Service Centers and Recharge Operations

I. Purpose

To provide a framework for the fiscal operations of the University service centers and recharge operations that will ensure compliance with the relevant accounting, governmental, and University regulations.

II. Definitions

A. ***Actual Total Costs*** – The total direct and indirect costs for providing the product or service.

B. ***Break-Even*** – Actual revenues equal actual total costs.

C. ***Business Plan –*** Document prepared by service center to outline the future objectives and strategies for achievement.

D. ***Calculated Rate(s) –*** The break-even billable rate for a product or service.

E. ***Carry-Forward*** – Surplus or deficit of not more than 10% of actual total costs brought forward to the next fiscal year for inclusion in the rate calculation.

F. ***Capital Asset*** – Capital assets may not be purchased from a service center account. All purchases must be made from the related renewal and replacement account. See BPM E-12-1 for the current Capitalization Policy.

G. ***Cost Center*** – Cost object used to capture expenses and revenue within a service center that can be identified and accumulated separately.

H. ***Deficit*** – The amount by which a service center's actual total costs exceeds recharges and external revenues. A deficit of 10% or less must be carried forward to the next fiscal year to be included in the calculation of future billing rates.

I. ***Depreciation –*** An allocation of the cost of property and capital equipment over its useful life. Annual depreciation is calculated by dividing the cost by the number of years of useful life (straight-line depreciation). Depreciation is recorded monthly by a journal entry charging the service center account and crediting the service center's renewal and replacement account. If the federal government has borne a portion of the cost of the equipment, then depreciation for that item is unallowable.

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

K. ***eBARS –*** Equipment Inventory system. Will be used to track equipment for depreciation purposes.

L. ***External Revenue –*** Income received from the provision of a product or service to a customer outside the organizational and administrative structure of the University.

M. ***External User –*** Customer(s) outside the organizational and administrative structure of the University. This category includes students and members of faculty or staff acting in a personal capacity.

N. ***Indirect Costs –*** Costs that are general purpose in nature and which benefit many activities across the institution. Indirect costs items are generally not included in service center rate calculations unless specifically justified. (See Service Center Classifications.)

O. ***Internal User –*** Customers who are part of the organization and administrative structure of the University. This includes academic, research, and administrative departments, UK HealthCare, affiliated corporations, and auxiliary units. Internal users usually have a university account number.

P. ***Inventory –*** The value of goods and supplies on hand at the end of the fiscal year. Inventories with a value over $50,000 must be accounted for in a separate general ledger account and may not be treated as a current operating expense.

Q. ***Major Service Center –*** Total annual direct costs exceeding $500,000.

R. ***Minor Service Center –*** Total annual direct costs exceeding $50,000 but not more than $500,000.

S. ***Operations and Maintenance –*** Utilities, minor building repairs and janitorial services allocated to the service center based on a calculation of square feet of space occupied.

T. ***Over Recovery –*** The amount of surplus that exceeds 10% of total annual actual costs. An over recovery must be refunded to all users in proportion to their use of the service center.

U. ***Proposed Billing Rate(s) –*** Billing rate proposed by service center. The fee per unit of activity charged to customers to recover some or all the costs associated with product or service. Internal rate may not exceed calculated rate.

V. ***Rate Sheet Template –*** Required template that must be completed at least annually by service center/recharge operations. Demonstrates the rate calculation components, the calculated break-even rate, revenue based on proposed rates and is the basis for the service center/recharge operations annual budget.

W. ***Recharge Operation –*** Total annual direct costs less than $50,000.

X. ***Recharge Revenue –*** User fees recovered from internal University customers.

Y. ***Renewal and Replacement Account –*** A Renewal and Replacement account is used to accumulate credits for equipment depreciation and other indirect costs charged to a service center. The funds may be used for the purchase of capital equipment or may be transferred to another fund for any unrestricted purpose with the approval of the President or Executive Vice President for Finance and Administration.

Z. ***Revenue Producing Questionnaire –*** Document required to be filled out by all Revenue Producing Activities (including service center and recharge operations), per BPM E-6-2 Revenue Producing Activities.

AA. ***Subsidy –*** Funding source(s) provided to cover a deficit caused by charging user fees less than necessary to recover the total actual costs incurred by a service center during the fiscal year.

BB. ***Surplus –*** The amount by which a service center's recharges and external revenue exceed total actual costs. A surplus of 10% or less of annual total actual costs must be carried forward to the next fiscal year and included in the calculation of future billing rates. The amount of surplus that exceeds the 10% threshold for carryforward must be handled as an over recovery.

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

DD. ***Under Recovery –*** The amount of deficit at year-end that exceeds 10% of annual total actual costs. An under recovery must be funded from a subsidy and may not be carried forward to the next fiscal year.

EE. ***Uniform Guidance -*** Uniform Guidance (2 CFR 200) – This is a government-wide framework that provides an authoritative set of rules and requirements for Federal awards and the cost recovery requirements for establishing rates.

FF. ***Unit(s) of Service –*** A measurable quantity of a service center's product. This is the basis for the calculation of the billing rates.

GG. ***Unrelated Business Income Tax –*** Income produced by the sale of goods or services to external users that is regularly carried on and is not substantially related to the University's tax-exempt purpose. Unrelated business income revenue is subject to taxation by the IRS. Activity carried on for the convenience of the University community, including students, is not subject to taxation. Contact the Director of Accounting and

Financial Reporting Services for specific information. See BPM E-6-3 UBIT Business Procedures.

HH. ***Useful Life –*** The estimated timeframe over which capital equipment and building will provide useful service.

II. ***Usage Log –*** Document maintained by service centers to track billable units. Must include user billed, service/product sold, rate charged and dates of service.

III. Responsibilities

Refer to BPM E-1-3 for general Fiscal Roles and Responsibilities and BPM E-1-4 Internal Controls.

Any delegation of authority should be made in writing pursuant to University policies and procedures. Refer to AR 8:3 Contract & Financial Transaction Approval Authority (Delegation).

A. Area Fiscal Officer (AFO)

1. Act as liaison between area units and central offices to enhance communication and resolve fiscal and policy issues.
   a. Oversight of Business Officer and/or Service Center Managers to ensure timely reconciliations, regular break-even analysis, and maintenance of accounts is completed in accordance with University policy & procedures.
2. Ensure that service center/recharge operation budgets align with their respective unit's operational plans and supports the University's strategic plan.
   a. Review and approve new service center requests from departments before submission to RFS (Research Financial Services)
   b. Review and approve the annual budget of individual service centers and recharge operations
   c. Work directly with the Business Officer and/or Service Center Manager and provide guidance for budget adjustments.
   d. Approve Budget transfers initiated by Business Officers.
   e. If a budget revision is required, review and send to the UBO for final approval and posting.

B. Accounting and Financial Reporting Services (AFRS)

1. Responsible for maintaining the chart of accounts and ensuring the validity of the University's financial statement.
   a. Review and approve cost transfers for service centers and renewal and replacement accounts.
   b. Post transfer and inventory JV's related to the service center and recharge operations.
   c. Post subsidy JVs (after RFS review and concurrence).
   d. Verify that approved billing rates are being used for original billing JVs posting to cost centers.
   e. Establish new cost center numbers and billing general ledger (Recharge G/L) codes in SAP.
   f. Review and approve Revenue Producing Questionnaire.
   g. Review Unrelated Business Income Tax (UBIT/Sales Tax) and notify Service Center Manager if taxes are applicable.

C. Business Officer

1. Should be knowledgeable, responsible, and accountable for the fiscal transactions of their units or projects and ensure strong internal controls.

   a. Reconciliation of service center/recharge cost centers monthly.
   b. Complete corrections needed timely.
2. Responsible for the development, and adjustment as needed, of the service center/recharge operation budget.
   a. Ensure that budget aligns with their respective unit's operational plans and supports the University's strategic plan.
   b. Develop the service center/recharge operation budget based on approved rate sheet calculations.
   c. Enter the budget by established deadlines into the budgeting software annually during the University Budget Cycle.
   d. Initiate budget transfers and revisions, if needed throughout the year.

D. **Dean/Director**
1. Provide guidance and direction to faculty and staff in carrying out any assigned fiscal duties.
2. Responsible for signing off (or delegating authority to sign off) on any newly established service center/recharge operation.
   a. Ensure that newly established service center/recharge operation aligns with their respective unit's operational plans and supports the University's strategic plan.
   b. Provide overall financial responsibility of the service center or recharge operation, including an appropriate fund source to cover potential deficits.
   c. Notify Research Financial Services (RFS) of any conflicts of interest between an external company and any University employees related to service center activity.

E. **Research Financial Services (RFS)**
1. Responsible for the Rate Calculation Approval.
   a. Review and approve rate calculations in accordance with University policies and procedures.
   b. Complete secondary compliance reviews to identify any unallowable costs posted to service center or R&R accounts are removed as needed.
   c. Verify that approved billing rates are being used for original billing JVs posting to grants.
   d. Review subsidy JVs posted by AFRS.
   e. Complete periodic secondary review of service center/recharge operation balances to ensure compliance with University policies and procedures.
   f. Complete secondary review of break-even analysis at fiscal year-end to ensure necessary transactions are completed timely by service center/recharge operations.
   g. Post depreciation JV monthly to service center and renewal and replacement accounts.
   h. Provide, in conjunction with the University Budget Office (UBO), training and tools to facilitate the successful implementation and management of service center and recharge operations.
   i. Review, in conjunction with the UBO, closure documentation when an area requests that a service center be eliminated.
   j. Provide, in conjunction with the UBO, a rate sheet template for service center managers.

F. **Service Center Manager**
1. Should be knowledgeable, responsible, and accountable for the fiscal transactions of their units or projects and ensure strong internal controls.
2. Responsible for the day-to-day management of the service center/recharge operations. The manager has an obligation to:
   a. Prepare provided rate sheet template and submit it to RFS annually during the rate renewal process.
   b. Uniformly apply the approved rate schedule to all users.
   c. Review service center balances, at least quarterly, and remedy any under-recovery or over-recovery.
   d. Maintain a usage log that supports the units of service in the rate calculation.
   e. Use tools, such as a time analysis, to accurately and appropriately allocate expenses.
   f. Prepare billings timely and ensure all receivables are controlled and reconciled regularly.
   g. Maintain all records in accordance with the procedures set forth in this policy so that inquiries concerning charges may be addressed.
   h. Notify AFRS immediately of new equipment purchases so that depreciation will be calculated correctly.
   i. Reconcile service center equipment annually in eBARS and specify equipment that is funded through federal sources.
   j. Ensure equipment depreciation is incorporated in the service center rates in accordance with the procedures set forth in this policy.

G. **University Budget Office (UBO)**
1. Responsible for overall approval of service center/recharge operation budgets.
   a. The UBO approves increases and decreases to the service center/recharge operation budgets via the budget revision process.
   b. Provide guidance for budget adjustments.
2. Provide, in conjunction with RFS, training and tools to facilitate the successful implementation and management of service center and recharge operations.
3. In conjunction with RFS, review closure documentation when an area requests that a service center be eliminated.

IV. Policy

Service centers are departments/units that provide necessary goods/services to other University departments for a fee. Service centers may recover their cost of operations by recharging users for actual goods and services provided, through predetermined billing rates established in accordance with this policy. The rates are calculated so that service centers recover no more than the actual cost of the goods or services provided and operate on a break-even basis over time. Internal University customers provide the primary revenue source for a service center.

A. **General Guidelines/Regulations** - Often, service centers charge federal grants and contracts and must, therefore, comply with the federal cost recovery principles outlined in the OMB Uniform Guidance (2 CFR 200).
1. In accordance with Uniform Guidance, Subpart E (200.468), our policy requires:
   a. Costs of services, when material, must be charged directly to applicable awards based on actual usage.
   b. Charges do not discriminate between activities under Federal awards and other activities.
   c. Charges are designed to recover only the aggregate costs of the services.

2. In accordance with Cost Accounting Standards, (e-CFR, title 48, Chapter 88, Subpart B, Part 9905), our policy requires:
    a. Consistency in Estimating, Accumulating, and Reporting Costs for Educational Institutions.
    b. Consistency in Allocating Costs for the Same Purpose for Educational Institutions.
    c. Accounting for Unallowable Costs – Educational Institutions.
3. Each service center must have a separate discrete cost center for the purpose of budgeting and accounting for its operations.
4. Rates for goods/services will be calculated annually using the rate sheet template.
    a. Rate calculations must include actual costs to provide the goods/services.
        1) All direct costs of service center operations, actually incurred and documented, must be charged to the service center account.
        2) Permitted indirect costs for building depreciation, equipment depreciation, and maintenance and operations must be charged to the service center account if included in the billing rate.
    b. Rates are calculated using total units of activity. The unit of activity must be measurable and based on actual usage.
    c. Internal recharge rates may not exceed the break-even calculated rate.
    d. External users may be charged a higher rate than internal users.
        1) A surplus generated by higher billing rates to external users can be withdrawn from the service center account and used for any unrestricted purpose only to the extent that the revenue per unit of activity exceeds total actual costs per unit of activity. Care must be exercised to properly document that billings to external users created the surplus.
5. All recharge income and external revenue must be credited to the service center account using the appropriate G/L accounts.
6. Service centers should break-even at the end of a fiscal year.
    a. It is recognized that variances may occur that prevent this from happening on an annual basis; therefore, 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.
    b. Any surplus/deficit of 10% or less in a fiscal year must carry-forward to the succeeding year to calculate future billing rates.
    c. Surplus amounts in excess of 10% (Over-recovery) of actual total costs must be refunded to the users in proportion to their use of the service center.
    d. Deficit amounts in excess of 10% (Under-recovery) of actual total costs must be subsidized by the end of the fiscal year.
7. Service centers may establish multiple rates within a discrete cost center. Such separate rates should be used if they provide more accurate charges to all users than one blended rate based on all the service centers costs.
    a. Billing rates must be documented and calculated based on the actual cost to provide that good/service.
    b. A service center providing more than one service may sometimes make a surplus on some services and a loss on others. Combining the results of various services is only acceptable to the extent that the users of each service are identical, and this should be carefully documented.
    c. Higher prices may not be charged for one rate in order to subsidize losses on another rate.

   d. The total of revenues, recharges, expenses and carryforward from the prior year for all rates included in the service center will be used when calculating the surplus or deficit.

8. Service center rates will be calculated for a given fiscal year. When a service center is established mid-year, rates may be set for less than twelve months so that the end of the first break-even period coincides with a fiscal year-end.
   a. If the good/service has been provided during the fiscal year without a fee, charging of rates will not be allowable until the next fiscal year.
9. Federal grants and contracts cannot be charged a higher rate for goods/services than any other internal or external users.
10. No discounts or free service may be given to any user at any time.
    a. Rates used to charge the cost of the service must be charged to internal users, on a consistent basis, regardless of funding source(s).
    b. Differential pricing for large quantity purchases, high-volume usage, off peak usage or other factors may have multiple rates for the same service when those rates are established, consistent and the rates are available to all users that meet established criteria.
11. Federal guidelines do not allow the purchase cost of capital assets to be recovered thru service center rates. Therefore, capital purchases, as defined by University guidelines, cannot be charged directly to the service center and should be purchased using Renewal and Replacement funds.
12. Service center accounts that include equipment depreciation in their billing rates will have a separate discrete Renewal and Replacement (14278XXXXX) account which will be used to record accumulated depreciation credits.
13. Service centers that also include building depreciation and maintenance and operations costs in their billing rates will have another separate discrete renewal and replacement account which will be used to record accumulated indirect cost credits for those items.
14. Renewal and Replacement accounts are for capital purchases associated with the service center only and may not be used for unrelated or non-capital expenses.
15. Renewal and Replacement accounts may not have a deficit balance, any deficit must be funded by fiscal year end.
16. Transfers from the renewal and replacement account to other unrestricted funds may be made with the specific approval of the President or the Executive Vice President for Finance and Administration.
17. All charges by service centers will be accounted for in the indirect cost calculation in the pool or base of the account charged. All transfers from another corporation or fund group, will be eliminated from the indirect cost calculations and other financial reporting.

B. **Service Center Classifications**

1. Service Centers/Recharge Operations are divided into three (3) Budget families based upon total direct costs.
   a. **Service Centers –**Two categories of service centers are recognized at the University.
      1) **Major Service Center –** Total annual direct costs exceeding $500,000. Cost components for calculating rate(s) are the actual total costs plus indirect costs for building depreciation, equipment depreciation and maintenance and operations. Major service centers have a budget family of 21. The functional area will be 1250 – Other Auxiliary.

2) **Minor Service Center –** Total annual direct costs exceeding $50,000 but not more than $500,000. Cost components for calculating rate(s) are the actual total costs plus indirect costs for equipment depreciation. Minor service centers have a budget family of 22. The functional area will be 1250 – Other Auxiliary.

b. **Recharge Operations –** Recharge operations are departmental units, which provide goods/services, primarily to University departments, for a fee and have total annual direct costs of less than $50,000. Billing rates may include Direct Costs only. Recharge Operations have a budget family of 23. The functional area will be determined by the purpose of the recharge operation.
   1) If the recharge operation only has internal customers an unrestricted-general account will be established
   2) If the recharge operation has internal and external customers a new revenue producing activities account will be established in the correct budget family.

Operating units that **only charge external customers** should reference BPM E-6-2 Revenue Producing Activities.

V. Procedures

A. Establishing New Service Centers/Recharge Operations

1. When a department/unit is interested in pursuing the establishment of a new service center or recharge operation, a request including all the following supporting documents should be prepared and submitted to RFS:
   a. Completed and signed "New Service Center Request Cover Sheet".
   b. Business Plan (at a minimum the following):
      1) Description of goods/services.
      2) Describe your customer base.
         a) Who will purchase the service and/or product?
         b) Anticipated breakdown of internal vs. external customers.
         c) Estimate your demand and volume.
      3) Describe break-even plan.
      4) Explain how business model fits with the mission of the Department, College and University.
   c. Rate Sheet Template with new service center portion completed.
   d. Request for Establishing Cost Center Form.
   e. Request for Establishing New G/L Account Form.
   f. Revenue Producing Questionnaire Form.
   g. Locations of all related buildings/rooms.
   h. List of equipment, whether depreciating or not.
2. A new service center or recharge operation will require the Dean and/or Unit Director level signature. Their signature is attestation that the College and/or Unit agrees:
   a. That the new service center or recharge operation is in line with the Department, Unit, College and University Mission.
   b. That the College/Unit is responsible for any subsidy/funds needed to break even.
3. Due to the institutional impact that service centers and recharge operations may have, appropriate portions of the requests will be reviewed by the responsible

parties in the UBO, RFS, and UFS. Once all approvals are received it will be returned to the service center manager.

4. No billings should begin until all approvals have been received.

B. **Established Service Center Accounting and Billing Procedures**

1. Accounting
    a. All allowable costs related to the service center must be charged directly to the service center cost center.
    b. All recharge and external revenue must be posted directly to the service center cost center.
        1) Recharge Revenue – will be posted to the recharge G/L(s) established for the service center.
        2) External Revenue – will be posted to a revenue G/L based on the type of service/good provided.
    c. Accounting Subsidies
        1) Service centers are in the other auxiliary fund group. Planned subsidies from fund groups other than general funds should be budgeted in the service center account.
        2) To move the subsidy funds into the service center account a transfer JV should be prepared periodically debiting the funding account and crediting the service center account.
2. Billing
    a. Service centers must bill all customers at least monthly. Billing activity must be reconciled to the applicable account ledger and errors corrected prior to the next billing.
    b. Billings must be based on approved rates and units of activity established during the rate calculation process.
        1) No goods/services may be provided at a discount or at no cost unless all internal users are charged the lowest rate. At no time will an external user be charged less than federal grants and other internal users.
        2) Advance billing for goods and/or services is not allowed.
        3) All billings must clearly demonstrate at a minimum:
            a) Date of Service/Sale
            b) Services Performed or Good Sold
            c) Rate Charged
            d) Account/Project Number or user
    c. Internal billings will be processed either thru Journal Voucher (JV) or approved 3rd party auto-bill software.
    d. External Billings – service centers should keep a record of external billings to monitor receivables in a timely manner.
3. Receivables
    a. Service centers are responsible for the timely monitoring, collection and reconciliation of receivables from external billings.
    b. Checks/Payments should follow the guidelines established in the Treasury Operation Manual BPM E-2-1.
4. Documentation
    a. At the department level, service providers are obligated to maintain, and produce upon request, detail support for the rates charged to users.
    b. All billings must be supported by a document/invoice, which details the nature and components of the charges and adequate to stand alone in the event of subsequent review.

C. **Oversight and Monitoring Procedures**

1. Oversight of Expenditures
   a. Service center managers should monitor day to day expenses, and reconcile accounts at least monthly, as per BPM E-1-3 Fiscal Roles & Responsibilities.
2. Monitoring of Balances
   a. The service center will review balances, at least quarterly, to ensure they are recovering an appropriate amount to break even by year end.
   b. Over and Under Recoveries
      1) Over Recovery - When it appears that a service center is going to end a given fiscal year with an operating surplus exceeding the 10% figure, this over recovery (the increment beyond the 10%) should be adjusted via a mid-year reduction in rates.
         a) If at fiscal year-end, the operating surplus exceeds the 10% threshold, the service center will be required to refund the excess to its users.
         b) Surplus funds less than 10% generated from billings to internal users may not be transferred out of their operating account and must be carried forward to the next year.
      2) Under-Recovery - When it appears that a service center is going to end a given fiscal year with an operating deficit for the twelve months exceeding 10%, this under recovery will need to be subsidized.
         a) The goal of a subsidy should be break even, with a maximum of 10% deficit. Any deficit remaining will be calculated into the following years rate(s) as an expense.
         b) Subsidy JV's must be submitted in accordance with the Fiscal Year-End Calendar.
3. Mid-Year Adjustments
   a. If a surplus in excess of 10% is projected, a mid-year reduction in rates should be implemented.
   b. The service center unit making the proposed rate change will be responsible for initiating a request with accompanying justification, the Service Center Rate Request Form and Budget Revision Form to RFS by the established deadlines.
   c. If approved, the request will be forwarded to the AFO for review, and the AFO will contact the Business Officer if a budget revision is needed.
   d. The service center unit will also be responsible for communicating any approved rate change to customers.
4. Rate Renewal Process – Each fiscal year the service center will submit a new rate sheet template based on previous year revenue and expenses, with projections for the following year. Units of activity will be projected but should be based on actual usage from previous year. Supplemental information for rate calculations can be found on the RFS Website: https://www.uky.edu/ufs/research-financial-services.

H. **Closeout Procedures**

1. Service centers and recharge operations may stop providing services at any point in the year, but the accounts will remain open until all transactions are completed and posted to allow the following closeout procedures to be finalized.
   a. How to request closing of service center cost center and related R&R account(s).

1) Notify RFS/UBO/AFO/AFRS of closure plans, including expected date services will end. Strongly encourage at least three (3) months before year-end to minimize the potential impact on customers.
2) No services should be provided after the established closure date.
   a) Complete all Billings by the end of the following month.
   b) Collect all Receivables by the end of the current fiscal year.
3) Contact AFRS Capital Assets Accounting team to move remaining capital assets to the appropriate cost center.
4) Year-end Revenue v. Expenses balance review to be completed by Service Center Manager.
   a) If service center/recharge operation will close with a surplus balance:
      1. In the operating cost center – the department should complete a transfer JV to an unrestricted-general fund. Balance must be zero to close out the account.
   b) Deficit balance will be covered by the following sources:
      1. First, any remaining balance in the related R&R account will be used to cover the deficit via transfer JV.
      2. Second, If R&R balance does not cover entire deficit, the department is responsible for covering any deficit before the fiscal year end via subsidy JV.
      3. Balance must be zero to close out the account.
5) Renewal & Replacement Account Closure – If surplus balance remains after covering any deficit in the service center cost center, that balance will be returned to the department via transfer JV approved by AFRS, after all closeout transactions have been completed, including the funding of active capital projects using the R&R account as a funding source.
6) Complete "Block" Cost Center Form for both service center cost center and related R&R account(s) and submit to AFRS.

b. The Service Center Manager is required to keep documentation and records in accordance with the Records Retention Policy.