University of Colorado
Denver | Anschutz Medical Campus

Campus Administrative Policy

Policy Title: **Internal Service Centers and Core Laboratories**

Policy Number: 2001 **Functional Area: Finance**

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Prepared by:	Controller, Finance Office
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Responsible Officer:	Provost and Executive Vice Chancellor for Academic and Student Affairs
Applies to:	CU Anschutz Medical Campus CU Denver Campus

A. INTRODUCTION

This policy provides guidelines for establishing, budgeting, costing, administering, and accounting for Internal Service Centers, Core Laboratories and other operations regularly selling goods or services to University of Colorado Denver | Anschutz Medical Campus departments or activities. It has been established to provide consistent operational practices and to ensure compliance with federal regulations. This is important because the University conducts research and instructional programs sponsored by federal grants and contracts. Internal Service Centers and Core Laboratory activities often result in charges, either directly or indirectly, to federally sponsored grants and contracts.

It shall be the responsibility of the Internal Service Center and Core Lab managers to comply with this policy. Any exceptions to this policy must be approved in writing by the University Controller.

This policy applies to all internal service centers and auxiliary core labs.

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C. DEFINITIONS

Auxiliary Core refers to that portion of a core laboratory that is funded from user fees and that is accounted for in the Auxiliary Fund. It may provide services to any internal or external clients.

Break-Even refers to cumulative revenues equaling cumulative expenses, generally calculated on a fiscal year basis.

Break-Even period is a reasonable time period in which a Service Center should break even. This is normally the fiscal year.

Capital Equipment is an article of non-expendable, tangible personal property having a useful life of more than one year and an acquisition cost of $5,000 or more. This includes donated equipment, and equipment being constructed where component parts may be less than $5,000 each, but the total cost will be $5,000 or more.

Core Laboratory is a centralized, financially self-sustained, technical unit that is established to regularly provide unique laboratory or professional services to research clients. Core laboratory or service operations are designed to provide high quality services to clients in an economic and efficient manner. It is usually accounted for partly as a Sponsored Core in the restricted fund and partly as an Auxiliary Core in the auxiliary fund. Cost Allocations are the General Administrative Recharge (GAR) and the General Infrastructure Recharge (GIR) that are charges assessed to auxiliary and self-funded activities to help cover administrative and facilities overhead costs to the university.

Depreciation is a method of allocating the acquisition cost of an asset (equipment, building, parking lot, etc.) over the estimated useful life of the asset, usually years, but it could also be based on volume of usage. Each accounting period is charged with proportionate depreciation expense for the estimated useful life of the asset rather than charging the full cost of the asset as an expense in the year in which it was acquired.

Direct Costs are those costs that can be identified specifically with a particular University activity, or that can be assigned to such activities relatively easily with a high degree of accuracy.

Expense is used interchangeably in this policy with expenditure or cost.

External Customer is generally any customer other than one paying for the goods or services by charging a University speedtype. Students, faculty and staff are considered external users if they are paying for goods or services personally. Please note that although University of Colorado Hospital and University Physicians, Inc. are separate legal entities, yet they should be billed at cost like internal customers.

Facility Costs are covered by the General Infrastructure Recharge (GIR) that pays for the physical space occupied by the Service Center including utilities, routine maintenance and repairs, and custodial services.

Historical Cost is the original cost of a piece of equipment.

Indirect Costs for Service Center (cost study purposes) refer to costs that cannot be readily identified to specific goods or services for a Service Center. When calculating rates to be charged, these indirect costs need to be allocated to each type of service based on an appropriate allocation method. (See Exhibit A of this policy entitled “How to do a Cost Study.”)

Internal Customer is generally any customer paying for the goods or services by charging a speed-type in the general ledger. For service center billing purposes, University of Colorado Hospital (UCH) and University Physicians, Inc. (UPI) should be treated as internal because we are required by state law to bill UCH at no more than cost, and UPI is the faculty practice plan for the School of Medicine.

Net Assets are assets minus liabilities. It represents available resources after all receivables are collected and incurred bills are paid. It was formerly called fund balance.

Non-Discriminatory Billing Rates are billing rates that are charged to all internal users of the University, and do not discriminate between federally funded and non-federally funded activities.

Service Center is an organizational unit of the University which provides a specific type of good or service to other University departments, may incidentally provide the service to individuals or the general public, and is primarily supported by fees charged to the user department’s operating programs/projects. Such goods or services might be purchased from commercial sources, but for reasons of convenience, cost, or control is often provided more effectively through a University Service Center. Service centers may be wholly self-supporting or partly sponsored (see Sponsored Core).

Service Center Rates are rates charged by a Service Center generally formulated to recover operating costs, which would include, but not be limited to: salaries and wages; employee benefits; cost of materials and supplies; travel; depreciation; allowable interest; and a share of institutional administrative expenses and facilities expenses.

Sponsored Core is that portion of a core laboratory that is funded by a sponsored project. Sponsored core operations provide services only to clients stipulated in the sponsored award, which usually are members of a center or are part of specific sponsored project. The sponsored award may also allow the core to serve non-members. The services provided by a sponsored core are supported from sponsored awards and in some cases discounted fees are charged to those who are allowed to use the sponsored core and non-members may be charged a full rate as dictated by the sponsored award. The sponsored portion of a core lab is accounted for in the Restricted Fund.

Tax-Exempt Debt is borrowing by a not-for-profit entity at a reduced rate of interest. The interest rate is reduced because the Internal Revenue Code does not tax such investment income.

Useful Life is the length of time that a piece of equipment is expected to be used by the Downtown Denver and the Health Sciences Center Campuses. This determination is made by Finance and considers such factors as the nature of the equipment, technological obsolescence, renewal and replacement policies, etc.

D. POLICY STATEMENT

1. Internship Requirements

a. General
Goods or services may be provided by a department for itself or for other University departments. Service Centers are established when management determines that a good or service is most effectively provided within the University, although the same good or service may be available commercially. The purpose of a Service Center is to control the cost of providing goods or services within the University.

b. Criteria for Establishing a Service Center
The benefits, including relative prices and quality, of the proposed Service Center providing the goods or services must be weighed against the benefits of obtaining similar goods or services from commercial sources or other University sources. In contemplating the creation of a Service Center, departmental management shall consider the following criteria:
   i. Demand exists for the goods or services to be provided.
   ii. Significant volume of sales, both in dollar amount and number of transactions, will occur.

iii. Goods or services will be provided on a regular and continuing basis.
iv. If services are to be provided, they are not already available at the University.
v. The same goods or services may already be provided by the private sector.

c. General Policies Service Centers Must Follow
   i. Start-up costs, usually purchasing initial equipment, supplies or inventory, shall be funded by the administering department by way of a transfer of funds. Such transfers, however, will be limited to start-up costs, rather than covering operational deficits.
   ii. Costs of other activities will not be charged to the Service Center, except to the extent that the other activities are charging for goods or services provided to the Service Center.
   iii. Amounts charged for goods or services provided must be based on approved, predetermined rates applied to the actual quantities of goods or services provided.
   iv. The Service Center will not normally incur a cash deficit at any time during the fiscal year. Cash balances will be monitored by Finance. If Finance detects negative cash balances or unfavorable financial trends, the Service Center will be required to submit a corrective action plan.
   v. Service Centers must calculate and publish a rate schedule during the annual budget process and before the start of the new fiscal year. The rates must be based on a cost study using the budget for the next fiscal year. The cost study and rates must be reviewed and approved by the responsible Service Center manager and Finance. Publication consists of any means of informing customers of the rates.
   vi. Service Centers must review rates at least annually and adjust them, if necessary, to eliminate surpluses in excess of allowable reserves or deficits.
   vii. Rates charged must be based on the cost of the goods or services furnished and provide recovery only for allowable costs for internal sales.
   viii. Service Centers will develop and conduct periodic surveys to measure customer satisfaction. This information will be used by the Service Center manager to evaluate employee performance, identify areas for improved service, and solicit ideas from customers for needed products or services.

d. Fiscal Management of Service Centers
   The Finance and Budget Offices offer periodic training sessions on a variety of subjects related to management of auxiliary service centers. Managers of Service Centers should be able to conduct cost studies, prepare budgets, maintain adequate internal controls, keep accurate fiscal records, and ultimately keep their operation in a positive financial position. If a manager believes an individual needs additional training in any of these areas, personal

training is available from the Finance and Budget Offices.

2. **Budgeting**

The Budget and Finance Offices will coordinate the annual budget process with the annual cost study process that each Service Center is required to complete to establish the rates it charges for its services. This process will use the cost study for the next fiscal year as the basis for developing the budget. The cost study will also be the basis to set the rates it will charge for its services for the next fiscal year. The guidelines for developing the cost study are found in other sections of this policy.

Each Service Center will develop its budget according to the following:

a. Budget Principles
   i. All Service Centers will develop an annual budget that reflects realistic levels of operation.
   ii. All Service Centers will develop revenue and expense in line item detail according to procedures provided in this policy.

b. Calendar
   i. November – The Finance Office will remind all Service Center to prepare a cost study and tell each one if they meet the threshold for review by Finance.
   ii. December - January – The Finance Office will hold two training sessions on cost study methodologies, considerations and issues.
   iii. February 1st – Cost studies for service centers with revenues exceeding $50,000 are due to the Finance Office.
   iv. March – The Finance Office will notify each Service Center when its cost study is approved. Each Service Center shall submit its annual budget (equal to the cost study) online for the next fiscal year to the Budget Office. The Budget Office will review and approve the annual budget for the next fiscal year. v. May – The Service Center should make every effort to publicize its rates for the next fiscal year as soon as possible after its budget and cost study for the next fiscal year are approved. Each Service Center must notify its customers no later than May 15 about the rates it will charge for the next fiscal year.
   v. July – Annual budgets will be processed into the financial system.

3. **Procedures**

a. Expense Budget

   The following procedures will create an expense budget for each Service Center that reflects the operating level necessary to provide services in accordance with its mission and customer base.

   i. Compensation Projections

      For each of its programs in the financial system, each Service Center will complete a staff roster for both professional and classified staff that includes filled positions, as well as vacant positions that will be filled, which are necessary to support its anticipated service level to its customers. Compensation projections should also include an estimate for hourly staff needed to support the operation. The completed rosters will provide the compensation base for the cost study, and they will also support the compensation budget and agree to the summary compensation budget shown in the financial system.

ii. Operating Expense Projections
For each of its programs in the financial system, each Service Center will develop a reasonable level of operating expense supporting its anticipated service level to its customers. In this context, operating expense refers to the broad category of expenses included in budget pool 450000 in the financial system and detailed in account codes 450001-699999.

The Service Center manager must decide whether to prepare a summary budget for the entire budget pool, or whether some costs must be itemized within the budget pool to facilitate management of the operation. With either approach, one of the best ways to identify a reasonable expense level is to develop a trend analysis based on actual experience for recent years, and adjust the results for factors, such as anticipated changes in service levels, that would cause changes in operations for the next fiscal year.

iii. Projections for Other Types of Operating Expenses
For each of its programs in the financial system, each Service Center will use reasonable assumptions to develop estimates for other types of operating expenses that include travel and utilities. A travel budget should only be developed if the Service Center has repetitive, on-going needs to support its operation. If the Service Center only requires occasional travel that is difficult to estimate, the expense should be budgeted with other costs in the operating expense line. Actual travel expenses should only be recorded in the financial system using the travel account codes.

iv. Capital Outlay Projections
For each of its programs in the financial system, each Service Center will complete a capital equipment depreciation schedule based on equipment that is either already in use, or anticipated to be put into use in the next fiscal year. The resulting depreciation amount will be the Capital Outlay budget for the next fiscal year, and will be the amount included in the rates for the next fiscal year. Each Service Center should also develop a capital equipment purchase plan to support its capital equipment needs.

The capital outlay budget shown in the Service Center program will reflect funds that will be transferred to the Service Center's Plant Fund reserve program. As explained in other sections of this policy, capital equipment can only be purchased from a Plant Fund reserve program.

v. Cost Allocation Projections
For each of its programs in the financial system, each Service Center will develop its cost allocation budget for the upcoming fiscal year using guidelines provided annually by the Budget Office.

b. Revenue Budget
Federal guidelines limit a Service Center's net assets (operating reserve) to a maximum of 60 days operating expense. This limit is reflected in the revenue budget for each Service Center as well as the cost study used to set the rates for each Service Center.

Each Service Center will complete the revenue template to support its revenue budget. The calculation will identify the adjustment necessary to maintain the 60-day net assets (operating reserve) level for each Service Center.

The summary revenue budget will most likely not equal the summary expense budget because of these and other similar adjustments.

c. Accounting
    i. Accounting
    As a business operation funded by the rates it charges, Service Centers shall be accounted for separately from other departmental activities. These activities will be accounted for in the Auxiliary and Self-funded Activities Fund.

    ii. Accounting for Costs
    Service Center programs shall contain all the costs and only the costs of operating the Service Center. This includes all direct costs - salaries, wages, benefits, supplies, travel, utilities, occupancy (space) costs, rent, etc., and all indirect costs general administrative and facility cost allocations. Only the salaries, benefits and operating expenses that support the Service Center shall be charged to the Service Center program. The costs of operating a Service Center shall not be commingled with the costs of other operations.

    iii. Costs Incurred for Same Purpose in Like Circumstances
    Service Centers must assure that all internal customers are charged consistently.

d. Billing Rates and Cost Studies
    i. General
    All Service Centers must have published billing rates for goods or

services sold. The billing rates must be based on the operating budget for the next fiscal year and reflect a reasonable operating level. See Exhibits B and C for details.

ii. Basis for Billing Rates
The billing rate must be stated in measurable units of goods or services provided. For example, the basis can be hours of services, number of items sold, the weight of items sold, etc.

iii. Structure of Billing Rates
Cost studies, for each type of good or service provided, are required for all Service Centers. For activities that have annual sales in excess of $50,000, a comprehensive review of the cost study will be performed by Finance.

Billing rates must be based on estimated service levels and operating costs for the next fiscal year and not on the rate structure of external businesses.

Surpluses or deficits on a type of good or service cannot be shifted to another type of good or service unless it can be demonstrated that the mix of users is not different between sales activities that gain and those that lose.

iv. Non-Discriminatory Billing Rates
Billing rates should not discriminate between federally funded and non-federally supported University activities. External users of a Service Center may not be charged at a rate less than that charged to internal users, however they may be charged a higher rate. Service Centers with a dual pricing structure for internal and external users must inform Finance so that proper consideration may be given in accounting for the external profit relative to the 60-day net assets limitation See definitions of internal and external customers.

v. Coverage of Direct and Indirect Costs
Billing rates should be established at levels sufficient to cover all anticipated direct and indirect costs involved in the operation of the Service Center.

vi. Net Assets (Operating Reserve) Limitations
On average, over the fiscal year, month-end net assets should not exceed 60 days of operating expenses. Service Centers with sales to external users may have a higher net assets, but need to contact Finance to determine the appropriate way to account for that.

vii. Break-even Period

Billing rates should be designed to recover neither more nor less than the aggregate cost of providing the goods or services over a defined break-even period. The break-even period for most Service Centers should be the fiscal year, although a longer break-even period, not to exceed 18 months, may be established upon written approval of the Deputy Controller. (For example, high "start-up" costs may exceed revenue during the first few months of operation.)

viii. Break-even Position

Although a break-even position is desirable at the end of the fiscal year, it is not practical to expect Service Centers to exactly break-even. Billing rates are based on estimates of costs and utilization, and Service Centers will most likely have net assets at year end that is greater or less than the permitted 60-day net assets (operating reserve). This estimated surplus or deficit will be incorporated into the rates established for the next fiscal year.

In other words, adjustments to the subsequent years' prices will balance any over/under recovery. This normally satisfies the long-run, break-even requirement of the Service Center.

ix. Unallowable Expenses

Office of Management and Budget Circular A-21, Section J, identifies the allowable and unallowable expenses that can be charged to federal programs. Unallowable expenses must be funded by other resources and cannot be included in the billing rates to internal customers. Service Center managers are responsible for ensuring that the unallowable costs listed in Circular A-21, Section J are not included in the billing rates to internal customers. Below is a sample listing of unallowable costs (see A21 for a complete listing):

1. Advertising: only advertising for recruitment of personnel and procurement of goods or services, e.g., position vacancies and request for bids is allowable. All other advertising is unallowable. Providing information to internal customers about the availability of services is not generally considered to be advertising and should not be assigned the advertising expense code.
2. Alcoholic Beverages
3. Alumni Activities: costs incurred for, or in support of alumni activities and similar services.
4. Bad Debts
5. Commencement and Convocation Costs
6. Contingent Provisions: contributions to a contingency reserve or any similar provisions made for events, the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening.
7. Defense and Prosecution: Costs of criminal and civil

proceedings, claims appeals and patent infringement.

8. Donations and Contributions
9. Entertainment Costs (typically Functions) costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, and related meals, lodging, rentals, transportation, and gratuities).
10. Financial Aid
11. Fines and Penalties
12. Fund Raising
13. Goods or Services for Personal Use
14. Interest: interest expenses are typically not allowable. An exception to this is interest expense paid to an external party (not the University Treasury) and associated with the following assets, provided that the total cost (including depreciation, operation and maintenance, interest, etc.) does not exceed the rental cost of comparable assets in the same locality.
    a. Buildings acquired or completed on or after July 1, 1982
    b. Major Reconstruction and remodeling of existing buildings completed on or after July, 1, 1982.
    c. Acquisition or fabrication of equipment completed on or after July, 1, 1982, costing $10,000 or more, if agreed to by the Government.

    Contact Finance before incurring any equipment or facility interest expenses.

    In addition, Service Centers that are assessed interest expense because of a cash deficit in their related speedtype, must exclude these amounts when calculating the billing rate charged to internal customers. However, these interest costs may be recovered by sales to non-university customers and or transfers in from an allowable campus funding source.
15. Lobbying: Costs incurred in attempting to directly or indirectly influence the outcomes of any Federal, State or local elections, referendums, or initiatives; or establishing, administering, contributing to, or paying the expenses of a political party, campaign, or political action committee are unallowable. Also see University of Colorado Accounting Directive 95-2 for more guidance on this subject.
16. Memberships: in any civic or community organization, country club, social or dining club are unallowable.
17. Promotional Items and Memorabilia: including models, gifts, and souvenirs.
18. Public Relations Costs: includes community relations and means those activities dedicated to maintaining the image of the institution or maintaining or promoting understanding and favorable relations with the community or public at large or any

segment of the public.

19. Rental Costs: under "less-than-arms-length" leases are allowable only up to the amount that would be allowed if the institution owned the property. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other.
20. Student Activity Costs: costs incurred for intramural activities, student publications, student clubs, and other student activities.
21. Transfers of Cash: to a renewal and replacement account in excess of that equal to the depreciation expense calculated on existing equipment and facilities.

x. Interim Rate Reviews

If, during the fiscal year, it appears a substantial net assets deficit or significant surplus is developing, it may be necessary to adjust rates. Revised rate schedules must be reviewed and approved by Finance.

xi. Capital Equipment Depreciation

1. Impact on Billing Rate

   The cost of capital equipment used by a Service Center may not be included in the billing rate for recovery in the year of acquisition. Only a depreciation expense factor must be included in the billing rate calculation. A cash transfer equal to this amount must be made periodically to renewal and replacement programs in the Plant Fund. Capital equipment purchases must be made from Plant Fund renewal and replacement programs and must be supported by a capital equipment purchase plan for the Service Center.

2. Calculation of Depreciation

   Service Center equipment depreciation is calculated on a monthly straight-line basis, assuming no salvage value, and begins the month that the asset is put into service. The historical cost of the equipment is divided by the useful life to determine each month's or year's depreciation expense. The useful life for each asset is determined by Finance. However, if a Service Center can justify a different useful life by providing documentation based on actual first-hand experience, it will be allowed to do so. This must be approved in writing by Finance. Depreciation expense is transferred to the renewal and replacement fund (Fund 72) via a cash transfer journal entry. The calculated annual depreciation expense (cash transfer) is used as an expense in determining billing rates. Depreciation may be built into rates for a new equipment purchase if it is put into use during the fiscal year. Depreciation may only be included for the time the equipment will be in use.

3. Transfers to the Renewal and Replacement Program
   Finance, with assistance from the Service Center, will coordinate the calculation and processing of the Journal Entries to accomplish this transfer of funds. A Service Center cannot transfer more than the calculated depreciation amount to the Plant Fund renewal and replacement programs. Approval by the Deputy Controller is required to transfer less than the calculated depreciation amount. Using replacement costs, adding costs for expected equipment repairs, or adding costs for future equipment needs are not allowed.

   The accumulated balance in the renewal and replacement programs of a Service Center is not included in the net assets limitation.

4. Disposal of Equipment
   Equipment should be disposed of per the campus policy on Capital Equipment. If a piece of equipment is disposed of before the end of its useful life, the undepreciated cost, reduced by any payment received upon disposal of the equipment, is included in the next rate setting calculation.

5. Equipment Purchased with Federal Funds
   Depreciation calculations must exclude any portion of acquisition costs funded or donated by federal sources.

6. Include Service Center Equipment Only
   Equipment used by a related department, but not supporting a Service Center, should not be included in depreciation calculations. Equipment used by the Service Center should be identified at the time of purchase and assigned to a separate Service Center department in the University equipment and space system.

7. Building Costs
   Non-federal depreciation costs (that are not included in GIR) of the building occupied by the Service Center may be included in billing rates. In addition, if non-building capital improvements are funded through a non-federal source and are applicable to the Service Center, these may also be included.
   Depreciation on building costs and non-building improvement costs will be identified by Finance. Transfers of building depreciation to a Plant Fund program for future use will be made by Finance.

8. Interest Earnings
   Interest credited to a Service Center account should be considered as an offset to expenses when calculating billing rates.

e. Billing Practices
   Service Centers shall charge all users of goods or services at the established, approved rates for internal or external customers. Documentation supporting each sale should identify the customer, the date of the sale, the goods or services provided and the rate charged for the goods or services.

   Billing transactions should be recorded when goods or services are provided. Service Centers shall not initiate billing transactions in advance of providing the goods or services. Progress billings may be made for jobs in progress, but only to the extent of goods or services provided.

   If an Account Receivable is established for the sale of goods or services to external parties, it must be recorded at the time of the sale. Refer to the campus Accounts Receivable Policy or contact Finance for assistance. Revenue account codes should be used as follows:

380100	IN Revenue	Sales to internal customers in funds 10 through 29 and 34 through 71.
380101	IN Revenue to Grants/Contracts	Sales to internal customers in funds 30 through 31.
335003	UPI Revenue	Sales to UPI programs in fund 80.
325179	Misc Revenue UCH	Sales to UCH.

f. Support or Subsidy of Service Center
   Some Service Centers may not always be able to generate sufficient revenue to cover all expenses. When this occurs, the administering department must decide what action is required. Examples of such actions include, but are not limited to: reducing costs; increasing billing rates; providing additional resources (subsidy by transfer); terminating the activity; and changing service levels.

   Additional resources shall not be provided by recording direct costs of the Service Center in a non-Service Center account. With the exception of the cash transfer of depreciation and debt service to the Plant Fund, transfers of funds from a Service Center are not allowed. Funding for Service Center deficits must be from other allowable sources such as other Auxiliary and Self-Funded activities or occasionally General Fund programs. If a transfer of funds is made from one of these sources, it must be approved by Finance and must be allowable within the fiscal policies of the University.

g. Record Keeping
Service Centers must establish and maintain record keeping procedures and systems to capture all financial and statistical data necessary for internal control and for the development and maintenance of billing rates. Records of all sales and services provided to customers shall also be maintained to document the goods or services sold and the pricing of each. Records of equipment acquisition and the calculated depreciation factor must be retained to support the billing rate calculation.

Each Service Center must, at a minimum, retain documentation as to how the billing rate(s) were calculated, and records supporting the amount and basis of user billings (revenue). These records must be maintained for a period of seven years.

h. Assistance from the Finance Office
Finance Office staff are available to assist in developing billing rates. Also, see Exhibit A and Exhibit B of this policy.

E. CORE LABORATORIES

Core labs are Internal Service Centers that are usually partly sponsored and partly self-supporting. As such, the costs must be allocated between the Restricted Fund and the Auxiliary Fund. For example, the time and effort of core laboratory or service operation personnel must be tracked and their salaries and benefits must be charged to either the Restricted Fund or the Auxiliary Fund based on actual effort. Similarly, supplies, space, and other costs of the single core laboratory or service operation must be appropriately allocated. Care must be taken that there is no subsidization of activities between the Auxiliary and Restricted Fund operations of the core, that is, that only the subsidized portion of members' costs are expensed to the Restricted Fund and that the unsubsidized portion of members costs and all nonmembers' costs are expensed to the Auxiliary Fund.

These are the issues to consider in designing the business model.

1. **Sponsored Core**
The sponsored portion of the core lab is accounted for as a sponsored project (core grant). All related expenses, consisting of costs to provide services to clients consistent with the requirements and restrictions of the sponsored award (which are usually required to be members of a specific center) are accounted for in the Restricted Fund. There may be instances in which the core grant does not cover the full cost for members and the additional costs are accounted for in the related auxiliary core speed type. The full cost of services is a calculation of the expenses in both the sponsored project and the auxiliary. If the sponsored award allows non-members to receive services, the full cost may be charged to non-members. Costs to provide services on a fee-for-service basis to external clients such as private organizations, private individuals, and not-for-profit entities should not be

included in the restricted fund. Income from these services may be classified as program income.

Departments should work with the Office of Grants and Contracts to verify if program income is involved and how to appropriately account for and report the income per the award requirements. Sponsored cores may participate in federal sponsored program subcontracts, but may not otherwise receive subcontracts.

2. **Auxiliary Core**
The auxiliary portion of the core lab is funded from user fees and is accounted for as a self-supporting activity in the Auxiliary Fund. Auxiliary cores can provide services to any University client (members or nonmembers of the center) and to external clients, except as restricted below. Expenses should include all costs directly and indirectly related to providing such services. Expenses should not include any costs that properly should be allocated to the core grant.

3. **Cost Study**
Core labs should follow the Internal Service Center policy in section D above for the auxiliary portion of the activity, including preparation of an annual cost study. The cost study will need to reflect costs of both the sponsored and auxiliary portions of the core to determine the full cost of the service. Rates will usually be set at three levels:
   a. *Internal, nonmembers.* The rates based on full cost should be used for charging internal, nonmembers of the center.
   b. *Members, internal or external.* If the core grant does not cover the full cost for members, the members' rate should be based on that portion of costs not covered by the core grant. The terms of the core grant may include in its definition of center members that are not part of University, in which case the rate for them is the same as for University center members.
   c. *External, nonmembers.* External entities that are not defined by the core grant as being center members may be charged a rate above cost. Income from external members may be classified as program income. Departments should work with the Office of Grants and Contracts to verify if program income is involved and how to appropriately account for and report income per award requirements.

3. **Priority of Clients**
Core labs should follow the Internal Service Center policy in section D above for the auxiliary portion of the activity, including preparation of an annual cost study. The cost study will need to reflect costs of both the sponsored and auxiliary portions of the core to determine the full cost of the service. Rates will usually be set at three levels:
   a. *Service to Federally Funded Sponsored Projects.*
   If the core is located in space built with federal funds, then federal sponsored projects must be given first priority service. The percentage of

service provided to clients that are not supported by federal funds must not exceed the percentage of non-federal funds that were used to build the space. For example, if the space was built with 20% non-federal funds, the use of the facility by clients that are not funded with federal funds should not exceed 20%.

b. *Service to Other University Clients*
Second priority should be given to non-federal, University clients.

c. *External, Nonmember Clients*
Last priority should be given to external, nonmember clients. When an auxiliary core is located in space that is financed with tax-exempt debt there may be limitations on allowability of sales to external customers. The Internal Revenue Code limits use of facilities built with tax-exempt debt to no more than ten percent (10%) by for-profit entities. While this limit applies to the building as a whole and not to the lab in specific, it provides a good rule of thumb for prioritizing use. If such sales become large, it is the responsibility of the fiscal principal and fiscal manager of the core lab to raise the issue to the Finance Office so that it can be appropriately measured against the total building use to ensure compliance with IRC §141.

Notes

1. Dates of official enactment and amendments:
January 1, 2016: Adopted by CU Denver Chancellor's
2. History:
November 9, 2018: Modified to reflect a 2018 Campus-wide effort to recast and revitalize Campus policy sites into a standardized and more coherent set of chaptered policy statements organized around the several operational divisions of the university. Article links, University branding, and formatting updated by the Provost's office.

3. Initial Policy Effective Date: January 1, 2016

4. Cross References/Appendix:
   - University Policy Framework and Hierarchy;
   - Board of Regents Policy 3B: Officers of the University and Administration
   - Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Colleges and Universities".
   - Cost Accounting Standards Board (CASB) regulations.
   - Internal Revenue Code §141(b).
   - Campus Fiscal Policy: Use of Facilities and Services by External Entities.
   - Campus Fiscal Policy: Unrelated Business Income Tax