

FY 2016

BUDGET BUILDING GUIDELINES FOR INCOME/EXPENSE ACTIVITIES

*****Please read this document in its entirety to be aware of new changes as of FY 2016*****

MEMORANDUM OF UNDERSTANDING

All Memorandum of Understandings should be reviewed and revised (as necessary) on an annual basis. If revised, submit to the Office of Financial Analysis and Budgeting (FAB) electronically for review.

RATE CALCULATIONS

All income/expense activities must submit a rate calculation **electronically (Excel with formulas included)** to FAB **no later than Friday, April 30th**. However, activity managers are encouraged to submit rate calculations as soon as complete. This will allow time for approval prior to submitting the activity's FY 2016 budget through EPM. Any concerns resulting from FAB's review will need to be addressed prior to loading the new year budget into PeopleSoft.

The financial goal of each activity should be to recover the legitimate **full** cost of producing a good or service. Rate calculations are discussed in the University's Income/Expense manual (section III) located on the web at: http://www.uvm.edu/~ofabweb/Budget_Building_Materials/Income_Expense_manual.pdf. An example is demonstrated in Appendix C at the end of the manual. If you have further questions, contact FAB at X63244.

**Please note that a revised Income/Expense Manual is being written to reflect the new changes for FY 2016. We hope to have that available in the near future.*

FY 2016 income/expense preliminary parameters are presented in the appendix attached to this document.

Internal Activities – 4% Indirect

Definition: Internal activities are defined as those whose primary revenue source comes from internal clients (i.e. UVM Departments, students) via interdepartmental billing. These activities are currently charged the lower 4% indirect or sometimes a flat indirect.

Internal Rate Calculations: Internal rates are developed to net \$0 (no surplus). All internally charged clients/users must be charged at the same rate for the same goods or services provided. However, a subsidy by the General Fund, College, or Department can partially or totally offset this charge so that the actual amount paid by certain clients/users may be less than the full rate. If this is the case, the area of subsidy must be discussed in the Memorandum of Understanding and demonstrated as revenue in the rate calculation and budget.

FY 2016 income/expense rates for internal activities cannot be increased from FY 2015 rates. Note that to maintain FY 2015 rates constant the activity should first evaluate whether it can realistically increase revenues or decrease expenses. If it cannot, it will need to budget for a subsidy coming from the Dept, Dean or VP office.

External Activities – 20% Indirect

Definition: External activities are defined as those whose primary revenue source comes from billing external clients (i.e. non-UVM organizations/individuals). These activities are currently charged a minimum 20% indirect or, in some cases, a flat dollar amount. External activities within Responsibility Centers may elect to charge greater than 20% indirect.

External Rate Calculations: External rates may be developed to net greater than \$0 (surplus). The additional revenue may be used to generate a planned surplus.

Unrelated Business Income Tax (UBIT) may be applicable.

Grant Charging Activities– Space Cost

Definition: Grant charging activities are defined as those who recognize 15% or greater of their revenue by charging grants. These activities are charged a space cost per square foot.

Grant Charging Rate Calculations: Rates charged to grants are developed to net \$0 (no surplus).

There is no change to grant charging activities in FY 2016; rates should recover the legitimate full cost of producing the good or service. The actual rate may increase from the rate charged in FY 2015 as appropriate and is expected to net to zero (no planned surplus).

Activities Charging Multiple Types of Customers

In some cases, an activity would like to charge a different rate to different customer types. For example, it may have an internal customer base and an external customer base. The following are two examples of how that will be handled:

1. **When the activity is only charging internal and external customers (i.e. it is not charging grants)**

Activities that do not charge grants may develop and charge both an internal rate to bill UVM clients and an external rate to bill external clients. It is recommended, though not necessary, that revenue and expense transactions associated with the external rate be tracked with a purpose or program code. The fund balance at the end of the year will roll up to the source code value and will not differentiate between the fund balances generated by the external rate or internal rate. Whether the activity uses the 4% or 20% indirect (or flat dollar amount) is dependent on a determination by FAB during the MOU process.

2. **When the activity is charging grants and would like to charge external customers at a higher rate in order to generate a surplus**

Grant charging activities may develop an external rate to charge non-UVM clients. All transactions associated with the external rate (budget, actuals, fund balance) must be recorded in PeopleSoft using a unique source value that is different than the source value used for charging grants. This essentially creates an external activity associated with the grant-charging activity. The space cost should be prorated between the two source values (based on a projection of % of revenue to be generated by the two client types). An addendum to the MOU (or revision of the MOU) will be necessary.

BUDGETING

Each income/expense activity must budget projected annual revenue equal to projected annual expenses. Budget in whole dollars only--**no cents**. External rates that are budgeting a surplus should budget the surplus in E8649 (Addition to Fund Balance).

Compare the new year budget to the current year budget. A significant difference might be indicative of a change in operations, which then would require a change in the MOU. Review the YTD results of operations to determine if the new year budget appears to be reasonable given the actuals in the current year.

BUDGETING REVENUE

Revenue may be obtained through a variety of sources and should be reflected accordingly through the budget. These sources may include sales and services direct billing, charging a portion of the rate to a subsidy budget, and/or drawing down the fund balance that is planned for during the rate calculation process. Remember to budget at the 'E' account level.

Revenue Function Codes:

Auxiliaries (103) Used when recording revenues generated in connection with the University's auxiliary enterprises, including Res Life, etc.

Sales & Services of Educational Activities (107) Used when recording revenue associated with Sales and Service of educational activities. Examples include revenue generated through sponsorship of conferences, sales of Conference & Event services, etc.

Other Revenue (109) Used when recording all operating revenue not identified as tuition and fees, auxiliary, government grants and contracts, athletics fees, or sales and service.

Revenue Account Codes

General University I/E Support (Subsidy) – A portion of the revenue generated may be a subsidy from a specific General University budget (support funded by the General University, not by the Dept/Dean/VP level). If you have been notified that a portion of your activity revenue will be subsidized by General University Support on your target, the agreed upon amount is to be budgeted in account **E4890** – General University I/E Support FAB Use Only.

Unit / Department Support (Subsidy) – A portion of the revenue generated may be a subsidy from a specific unit. Unit / Department Support is to be budgeted in account **E4870**.

Use of Prior Year Fund Balance – If a positive fund balance from the prior year(s) exists, one may include a portion of the balance as a source of revenue thus reducing the amount charged to users or subsidy required. Budget the amount included in the rate calculation in account **E4649**.

BUDGETING EXPENSES

All expenses of the activity should be budgeted and charged to the activity.

Salaries and Wages – Budget and charge to the appropriate individual account.

Benefits on salaries/wages – Benefits on both salaries and wages should be budgeted in account **E5991** the regular benefit rate. There are some exceptions that may exist (i.e. temporary wages are budgeted in account **E5994** at the temporary benefit rate; graduate stipends generate benefits which are budgeted in account **E5998**; and new for FY 2016, Student Wages-Taxable generate benefits which are budgeted in account **E5995**). A complete list of FY 2016 benefit rates and E-levels are on the parameters sheet.

Operating – Budget to the appropriate 'E' level account. Charge to the account related to the 'E' level budget.

Equipment – Purchases of equipment are made using the activity's reserve chart string will have the source code of **139xxx or 149xxx where the last three digits are the same as the activity's operation source value**. Note this source field value indicates reserve but for most Income/Expense activities there will not be additional funds in this chart string. The purchase will occur to this chart string and the cost will be amortized over the useful life of the equipment. Equipment cost is recognized each year as an expense in the rate calculation equal to a portion of the useful life and acts as a payback against the negative fund balance in the chartstring.

Equipment Cost Transfer – The equipment cost transfer is budgeted using account **E8100** in the activity's operation budget. An equipment cost schedule must also be included with the budget materials submitted with the rate calculation. Transfers will be processed using the transfer account 81900.

Cost Center Indirect – A target will be sent to managers indicating the new level of indirect reimbursement which must be included as an expense to the activity for the FY 2016 budget (*i.e. 4% for internal, 20% for external, space cost, etc.*). Activities will need to budget this expense in account **E8090**. Expense allocations will be processed monthly by FAB using account 80901 and will reimburse the General University.

Responsibility Center Indirect – A target will be sent to managers indicating the new minimum level which must be included as an expense to the activity for the FY 2016 budget (*i.e. 4% for internal, 20% for external, space cost, etc.*). Activities will need to budget this expense in account **E8095**. Expense allocations will be processed monthly by FAB using account 80905 and will reimburse the Responsibility Center.

External activities within Responsibility Centers may elect to charge an indirect greater than the 20% minimum. An activity being charged greater than the minimum will budget the entire indirect reimbursement in E8095.

Addition to Fund Balance – If a negative fund balance exists, all or a portion needs to be built into the FY 2016 rate calculation as an expense in order to understand the amount necessary to collect as revenue to offset the negative fund balance. Account **E8649** should be budgeted for this purpose.

Activities will use **E8649 to build an allowable 60-day reserve** and/or when budgeting the amount of an external rate calculation that nets >\$0 (surplus). All income/expense activities are allowed to maintain a 60-day reserve in their fund balance. A 60-day reserve can help stabilize rates in future years and provide funding for unanticipated expenses.

Contact Carrie Hopkins (Carrie.Hopkins@uvm.edu) or Nancy Towle (Nancy.Towle@uvm.edu) with any questions. There is also a new listserv that can accommodate communication on income/expense issues that may be common to other managers; Income-Expense@LIST.UVM.EDU.

Materials to submit:

- ✓ Rate calculation and equipment depreciation schedule submitted electronically (demonstrating the use of formulas in the spreadsheet) prior to **Friday, April 30th** thereby allowing approval prior to submitting the budget through EPM,
- ✓ Budget through EPM, and
- ✓ Revised Memorandum of Understanding (MOU) if necessary; send electronically for initial review.