A. Introduction

This policy provides allowable business and accounting models for core laboratory or service operations at University of Colorado Denver (UCD). It is intended to inform those responsible for administrative and financial management of core laboratory or service operations of the permissible accounting and business practices. It is the responsibility of the administrative and financial managers of core laboratory or service operations and the Finance Office to ensure compliance with this policy. This policy applies to all core laboratory or service operations of UCD.

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C. Definitions

1. Core laboratory or service operation 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.

2. Tax-exempt debt is borrowing by a not-for-profit entity at a reduced rate of interest. The interest rate is reduced because the federal government does not require investors to pay taxes on the income they generate from their tax-exempt investments.

3. Sponsored core is a core laboratory or service operation that is funded in whole or in part from a sponsored award(s) such as a federal program project or center grant.
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 services provided by a sponsored core are supported from sponsored awards and in some cases discounted fees charged to those who are allowed to use the sponsored core. All of the activity of a sponsored core operation is recorded in the Restricted Fund as a sponsored award or as sponsored program income.

4. **Auxiliary Enterprise Core** is a core laboratory or service operation that is funded from user fees that cover all of the costs incurred by the core laboratory or service to provide its services. Auxiliary enterprise cores can provide services to any UCD client and in some cases to external clients. The basis upon which an auxiliary enterprise core provides services to external clients is determined by two factors: whether the core is located in space financed with external debt; and whether the core is located in space built from federal funds. A core laboratory or service operation is considered an auxiliary enterprise when it is run like a business and is accounted for in the Auxiliary Fund.

5. **Auxiliary Enterprise Core - Financed with Debt** is an auxiliary enterprise core laboratory or service operation that is physically located in space that was constructed with money that was borrowed by the University as tax-exempt debt.

6. **Auxiliary Enterprise Core - Not Financed with Debt** is an auxiliary enterprise core laboratory or service operation that is physically located in space that was not constructed with money that was borrowed by the University as tax-exempt debt.

D. Policy

The model for which core laboratory or service operations should conduct their accounting and business transaction is largely dependent upon four characteristics. The first characteristic is the way in which the core laboratory or service operation receives funding (direct funding from grants that support the core laboratory or service operation, discounted fee for service for members of the core laboratory or service operation, or fee for service). The second characteristic concerns the customer base for the core laboratory or service operation. That is, “Does the core laboratory or service operation provide its services to a select population of users?” or “Is the core laboratory or service operation offering its service to all potential customers?” The third characteristic is whether the core laboratory or service operation is physically located in facilities that are built from proceeds of tax-exempt borrowing. The fourth and final characteristic in whether the space occupied by the core laboratory or service center was built from federal funds such as federal capital construction grants or federal earmarked funds. These four characteristics help to define a business and accounting model for a core laboratory or service operation.

This policy is intended to guide those responsible for core laboratory or service operations toward the correct business and accounting model for a particular core laboratory or service. Exhibit A can be used to help determine the proper accounting and business model for a core laboratory or service operation. Separate fiscal policies exist regarding the day-to-day business and accounting practices and are referenced in Exhibit B of this policy.

1. Sponsored Core
For business and accounting purposes, a sponsored core is treated as a sponsored program. All support and expenses of the sponsored core are accounted for in the Restricted Fund and the sponsored core can only provide services to clients consistent with the requirements and restrictions of the sponsored award for the sponsored core. The sponsored core laboratory or service operations may not provide services on a fee for services bases to external clients such as private organizations, private individuals, and not-for profit entities. Sponsored cores may participate in federal sponsored program subcontracts, but may not otherwise receive subcontracts. For a more complete description of the accounting and business policies and practices for this type of core laboratory or service operation, see Exhibit B.

2. Auxiliary Enterprise Core Not Financed with Debt

An auxiliary enterprise core that is not located in space that was financed with tax exempt debt generally operates like an independent business operation. This type of core laboratory or service operation can provide services to clients based on a fee for service basis. An auxiliary enterprise core may not participate in a sponsored program subcontract. The matrix in Exhibit B shows the permissible activity and applicable policies for this type of core laboratory or service operation.

3. Auxiliary Enterprise Core Financed with Debt

An auxiliary enterprise core is located in space that is financed with tax-exempt debt and is treated the same as an auxiliary enterprise core that is not financed by debt with one exception. This exception is a result of federal tax code concerning the way in which space is used when tax-exempt debt is issued to finance the construction of the space. The federal tax code limits use of facilities built with tax-exempt debt to no more than ten percent (10%) by for-profit entities. For practical purposes, this means that an auxiliary enterprise core that is located in space that is financed with tax-exempt debt cannot generate more than 10% of its revenue from for-profit clients. As UCD moves to new facilities at the Fitzsimons campus, it will relocate core operations into space that is financed with tax-exempt debt. An auxiliary enterprise core that is occupying such space must limit its revenue from external clients to no more than 10% of its income. If an auxiliary enterprise core finds that it will exceed the 10% restriction, it may either limit the services it provides to external clients in order to stay within the 10% limitation or seek to relocate to space that is not financed with tax-exempt borrowing. The matrix in Exhibit B shows the permissible activity and applicable policies for this type of core.

4. Policy of Use

In addition to consideration of whether an auxiliary enterprise core laboratory or service operation is in space financed with debt, it is also important to consider whether any federal funds were used to build the space occupied by the core laboratory or service operation. If federal earmarked funds or federal capital construction grants are used to construct this space, the services of the auxiliary enterprise core must be provided to clients in the following order of priority.

5. Service to Federally Funded Sponsored Projects

The auxiliary enterprise core must provide services to federal sponsored projects as a first priority. Any services that may be provided to clients that are not supported by
federal funds must not interfere with services provided to client that are funded from federal resources.

6. Percentage of Services for Clients not Supported from Federal Funds

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%.

As UCD moves to new facilities at the Fitzsimons campus, it will relocate core operations into space that is built with federal earmarked funds and federal capital construction grants. If an auxiliary enterprise core finds that it has more non-federally funded clients than is permitted, it may either limit the services it provides to non-federally funded clients or seek to relocate to space that is not built using federal funds. The matrix in Exhibit B shows the priority of use requirements.

7. Single Core Operation with Multiple Business and Accounting Models

A single core laboratory or service operation may find that its business falls into more than one of the business and accounting model outlined in this policy. For instance, a sponsored core may have capacity and demand for its services outside of its membership. In such instances, a laboratory may split its business and accounting operations into two distinct business and accounting models so long as all costs are reasonably and consistently allocated under each model. 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.