UNIVERSITY OF KENTUCKY POLICY AND PROCEDURES
SERVICE CENTERS AND RECHARGE OPERATIONS

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1.0 INTRODUCTION AND SUMMARY

This policy, effective July 1, 1997, provides a framework for the fiscal operations of University service centers and recharge operations that will assure compliance with sound accounting principles and government regulations. This policy addresses the administration of these activities and provides examples of billing rate structures and the steps involved in building such rates.

2.0 REGULATIONS

Service centers and recharge operations can result in charges, directly or indirectly, to Federal grants and contracts at UK. As a recipient of Federal grants and contracts, the University of Kentucky must comply with cost principles and cost accounting standards promulgated by the U.S. Government.

2.1 OMB Circular A-21

The cost principles for Universities are set forth in Office of Management and Budget Circular A-21. Section J.44 of OMB Circular A-21 deals specifically with service centers and is explicit in two concepts

- recipients of federal funds are not to recover more than cost, and
- recipients are not to discriminate in the price of services charged to governmental and non-governmental users.

The principles provide for recognition of the full-allocated costs of Federal grants and contracts with no provision for profit or other increment above actual incurred, documented costs.

2.2 Cost Accounting Standards

Cost accounting standards are designed to achieve uniformity and consistency in the cost accounting practices governing measurement, assignment and allocation of costs to Federal grants and contracts.

The Cost Accounting Standards Board (CASB) requires universities to comply with the four standards below:

- CAS 501 - Consistency in Estimating, Accumulating, and Reporting Costs for Educational Institutions
- CAS 502 - Consistency in Allocating Costs for the Same Purpose for Educational Institutions
- CAS 505 - Accounting for Unallowable Costs - Educational Institutions
- CAS 506 - Cost Accounting Period - Educational Institutions

2.3 Oversight

The U.S. Government monitors the University of Kentucky's compliance with these regulations through oversight and audits by the Department of Health and Human Services (DHHS) and the Office of the Inspector General (OIG).

3.0 DEFINITIONS

3.1 Service Centers

Service centers are operating units that provide goods and/or services, primarily to University departments, for a fee based upon **actual incurred costs** and have total annual **direct costs** exceeding $50,000. Two categories of service centers are recognized at the University of Kentucky. Policies and procedures for service centers are discussed in Section 4.

1. **Major service centers** have total annual **direct costs** exceeding $500,000. Cost components that may be included in the **billing rate** for a major service center are the total **direct cost** of operations plus **indirect** costs for building **depreciation**, equipment **depreciation,** and **maintenance and operations**. Major service centers have a budget family of 21.

2. **Minor service centers** have total annual **direct costs** exceeding $50,000 but not greater than $500,000. Cost components that may be included in the billing rate are the total **direct cost** of operations plus **indirect costs** for equipment **depreciation**. Minor service centers have a budget family of 22.

3.2 Recharge Operations

Recharge operations are departmental units, which provide goods and/or services, primarily to University departments, for a fee and have total annual **direct cost** of providing those goods and/or services of less than $50,000. **Billing rates** may include **direct costs** only. Recharge Operations have a budget family of 23. Policies and procedures for recharge operations are discussed in Section 5.

If total direct costs value changes from one threshold to another, the service center or recharge operation designation changes accordingly.

Differences associated with the classes of service center/recharge operations are as follows:

	Major Service Center	Minor Service Center	Recharge Operation
Annual Direct Costs	Over $500,000	$50,000 to $500,000	Under $50,000
Requires Service Center account	yes	yes	no
Rate calculations must include:			
Direct Cost	yes	yes	yes

Rate calculations may include, as appropriate, the following indirect costs only:

Equipment depreciation	yes	yes	no
Building depreciation	yes	no	no
M&O costs	yes	no	no

3.3 General Terminology

Actual Incurred Costs	See **operating costs**.
Billing Rate	The fee per **unit of activity** charged to customers to recover some or all of the costs associated with producing goods or providing services.
Break-even	Actual **recharges** and external **revenues** equal to **operating costs**.
Capital Equipment	Equipment with a purchase cost of $1,000 for computers and $2,000 for all other equipment. (See section E-12 of the Business Procedures Manual.) Capital equipment may not be purchased from a service center account. All purchases must be made from the related **renewal and replacement** account.
Carry Forward	**Surplus** or **deficit** of not more than 10% of **operating costs** brought forward to the next fiscal year.
Cost Center	Separate labor or production activities within a service center for which cost may be identified and accumulated separately.
Deficit	The amount by which a service center's **operating costs** exceeds **recharges** and external **revenues**. A deficit of 10% or less of total annual **operating costs** may be carried forward to the next fiscal year to be included in the calculation of future **billing rates**. The amount of a deficit that exceeds the 10% carry forward limit must be handled as an **under recovery**.

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 provided any funding for a particular piece of equipment or building, the depreciation cannot be budgeted or charged to the service center.
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 service center operating accounts and will include: **Personal services** (salaries and benefits) Travel Printing and duplicating Telephone Current expenses Supplies and materials Equipment lease or rental Noncapitalized equipment Repairs and maintenance of equipment Subcontracts and outside services Other current operating expenses
External Interest	Interest paid to lenders outside the University
External User	Customers outside the organizational/administrative structure of the university. This category includes students and members of faculty or staff acting in a personal capacity.
Indirect Costs	Facilities costs allocated to a service center for: Building **depreciation** Equipment **depreciation** **Operations and maintenance**
Internal User	Customers who are part of the organizational/administrative structure of the university, including academic, research, and administrative departments, the University Hospital, affiliated corporations, and auxiliary units. Internal users usually have a university account number.
Inventory	The value of goods and supplies on hand at the end of a 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.
Operating Cost	The total **direct** and **indirect costs** charged to the service center account.

Operations and Maintenance	Utilities, minor building repairs and janitorial services allocated to the service center based on square feet of space occupied.
Over Recovery	The amount of **surplus** that exceeds 10% of total annual **operating costs.** An over recovery must be refunded to all users in proportion to their use of the service center.
Personal Services	Salaries, wages, and related fringe benefits associated with the service center. This includes the service center manager, professionals, secretarial and clerical, technicians, operators and other staff. Compensation allocated to the service center must be based on each employee's percent of effort.
Recharge	**User fees** recovered from **internal users** - credited to g/l account 6XXXXX.
Renewal and Replacement Fund	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 the Executive Vice President for Finance and Administration.
Revenue	User fees recovered from **external users** - credited to g/l account 4XXXXX.
Subsidy	Other non-federal funding sources provided to cover a **deficit** caused by charging **user fees** less than necessary to recover the total **operating costs** of a service center.
Surplus	The amount by which a service center's **recharges** and external **revenues** exceed **operating costs**. A surplus of 10% or less of total annual **operating costs** must be carried forward to the next fiscal year to be included in the calculation of future **billing rates.** The amount of surplus that exceeds the 10% limit for carry forward must be handled as an **over recovery**.

Unallowable Costs	Costs defined in OMB Circular A-21, Section J that are not eligible for reimbursement from the federal government and must not be recorded in service center accounts. These include but are not limited to: Advertising Alcoholic beverages Bad debts Commencement or convocation costs Contingency provisions Contributions, donations, remembrances Entertainment Fines and penalties Goods or services for personal use of employees Personal use of an institution-furnished vehicle Public relations Student activity costs Travel - first-class
Under Recovery	The amount of **deficit** at year-end that exceeds 10% of total annual **operating costs.** An under recovery must be funded from non-federal sources as a **subsidy**, and may not be carried forward to the next fiscal year.
Unit of Activity	A specific quantity of a service center's product such as a copy, an hour of machine time, an hour of labor, or any other reasonable measurement that is the basis for the calculation of a **billing rate**.
Unrelated Business Income	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 manager of Accounting and Financial Reporting Services for specific information.
Useful Life	The estimated time period over which **capital equipment** and buildings will provide useful service.
User Fee	See **billing rate**.

4.0. <u>SERVICE CENTERS</u>

4.1. <u>Service Center General Policy</u>

- Each service center must have a separate discrete cost center (10438XXXX0) for the purpose of budgeting and accounting for its operations.

- All **direct costs** of service center operations, actually incurred and documented, must be charged to the service center account.

- 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**.

  Service center accounts that include equipment **depreciation** in their **billing rates** will have a separate discrete **renewal and replacement** (14278XXXX0) account which will be used to record accumulated depreciation credits. Service centers that also include building **depreciation** and **maintenance and operations costs** in their **billing rates** will have another separate discrete **renewal and replacement fund** account which will be used to record accumulated **indirect cost** credits for those items. Generally, these accounts may be used as a funding source to purchase capital assets for the service center. 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 of Finance and Administration.

- All **recharges** and external **revenues** must be credited to the service center account using the appropriate g/l accounts.

- Service center **recharges** and external **revenues** must generally equal cost. Any **surplus** of 10% or less in a fiscal year must **carry forward** to the succeeding year to calculate future **billing rates**. Deficits of 10% or less may be carried forward to calculate future billing rates.

- **Surplus** amounts in excess of 10% of **operating costs** must be refunded to the users in proportion to their use of the service center.

- Federal grants and contracts cannot be charged a higher rate for goods and/or services than any other **internal** or **external users**. *No discounts or free service may be given to any user.*

- **External users** may be charged a higher rate than **internal users**.

  <u>SPECIAL NOTE</u>:
  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 **operating costs** per unit of activity. However, care must be exercised to properly document that billings to external users created the **surplus**. Contact your area fiscal officer for assistance.

4.2. <u>Billing Rates</u>

To compute the **billing rate**, service centers should use the following formula:

$$\frac{\text{Budgeted } \textbf{operating costs} \text{ +/- prior year } \textbf{carry forward}}{\text{Expected } \textbf{units of activity}}$$

The calculated rate is then applied to the actual level of this activity when charging users. For example, a computer with estimated annual **operating costs** of approximately $100,000 and no **carry forward** from the prior year has an estimated output of 1,500 hours during that year. This would result in a rate of $100,000/1,500 hours = $66.67 per hour. If a department uses the computer for four hours, then it should be charged 4 x $66.67 or $266.68.

Some service centers may need to establish separate rates for the various **cost centers**, or operations, within the service center. Such separate cost center rates would provide more accurate charges to all users than one blended rate based on all of a service center's costs. For service centers using cost center rates, the billing rate of each cost center, or operation, must be documented.

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 acceptable as long as the mix of users of each service is not different. Higher prices may not be charged for one cost center in order to subsidize losses on another cost center. The *total* of revenues, recharges, expenses and carry forward from the prior year for all cost centers included in the service center will be used when calculating the **surplus** or **deficit**.

Service center rates should be calculated for a given fiscal year. When a service center is established in mid-year, rates may be set for a period shorter or longer than twelve months so that the end of the first break-even period coincides with a fiscal year-end.

Billing Rate Cost Components

Direct Costs

Personal Services: An appropriate portion of the salaries and wages of all personnel directly related to the service center's activities, including administrative support personnel, should be included in the rate calculation and charged to the service center's operating account. 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.

Fringe Benefits: Service centers will include fringe benefits of all personnel directly charged to the service center operating account. These costs should be included in the rate calculation.

Supplies and Expenses: The costs of materials and supplies needed to operate the service center should be included in the rate calculation. Over accumulation of inventory should be avoided.

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**.

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 contracts
special conferences related specifically to the service center or recharge operation
professional services
external interest (OMB Circular A21, Section J.22)

All costs must be properly identified by object code.

Contact your area fiscal officer if you have questions regarding the allowability of costs or refer to Circular A-21.

Capital Equipment: Federal guidelines do not allow the purchase cost of capital assets to be recovered through service center rates. Therefore, the purchase price of **capital equipment** 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 following section), external interest, or capital lease costs associated with that asset.

Indirect Costs

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 provided any portion of the funding for a piece of capital equipment, whether or not title has reverted back to the University, the depreciation for that particular equipment cannot be included in the billing rates. 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 centers may also include a depreciation charge on buildings in the rate calculation. 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 provided any portion of the funding for a building, the depreciation charge for that building cannot be included in the billing rates.

Operation and Maintenance Costs: Space occupied by all service centers should 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**.

Unit of Activity

The **unit of activity** is used to arrive at a **billing rate**, which reasonably allocates 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 methods are most commonly used to determine the unit of activity: consumption and output. These methods distribute costs based on a unit of measurement (e.g. hours, pounds, gallons, etc.)

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.

Another basis of allocation may be a measure of the output of the service center. 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.). A sample budget with rates established on both the consumption base and output base is found in Appendix 6.1.

Under both methods rates must be calculated using total units of activity.

Projections

Projected **Operating Costs**: Annual expenses are budgeted in the same way as other departmental expenditure accounts--direct position budgets, benefits, travel, printing, telephone, current expense, and minor equipment costs. Any allowable **indirect costs** included in the **billing rate** should be included in the current expense line. Budgeting considerations may include changes in operating expenses, changes in **depreciation**, or other known fluctuations. Separate accounts and clear identification of cost types help to facilitate the annual projections.

Projected **Recharges** and **Revenues**: Like other university accounts, recharges and revenues for service centers are budgeted by g/l account. Service centers must attempt to match the amount of recharges and revenues with the budgeted level of expenses through the development of **billing rates**. When estimating sales or usage levels, considerations may include prior year performance as well as known future needs of **internal** and **external** users and other environmental effects.

At the end of the fiscal year, it may be necessary to accrue expenses and/or recharges and revenues via journal vouchers/IDIV's to appropriately account for the service center's activity during the correct accounting period. Refer to section E-10-1 in the Business Procedures Manual for instructions. The responsibility for insuring these entries are made lies with the service center manager and fiscal officer.

Breaking Even and the Treatment of a Surplus or Deficit

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. The surplus or deficit should be calculated based on actual recharges, revenues and expenditures as outlined in Appendix 6.3.

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 may either be carried forward or subsidized by non-federal sources.

For example, the rates submitted for approval during the budget preparation process for fiscal year 2004 would be based on the 2004 projected volume and expenses plus or minus any carry forward from the most recently completed fiscal year--in this case the year ended June 30, 2003.

Example:	Surplus	Deficit
FY 2003 actual revenues	$230,000	$210,000
Total expenses FY 2003	220,000	220,000
Account balance as of 6/30/03	$ 10,000	($ 10,000)
FY 2004 budgeted expense	$250,000	$250,000
FY 2003 carry forward *	(10,000)	10,000
Total FY 2004 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.

Since the surplus is within +/-10% (($230,000 - $220,000)/$220,000) x 100 = 4.5%, it will be subtracted from the next year's budgeted expenses thereby reducing the rate calculated. The deficit will be added to the next year's budgeted expenses and increase the calculated rate.

Over and Under Recoveries

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. Refer to the section on "Interim Review" in section 4.3. If at fiscal year-end, the operating surplus exceeds the 10% threshold, the service center will be required to notify the area fiscal office and the Provost/Vice President and refund the excess to its users.

Service centers that have accumulated surplus funds through billings to **internal users** may not transfer these funds out of their operating account as the balance must be used to adjust subsequent billing rates.

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 (the portion beyond the 10%) may be adjusted via a mid-year increase in rates. Refer to the section on "Interim Review" in section 4.3. If at fiscal year-end, the operating deficit exceeds the 10% threshold, the service center will be required to notify the area fiscal officer, and the Provost/Vice President to assess the underwriting of the under recovery.

Budgeting and Accounting for Subsidies

Billing out a subsidy

To bill out a subsidy, the expense must be budgeted in an account with the same functional area and indirect cost (IDC) codes that are on the account of the actual user of the services. This account must be billed for services at the same rate as other users. For example, if classroom services are subsidized, an account should be established with instruction as the functional area and IDC codes. When services are provided for this purpose, this account must be billed so that the charges will be accounted for in the correct indirect cost pool. This is the ONLY permissible way that one particular type of user may be subsidized.

Subsidies from other corporations and fund groups

Service Centers are in the other auxilliary fund group. Planned subsidies from other corporations and fund groups should be budgeted as a revenue line in the service center account using the appropriate transfer account (7XXXXX). The expense should be budgeted in the offset corporation or fund group. To move the cash into the service center an IDIV should be prepared periodically charging the funding account and crediting the service center account using the appropriate transfer account.

Subsidies from the UK general fund

Cash may be moved by IDIV into the service center account from a general fund account to prevent a deficit. The funding account should be charged using transfer account 750200 and the service center account should be credited using transfer account 740XXX.

Budgeting

- If the source of funding for a planned subsidy is known and is a corporation or fund group other than UK general fund, it should be budgeted as a revenue line in the service center and an expense line in the subsidy account using the appropriate transfer account.

- If the source of subsidy funding is non-recurring with no exact source designated, the recharge budget must be overstated to equal the expenditure budget. All expenditures MUST be budgeted in the service center account.

Accounting

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 or from the general fund, will be eliminated from the indirect cost calculations and other financial reporting.

All transfers to service center accounts must be approved by Research Financial Services (SPA) and Accounting and Financial Reporting Services.

4.3. Monitoring Procedures

Interim Review

Service center managers must evaluate their financial position and rates periodically throughout the year to assess their positions with respect to break-even status. During the budget preparation process service center managers must submit, through their area fiscal officers, projections of final recharges, revenues and expenditures for the current fiscal year.

Rate Changes

If a surplus in excess of 10% is projected, a mid-year reduction in rates should be implemented. Rates may be increased to fund an unforeseen deficit. (See section 4.2 on Over and Under Recoveries.)

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 as required. The request will be forwarded to the area fiscal officer and submitted to Office of Planning Budget and Policy Analysis (OPBPA). OPBPA will review the proposal and forward the request to SPA, which will examine the request for accuracy, completeness and compliance with Cost Accounting Standards (CAS). Any request that cannot be approved will be returned to the area fiscal officer.

Year-end Rate Performance Review

At fiscal year-end, all service centers will be required to submit to the appropriate Provost/Vice President their actual financial results as calculated in the Recharges, Revenues and Expenses Worksheet in Appendix 6.3.

Rate Setting for Next Fiscal Year

During the operating budget development process, service center units will submit a Request for Establishing Service Center Cost/Fund Center form and a Request for Establishing a new G/L Account form, both found on the UK e-forms page at http://www.uky.edu/eForms/ to the area fiscal officer detailing rate changes they wish to make for the upcoming fiscal year. Following area review and approval the request will be forwarded to OPBPA for their review and then forward to SPA, which will examine the request for accuracy, completeness and compliance with CAS.

4.4. Responsibilities

Area Fiscal Officer

Ultimate responsibility for each service center rests with the appropriate provost/vice president and the area fiscal officer.
Responsibilities include:

- review and approve/reject/modify and forward to OPBPA, the request to establish each new service center within the area (See section 4.7);
- review and approve/reject/modify and forward to OPBPA individual rates for all service centers within the area;
- review and approve/reject/modify and forward to the OPBPA all rate adjustment requests within the area; and
- review the performance of all service centers with respect to break-even at fiscal year end and carry forward surplus and deficits to the service center accounts within the area to the next fiscal year; and
- insure appropriate record retention for closed service centers.

Service Center Manager

The provost or vice president normally delegates day-to-day responsibility to the service center manager who monitors the operation and takes corrective actions as needed. The manager has an obligation to assure that:

- a schedule of rates is prepared and submitted to the area fiscal office on schedule during the preparation of the operating budget;

- documentation of year-to-date actual data is prepared and submitted to the area fiscal office according to the interim schedule, along with new rate development worksheets if new rates are requested;

- periodic notifications sent by Research Financial Services regarding surplus and deficit information are reviewed and acted upon as necessary;

- the service center's financial results with respect to **break-even** are reviewed on a timely basis at year-end, and future rates are adjusted for **over recoveries** and/or **under recoveries** as appropriate;

- Plant Assets is notified immediately of new equipment purchases so that depreciation will be calculated accurately;

- the approved rate schedule is applied uniformly to all users;

- the service center's equipment is reconciled with Plant Asset Accounting's inventory listing on an annual basis, and specific equipment funded through federal sources is specified;

- equipment depreciation (as provided by Plant Assets) is incorporated in the service center rates in accordance with the procedures set forth in this policy;

- billings are timely and adequately documented, receivables are controlled and reconciled; and

- records are maintained in accordance with the procedures set forth in this policy so that inquiries concerning charges may be addressed.

<u>Office of Planning, Budget, and Policy Analysis</u>

The Office of Planning, Budget, and Policy Analysis is assigned responsibility for the following:

- review and approve, in conjunction with SPA and the area fiscal officer, all requests to establish new service centers;

- review and approve, in conjunction with SPA, all proposed future fiscal year service center rates as part of the income and recharge estimates during the operating budget process. The OPBPA review consists of, but is not limited to, comparing the budgeted amounts used in the rate calculations versus the funds actually budgeted in the accounts and making judgements of the reasonableness of the rate calculations. SPA monitors the rate calculations for accuracy, completeness and compliance with CAS;

- return surpluses generated within the service centers to the respective areas as part of the annual fund balance process; and

- review, in conjunction with SPA and area fiscal officer, closure documentation when an area requests that a service center be eliminated.

<u>Research Financial Services</u>

Research Financial Services is assigned the responsibility for the following:

- approve, in conjunction with OPBPA, all requests to establish new service centers and service center rate changes and review for accuracy, completeness and compliance with Cost Accounting Standards (CAS).
- monitor expenditures for appropriateness and that the approved billing rates are being used;
- monitor service center balances periodically and notify the service center manager when the surplus or deficit is not within the 10% threshold;
- assure support, in conjunction with the service center manager and area fiscal officer, for the timely processing of journal vouchers/IDIVs to properly account for the break-even and service center's activity during the fiscal year period;
- review, in conjunction with OPBPA, closure documentation when an area requests that a service center be eliminated.

4.5. <u>Billing Procedures</u>

All billings should be charged to UK accounts via automated billing systems. Inter-departmental invoice voucher (IDIVs) may only be used if the volume of billing is low enough that SPA will approve an exception. External users should be billed via invoice, inter-agency account bill or charges to a Plus Account Card. Billings must be based upon measured and documented utilization that is properly authorized for the account charged.

All billings will be at established approved rates. *No goods or 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*.

Documentation to support the charges must be retained by the billing department (see section 4.6 - Record Retention). *Advance billing* for services or products is not allowed.
The invoice should provide the department charged with the following information:

- what the charge is for
- how many units were consumed
- rate charged per unit

<u>Billing System Controls</u>

Service centers will issue billings at least monthly. Billing activity must be reconciled to the applicable account ledger and errors corrected prior to the next billing.

<u>Cash Controls</u>

All cash collections must comply with the guidelines set forth in section E-2 of the UK Business Procedures Manual.

4.6. Record Retention

It is the responsibility of the service center management to maintain records of the details contained in all charges and to answer inquiries concerning those charges. Service center charges are subject to audit as long as the grants or contracts they charge remain subject to audit. All service center activity must be documented, and records must be maintained to support expenditures, billings, and cost transfers. Each service center must retain the following:

1. workpapers documenting their rate calculation;
2. justification of the selected unit of activity;
3. documentation, including invoices, of actual costs of operations; and
4. records documenting and measuring the total use of the services or products--**billable and any non-billable.**

All financial records and supporting documents, including salary and wage documents pertinent to a service center's activity, must be retained for at least three years unless a litigation claim or audit is started before the expiration of this period. In these cases, records shall be retained until seven years after all litigation, claims, or audit findings are resolved. Charges to grant accounts are subject to challenge at least three, and sometimes four or more years, after projects expire and are fully settled. Because some projects run over ten years, there is no simple "rule-of-thumb" for a holding period. If there is any doubt concerning how long records should be maintained, please contact Research Financial Services.

4.7. Establishing New Service Centers

When a unit determines that a need for a new service center exists, it must submit a request through the department head to the area fiscal officer. The request must include the supporting documents listed below. If approved, the fiscal officer will forward the request to the Office of Planning, Budget, and Policy Analysis (OPBPA) for review of the rates and assessment of the impact on the University budget. OPBPA will then forward the request to SPA, which will examine the rate calculations for accuracy, completeness and compliance with Cost Accounting Standards (CAS). Any request that cannot be approved will be returned to the area fiscal office and the OPBPA will be notified. Upon approval of a new service center SPA will assign the account number, notify OPBPA, the area fiscal officer and the service center. Accounting and Financial Reporting Services will establish the new account.
The request will include the following:

1. The Request for Establishing Service Center Cost/Fund Center form found at http://www.uky.edu/eForms/. This multi-purpose form will be used to set up the service center operating account, set up the renewal and replacement account and to obtain the following additional information:

    - name and number of the affiliated department
    - description of the products or services to be provided
    - description of the users of the products or services, both **internal** and **external**

- justification of the need to create the service center, including an explanation as to why other internal or external providers of these services are not being used in lieu of its being established

- identification of the allocable space in which the service will be provided (Be sure to list *all* building and rooms used by the service centers.)

- name, title, phone number and signature of the service center manager

- signature of the service center manager indicating acceptance of management and fiscal responsibility for the service center

- signatures of the department head (or equivalent) and area fiscal officer indicating approval of the service center

2. The Request for Establishing a new G/L Account form found at http://www.uky.edu/eForms/.

3. The Service Center Rate Request Form (Appendix 6.2), including a detailed budget of annual **operating costs** to be included in the **billing rate**(s), a description of the **unit of activity**, estimated activity for the budget period, the rate calculation using budgeted amounts, and the projected level of activity for the first year of operation. If the establishment of the service center is mid-year, the initial budget and break-even period may be shorter or longer than twelve months. (See section 4.2 below.)

4. An identification by Property Number of moveable equipment to be utilized by the service center (whether or not equipment **depreciation** will be included in the rate)

5. A Budget Revision form detailing the budget for each new account including all positions, benefits, travel, telephone, printing, current expenses, minor capital costs, recharges, and revenues. This is mandatory if the new center is created at a time other than the budget preparation process.

A service center providing similar services to the same population may require multiple accounts in order to efficiently manage the operation and accurately compute different **billing rates**. (e.g. Printing and Duplicating Services could be set up as two accounts within one service center for management purposes. See section 4.2 on billing rates.) In this case, several accounts will map to one general ledger account so that **revenues**, **expenses** (net of **recharges**), and the **surplus** or **deficit** (fund balance) for the operation as a whole may be readily identified. The associated **renewal and replacement** accounts will be established in the same manner.

4.8. Closing Out

If a service center ends operations, an account information sheet requesting deletion should be sent through the area fiscal office to Accounting and Financial Reporting Services where it will then be forwarded to SPA. The area fiscal office must insure that records are maintained in accordance with the records retention policy (section 4.6) above.

5.0. Recharge Operations

Departmental operations that provide goods or services, primarily to University departments, for a fee and have total annual **direct costs** of providing those goods and/or services of less than $50,000 are classified as recharge operations.

Rates/Application of Rates

- Recharge operations may use the regular departmental accounts to budget and account for its operations. The budget family on these accounts will be "23."

- Billing rates must be designed to recover *no more than the direct cost* of the goods or services being provided. Refer to section 4.2 for details on calculating rates.

  The departments performing recharges must develop cost data supporting the unit costs charged. The rates must be developed based on the **direct costs** incurred in providing the service. For example, the rate for a fax machine or photocopier would include costs for the maintenance contract, paper, toner, etc. It would **not** include equipment depreciation, space-related costs or administrative costs.

- The unit cost must be consistently applied to all users, regardless of funding source, and charges must be allocated to users based on actual use.

  Recharge accounts must develop and maintain a method of accurately tracking units of activity. Units of activity, or usage, must be tracked and billed to all users. It is unacceptable for any user to receive services at a discount or at no cost. Further, as units of activity are used in determining the appropriate billing rate, the method of tracking units will become part of the documentation necessary to support the rate(s) structure.

- Recharges to a particular sponsored project or any other account may be applied only when there is a **direct** relationship to the account being charged.

  When there is a clear cause/benefit relationship to the funding source, then it should be charged directly to that funding source. When there is not a clear relationship, then the charge may not be direct charged (particularly to sponsored projects.) Instead, alternative funding sources (such as departmental accounts) should bear the costs.

- It is the responsibility of the area fiscal officer to periodically review the rate calculations of recharge operations to insure that rates do not exceed the **direct cost** of providing the service and that the total **direct cost** does not exceed $50,000.

  If the direct cost is projected to increase to over $50,000 a minor service center must be established during the budget process for the next fiscal year.

Documentation Support

- For each service that is recharged to users, the department must maintain documentation detailing how the rate per unit has been determined.

  For example, photocopies are provided at $.05 per copy. The $.05 was determined through the following analysis:

Paper	$.01
Toner	$.01
Lease & Maintenance Agreement	$.03
Total	$.05

- At the department level, service providers are obligated to maintain, and produce upon request, detail support for the rates charged to users. This support is to include records of the expenses incurred for the operation charged. Refer to section 4.6 on record retention.

  For the photocopier example above, vouchers and invoices for the costs of the paper, toner and maintenance would be maintained in support of the rate calculation.

- All charges must be supported by a document/invoice, which details the nature and components of the charge. The support for charges should be adequate to allow the document to stand alone in the event of a subsequent review.

  For an invoice to stand alone, an uninformed reader should be able to review the support and through the description understand what it is for and how the total amount was calculated. That means the invoice should specifically document:

  1) What the charge is for (e.g. photocopying)
  2) How many units were consumed (i.e., pounds, hours, # of items)
  3) Rate charged per unit (i.e., $.05 per copy)

Rate Development Illustrations

Example A. Projected Operating Costs of a Service Center - Comparison of Consumption and Output Approaches: *

	Total Departmental Costs	% Related to Service Center**	Cost Allocable to Service Center
Salaries and Wages	$600,000	20	$120,000
Fringe Benefits	90,000	20	18,000
Supplies	25,000	100	25,000
Materials	60,000	100	60,000
Telephone	5,000	100	5,000
Depreciation	15,000	100	15,000
Prior Year (Surplus)/Deficit	(10,000)		(10,000)
Total Costs	$785,000		$233,000

* Assume this service center could be either a machine shop or a printing center.

** All service center costs should be included in a separate account. If a recharge operation remains in the departmental account, it should be allocated as demonstrated above, with a budget family of 23.

CONSUMPTION APPROACH:

Machine Shop

Forecasted Machinist Hours:

40 Hours/Week * 52 Weeks — 2,080 Hours/Year

# of Machinists: 2 * 2,080 = — 4,160 Total Hours

Down Time (Vacation, Sick, etc.) — 350 Hours

Billable Hours — 3,810 Hours

$$\text{Consumption Rate} = \frac{\$233{,}000 \text{ Total Cost}}{3{,}810 \text{ Billable Hours}} = \$61.16\text{/Hours}$$

OUTPUT APPROACH:

Print Shop

Estimated Output:

Total Pages Printed — 1,000,000

$$\text{Unit Cost Rate} = \frac{\$233{,}000 \text{ Total Cost}}{1{,}000{,}000 \text{ Pages}} = \$.23\text{/Page}$$

Note: It is important for the activity base chosen to relate directly with what drives costs. For example, establishing a printing rate based on hourly use would not accurately distribute the costs of paper, ink and other supplies. These costs directly relate to the amount of printing output. In addition, measuring the usage hours of printing activity would be difficult and printing achieved each hour could vary greatly.

Appendix 6.1

Rate Development Illustrations (Cont'd)

Example B: User Fee Calculation for Providing Services:

1. Calculate Operating Cost

Salaries (5 technicians)	$200,000
Salaries (support staff)	28,000
Employee Benefits	79,000
Communications	2,800
Training and Development	300
Repairs and Maintenance	4,350
Supplies	5,500
Equipment Depreciation	6,345
Prior Year Operating Surplus	(1,000)
Total Cost	$326,354

2. Calculate Units of Activity

37.5 hours per week times 52 week	1,950.0
Minus holiday hours (11 days x 7.5 hrs. /day)	(82.5)
Minus average vacation hours (37.5 hrs/wk x 3 wks)	(117.0)
Minus average sick leave (6 x 7.5 hrs/day)	(45.0)
Hours worked per year	1,710.0
Minus mandatory breaks (1,710/7.5 = 228 days x .5 hrs)	(114.0)
Minus down time (meetings, training, etc.) (Avg. 1.5 hrs/work day = 228 x 1.5)	(342.0)
Total Average Available Hours per Technician	1,254.0

1,254 x 5 technicians = 6,270 total hours for the facility (units of activity)

3. Calculate User Fee

$$\text{User Fee} = \frac{\text{Total Cost}}{\text{Units of Activity}} = \frac{\$326{,}354}{6{,}270} = \$52.05 \text{ per hour}$$

Rate Development Illustrations (Cont'd)

Example C: User Fee Calculation for Providing Goods:

The following is an example of the user fee calculation for a pint of acid whose Cost of Goods Sold is $10.00

1. Calculate Operating Cost

Salaries	$ 25,000
Employee Benefits	8,250
Office Supplies	1,000
Facilities Expense (paid by the operation or facility)	2,000
Prior Year Operating Surplus	(500)
Total Operating Cost	$ 35,750

2. Calculate Projected Cost of Goods Sold

Chemicals	$100,000
Supplies	50,000
Glassware	31,250
Total Cost of Goods Sold	$181,250

3. Calculate Mark-up Rate

$$\text{Mark-up Rate} = \frac{\text{Operating Cost}}{\text{Cost of Goods}} = \frac{\$35{,}750}{181{,}250} = .1972$$

4. Calculate User Fee

User Fee = Cost of Goods + (Cost of Goods x Mark-up Rate) = $10 + ($10 x .1972) = $11.97

Appendix 6.1

Rate Development Illustrations (Cont'd)

Example D: User Fee Calculation that Includes Depreciation:

1. Calculate Depreciation

Equipment	Asset Item Number	Acquisition Cost	Acquisition Date	Useful Life	FY06 Amount to be Recovered in Rate
Copier A	345678	12,000	8/30/04	5 Years	2,400
Copier B	123456	5,000	10/24/98	5 Years	0
Total		$17,000			2,400

2. Calculate Operating Cost and Estimate Units of Activity

Salaries	$ 8,300
Employee Benefits	2,700
Repairs and Maintenance	10,500
Supplies	15,500
Equipment Depreciation	2,400
Total Cost	$39,400
Estimated number of copies per year (units of activity)	500,000

3. Calculate User Fee

$$\text{User Fee} = \frac{\text{Operating Cost}}{\text{Units of Activity}} = \frac{\$39{,}400}{500{,}000} = \$.08$$

Appendix 6.2

Date:________________

University of Kentucky
Service Center Rate Request Form

Name of Service Center:_________________ Cost Center Account # :___________

Contact Person:________________________ Phone #:_______________________

Period the Rate Development is Effective From:______________ To:______________

	Current Recurring Budget	Proposed Recurring Budget	Change Dollar	Change Percent	Explanation for Changes in Both Dollars and Perfect
Expenditures					
Position -			0.00		
-			0.00		
-			0.00		
-			0.00		
Benefits			0.00		
Current Expenses			0.00		
Depreciation Expense (If Applicable)			0.00		
Total Expenditure Budget	***0.00***	***0.00***	***0.00***		
Prior Year Cash Balance			0.00		
Adjusted Bal for Rate Calc.	**0.00**	**0.00**	**0.00**		
❖ Units of Output		0.00			
❖ Calculated Rate per unit		0.00			
❖ Billing Rate - Internal		0.00			
❖ - External		0.00			
Revenue					
External Income		0.00			
Recharges		0.00			
Total Revenue Budget	0.00	0.00	0.00		
Revenue less Exp. or Subsidy	0.00	0.00	0.00		

Approval: Service Center__________________ Area ________________

Research Financial Services: _____________ OPBPA:________________

❖ If a service center has more than one billing rate then use both pages on and two of this form.
This form is available in Excel from the area fiscal officer.

University of Kentucky
Service Center Rate Request Form
Rate Change Analysis by Service Centers Using Multiple Rates

Name of Service Center:______________________

Cost Center Account # : ______________________

Rate Description	Rate				
	Current	**Proposed**	**Dollar Change**	**Percent Change**	**Explanation**
Account Total	0	0	0		

Rate Description	Recharge Budget				
	Current	**Proposed**	**Dollar Change**	**Percent Change**	**Explanation**
Account Total	**0**	**0**	**0**		

Note - Service centers with more than one rate should use their worksheets to support the information requested above.

Appendix 6.3

University of Kentucky
RECHARGES, REVENUES AND EXPENSES WORKSHEET

	G/L Account	Description	Final Actuals 6/30/0x
Salaries			
	5120XX	Administrative (Regular, Full-Time)	
	5121XX	Staff (Half & Part-Time)	
	5122XX	Temporary	
	5131XX	Students-other	
Fringe Benefits:	52XXXX		
Operating:			
	530000	Supplies (cost of goods sold)	
	530010	Travel	
	531200	Printing	
	531000	Communications	
		Depreciation Expense	
	5402XX	Noncapital/Minor Equipment	
Total Expenses:			
Revenues:	4XXXXX	External Revenues (please list)	
Recharges	6XXXXX		
Profit (Loss)			