costing arrangements. Uniform Guidance, Subpart E stresses the need for consistency in the treatment of costs as either direct or indirect.

Uniform Guidance, Subpart E §200.468 deals specifically with service centers. Only the principles for specialized service facilities, of which most universities have only a few, are discussed in the section. This section addresses two concepts:

1. Charges to internal users should not exceed costs.
2. The rate development process should not discriminate with respect to services charged to all internal users including governmental users.

The National Association of College and University Business Officer's (NACUBO) publication "College and University Business Administration" devotes an entire chapter (20) to a discussion of various auxiliary type activities. Also see NACUBO Advisory Report 1999-2, Accounting and Reporting for Auxiliaries and the NACUBO Financial Accounting and Reporting Manual (FARM). The Florida Board of Governors (BOG) Regulation 9.013 and Florida Statute 1011.47 provide additional direction on the operation of auxiliaries.

EBA Reporting Requirements

The University of Florida Auxiliary Department requests the listed activities be completed when certain criteria are met:

1. Annual Service Center Rate Review
2. Annual Year-End Accrual Information
 - a. If the educational business activity has \$1 million or more of total revenue
3. Quarterly Accounts Receivable Aging report
4. Quarterly Variance Analysis explanations
5. Annual Unrelated Business Income Tax (UBIT) questionnaire and analysis
6. Monthly Sales Tax preparation

Usage Rate Procedures

1. Usage Rate Accounting: All revenue, costs, and subsidies relating to the educational business activity must be accounted for in a separate Fund/Department Chartfield established for the tracking of the transactions related to the services provided. Tracking for different services or sales within a single educational business activity is also required. While many educational business activities may use separate accounting systems to help track and maintain the services provided, these must be reconciled to the PeopleSoft general ledger, the UF system of record.

2. Usage Rate Principles

a. General Principles

- Educational business activities must develop a rate structure that is maintained and published, keeping in concordance with the required cost principles set forth in the Uniform Guidance.

- The University's general principle is that an educational business activity's allowable cash balance should not exceed 60 days of operating expenses. The University does allow an educational business activity to exceed the 60 days operating expense by the profit generated from external sales.
- Non-compliance with the regulations could result in fines or disallowed costs by the government or sponsors and could harm the reputation of the University.

b. Rate Types

- **Internal Rates:** Revenues should not exceed expenses for services provided over the period of work. Surpluses or deficits are allowable but a service must breakeven over a maximum time period of three years.
- **External Rates:** Revenues can exceed expenses for services or sales provided to external users. External services are allowed to charge market rates but should take into consideration that external sales may be subject to UBIT. While competitive advantage is not a rule in the State of Florida, sensitivity to public companies must be taken into consideration.

- c. Consistent Rates:** Rates for internal users must be consistent for every user for the type of service provided. While multiple services may be provided by an educational business activity the initial publicized rates must be the same for all internal users. Discounts based on usage or bulk sales are allowed but must be offered to all users and proof of cost must still be provided.

d. Rate Adjustments

- Educational business activities at a minimum must review their rates biennially, but it is advised that the rates be reviewed annually.
- Educational business activities do not need approval from General Accounting to adjust the billing rate, but documentation and some form of Department/College approval should be obtained.

e. Billing

- **Timely Billing:** Billing customers should be done in a consistent and timely manner. All internal sales should not be billed until the service (work) is completed. Larger projects that span over a larger time period can be billed periodically for work that has already been completed.
- **Internal Billing:** Billing should be completed using an E2R (Expense to Revenue) journal entry crediting a revenue account (4xxxxx) and debiting an expense account (7xxxxx). Backup supporting the charge must be attached to an E2R journal entry for it to be posted (preferably an invoice).
- **External Billing:** Billing should be completed recorded to account 440500 Sales & Services – External for most services.

- f. Providing Multiple Services:** An educational business activity recorded in a single Fund/Department may provide and record multiple lines of service.

- The separate lines of service or sales must be similar in nature.
 - The separate lines must be tracked to ensure each one meets the breakeven requirement. One service line may not subsidize another service line.
- g. Subsidies:** An educational business activity may choose to provide a service at a subsidized rate but it must not affect the rate calculation. The billing rate must be calculated for all users based on total expenses and total units of output. Subsidies are applied after the total rates are calculated.
- Subsidies may be applied in 2 different ways:
 1. Subsidize the entire Educational Business Activity unit.
 2. Subsidize an individual service or group of services.
- h. Transferring Educational Business Activity Balances:** Educational business activities in general are not allowed to transfer surplus balances as they should be included in calculating subsequent years' rates and break-even point.
- i. Documentation:** Each educational business activity must adequately document its activities and maintain records to support expenditures, revenue, billings, and cost transfers. Documents that must be maintained include but are not limited to:
- Working papers showing how the billing rates were calculated.
 - Records supporting utilization or level of activity.
 - Billing records that identify the service provided to each user.
 - Effort reports of service center personnel.
 - Any other document required by the University rules and regulations.
- j. Educational Business Activity Cash Balances:** Educational business activities should maintain a positive cash balance at all times.
- 3. Usage Rate Development:**
- a. Define Products or Services and Determine Related Costs:** Educational business activities must determine what will be sold and the related costs of producing those goods and services. These costs are used to establish a billing rate to charge for those products and services. Billing rates should be established in measurable units and a separate rate should be established for each class of goods or services provided.
- b. Estimate Customer and Facility Usage:** Determine the customers (internal vs external) of the educational business activity, and estimate the use of the products or services that will be sold to the customers on an annual basis. The usage base is the volume of work expected to be performed, expressed in units such as labor hours, machine hours, CPU time, or any other reasonable measurement.
- c. Determine Allowable Operating Costs:**
- **Direct Salaries:** Salary and benefit expenses directly related to sale of the product or service provided. (6xxxxx Accounts)
 - **Other Operating Expenses:** Expenses that are directly related to the cost of providing the product or service. (7xxxxx accounts)

- **Administration or Overhead Salaries:** Salary and benefit expenses related to the direct administration or oversight of the educational business activity.
- **Subsidies:** Expenses that are directly related to the cost of providing the product or service that are recorded outside of the EBA Chartfield.
- **Depreciation:** Depreciation expense is **not** allowed to be included in the calculation of the billing as it is included in the Facility and Administration cost rate negotiated with the federal government.
- **Using Equipment purchased with Federal Funds:** Costs and depreciation associated with equipment purchased using federal funds are not allowed to be factored into the billing price. With permission from the federal agency the equipment may be used by the EBA.
- **Overhead charges to 813xxx accounts** should also be excluded from the break-even cost calculation.
- **Unallowable Costs:** Costs that are not allowed to be included as part of the internal billing price. They are:
Advertising, Alumni costs, Commencement/Convocation costs, Contingency Reserve costs, Donations or Contributions, Entertainment (unrelated to the business purpose), Fines and Penalties, Fund Raising, Housing Allowances/Personal Living Expenses, Interest, Legal costs, Lobbying, Membership to Community or Civic Organizations, Membership to Social or Dining Clubs, Personal use of UF or State Owned Vehicles, Personal use of Supplies or Services, Public Relations, Student Publications, Intramural Activities, Student Clubs, and Travel and Subsistence Costs of Trustees.

These unallowable costs are referenced at:

1. [OMB Uniform Guidance, Subpart E, §200.420 through §200.475](#)
2. [Cost Analysis » Costing Guidelines and Procedures » Unallowable Expenses](#)

- **University Costing Guidelines:** The University has guidelines for allowable expenses that must be followed per State and University regulations.
- d. **Assign the Allowable Operating Costs to the Individual Product or Service:** Since many educational business activities provide more than one service, each cost should be allocated to the different services in relation to their use in each service.
 - e. **Additional Chartfields:** Optional chartfields may be used to help track the cost of services. The use of flex fields can be particularly helpful when an individual flex field is assigned to the revenue and expense entries for a line of service.
 - f. **Calculating the Billing Rate:** The billing rate is calculated by dividing the total annual cost directly chargeable to the facility by the total estimated annual usage.

$$\text{Annual Billing Rate} = \frac{\text{Annual Allowable Operating Costs} + - \text{Annual Operating Gain/(Loss)}}{\text{Annual Usage Base}}$$

g. Annual Operating Gain/(Loss)

- **Operating Gains:** Gains from internal sales should be handled by decreasing the billing rate for the specific goods or services in future rates. In rare occasions if the gain is obtained from projects and is found to be in error the amount or the gain may have to be returned.
- **Operating Losses:** Losses from goods or services should be handled by increasing the specific billing rate moving forward or by subsidizing the loss through other funding sources.

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