

## COMPTROLLER POLICY MANUAL

	<b>POLICY: CMP 401-02</b>
	Section: 400 Disbursements
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	Responsible office: Comptroller
	Origination date: 01/01/2000
<b>Subject: NAU Service Center Policy</b>	Effective date: 01/01/2000
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### POLICY STATEMENT

A Service Center is an organizational unit of the university that has been established to provide products and services (collectively referred to as “services”) to other units, including sponsored programs administered by the university. Many of these sponsored programs are federally-sponsored; as a result, the university must comply with federal costing principles for Services Centers. Services also may be provided on an incidental basis to individual and/or external users (faculty/staff, students; non-NAU or public users). Service Centers must be able to demonstrate that their policies and procedures comply with state and federal regulations, and university policy. This policy applies to Service Centers whose primary customers are University Departments generating greater than fifty percent (50%) of the department’s revenues.

### PURPOSE

To provide consistent operational guidelines for NAU Service Centers to promote compliance with applicable NAU, Board of Regents, State, and Federal regulations (Office of Management and Budget (OMB) Uniform Guidance: 2 CFR Part 200 Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards. Non-compliance could harm the university’s reputation and reflect negatively on future award proposals. Government-imposed fines or other negative outcomes could also occur.

### APPLICABILITY

All university Service Centers are responsible for developing Service Center billing rates in accordance with this policy and government regulations.

### EXECUTIVE SUMMARY

In general, the following principles are to be followed for Service Centers when setting rates:

- Rates should recover no more than the cost of the product or service.
- Must be established for each individual service, unless the usage basis for a group of related services is exactly the same.
- Costs that may be included in the rate calculation are the operating costs of the service activity, equipment depreciation expense, (for university-owned equipment purchased with **non-federal funds**), inventory-related costs (cost of goods sold), and facility depreciation where applicable. If applicable, the over- or under-recovery of the previous year's costs should also be incorporated into the rate calculation.
- Rates take into account all users, regardless of Rates whether or not a free or discounted rate will be given to some users.
- The resulting rate (total costs divided by total users) is the maximum rate that may be charged to internal users for the particular service.

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- Different rates may be charged to different users, **but the rate given to federal users should be the lowest rate given to any external user.**
- External non-federal users may be charged more than the fully-costed rate, but external non-federal users should be a minimal component of the user population. If not, unrelated business income tax (UBIT) may be owed by the University. NAU sponsored projects are considered internal users.
- Rates should be reviewed and adjusted at least biannually. Rate calculations should be submitted to the Assistant Comptroller for Cost Accounting for review.
- Federal costing principles allow Service Centers to maintain adjusted fund balances of up to **60 days** of operating expenses at year end.
- Rates must break even over time, not necessarily each year.
- Variance between billed costs and actual costs should normally be treated as adjustments to future billing rates.

This policy is intended to provide as much information as possible to assist Service Center managers with rate calculations and related accounting procedures. However, since it is not possible for a policy to address every potential situation or nuance, Service Center managers are encouraged to contact the Comptroller’s Office, Assistant Comptroller for Cost Accounting for guidance and assistance with rate calculations. For more information on Best Practices, see [NAU Service Center Best Practices](#).

**POLICY**

**CMP 401-02: NAU Service Center Policy**

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<b>I. DEFINITIONS</b>	
<p><b>Acquisition Cost:</b> Cost of acquiring materials and supplies and capital assets, including taxes, freight, and installation costs to place the materials and/or assets into intended use (<a href="#">CMP-130</a>) for definition of capitalized expenditures). The acquisition cost of equipment and buildings excludes the cost of land. For donated capital assets, the acquisition cost is its fair market value at the time of the donation (plus any acquisition-related expenses such as freight and installation).</p>	

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**Auxiliary Enterprise:** A separately organized University unit or activity specifically established to sell services/products on a continuing basis. An auxiliary enterprise generally supports the instruction, research and public service activities of the University. Auxiliary enterprises charge fees directly related to, although not necessarily equal to, the cost of the services/products. Internal Service Centers are one form of auxiliary enterprise.

**Billing Rate:** An amount established to charge for specific services/products, calculated by dividing the aggregate total of estimated fiscal year operating costs, depreciation expense, and permissible prior year over/under recovery (carry-forward) by the estimated billing unit.

**Billing Unit:** The basis on which services/products are offered (e.g., hours, unit price, etc).

**Break-even Period:** A reasonable time-period over which cumulative revenue for a service/product equals cumulative expenses, exclusive of net revenues received from public (non NAU) customers.

**Carry-forward:** The cumulative difference between the revenue generated by a service/product and the cost of providing the service/product. The over/under recovery of costs – resulting from billing rates that vary from actual costs, generally on a fiscal year basis – is carried forward to subsequent year rate computations.

**Costs:** Actual expenditures incurred for salaries & wages, employee- related expenses, operations, travel, capital usage (if applicable), and internal Service Center overhead. Rates for services or products sold to individuals affiliated with the university will additionally include the internal Overhead Fee Assessment (University Budget Office), intended to be recovered through the billing process; likewise, rates for services or products sold to external clients will also include the institution's federally approved F&A rate for "other" projects, intended to be recovered through the billing process.

**Cost Centers:** Units of activity or areas of responsibility into which a Service Center is divided for accountability purposes, and to which costs are allocated or directly assigned (e.g., the University Lock Shop and the Electrical Shop are cost centers within Facility Services).

**Current Depreciable Value:** Acquisition cost of a capital asset less accumulated depreciation. Depreciation funds must be transferred to an equipment replacement account.

**Current Operating Costs:** Represents allowable salaries & wages, employee related expenses (ERE), operations, travel, capital usage (if applicable), and internal Service Center overhead. Rates for services or products sold to individuals affiliated with the University will additionally include the internal Overhead Fee Assessment (University Budget Office), intended to be recovered through the billing process; likewise, rates for services or products sold to external clients will also include the institution's federally approved F&A rate for "other" projects intended to be recovered through the billing process. Current operating costs may include unallowable costs if billed to external users (e.g., advertising costs to attract external users).

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**Depreciable Life:** The estimated time period or units of activity (for example, miles driven for vehicles) over which equipment will provide useful service; used to determine annual depreciation.

**Depreciation:** The process of allocating the cost of a capital asset over the depreciable life.

**External Sales Transaction:** A transaction or process whereby the public is charged for products/services provided by University departments or Service Centers.

**F&A Rate:** The Facilities & Administrative Rate (previously called "Indirect Cost Rate") is negotiated with the Federal government and charged to sponsored projects. Facilities and Administrative costs are costs that are incurred for the common or joint objectives of the University and therefore cannot be readily and specifically identified with a specific sponsored project, function, or activity. Such costs include building and equipment depreciation, building operation and maintenance, general administration and general expense, departmental administration, sponsored projects administration, library, and student services administration expenses.

**Imputed Revenue:** The process of determining Service Center revenue without regard to billing rate discounts and/or surcharges (e.g., the normal billing rate of a Service center is \$10 per hour. A discount of fifty percent (50%) is provided to a customer who uses ten hours of service. The actual revenue realized is \$50 whereas the imputed revenue is \$100). Departments must track any imputed revenue.

**Interdepartmental Billing:** An interdepartmental billing (IDB) is used to procure goods and services from a university service department. ([CMP-407](#))

**Internal Service Center Journal (IST):** A University financial system document whereby a University Department/Project ID is charged for services/products provided by a university Service Center. ISTs are used to complete the transaction for an interdepartmental billing.

**Internal Service Center Indirect Costs:** Costs that can be readily and specifically identified with a particular Service Center but not with a particular service/product provided. The Service Center must have a reasonable method for allocating these costs to each service/product (for example, based on effort, total costs, FTEs). These costs are excluded from the Universities F&A rate.

**Net Revenue:** Receipts realized in excess of operating costs and scheduled capital usage recovery resulting from services/products provided to any public (non NAU) customers.

**Overhead Fee Assessment:** Service Centers selling services or products to individuals affiliated with the university are subject to this internal overhead assessment ([CMP-206](#)) in accordance with University Budget Office policy.

**Private Enterprise:** External business enterprises.

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**Public (or Public Customers):** All individuals, groups or organizations that acquire products/services from University departments or Service Centers via external sales transactions from a state, local, and/or sponsored fund.

**Recharge Center:** A form of Service Center whose activities are generally incidental to total departmental activity and no formal cost studies are performed (e.g., photocopying done on a department copier and recharged to the user).

**Service Center:** A University unit or activity whose primary customers are University departments generating greater than fifty percent (50%) of the unit's revenues. Interdepartmental billings are the predominant revenue source for a Service Center. Billing rates for Service Centers are designed to fully recover current operating costs.

**Specialized Service Facility:** A service activity that provides unique services to a select group(s) rather than the general university (e.g., animal care facility, wind tunnel, electron microscopy) and has an annual operating budget of \$1,000,000 or more. Billing rates for Specialized Service Facilities should include Service Center costs (see above) plus institutional overhead costs such as depreciation, operations and maintenance costs (e.g., utilities, custodial), and general university administrative costs (e.g., Purchasing, Payroll).

**Subsidized Billing:** A billing using a rate less than the full calculated rate based on the rate study computations. Subsidized billing occurs when a Service Center is not entirely self-supporting (e.g., receives partial support through State appropriations). An intended loss cannot be carried forward when determining subsequent year's rates (see Carry-forward above). Subsidized funds must be tracked on an annual basis.

**Unallowable Costs:** Costs that must be excluded from Service Center or Specialized Service Facility billing rates. See Office of Management and Budget (OMB) Uniform Guidance 2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Subpart E sections 200.420 - 200.475 a list of allowable and unallowable expenditures, and for a discussion of Specialized Service Facility billing rates.

**University Departments:** Budgetary/organizational units of the University. The financial activities of these units are maintained in the University financial system.. University departments acquire products/services from other University departments or Service Centers via ISTs.

**Unrelated Business:** Any activity that meets all of the conditions specified below is considered unrelated business: NOTE: Income or revenue from unrelated business is subject to taxation under Internal Revenue Code Sections 511-513. Unrelated Business Income Tax (UBIT)

The activity qualifies as a trade or business. A trade or a business is any activity that is carried on for the production of income from the sale of services/products. Also, there must be a "profit motive".

The activity is regularly carried on. Regularly occurring or seasonal activities normally qualify as

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“regularly carried on,” whereas intermittent, casual, or sporadic activities do not.

The activity is not “substantially related” to the University’s tax exempt purpose. Activities that contribute importantly to the accomplishment of the University’s tax exempt purposes (other than by providing funds) qualify as related.

NOTE: Public service by itself does not qualify as part of the University’s tax exempt purpose.

The activity is not covered by specific Internal Revenue Code exceptions. For example, an activity conducted primarily for the convenience of the University community is excepted under the Internal Revenue Code

**UBIT:** Unrelated Business Income Tax.

**II. RESPONSIBILITIES**

- A. The Associate Vice President for Financial Services/Comptroller (AVP).** The Comptroller or delegate is responsible for developing service center policies and for monitoring unit compliance.
- B. The Assistant Comptroller for Cost Accounting, under the Comptroller’s Office** determines the permissibility of specific products/services, addressing state reporting requirements, establishing plant fund reserves, and maintenance of a fixed asset system. Is also responsible for reviewing the Sponsored Project versus External Sales Guidelines Questionnaire to determine whether a product/service meets the criteria to be managed as a Service Center activity, or if not, as a Sponsored Project. Additionally responsible for providing guidance to Service Centers on rate setting, conducting periodic analysis of Service Center size, sales distribution, and cash balances, and providing information needed for indirect cost analysis.
- C. Department Head, Dean, Provost.** Administrative officials are responsible for management and operation of service activities under their organizational jurisdiction, including approving the establishment of Service Center department IDs, and covering any deficits or disallowances created by the Service Centers under their direction.
- D. Service Center Business Manager.** The Business managers (or those holding similar positions) are responsible for accounting for the operations of the Service Center and reporting on the activities and balances generated by Service Center activities. Service Center managers are responsible for calculating rates for their units based on historical income and expense data and projected usage, with assistance from the College Business Manager, University Budget Office and Comptroller’s Office. Responsibilities include:
  - 1. Preparation of an annual budget
  - 2. Preparation of year-end fact sheet



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3. Calculation of user fees or markups at the operating ledger level and justification for interim rate adjustments, if any
4. Maintenance of fixed assets records of equipment used in service activities
5. Review and reconciliation of monthly financial statements
6. Physical count of merchandise for resale and any adjusting entries required
7. Timely (monthly) billings with adequate documentation
8. Maintenance of records.

### III. ESTABLISHING A SERVICE CENTER

#### A. Criteria for Establishing a Service Center/Specialized Service facility:

A proposal to establish a new service center should be directed to the Assistant Comptroller for Cost Accounting at least three months before the proposed start date. If departments need additional assistance in producing the required documentation and rates, then additional lead time will be needed. The following documents should be completed and submitted with the proposal:

1. A completed New Department ID Application containing the following information:
  - i. The Service Center award, project and tasks names as they will appear on the expenditure, revenue or operating statements;
  - ii. A description of the product(s) or service(s) to be provided, and the potential users (internal and external);
  - iii. An explanation as to how the service center rate(s) will be determined, including:
2. A detailed annual expense budget, by expenditure type (including FTE with salary data) for the proposed Service Center;
3. A description of the activity base, its appropriateness, and the projected level of activity for the first year of operation;
4. The rate calculation(s) using the proposed budget amount(s) and the projected level(s) of activity for the first year of operation;
  - i. A state or local account, which has been committed to cover year-end deficits if they occur;
  - ii. The name(s), title(s), and phone number(s) of the individual(s) delegated



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responsibility by the department chairman, or administrative equivalent, for the service center's financial affairs;

- iii. A list of all of the capital assets already purchased that will be used in the service center. The list should contain a description, PO number and property tag identification. This list is for capital assets already purchased which will now be used in the new Service Center. If a PO is in process for assets to be used in the center, the PO should be listed as well.
- iv. The signatures of the department chairman and dean, or their administrative equivalents, indicate the department's acceptance of financial and operational responsibility for the Service Center.

5. Appropriate documentation that the proposed activity is permissible (see below, IV)

6. A completed Sponsored Project versus External Sales Guidelines Questionnaire.

**B. Documentation for Establishing a Service Center/Specialized Service facility:**

New Department IDs will not be established until signed proposals are received, reviewed, and approved by the Assistant Comptroller, under the Comptroller's unless documentation or circumstances indicate otherwise, a new Service Center will be considered a regular "Service Center" (not a "Specialized Service Facility") and will be subject to applicable billing rate guidelines. [NOTE: If circumstances change, a Service Center may request reclassification.]

#### IV. INAPPROPRIATE SERVICE CENTER ACTIVITIES

**A. Competition with Private Enterprise; Unrelated Business:**

Although Service Centers have broad discretion with respect to the types of products/services to be provided, there are exceptions. The Comptroller's Office will provide assistance in determining the permissibility of specific products/services. In general, Service Centers should not provide products/services that meet any of the following conditions:

1. The sale of the products/services would violate Arizona Board of Regents Policy 1-105, regarding competition with private enterprise.

NOTE: Where appropriate, or when in doubt, Service Centers should have outside party customers sign a statement that the particular products/services are not available from commercial sources. These statements must be maintained in a permanent file available for public inspection.

2. The sale of the products/services would qualify as "unrelated business."

**B.** An internal marketplace analysis should demonstrate that there is sufficient university demand for the proposed services/products to ensure long term economic operations, and one of the following:

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1. The proposed services/products are not currently provided by existing Service Centers, or
2. If similar services/products are currently available from an existing Service Center(s), then the proposed Service Center must be able to demonstrate it can provide the services/products to customers more efficiently or economically.

### V. COST ACCOUNTING GUIDELINES

#### A. General

1. **Accounting practices:** A Service Center must consistently follow sound cost accounting practices/standards, including rate setting methodology and billing/charge-out practices. Cost accounting practices must not be changed merely for budgetary or administrative convenience.
2. **Cost centers:** A cost center should only be used to account for similar products/services, including rate setting methodology and billing/charge-out practices. Cost accounting practices cannot be changed merely for budgetary or administrative convenience.
3. **Customer billings:** Service Centers can only charge internal university customers for products/services actually provided to them (for example, an internal university customer cannot be charged a fee for a purchase that will only benefit future customers). These charges must be based on cost justified billing rates. Other billing rates or charging strategies (for example, “what the market can bear” cannot be used. (For Non-university customer rate see V.7.iii below)

#### B. Development of Billing Rates

1. **Biennial cycle:** Billing rates should be reviewed and adjusted at least biennially.
2. **Financial data:** PeopleSoft Financials is the official financial database for the University and must be the basis for all financial related information used in developing billing rates.
3. **Basis year:** Financial and statistical data used in developing billing rates should be based on a one year period. This period normally should be the University's fiscal year (July 1 to June 30).
4. **Break-even operation:** Internal billing rates should be designed to only the aggregate cost of a product/service over a defined break-even period. The Assistant Comptroller for Cost Accounting will provide assistance in determining appropriate break-even methodology. The following rules apply:

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- i. Surpluses/deficits on a product/service cannot be shifted to other products/services.
  - ii. Break-even period: The break-even period for most products/services normally should be one year. However, a longer break-even period may be established when necessary. For example, because of high "start-up costs," the cumulative cost of a new product/service may exceed cumulative revenue during the first few years of availability. Where the break-even period is longer than one year, revenue for a product/service does not have to equal the cost of providing the product/service during any one fiscal year, provided the applicable billing rates are reviewed periodically for consistency with the "break-even plan" and adjusted accordingly. In this respect, carry-forward adjustments to future year rates may be necessary to achieve break-even.
  
- 5. **Transfers:** Service Centers should not transfer revenues, expenditures or fund balances (for example, cash) between cost centers since such transfers can distort billing rate calculations or alter the break-even plan. For example, the over/under recovery of costs – resulting from billing rates that vary from actual costs, generally on a fiscal year basis – may not be transferred to general fund accounts since these costs are carried forward to subsequent year rate computations. Exceptions are:
  - i. Capital depreciation and institutional overhead recoveries made through the billing rate which must be transferred to capital replacement and institutional overhead recovery accounts respectively in accordance with pre-approved schedules.
  - ii. Net Revenues or surplus realized in excess of operating costs and scheduled capital usage recovery resulting from services/products provided to any public (non NAU) customers. In such cases the net revenue may be transferred to a separate account provided the Service Center can demonstrate the net revenue resulted from services/products provided to non NAU customers.
  
- 6. **Factors affecting allowability of costs:** The Comptroller's Office, Assistant Comptroller for Cost Accounting will provide assistance in determining the allowability of costs. Billing rate calculations can only include those costs that satisfy all of the following conditions:
  - i. Are reasonable: A reasonable cost reflects the action a prudent person would make under the circumstances in light of their stewardship responsibility to the University community, State of Arizona, Federal Government and the public. Major considerations involved in the determination of the reasonableness of a cost include:

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1. Whether the cost is generally recognized as necessary.
  2. The restraints or requirements imposed by such factors as arms-length bargaining and Federal/state laws and regulations.
  3. The extent to which the actions are consistent with established University and/or Board of Regents policy.
- ii. Are consistently applied according to Generally Accepted Accounting Principles (GAAP).
- iii. Are properly allocable to products/services in accordance with relative benefits received or other equitable relationship. Costs allocable to a particular product/service cannot be shifted to other products/services. A cost is allocable to a product/service if it is necessary to the provision of the products/services and meets either of the following conditions:
1. The cost solely benefits the product/service.
  2. The cost benefits the product/service and other products/services or activities in proportions that can be reasonably approximated based on benefits derived, a traceable cause and effect relationship, or logic and reason where neither benefit nor cause and effect relationship is determinable.
- iv. Are historically based (with appropriate adjustment for applicable credits).  
NOTE: In the case of current operating costs, projected costs may be considered in lieu of historical costs to the extent they are based on objective evidence (for example, approved changes to next year's operating budget) and not on speculation.
- v. Are not specifically unallowable: Generally, all operating costs that satisfy the previous conditions are allowable. According to Uniform Guidance 2 CFR 200.420 - 200.475, however, there are costs that are specifically designated as unallowable. Examples of unallowable costs include:
1. Bad debts.
  2. Contingency provisions or reserves to cover events which cannot be foretold with certainty as to time, intensity or assurance of their happening.
  3. Entertainment costs (for example, amusement or social activities).

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- 4. Fines and penalties resulting from violations of (or non-compliance with) Federal, state, or local laws and regulations.
  - 5. Interest payments to internal University sources.
  - 7. **Separate billing rates.** In most situations, separate billing rates must be developed for services/products that meet any of the following criteria:
    - i. **Distinctive products/services:** Separate billing rates must be developed for distinctive types of products/services when both of the conditions below are met. The Assistant Comptroller for Cost Accounting will provide assistance in determining the need for separate product/service billing rates.
      - 1. The sales volume of the product/service is significant.
      - 2. The cost of providing the product/service is substantially different from other products/services.
    - ii. **Services/products purchased with federal funds from Service Centers that receive federal support:** When services/products are paid with federal funds and the Service Center receives direct or indirect federal support, the federal support must be netted from the billing rate (for example, salaries and wages, operations, and/or travel paid directly from federal sources, or capital depreciation included in the billing rate for equipment/facilities acquired with federal funds).
    - iii. **Services/products sold to Public (non-NAU) customers.** Public customer rates are fully-developed billing rates which should recover all costs, including Facilities and Administrative (F&A) costs, capital depreciation, unallowable costs, and expenditures incurred by State/General Operating Funds. Public customer rates will minimize the potential for competition (or unfair competition) with private enterprise and therefore may also include a reasonable surcharge resulting in net revenue being realized. Such net revenue, however, may be subject to Unrelated Business Income Tax (UBIT).
    - iv. Any other time a discount or surcharge is extended.
- C. Capital Depreciation.** Billing rates cannot include the acquisition cost of capital expenditures. Instead, subject to limitations specified above, billing rates may include “capital depreciation” related to the use of Service Center equipment provided the asset(s) exist and are usable, used, and needed. Capital usage factors are computed based on depreciation methods for equipment. Capital usage factors for the lease/rental of equipment are determined based on the actual lease/rental amount. The following rules apply: See (CMP-130)
- 1. **The computation of depreciation** must be based on the acquisition cost of the capital

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assets involved. [Note: Consistent with section V.B.7.ii, billing rates for federal customers must exclude any portion of capital asset costs borne or donated by the Federal Government, as well as any portion of the cost prohibited from recovery by law or agreement.]

- i. The computation of depreciation for buildings & improvements will be based on a 40-year life for buildings and a 25 year life for building improvements. The amount of depreciation is limited to the portion of building space (i.e., net assignable square feet) assigned to the Service Center.
- ii. The computation of depreciation for equipment will be based on the straight-line depreciation (contact Property Administration or the Comptroller's Office for useful life information). No depreciation may be computed or charged on equipment that has outlived its useful life. See ([CMP-130](#))

2. **Capital asset records & physical counts.** Capital depreciation must be based on adequate property records: complete physical counts must be completed at least every two years to ensure that the assets exist and are usable, used, and needed. Capital assets are tracked in the Property Administration database and coded specifically to the service center Department ID. See Section V, Paragraph C for the equipment replacement accounts that need to be established for all capital costs being recovered by Service Centers.

**D. Internal Service Center Indirect Costs.** Internal Service Center indirect costs should be included in billing rate calculations for each service/product in a logical manner beneficial of the relationship to the service/product.

## VI. ADMINISTRATIVE GUIDELINES.

**A. Budgeting and Accounting Requirements.** Service Center activities should be budgeted and accounted for apart from non-service center activities (for example, teaching or research). Service Centers that operate within academic, research, academic support, or institutional support departments. Such Service Centers often use operating resources funded by non-service center accounts (e.g., State/General Operating Funds or F&A recovery) to provide services/products to customers.

- a. **Current University financial system** is the official financial database for the University and must be the basis of all financial information used for billing rate computations. Non-University financial system financial record keeping systems must be reconciled to the University financial system on a regular basis.
- b. The **separate service center account(s)** should contain only those operating resources directly related to the provision of products/services to customers. **Funds in these accounts cannot be expended for non-service center activities (for example, teaching**

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or research, or cost share for Sponsored Projects).

- c. Annual budgeting of all service center revenues and expenditures should be recorded in appropriate accounts. That is, the accounts should be used in such a manner that will result in a **matching of revenues with expenditures**.
- d. Separate accounts can be established for **individual cost centers** where practical.

**B. Extended Record Keeping Requirements:** Service centers must establish and maintain record keeping procedures and systems to capture all financial or statistical data that: is necessary for good internal control and Service Center management; is necessary for development and maintenance of good/service billing rates; and is not available in necessary detail or format from central databases (for example, University financial system). The Comptroller’s Office will provide assistance in determining the types of extended record keeping that are needed. Examples of extended records that must be maintained include:

- a. **Financial records** that track revenues (actual and imputed), expenditures, and surplus/deficit fund balances to specific products/services within each cost center.
- b. **Statistical records** necessary for allocating costs or accumulating units of service available and used (for example, vehicle miles, central processing units or animal care days).
- c. **Effort reporting records** that correlate/identify employee work-time (in hours or percentage of time) to products/services within a cost center.
- d. **Background information** that defines cost pools and terminology, describes allocation basis, and documents the basis for choosing particular allocation methods.
- e. **Inventory systems** to account for raw materials, work in process, finished goods, and resale merchandise.
- f. **Depreciation schedules** showing annual depreciation for each piece of equipment.

**C. Equipment Records:** Service Center equipment must be identified separately from non-service center equipment in the University's Property Administration System. The service center Department ID must be assigned to the Service Center equipment in the Property Control System to distinguish it.

**D. Stock Inventories.** Physical inventories of raw materials, work in process, finished goods, and re-sale merchandise should be taken at fiscal yearend (at minimum). Inventories must be valued using an inventory method established by the Comptroller’s Office.

**E. Billing Rate Schedule:** A schedule of current billing rates should be maintained and available on



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request. Advance notice of changes in billing rates should be provided to customers where feasible. The billing rates ~~for~~ should be posted on the service center’s website or on the website of a higher level organizational unit of the service center.

**F. Customer Billings:** Billings will be processed using established procedures. That is, interdepartmental billing procedures (for example, ISTs) are used to bill University Department customers and invoicing/billing procedures are used to bill Public Customers. The Assistant Comptroller for Cost Accounting Office will provide assistance in determining appropriate billing procedures.

**G. Capital Reserve Accounts:** Separate University financial system Department ID must be established in the University financial system to account for a Service Center’s capital related transactions. Additions to these accounts will be accomplished by transferring cash from appropriate service center revenue accounts. Transfers to the equipment reserve account should be based on the amount of revenue that pertains to the equipment depreciation factor in billing rates and/or surplus revenues from surcharges to Public Customers. The Comptroller’s Office will provide assistance in establishing capital reserve accounts or cash transfers.

**H. Facilities and Administrative Costs** recovered according to section V. B.7. iii will be transferred to a Differential Income Designated fund accounts on a periodic basis, but no less frequently than once a year. Service Centers selling services or products to external clients must include the institution's federally approved F&A rate for "other" projects in their rate calculations.

**I. Overhead Fee Assessment:** Service centers selling services or products to individuals affiliated with the University are subject to the overhead fee assessment in accordance with University Budget Office Policy ([CMP206](#)). This fee will be calculated on all F&A recovered funds within the Differential Income Dept. ID. A specific Revenue Code has been established to identify these revenues when deposited.

**J. Fund Balances:** The Comptroller’s Office prepares a fiscal yearend report on Service Center fund balances in order to identify units with excess fund balances. The Comptroller’s report will be distributed to the Vice Presidents and Deans who have responsibility for the Service Centers.

**K. Federal costing principles** allow Service Centers to maintain Adjusted Fund Balances of up to 60 days of operating expenses at year end.

**CROSS-REFERENCE**

For further information about Capitalization and Depreciation, see [CMP-130](#), Capitalization and Depreciation.

For further information about Overhead Fee Assessment, see [CMP-206](#), Overhead Fee Assessment.

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For further information about Interdepartmental Billings, see [CMP-407](#), Interdepartmental Billings.  
For further information about ABOR Policy, Competition with Private Enterprise, see [Policy 1-105](#),  
Competition with Private Enterprise.  
For further information about Cost Principles for Educational Institutions, see Uniform Guidance 2 CFR  
200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards  
Subpart E sections 200.420 - 200.475 Principles for determining Costs Applicable to Grants.  
For further information on NAU Service Center Best Practices, see [NAU Service Center Best Practices](#)