

Service Center & Recharge Operations Rate Calculation Manual

Service Center and Recharge Operations are governed by the policies and procedures outlined in the BPM. This manual is designed to provide additional guidance on the rate and budget development processes.

The information within will be updated and revised as needed, so please make sure you are using the latest version available on our website: <https://www.uky.edu/ufs/research-financial-services>

❖ Service Center & Recharge Operation Basics

Service Centers and Recharge Operations are operating units that provide goods and/or services, **primarily to University Departments, for a fee based upon actual incurred costs**. Operating units that only charge external customers would not be a service center and should reference the Revenue Producing Activities [BPM E-6-2](#).

Service centers should break-even at the end of the fiscal year, meaning revenue earned should equal total expenses. However, it is recognized that variances may occur that prevent this from happening on an annual basis, therefore the University allows a surplus or unsubsidized deficit of 10% of annual operating expenses. The 10% is calculated on the FY end fund balance.

Service Centers/Recharge Operations calculate their rates annually using the rate sheet template. Only approved rates can be charged to customers. No services may be provided at a discount or for free, however differential rates may be established ahead of time for large volume, off peak etc. usage. Subsidies are allowed but must be done at the time of billing and must not disproportionately affect billings to Federal awards.

Service centers and recharge operations can result in charges, directly or indirectly, to Federal grants and contracts at UK, therefore we must ensure that rates are established in a manner that is consistent, allocable, reasonable and allowable in accordance with Uniform Guidance. The rate sheet template is designed to assist in gathering the consistent data needed to ensure compliance.

Business Plan

All service center and recharge operations are required to have an updated business plan in place. It is suggested that service center managers/responsible Unit leaders revisit the business plan periodically to evaluate if revisions to the business plan/model are necessary.

The business plan should cover at a minimum the following:

- What services are you providing and how is it unique and needed by University customers? Is there someone else on campus providing this service? If so, how is your service unique and is the other group aware of your proposed services?
- Who is your customer base? Who will purchase your service and/or product? Will they primarily be University users or external customers?
- Do you plan to recharge sponsored projects (grants)? If so, what percentage of your business will be from sponsored projects?
- How does this service/product fit with the mission of your department, college and the University as a whole? What is the impact for the University?
- Describe your break-even plan. How do you plan to cover lack of revenue, if needed?

Service Center Classifications

Service Centers/Recharge Operations are divided into 3 Budget families based upon total direct costs.

	Recharge Operation	Minor Service Center	Major Service Center
Annual Actual Total Costs	Under \$50,000	\$50,000 to \$500,000	Over \$500,000
Requires Service Center Account	No	Yes	Yes
Rate Calculation Must Include:			
Direct Costs	Yes	Yes	Yes
Rate Calculations May include, as appropriate, the following indirect costs only:			
Equipment Depreciation	No	Yes	Yes
Building Depreciation	No	No	Yes
M&O Costs	No	No	Yes

Annual total direct costs will be reviewed at least biennially, and appropriate adjustment will be made to service center or recharge classification to ensure the correct functional area and budget family are utilized:

- If the direct costs of a recharge operation are projected to increase on a regular basis to over \$50,000 a service center must be established during the budget process for the next fiscal year.
- If the direct costs are projected to decrease on a regular basis to less than \$50,000 a minor service center must be closed, and a recharge operation must be established.
- If direct costs and allowable indirect costs are expected to increase on a regular basis to over \$500,000 on a minor service center, a major service center account must be established for the next fiscal year.
- If direct costs and allowable indirect costs are expected to decrease on a regular basis to under \$500,000 on a major service center, a minor service center account must be established for the next fiscal year.

❖ Rate Calculation Template

RFS and the UBO provide a rate sheet template for campus users to facilitate the gathering of data needed to develop consistent, allocable, and reasonable rates for the services and/or goods provided.

- The Rate sheet template is required by all service center and recharge operations to initiate the review of the rate calculations by RFS.
- The Rate sheet includes two sections:
 - A rate calculation portion that is reviewed and approved by RFS
 - a budget informed by the rate calculation that will be reviewed to ensure the budget matches the rate(s) by the designated AFO and ultimately UBO.
- The Rate calculation must be approved by RFS before billing for goods and/or services commences.

Training is provided each Spring on the rate sheet template, and you can find the most recent version of the rate sheet template, training materials and other helpful tools on the RFS Website. Service Center Managers/Business Officers should use the most recent version of the rate sheet template that is available.

Rate Calculation Formula

$$\text{Calculated Rate} = \frac{\text{Budgeted total actual costs +/- prior year carry-forward}}{\text{Expected units of activity}}$$

Example: A computer with estimated annual total actual costs of \$10,000 and no carryforward from previous year is estimated to output 1,000 hours during that year. This would result in a rate of $10,000/1000 = \$10.00$ per hour. You then apply that to the actual level of activity when charging users. If a department uses the computer for four hours, then it would be charged $4 \text{ hours} \times \$10.00 = \40.00 .

Components of the Rate Calculation

- **Direct Costs** – costs specifically assignable to the operations of a service center or recharge operation. All direct costs must be budgeted and charged directly to the service center operating accounts

Personnel Costs

- *Rate calculation* - An appropriate portion of the salaries, wages and benefits of all personnel directly related to the service center's activities, including administrative support personnel, must be included in the rate calculation and charged to the service center's operating account.
- *Actuals* - The portion of such an individual's salary that should be charged to the service center account is the percentage that represents the proportion of effort applied to this service center activity versus the individual's other UK activities

Operating Expenses

- *Materials and Supplies* – the costs of materials and supplies needed to operate the service center must be included in the rate calculation. Over-accumulation of inventory should be avoided
- *Other Costs* - Other costs associated with the operation of recharge operations or service centers which may be included in its rates are:
 - minor non-capitalized equipment
 - rental and service maintenance contracts
 - special conferences related specifically to the service center or recharge operation professional services
 - All costs must be properly identified by appropriate G/L account

Capital Equipment/Renovation

- Federal guidelines do not allow the purchase cost of capital assets to be recovered through service center rates. Therefore, the purchase price of capital assets **must not be charged to the service center operating account**, but rather to the renewal and replacement account.

- If insufficient funds are available in the renewal and replacement account, a transfer may be made from other non-federal sources (such as a departmental account) into the account.
- It is appropriate, however, to recover the depreciation (see *Indirect Costs* section).

Inventories - Commonly, a service center will base its operations on an inventory (e.g., a chemical stockroom) or will maintain an inventory of parts and supplies used in providing the service (e.g., a machine shop).

- Service centers maintaining inventories for these purposes may not treat unused inventory costs exceeding \$50,000 at the end of the fiscal year as a current operating expense in computing billing rates.
- Unused inventories valued over \$50,000 that are maintained for resale must be accounted for as assets of the University.
- A physical count of inventory must be taken at least annually and reported to Internal Audit in accordance with the schedule sent out by University Financial Services each spring. See UK Business Procedures Manual Section [E-10-2](#) for detailed instructions.
- Inventory gains or losses must be considered as a credit or charge to the current operating expenses of the service center and must be used when calculating billing rates.

➤ **Indirect Costs** – costs that are general purpose in nature and benefit many activities across the institution. Generally unallowable except where specifically identified as allowable for including in service center rate calculations.

Equipment Depreciation - Both major and minor service centers may include equipment depreciation costs when computing their billing rates.

- A journal entry will be recorded monthly by Research Financial Services to charge (debit) the service center account for the actual depreciation expense of equipment identified as belonging to the service center, and to credit the service center's renewal and replacement account.
- Depreciation is not allowable on assets fully depreciated. Under no circumstances shall depreciation exceed the total acquisition cost of the asset.
- Each year, the service center will need to budget depreciation amounts to be used in establishing rates for the following year.
- If the federal government has borne any portion of the cost of the equipment, that depreciation is not allowed to be included in the rate calculation
 - Federal funding of equipment is identified by the fact that it was paid for by a federal grant account.
 - The funding source of a specific item of existing equipment can be obtained from Plant Asset Accounting.

Building Depreciation - (Major Service Center Only)

- Building depreciation will be allocated to each service center based on the square footage identified with the service center in the annual space inventory.
- University Financial Services will be responsible for calculating building depreciation.
- If the federal government has borne any portion of the cost of the building, the depreciation is not allowed to be included in the rate calculation

Operation and Maintenance Costs – (Major Service Center Only)

- Space occupied by all service centers must be identified and designated as such during the annual space inventory.
- Space which is occupied by service center equipment must be assigned as service center space, rather than departmental space.
- Operation and maintenance rates are assessed on a net assignable square footage basis.
- Major service centers may include operation and maintenance costs in calculating their internal and external billing rates.

➤ **Unallowable Costs** – costs defined in Uniform Guidance, 2 CFR 200.4XX, that are not eligible for reimbursement from the federal government and must not be recorded in service center accounts.

- The following are some common expenses that may not be allowable. For a full list of generally unallowable costs and their UG reference see Appendix A at the end of this manual.
 - Advertising (excluding position searches)
 - Alcoholic Beverages
 - Bad Debts
 - Commencement & convocation costs
 - Contingency Provisions
 - Contributions, donations, remembrances
 - Entertainment
 - Fines & Penalties
 - Goods or services for personal use of employees
 - Personal use of a University Vehicle
 - Public Relations
 - Student Activity Costs
 - First Class Travel

Allocating Costs

Once total cost components are identified, the costs need to be allocated to each individual service or product. The allocation must reasonably reflect the actual work being done. One product or service may not subsidize another.

Personnel Costs – allocation must be in line with the cost distribution allocated to the service center.

Other Costs – allocate the costs to the product or service that uses these costs to generate that unit of service.

- *Example #1:* Service Center A provides 4 unique services within one cost center. Person A has 100% effort allocated to the service center and works equally between the 4 services. His effort would be allocated 25% to each service.
- *Example #2:* Service Center B has a piece of equipment that is only used to produce good A, but also sell 3 other goods. The Service Contract expense for the piece of equipment is allocated 100% to good A, because it is only used to produce that product.

Deficit/Surplus Carryforward – allocation should be reasonable across the rates. If a deficit/surplus can be reasonably tied to a specific rate, the allocation should reflect this.

Unit of Activity (Volume)

- Billing rates must be calculated using *total units of activity*. The unit of activity *must be measurable and based on actual usage*. The billing rate should reasonably allocate service center costs in proportion to those receiving its benefits. Selection of an appropriate unit of activity is essential to ensure that users pay only their share of the costs for the services rendered.
- Two common methods to determine the unit of activity distribute costs based on a unit of measurement (e.g. hours, pounds, gallons, etc.)
 - *Consumption* - A consumption base is used when expenses are directly proportional to how much a unit has consumed.
 - For example, assume that labor and equipment usage costs can be accurately identified as being consumed on an hourly basis. This means that, for each hour of service, a proportional increase in labor and equipment usage occurs. In this case, the service center would base the rates on the number of hours of service provided
 - *Output* - An output-based rate is calculated when the total cost of the service center is divided by the total anticipated number of units produced per year (e.g. pages printed, samples analyzed, etc.).
- *Usage Logs* – Units of Activity must be kept in a usage log. Usage logs must at a minimum track the following activities:
 - Date of Service/Sale
 - Services Performed or Good Sold
 - Rate Charged
 - Account/Project Number or user

Calculated Rates and Proposed Rates

- Once all costs are gathered, allocated appropriately and a measurable unit of activity is identified you can determine the calculated rate for each good and/or service.
- The calculated rate is a representation of the actual cost of providing that good and/or service.

- You may propose a rate that differs from the calculated rate to charge for your good and/or service, but it must follow these guidelines:
 - *Internal Rates* – Rates charged to University of Kentucky funds
 - Proposed Rate must be = or < calculated rate
 - If Proposed Rate is less than calculated rate, a plan to break even will be needed (subsidy).
 - *External Rates* – Rates charged to any funds outside of the University
 - Proposed rate may include the current negotiated F&A rate for the University to capture the full cost of providing that service to an external customer.
 - If Proposed Rate is less than calculated rate, a plan to break even will be needed (subsidy).

Carryforward Surplus/Deficit

- *Breaking Even* - Although service centers target break-even through budgeting and rate setting, seldom will the actual expenses, plus or minus any prior year carry forward, exactly match the actual recharges and revenues.
- The break-even policy states that a *surplus or unsubsidized deficit for a given fiscal year must not exceed +/- 10% of annual operating expenses*, computed as of the final closing of the books on June 30.
- Surpluses/Deficits within the +/-10% range
 - A surplus within the 10% range must be applied to the following year's rate calculation so the operation will break-even over time.
 - A deficit within the 10% range must either be carried forward or subsidized by non-federal sources.

For example, the rates submitted for approval during the budget preparation process for the new fiscal year will use projected volume and expenses plus or minus any projected carry-forward from the old fiscal year.

	<u>Surplus</u>	<u>Deficit</u>
FY 2020 actual revenues	\$(230,000)	\$(210,000)
Total expenses FY 2020	<u>\$ 220,000</u>	<u>\$ 220,000</u>
Account balance as of 6/30/20	\$ (10,000)	\$ 10,000
FY 2021 budgeted expense	\$250,000	\$250,000
FY 2020 carry forward *	<u>\$(10,000)</u>	<u>\$ 10,000</u>
Total FY 2021 budgeted expense	\$240,000	\$260,000

**NOTE:* Since budgets for the next fiscal year are prepared before the end of a fiscal year, the exact amount of a surplus or deficit will not be known when developing the rate for the next year. Therefore, the rate may need to be adjusted after the actual carry forward is determined after the close of FY end.

Budgeting Procedures

- The data generated from the rate calculation template is used to develop your budget.
- Budgets will be completed during the annual budget cycle and entered in the current budgeting system.
- If the fund balance estimate or changes in estimated costs create a difference from the initial budget entered in the system, the designated AFO will notify the BO that a budget revision is required.
- Please see your AFO for further guidance on developing your budgets

Budgeting Expenses and Revenue

Expense and Revenue Budgets must equal each other and net to zero.

- Expense Commitment Items:
 - Salary and wages Expenses (51XXXX)
 - Benefits Expenses (52XXXX)
 - Operating Expenses (53XXXX)
 - Depreciation Expenses (755020)
 - Carryforward Deficit Balance (580021)
- Revenue Commitment Items:
 - Salary and Wages (610000)
 - Benefits (620000)
 - Operating Expenses (630000)
 - Carryforward Surplus Balance (480021)
 - Non-General Fund Subsidy (74XXXX)
- Commitment Item Key:
 - Personnel CI's 51XXXX = 610000
 - Benefits CI's 52XXXX = 620000
 - All other CI's 53XXXX, 580021, and 750020 = 630000
- Adjustments to balance the budgets will only be made in the 610000, 620000 and 630000 Commitment items and related expense CI's if needed.
- Carryforward deficits are included on the expenses side, and carryforward surpluses are treated as revenue.

Budgeting Subsidies – Subsidies are budgeted based on the type of account they are generated from.

- *Non-General Fund Subsidy* – Are budgeted in the service center account directly under Commitment Item 74XXXX
- *General Fund/Sponsored funds Subsidy* – Are budgeted in the respective account and NOT in the service center account.
 - The expense and revenue budget must be reduced by the amount of the general fund/sponsored fund subsidy.

APPENDIX A – UNALLOWABLE COSTS MATRIX

Unallowable Costs per Uniform Guidance CFR 200.4XX		
Description of Unallowable Costs	Uniform Guidance Section	Exceptions to Unallowable Cost
Advertising and public relations cost -the costs of advertising media (magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like), costs of conducting general liaison with news media and government public relations officers, and the corollary administrative costs are generally unallowed.	200.421	Advertising costs incurred to fill vacant positions, facilitate procurement of goods and services, disposal of surplus or scrap materials, or as approved by federal statute, federal grantor or contracting agency are allowable.
Advisory Councils - Costs are unallowed.	200.422	
Alcoholic beverages – Costs are unallowed	200.423	
Alumni activities – Costs are unallowed.	200.424	
Audit Services - Are generally allowed but may be limited.	200.425	A reasonable proportionate share of the costs of audits required by the Single Audit Act Amendments of 1996 as implemented by requirements of this Part are allowable.
Bad Debt Cost -Losses (whether actual or estimated) arising from uncollectable accounts and/or legal costs arising from such debts after they have been determined to be uncollectable are not allowed.	200.426	
Bonding Costs - Assurance against financial loss to itself or others by reason of the act or default of the non-Federal entity	200.427	Bonding cost is only allowed as indirect cost unless the cost is required pursuant to the terms and conditions of a Federal award.
Collections of Improper Payments - Generally are allowable.	200.428	
Commencement and Convocation costs - Costs are unallowed.	200.429	
Contingency provisions - Contingency amounts for major project scope changes, unforeseen risks, or extraordinary events are not allowed.	200.433	
Contributions and donations - (a.) Costs of contributions and donations, including cash, property, and services, from the non-Federal entity to other entities , are unallowable.	200.434	
Defense and prosecution of criminal and civil proceedings, claims, appeals, and patent infringement - Costs include the services of in-house or private counsel, accountants, consultants, or others engaged to assist the non-Federal entity before, during, and after commencement of a judicial or administrative proceeding, that bear a direct relationship to the proceeding are unallowable	200.435	

Depreciation and use allowances -Is the method for allocating the cost of fixed assets to periods benefitting from asset use is not allowable if the cost of the asset is borne by the federal government (including cost sharing or match), recovery not prohibited by law, or the asset was acquired solely for the performance of a non-federal award.	200.436	
Employee morale, health and welfare costs - Direct Costs incurred not in accordance with the non-Federal entity's documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are not allowed.	200.437	
Entertainment costs - including amusement, diversion, and social activities and any associated costs are unallowable.	200.438	
Equipment and other capital expenditures - (asset cost equal to or greater than \$5,000) are unallowable without express prior written approval by awarding agency.	200.439	See §§200.13 Capital expenditures, 200.33 Equipment, 200.89 Special purpose equipment, 200.48 General purpose equipment, 200.2 Acquisition cost, and 200.12 Capital assets.
Fines and penalties - Costs resulting from non-Federal entity violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local or foreign laws and regulations are unallowable.	200.441	
Fund raising and investment costs -Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable.	200.442	
General Costs of Government - General costs of government are normally not unallowed.	200.444	
Goods or services for personal use - Costs of goods or services for personal use of the non-Federal entity's employees are unallowable.	200.445	
Idle facilities and idle capacity - <u>Idle facilities</u> means completely unused facilities that are excess to the non-Federal entity's current needs. <u>Idle capacity</u> is the difference between that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays; and the extent to which the facility was actually used to meet demands during the accounting period. Both Idle facilities and idle capacity are generally not allowed.	200.446	<u>Idle facilities</u> are allowed to the extent they are necessary to meet workload requirements which may fluctuate and are allocated appropriately to all benefiting programs; and they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. <u>Idle capacity</u> is allowed, to the extent to which the resources were actually used to meet peak demands during the accounting period.
Interest - generally, costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-Federal entity's own funds, however represented, are unallowable.	200.449	
Lobbying -Cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost.	200.450	

Losses on other awards or contracts -Any excess of costs over income under any other award or contract of any nature is unallowable.	200.451	No exceptions.
Maintenance and repair costs (not required to be capitalized) are generally allowable but may be restricted because of compliance with Cost Accounting Standards regarding F&A costs.	200.452	
Material and supplies cost - (not donated or furnished by the federal government) are generally allowable but may be restricted because of compliance with Cost Accounting Standards regarding F&A costs.	200.453	
Memberships, subscriptions and professional activity costs - Costs of membership in any country club, social or dining club/organization and costs of membership in organizations whose primary purpose is lobbying are unallowable.	200.454	Costs of other memberships, subscriptions and professional activities of the non-federal entity are generally allowable.
Organizational costs (incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselor, whether employees of the non-Federal entity in connection with establishment or reorganization of an organization) are unallowable.	200.455	
Participant Support Costs -direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects are not allowed.	200.456	
Plant and security cost (exclusive of capital expense) are generally allowed but may be restricted because of compliance with Cost Accounting Standards regarding F&A costs.	200.457	
Pre-award costs -cost incurred prior to the effective date of the Federal award directly pursuant to the negotiation and in anticipation of the Federal are not allowed.	200.458	
Proposal costs -Current year cost (only) of preparing bids, proposals, or applications are only allowed as indirect cost.	200.460	
Publication and printing costs - <u>related to unallowable</u> advertising activities(200.421), and selling and marketing of any products or services of the non-federal entity (200.467) are unallowed unless specifically approved by the federal awarding agency.	200.461	Other publication costs for electronic and print media are allowable as direct cost (if specifically identified to a cost objective or as indirect cost).
Rearrangement and reconversion costs - <u>Non capitalized</u> costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable as <u>indirect costs</u> .	200.462	

<p>Recruiting costs - Special emoluments, fringe benefits, and salary allowances incurred to attract professional personnel that do not meet the test of reasonableness or do not conform with the established practices of the non-Federal entity, are unallowable.</p>	200.463	<p>Provided that the size of the staff recruited and maintained is in keeping with workload requirements, costs of “help wanted” advertising, operating costs of an employment office necessary to secure and maintain an adequate staff, costs of operating an aptitude and educational testing program, travel costs of employees while engaged in recruiting personnel, travel costs of applicants for interviews for prospective employment, and relocation costs incurred incident to recruitment of new employees, are allowable to the extent that such costs are incurred pursuant to the non-Federal entity's standard recruitment program.</p>
<p>Relocation cost of employees - Unallowed relocation cost include Fees and other costs associated with acquiring a new home, loss on the sale of a former home, continuing mortgage principal and interest payments on a home being sold or income taxes paid by an employee related to reimbursed relocation costs.</p>	200.464	
<p>Rental costs of buildings and equipment - The rental of any property owned by any individuals or entities affiliated with the non-Federal entity, to include commercial or residential real estate, for purposes such as the home office workspace is unallowable.</p>	200.465	
<p>Scholarships and student aid costs - Costs of scholarships, fellowships, and other programs of student aid at IHEs are generally unallowable</p>	200.466	<p>Tuition remission and other forms of compensation paid as, or in lieu of, wages to students performing necessary work are allowable provided that: (1) The individual is conducting activities necessary to the Federal award; (2) Tuition remission and other support are provided in accordance with established policy of the IHE and consistently provided in a like manner to students in return for similar activities conducted under Federal awards as well as other activities; and (3) During the academic period, the student is enrolled in an advanced degree program at a non-Federal entity or affiliated institution and the activities of the student in relation to the Federal award are related to the degree program; (4) The tuition or other payments are reasonable compensation for the work performed and are conditioned explicitly upon the performance of necessary work; and (5) It is the IHE's practice to similarly compensate students under Federal awards as well as other activities</p>
<p>Selling and marketing -Costs of selling and marketing any products or services of the non-Federal entity (unless allowed under §200.421 Advertising and public relations.) are unallowable</p>	200.467	
<p>Student activity costs -Costs incurred for intramural activities, student publications, student clubs, and other student activities, are unallowable.</p>	200.469	
<p>Travel costs- First Class - costs are unallowable</p>	200.474	<p>Expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the non-Federal entity are allowed in accordance with the non-Federal entity's written travel reimbursement policies.</p>