  

**The University of Chicago**

**Recharge Operation Procedure Manual**

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## Introduction

Recharge Operations are an essential element in the educational and research environment of the University of Chicago. Recharge Operations are shared resources that provide access to instruments, technologies, as well as expert consultation and other services to scientific and clinical investigators, other University personnel and the general public may be served incidentally by the operation. A Recharge Operation charges a fee directly related to the recovery of the cost of the goods or services provided. As a result of the direct charging to externally sponsored awards, there is significant compliance risk to the institution. Additionally, Recharge Operations must be appropriately substantiated in the University’s Facilities and Administrative (F&A) cost rate calculation. Any Recharge Operation charges can potentially be charged to the federal government, whether they are directly charged to federal awards or charged to indirect cost pools that are allocated to research and thus included in the research F&A rate. All Recharge Operations must comply with federal regulations regardless of whether or not they directly charge federal awards. Therefore, the purpose of this document is to provide guidance to representatives (*financial and operational*) of Recharge Operations by detailing how to properly establish, maintain, and account for these operations in accordance with federal regulations and University policies.

## Definition of a Recharge Operation

Each Recharge Operation is categorized as one of four types of units: (1) Recharge Center, (2) Service Center, (3) Specialized Service Facility, or (4) Pass Through.

*Recharge Center*: An operating activity established for the primary purpose of providing goods and/or services to a segment of the University community for a fee, typically offered as a convenience to the employees and students of a department/division rather than the entire university community. Annual operating budgets to provide the goods and/or services will normally be less than $100,000. Recharge Centers have annual charges to federal awards of less than $10,000. Copy centers and stockrooms are examples of a Recharge Center.

*Service Center*: An operating activity established for the primary purpose of providing goods and/or services to the University community for a fee, typically intended for University wide consumption and is not departmental/college based. Annual operating budgets to provide the goods and/or services is greater than $100,000. Service Centers have annual charges to federal awards of $10,000 or greater. The Cylinder Gas Shop and the Immunohistochemistry Core are examples of a Service Center.

*Specialized Service Facility:* A Specialized Service Facility (SSF) is defined by Uniform Guidance (see 2 C.F.R. §200.468) as a highly complex or highly specialized facility, whose services are not typically available from an outside vendor. Specialized Service Facilities are designed to include their allocable share of all F&A costs. SSF’s are governed by the Recharge Operation policy. There are no Specialized Service Facilities at the University of Chicago at this time.

*Pass Through:* A Pass Through provides goods and/or services to the University community and the charge is equal to the purchase price with no mark up for administrative or other recharge expenses. The Pass Through purchases the goods/services from a vendor and then recharges users. While these operations do not need to submit a questionnaire and annual rate template, they do need to submit an annual Pass Through Confirmation form that confirms that they are still operating as a Pass Through. They should follow the recharge procedures of excluding federally unallowable costs, charging users based on measurable usage, charging all users, charging all users the same price for the same service, recognizing revenue as services are provided and breaking even. Dry Ice and Liquid Nitrogen are examples of Pass Throughs.

The following activities are not subject to procedures in this manual:

* + - *Auxiliary Enterprises* are self-supporting entities that exist to furnish goods or services primarily to students, faculty or staff for personal use, and that charge a fee directly related to, although not necessarily equal to, the cost of goods and services. The general public may also be serviced incidentally by an Auxiliary Enterprise. Examples include Residence Halls and Dining, Student Health and Counseling Services, the University Press, Campus Parking Facilities and the International House.
    - *Animal Care Facility* rates are calculated using a separate set of principles (*see section 3.7*).
    - *Normal and Customary Services* of units within general or departmental administration, institutional services and student services (e.g. central accounting, budgeting services, manual check fees, ID card replacement fees, etc.).
    - *One-Time Distribution of Expense rather than an on-going activity.*

## Compliance Matters

Recharge Operations may be subject to federal and non-federal audits of sponsored programs (refer to section 7.5 for additional information on audits). As a recipient of federal funding, the University must comply with OMB Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards (2 C.F.R. §200) (“Uniform Guidance”). Uniform Guidance requires that service units charge according to actual usage at non-discriminatory rates calculated to recover no more than the actual costs of the service provided. Non-compliance could harm the University’s reputation and reflect negatively on future award proposals and could also lead to repayments or fines to the government.

***Amounts disallowed due to failure to comply with the Recharge Procedure Manual will be the responsibility of the unit associated with the Recharge Operation.*** ***Therefore, it is important that all recharge representatives (both financial and operational) are familiar with the requirements, regulations and policies outlined in this manual to ensure that recharges are in compliance.***

## Establishing a Recharge Operation

Recharge Operations are established for activities that intend to function on an ongoing basis and to recover no more than their cost of operations over this period. Prior to establishing a new Recharge Operation, the following should be considered and are defining factors of a recharge:

* + - *Service is not available elsewhere on campus.*
    - *Service is identifiable (e.g. machine shop or glass blowing) as opposed to general (e.g. general administrative fee).*
    - *Separate costs and budgets can be clearly defined for these activities.*
    - *Need for this service is long-term.*
    - *Service is provided for or subsidized by a federal award.*
    - *Service will be used by multiple client groups and sources of funds within the University.*
    - *Volume of service is expected to increase over time.*
    - *Most of the users will be internal with possible incidental external usage.*

Given the possible financial risk and significant compliance concerns associated with Recharge Operations, adequate documentation and a formal approval process is warranted. The proposal will serve to justify the business need for the service, document the resources required, and describe the plan for a compliant operation. ***Units should never charge a rate for services based on usage before requesting approval from Financial Services to set up a formal recharge operation.***

## Proposal Process

All proposals for the establishment of a Recharge Operation should contain the following items:

* + - *Completed* ***New Recharge Operation Request Form***
    - *Completed* ***Recharge Operation Rate Template***

*As the recharge does not have actual charges, it is important to best estimate the first year expenses and usage. Additionally, it is important to identify the capital equipment to be utilized by the Recharge Operation.*

* + - *Completed* ***Form 70A*** *(request for an unrestricted recharge account – GL and SL)*

Any questions regarding the completion of the New Recharge Operation Request Form or Recharge Operation Rate Template should be sent to Financial Services. It is recommended that the New Recharge Operation Request Form, Recharge Operation Rate Template and Form 70A be reviewed by Financial Services for appropriateness prior to the initiation of the approval process. Once the documents have been reviewed by Financial Services, they should be sent to the Division for approval and signatures. The Division will determine if the Chair signature is required. Note that the Division must also approve the Form 70A before it is sent to Financial Services for processing.

## Approval Process

All Recharge Operation proposals must go through the following approvals:

* + - Department Chair, if applicable
    - Dean or Dean’s Office designee
    - Financial Services

Once a Recharge Operation has appropriate authorization and all signed forms have been returned, Financial Services will create University recharge accounts.

## Rate Development and Budgeting

A Recharge Operation rate is the cost per unit of output used to recover the expenses. Rates are based on budgeted projections of operating expenses, including a carryforward surplus/deficit, divided by projected levels of activity. **All** Recharge Operations should utilize the Excel rate template provided on the Financial Services website.

Recharge Operation rates are normally calculated annually; however, in certain cases the Recharge Operation manager may find it prudent to make adjustments during the year to accommodate changing circumstance and to assure breakeven. **See section 3.9 for requirements regarding mid-year rate adjustments.**

## Breakeven Expectation

Recharge Operation rates are generally calculated based on budgeted projections of operating expenses and projected volume of services or products to be provided. The goal of the Recharge Operation is to calculate a rate which will ensure that revenues reasonably offset expenses. “Operating at breakeven” means there is **no significant** profit or loss as a result of charging users for the services provided in any particular period, and no profit or loss over the long run. Recharge Operations should strive to achieve breakeven over a two year period.

## Allowable Costs

**Allowable direct operating** **costs (*excluding Federally subsidized costs*) associated with the Recharge Operation must be charged to the recharge account**. These costs include, but are not limited to:

* + - *Salaries and Wages of employees providing effort to the Recharge Operation (including administrative effort)*
    - *Fringe Benefits of the employees providing effort to the Recharge Operation*
    - *Supplies, Materials, Services (consumed solely for the operation of the Recharge Operation)*
    - *Recharge Operation Equipment Service Contracts*
    - *Repairs and Maintenance (extra services provided by Facilities or outside contractors only – Facilities Services general maintenance and repairs should not be included)*
    - *Subcontracts and Other Outside Services (e.g. professional services)*
    - *Equipment depreciation expense (see Section 4.2 for additional information).*

***REBATES:*** *Rebates received from vendors for recharge purchases of supplies/services used to produce recharge services should be included in the recharge account to* ***reduce the cost*** *of the purchase. Rebate credits should be charged to a unique revenue subaccount* ***0819*** *and this subaccount should be used only for rebates. External revenue from recharge sales should be charged to subaccounts 0800/0818. When the SD in Aggregate worksheet is completed in the rate template, the rebate credits should be moved from revenue to expense.*

### TRANSFERS: It should be noted that transfer subaccounts (9300/9799) should NOT be used by Recharge Operations with the exception of equipment depreciation (subaccount 9460), subsidies (subaccounts 9415, 9417, 942x, and 9499 for unallowable fringe) and personal holiday and vacation payouts (9499). If incorrect revenue or expense charges need to be removed, the original subaccount should be reduced and moved to the correct account using the same subaccount.

***UNALLOWABLES:*** *It is important that all federally allowable costs are identified to the Recharge Operation, even if the revenue generated by the Recharge Operation will not be enough to cover the total cost of providing the service. This includes the appropriate portion of the salaries and wages of administrative staff directly supporting a Recharge Operation. Salaries and benefits of individuals providing recharge billing services and other direct administrative support should be charged to the recharge account based on the percentage effort provided. However, “general” administrative support (ex. the Chair reviewing proposed rate changes, centralized HR, IT Services or Finance support) should* ***NOT*** *be charged to the Recharge Operation account since these are included in the F&A rate. Deficits will either be covered by subsidies or included in the next year’s rate. Both of these topics are covered later in this manual.* ***Recharge Operation surpluses cannot be used to fund expenses not related to the Recharge Operation. Surpluses must remain in the recharge account to reduce expenses for future rate calculations or be returned to users.***

## Unallowable Costs

As the costs associated with a Recharge Operation are passed on to grants and contracts through the Recharge Operation billings, all costs incurred by the Recharge Operation and included in rates must be federally allowable according to Uniform Guidance §200.400. The rate template was designed to exclude subaccounts that are generally considered unallowable costs. Recharge unallowable expenses must be charged to a non-recharge account. Due to system limitations, the only unallowable cost that can be charged to a recharge account is the unallowable portion of the fringe benefit expense (i.e. difference between the University and Federal benefit eligible rate). ***However, this portion of unallowable fringe benefit expense must be covered by revenue from external billings and/or funded by the division/department PRIOR TO FISCAL YEAR CLOSE.***

Common federally unallowable costs include the following:

* + - *Advertising Costs (subaccount 9901)*
    - *Alcoholic Beverages*
    - *Alumni Activities and Relations*
    - *Automobiles and Other Transportation for Personal Use or Benefit of Employees*
    - *Bad Debt Losses*
    - *Business Meals and Social Activities (subaccounts 30xx)* ***unless specifically tied to the service rendered***
    - *Commencement and Convocation Ceremony Costs*
    - *Contingency Provisions*
    - *Equipment Purchases (subaccounts 6xxx) -* ***only depreciation can be included***
    - *Fines and Penalties (subaccount 9903)*
    - *Fundraising Costs*
    - *Fringe benefits in excess of Benefits Eligible – Federal Rate*
    - *GEMS Card Charges (subaccount 9910/9913) –* ***must be allocated to appropriate subs before FY end***
    - *Gifts to Employees (subaccount 9907)*
    - *Housing and Personal Living Expenses (subaccounts 1904)*
    - *Institutional Donations and Contributions (subaccount 9905)*
    - *Interest Costs for Internal Loans*
    - *Investment Management Costs*
    - *Lobbying Costs*
    - *Membership for Civic, Community, Social, Travel or Dining (subaccounts 9906)*
    - *Miscellaneous Unallowable Charges (subaccount 9912)*
    - *Pension Costs (subaccount 9908)*
    - *Personal Use of Automobile (subaccount 9902)*
    - *Public Relations*
    - *Student Activity Costs*
    - *Travel costs in excess of lowest available commercial discount airfare, Federal Government contract airfare or customary standard (coach or equivalent) airfare*
    - *Trustee Expenses (subaccount 9909)*
    - *Costs included in the F&A calculation:*
      * *Building Depreciation*
      * *Interest*
      * *Operations & Maintenance*
      * *Central Administration (General, Departmental, Student, Sponsored Project)*
      * *Library*

## Internal and External Recharge Rates

The Recharge Operation must charge **all internal users** at the **same approved rate** for the **same level** of services or products purchased in the **same circumstances**. The rate charged to internal users may be equal to or less than the calculated rate on the Recharge Operation Rate Template. **Internal users may not be charged an amount higher than the calculated rate**.

**External users may be charged a rate higher than the calculated rate** and are not bound by the requirement to charge all external users the same rate.

When determining the external user rate, the following should be considered:

* + - *External rates should not be set lower than market rates to avoid competition with local businesses providing similar services.*
    - *The portion of the external user rate above the internal rate can be used to cover costs associated with an internal user rate being less than the calculated internal rate as well as to cover unallowable cost not allowed to be charged on the recharge account or included in rates.*
    - *The portion of the external user rate above the internal rate can be used to cover the unallowable portion of the fringe benefit cost. This cost is charged to the recharge account due to technical constraints but should not be included in internal recharge rates. The Recharge Operation must demonstrate at fiscal year-end that the unallowable fringe benefit cost was covered by the external rate (i.e. the delta between the calculated recharge rate and what was actually charged must cover the unallowable portion of the fringe benefit cost) and* ***if there are any shortfalls, the amount must be covered by a subsidy prior to fiscal close****. The unallowable fringe benefit subsidy should be done using subaccount* ***9499****.*

The Recharge Operation Rate Template allows recharge managers to adjust internal and external rates to identify an appropriate rate structure that will allow the Recharge Operation to breakeven (**refer to Section 3.1 for the Break-even Expectation**).

## Subsidies

Subsidies occur when Recharge Operation expenses are funded from an account outside of the Recharge Operating account. The total Recharge Operation budgeted expenses should reflect the full unsubsidized cost of providing the services. Through the completion of the Recharge Operation Rate Template, the billing rate for the unsubsidized total cost and the subsidized rate can be determined.

There are two forms of subsidies: (1) rate subsidy and (2) a service level subsidy. A rate subsidy is a commitment from a department, division, Principal Investigator (PI) or other source to provide funding with the expectation that the funds will lower the rates to be charged to all users for the goods/services. A service level subsidy is a commitment from a department, division, PI or other source to provide funds for any shortfalls between the anticipated sales and associated costs and is not intended to specifically lower the rate charged to users. The service level subsidy may also be required to cover the unallowable portion of the fringe benefit cost. In either case, a subsidy is funds provided to the Recharge Operation with no expectation for goods/services in return. If the subsidy is coming from the same division as the Recharge Operation, transfer subaccount **9415** is used. If it is coming from a different division, transfer subaccount **9417** is used. For subsidies from BSD Divisional Administration, subaccounts **942x** are used. For subsidies related to the unallowable portion of the fringe benefit cost, transfer subaccount **9499** is used.

## Providing Multiple, Related Services

Recharge Operations may provide a single service or several related services. Related services have similar customers, use similar techniques, and/or use similar equipment. When several services are performed, rates should be calculated for each service. The goal is to create a billing rate that does not cross-subsidize between services or user groups. Blending the costs and revenues of various services is not allowed if the component costs of each service is different because blending costs would result in the lower cost service users subsidizing the higher cost service users. The Recharge Operation Rate Template is designed to clearly identify each good/service offered by the Recharge Operation to ensure lower cost service users are not subsidizing higher cost service users.

## Setting Animal Care Facilities Rates

Rates for animal care facilities should be calculated according to the NIH National Center for Research Resources’ (NCRR) Cost Analysis and Rate Setting Manual for Animal Research Facilities (CARS).

## Budgeting for Recharge Operations

Budgets should be based on anticipated volume of services and the related expenses. It is important that the budget nets to zero or very close to zero as noted in Section 3.1 Breakeven Expectation. As the budget process occurs prior to the annual rate review process, it is recommended that Recharge Operations perform robust quarterly reviews (*see Section 7.1*) to facilitate the University budgeting process.

## Mid-Year Rate Adjustment

Quarterly reviews (*see Section 7.1*) allow Recharge Operations to assess if mid-year rate adjustments are needed. Typically, mid-year rate adjustments are only needed if the fund balance in the **GL** account exceeds the acceptable fund balance tolerance levels (*see Section 7.3*).

Mid-year rate adjustments **require a completed rate template, as well as a narrative explanation for the necessity of the rate adjustment (*see Recharge Operation Mid-Year Rate Adjustment Request Form*).** Mid-year rate adjustments for all Recharge Operations **must be approved in advance** by Financial Services prior to going into effect. It is recommended that the Recharge Operation contact their divisional office prior to submitting revised rates to Financial Services as each division may have their own unique approval processes.

## Equipment Purchases and Depreciation

According to University of Chicago Policy 1004.1, equipment is “nonexpendable tangible personal property with a useful life of more than one year and a cost of $5,000 or more per unit.” Capital equipment assigned to the recharge activity **cannot be charged directly to the recharge account**. The equipment should be depreciated and the **depreciation expense may be included** as a cost in the rate development and charged as an expense to the Recharge Operation unless the equipment is funded by the Federal government or is identified as cost sharing to a federal project. Divisional approval must be requested before including equipment depreciation in recharge rates.

## Initial Funding of Recharge Equipment

New Recharge Operations will typically require an initial capital investment, either through available operating, gift, grant or capital funds. It is the responsibility of the Recharge Operation to identify equipment to be utilized and secure the appropriate funding to purchase the equipment. At the time of purchase, the **department is responsible for notifying Capital Asset Accounting (CAA) that the equipment is Recharge Operation equipment.** Equipment must be identified as recharge equipment in the Property Management System. Recharge equipment is defined in the Property Management System by an equipment class code of 590x.

## Depreciation Recovery

To the extent that the equipment is utilized by the Recharge Operation, the associated depreciation expense may be included in the rate calculation. The useful life of equipment is defined on an asset type basis by CAA. Therefore, the depreciable life included in the rate determination should be the same as the depreciation expense recorded in the Property Management System by CAA. For example, if a $100,000 asset is used by a Recharge Operation, but the recharge only uses that asset 50% for the Recharge Operation and 50% for department purposes, the depreciable base for the rate calculation is $50,000 ($100,000 x 50%). If the associated depreciable life is 10 years, then $5,000 ($50,000 / 10 years) of depreciation expense should be included in the annual rate calculation.

**Additionally, depreciation expense can only be included in the rate calculation for** **non-federally funded** **equipment.** Utilizing the previous example, a Recharge Operation uses a $100,000 asset only 50% of the time. In this example, $25,000 of this asset was paid for by a federal award, $50,000 was paid for by the department and $25,000 was paid for by a gift account. The depreciable base that can be recovered is $37,500 ($100,000 total cost less $25,000 federally funded = $75,000 x 50% usage). The annual depreciation expense to be included in the rate would be $3,750.

As depreciation is a non-cash expense and is not charged directly to the Recharge Operation, there will be an imbalance between the revenue received and expenses due to depreciation. As such, a non-mandatory transfer in ACCTS is required using subaccount **9460**. The depreciation expense journal entry is processed in ACCTS monthly by Financial Services. Therefore, if a unit has $5,000 of annual depreciation expense, an expense amount will appear in the Recharge Operation account each month for $416.67 and the corresponding credit will be within a ledger 8 depreciation recovery account. At the end of the useful life, the full amount of the equipment purchase will have been recovered. **Funds accumulated in the depreciation recovery account should only be used for additional equipment for the Recharge Operation.**

## Replacement Equipment

Depreciation recovery allows the Recharge Operation to accumulate funds to purchase future replacement equipment. While the initial funding of equipment requires investment by the University or other source, the depreciation recovery accounts allow the Recharge Operation to be somewhat self-sustaining. Depreciation recovery accounts are controlled by Financial Services and are maintained as a capital account (ledger 8). ***If the recharge wishes to include equipment depreciation in recharge rates, the ledger 8 recovery account must be requested and Financial Services will create it.******ALL Recharge Operations must first get permission to include depreciation in recharge rates from the appropriate Dean’s Office designee, both new recharges and existing recharges that would like to begin including depreciation in rates.***

The only allowable activities within these ledger 8 accounts are:

* + - Monthly depreciation entries on subaccount 9460 (done by Financial Services).
    - Purchase of equipment based on accumulated funds (done by the Recharge Operation).

*Note that if the cost of the piece of equipment is greater than the available recoveries, the ledger 8 account should only be charged for the amount up to the available funds. The remaining balance must be charged to another funding source. The balance in the ledger 8 account should never be a debit balance, indicating that purchases exceed recovered funds available. Only subaccounts 6xxx (equipment) should be charged to the ledger 8 account.*

## Donated Equipment

Donated equipment is treated the same as purchased equipment and associated depreciation expense may be included in the rate calculation. For questions regarding donated equipment, please contact CAA.

## Leases

If equipment is acquired through a lease-purchase arrangement (capital lease), the equipment should be included in the Property Management System. If appropriately coded as equipment in the Property Management System, equipment under a capital lease arrangement can have associated depreciation expense recovered. Operating leases should be charged directly to the Recharge Operation account as an operating expense.

## Inventories and Other Multi-Year Expenses

For Recharge Operations that utilize inventory greater than $50,000, this should be purchased and recorded directly in the recharge’s General (or zero) ledger account. As inventory is used, the associated expense will be recognized in the recharge ledger 2 account via a cost of goods sold adjustment as described in Sections 5.1 and 5.2.

Generally, most Recharge Operations with inventory will track costs using the weighted average method. Under weighted average inventory costing, it is assumed that the goods available for sale have the same (average) cost per unit. For example, if widget 1 cost $5 and widget 2 cost $6, then the average inventory cost is $5.50 ($5+$6/2). Inventory should only be recorded in the same account control if the inventory is to produce the same or similar products. If a Recharge Operation has very different products for sale, it is recommended that the inventory be tracked in separate account controls when possible. For example inventory associated to product A may be recorded in 1500, but inventory associated to product B may be recorded in 1501. Recharge Operations that maintain and record inventory are responsible for compliance with University Policy 1006 Inventories of Materials and Supplies.

## [Inventories of Goods for Resale](http://finserv.uchicago.edu/support/policies/1000/1006_inventories.shtml)

Retail operations that keep goods on hand should maintain an inventory system that will allow them to know the purchase price of the item they are selling in order to apply the markup to the appropriate base. The system should also allow them to value their inventory on hand. Inventories of goods for resale should be recorded in the Recharge Operation’s General (or zero) ledger account within the 1500-1590 account control range. As inventory is sold, a journal entry crediting the inventory account control and debiting cost of goods sold should be submitted. An example of such an entry is:

Debit 2-4xxxx-0991$5,000.00

Credit 0-1xxxx-1580$5,000.00

A physical count of inventory on hand shall be performed on June 30. Any variances between physical count and records should be adjusted appropriately to ensure inventory records are complete and accurate. In order to minimize the risks of loss, theft, and obsolescence, inventory balances should be kept at a minimum.

## Supply Inventories

In the course of business, it may be necessary for the Recharge Operation to maintain an inventory of supplies. If the Recharge Operation has a need to maintain supply inventories and that supply is greater than $50,000, the purchase of these goods should be recorded on the Recharge Operation’s General (or zero) ledger account within the 1570-1579 account control range. As supplies are used by the Recharge Operation, a journal entry should be submitted to credit the inventory account control and debit the recharge ledger 2 account within the supplies subaccount range (5000-5999). An example of such an entry is:

Debit 2-4xxxx-5400$5,000.00

Credit 0-1xxxx-1570$5,000.00

A physical count of inventory on hand shall be performed on June 30. Any variances between physical count and records should be adjusted appropriately to ensure inventory records are complete and accurate. In order to minimize the risks of loss, theft, and obsolescence, supply inventory balances should be kept at a minimum.

## Other Multi-Year Expenses

Other types of expenses that benefit multiple years should be treated in a similar manner as the inventory examples above. For example, if the recharge purchases a multi-year service contract for a piece of equipment used to provide recharge services and the total cost is $90,000 to benefit 3 years, the entries would be as follows:

Purchase Service Contract

Debit Prepaid Expense 0-1xxxx-1610 $90,000

Credit Cash $90,000

Year 1 – Recognize Service Contract Expense

Debit Recharge Contract Expense 2-5xxxx-2700 $30,000

Credit Prepaid Expense 0-1xxxx-1610 $30,000

Year 2 – Recognize Service Contract Expense

Debit Recharge Contract Expense 2-5xxxx-2700 $30,000

Credit Prepaid Expense 0-1xxxx-1610 $30,000

Year 3 – Recognize Service Contract Expense

Debit Recharge Contract Expense 2-5xxxx-2700 $30,000

Credit Prepaid Expense 0-1xxxx-1610 $30,000

## Billing

**Recharge Operations must bill all (internal and external) users for services received based on actual usage at the approved recharge rates**. Both internal and external recharge rates must be approved by Financial Services. Recharge Operations may not elect to not charge users of services – revenue must be recognized for all services provided. If user accounts cannot be charged, the recharge guarantee account or other departmental account must be charged. Users of recharge services may not elect to fund Recharge Operation salaries or other expenses in lieu of receiving rate charges for services based on approved recharge rates.

All **internal users** of a Recharge Operation must be **billed at the same approved rates**. This includes, but is not limited to:

* + - *Unfunded researchers,*
    - *Graduate students working on their thesis,*
    - *Students working on coursework,*
    - *Users in the home department of the Recharge Operation,*
    - *Users in other University departments/units,*
    - *User associated with the Recharge Operation (e.g. Recharge Operation director or staff)*

At the time the customer requests goods or services from the Recharge Operation, the Recharge Operation should have a mechanism in place to **obtain billing information** (e.g. user type (internal/external), FAS account number (internal), user billing address (external), contact information, etc.). Billings **must** occur **after** the goods and services are **provided**. Pre-billing users (prepayments by customers) is not allowed. **All billings should ideally be performed monthly but no less than quarterly. If billings cannot be performed monthly, an explanation must be provided to Financial Services in the questionnaire and the billing method approved.** Untimely billings may result in attempts to charge sponsored agreements that have ended, making recovery of the Recharge Operation charge difficult and/or unlikely. If the Recharge Operation is unable to charge a sponsored award due to untimely billing (greater than one month after the service), then the **sponsoring unit of the Recharge Operation must absorb this charge and must be billed for the full amount**. Exceptions may be made if the unit associated with the sponsoring award has agreed to pay the bill despite the untimely billing. **For Recharge Operations with multiple services, the billing system should also track revenue by service.** Specific revenue subaccounts by service may also be used.

## Alternative Pricing Structures

Some Recharge Operations may experience special circumstances which call for rates utilizing an approach different from the general rate calculation. The following rate structures may only be utilized for internal users if the resulting rates are **non-discriminatory with respect to specific classes of users, the rates do not result in recovering more than the costs of providing the goods/services, and the rate structure is approved in advance by Financial Services. Any alternative rates must be disclosed and explained in the annual recharge rate calculation template.** For **external users**, alternative pricing may be used and is not bound by the above restrictions but **must be approved in advance by Financial Services**.

*Time-of-Day*

Recharge Operations that have a wide fluctuation in the usage during the day may establish a time-of-day rate structure. Higher rates may be charged during hours of peak use to provide incentives to reduce the demand for services during these times. This structure helps all users by improving performance during peak hours and encouraging the utilization of off-peak hours, thereby reducing the cost for additional equipment. Recharge Operations utilizing a time-of-day rate structure must show that all users have an opportunity to use the center during non-peak hours and that no particular user, particularly sponsored research projects, is disadvantaged by the proposed rate structure. This type of rate structure is used most frequently in computer and communications Recharge Operations.

*Computer Shares*

Computer facilities may charge users based on the computer “shares” concept. The computer capacity is divided into available shares and the user purchases the necessary shares to meet their computing requirements.

*Volume Discounting*

Sometimes economies of scale dictate that a large quantity of a product or service can be provided to a customer at a lower overall cost than the normal per unit rate. Such a volume discount is allowed as long as it is (1) disclosed and justified in the Recharge Operations’ proposed budget and rates; and (2) its effect is not discriminatory to a single type of customer, other than by amount of product or service provided. The recharge must show how providing a larger volume results in a lower cost to the recharge and thus allowing a discounted rate.

*Other*

Another alternative pricing structure may be required. The rate/pricing structure must be in compliance with Uniform Guidance and must be approved by Financial Services.

## Billing for Internal Customers

Internal customers are billed either via the ACCTS Cost Transfer module or through a billing system that interfaces directly with the financial accounting system. All internal billings submitted through ACCTS should be done via an interdepartmental order (DD transaction) by the Recharge Operation. E**ntries should not be initiated by the department paying for the goods/services**. Allowing users to process payments could result in revenue not being recorded in the proper subaccount and fiscal year and possible errors that go unnoticed by the recharge. The recharge is responsible for all transactions hitting the recharge account and would need to be able to support these transactions in case of audit. The interdepartmental order generally is submitted within a month of the sale of the goods/services. The interdepartmental order acts as an invoice and therefore, should **include enough information to fully support the sale of the goods/services (ex. description of service, units purchased, rate charged, etc.)**. The DD transaction must show the approved rate being billed to the customer. If needed, the Recharge Operation should attach supporting documentation to the interdepartmental order.

For Recharge Operations that bill via a billing system that interfaces with the financial accounting system, the billing system must provide invoices (or equivalent information) upon request. Internal customers must all be charged the same rate, all users (including users from the same department as the Recharge Operation) must be billed, internal users may never be billed in advance and the rate charged to internal users must not be higher than the calculated bill rate.

*Revenue Recognition*

**Revenue should be recognized (i.e. charged to the recharge account) at the time services are provided to users.**

All internal customers **should be** **billed in the same month of the sale/performance of the good/service**. The following accounting entry is required to appropriately recognize revenue:

*Submission of an interdepartmental order by the Recharge Operation debiting the account for the department, division, or PI that received the goods/services and crediting the Recharge Operation account revenue subaccount (2-xxxxx-****0820/99****).*

**Receivable balances should never be recorded for internal customers and it is imperative that if a customer is not billed in the same month of service that before fiscal year-end close, the recharge appropriately bill all internal customers that received services in that fiscal year to ensure the revenue and offsetting charges are reflected in the proper fiscal year.**

If the recharge **cannot record revenue** for internal users **in the month services are provided**, the reason should be explained in the recharge questionnaire and at a minimum, a reconciliation should be done prior to year end to make sure that revenue for all services provided in the current fiscal year are charged within that fiscal year. There should be a matching of revenues and expenses and all revenue and expenses for the fiscal year should be charged to the recharge account within that fiscal year to prevent issues with recharge rate calculations as well as financial statements.

For **internal** customers, the revenue subaccount should be within the range of **0820-0899** as per the FAS User Manual. **The 3rd digit in the revenue subaccount indicates the ledger that was charged.** For example, charges to Federal awards (ledger 5) should use revenue subaccount 085x.

## Billing for External Customers

Revenue from external users (users wit[h no University FAS account number)](http://adminet.uchicago.edu/fasmanual/docs/3.a.i.0.shtml) **must be tracked separately** from internal revenue (e.g., utilization of subaccounts **0800-0818** as per the FAS User Manual). This is important not only from a recharge compliance perspective, but this information is also utilized by the University tax department for Unrelated Business Income Tax (UBIT) considerations. In order to minimize the risk of bad debt, the Recharge Operation should obtain one of the following before performing the service or delivering the goods:

* + - *A purchase order issued by the customer,*
    - *A credit card number, or*
    - *Deposit in the form of cash or check.*

If a deposit is received, this deposit should be recorded as a liability in the recharge zero ledger (e.g. 0-xxxxx-2458) and either refunded to the customer or applied to their payment once the goods/service have been rendered.

*UBIT*

The IRS defines UBIT for most organizations as an activity that is an unrelated business (and subjected to unrelated income tax) and meets three requirements:

1. It is a trade or business,
2. It is regularly carried on, and
3. It is not substantially related to furthering the exempt purpose of the organization.

In order to be exempt from UBIT, there must be a substantial causal relationship between the untaxed activity and the achievement of our exempt purpose. In addition, the activity must contribute importantly to the exempt purpose aside from the University’s need for resources. If external users are charged a rate that is higher than the aggregate cost of the goods and services provided, the Recharge Operation may have a liability for UBIT.

It is recommended that Recharge Operations discuss UBIT considerations with the University Tax Reporting Office prior to selling goods/services to external customers. It is the responsibility of the Recharge Operation to ensure that charges to external users does not result in a liability for UBIT.

*Sales Tax*

The sale of goods to external parties could also trigger the need to collect state sales tax. It is the Recharge Operations' responsibility for collecting sales tax, filing the associated sales tax return in the state(s) where the good(s) were sold and remit the collected sales tax to those state agencies. For additional information on sales tax implications, please contact the Tax Reporting Office.

*Revenue Recognition*

**Revenue should be recognized (i.e. charged to the recharge account) at the time services are provided to users, regardless of when payment is received. The recharge must not wait until payment is received to recognize the revenue.** Revenue for all external user service (which includes services provided to UChicago Medicine) provided during the fiscal year must be recognized within the fiscal year so a year end reconciliation similar to the one described above for internal users must be done.

For external customers, revenue is recorded via an ACCTS journal entry (JE). This is accomplished by debiting the recharge General (or zero) ledger accounts receivable account control (e.g. 0-xxxxx- 1380) and crediting the recharge account external revenue subaccount (2-xxxxx-0800/18).

For **external** customers, the revenue subaccount should be within the range of **0810 – 0818** [as per the FAS U](http://adminet.uchicago.edu/fasmanual/docs/3.a.ii.0.shtml)ser Manual. See section 6.4for additional information on accounts receivables.

*Collections*

The Recharge Operation is responsible for the recording, tracking, and collecting of amounts due from external customers. Once payment is remitted by the external customer, the Recharge Operation is responsible for submitting a **Report of Money Received** to the Credit Union. The credit account on the Report of Money Received (ROMR) should be the recharge zero ledger account 0-xxxxx-1380 in order to relieve the associated accounts receivable (revenue was recorded at the time the good/service was rendered; therefore, the cash should be recorded to offset the accounts receivable balance). If the customer pays via electronic funds transfer (EFT), the Recharge Operation is responsible for obtaining the appropriate banking supporting documentation for the ROMR from the Bursar’s Office.

## Accounts Receivable

The University operates on an accrual basis; therefore, it is important to record revenue once the goods/services have been provided, rather than when the associated cash has been collected. As such, accounts receivable (“AR”) are likely to be recorded for external customers.

The Recharge Operation is responsible for maintaining a detailed AR aging schedule that, at a minimum, includes the following information:

* + - *Customer name*
    - *Invoice number*
    - *Invoice date*
    - *Invoice amount*
    - *Associated account control (e.g. 1370 or 1380)*

It is recommended that this schedule be divided to show the age of each outstanding receivable. For instance, most AR aging schedules are divided into current, 31 – 60 days, 61-90 days, 91-120 days, 120+ days. This format allows the Recharge Operation to better assess the collectability of the outstanding receivables.

At the end of each month, the balance in the AR aging schedule should be reconciled to the associated account control balance in the University accounting system. Any variances should be investigated and resolved timely. The file should also be saved monthly with a unique name for audit and record retention purposes (*see Sections 7.4 and 7.5*).

As Recharge Operations do not grant credit lines to customers, it is not common to establish an allowance for doubtful accounts. If the Recharge Operation would like to establish an allowance, it is recommended they provide an explanation and methodology to Financial Services prior to utilizing account control 1398. However, if an accounts receivable item is known to be uncollectible, this should be written off once known. Bad debt write-offs should be recorded in subaccount 9912 and charged to the recharge guarantee account, not the recharge operation account.

## On-Going Management of a Recharge Operation

The Recharge Operation Manager (“Manager”) is responsible for the day-to-day activity of the Recharge Operation. The Manager monitors the operations and takes corrective actions as needed. The Manager, with assistance from the department, is responsible for the following:

* + - Ensuring that the Recharge Operation complies with all University recharge policies and procedures.
    - Ensuring that the Recharge Operation complies with appropriate University payroll, reimbursement, accounting, and personnel policies and practices.
    - Ensuring that the Recharge Operations’ revenues and expenses are reviewed at least monthly to ensure all financial activity is completely and accurately (e.g. to the proper subaccount) recorded to the Recharge Operation accounts.
    - Ensuring that all direct costs of the Recharge Operation are charged to the recharge account. This includes charging all recharge related personnel costs at the appropriate effort % that also matches effort on the rate calculation template.
    - Ensuring that the Recharge Operations’ billings are accurate, timely and adequately documented. The billing rates should be consistently charged to all users of the service. Subsidized rates must not be charged to one set of users (e.g. unrestricted funds vs. sponsored research funds) unless exceptions are approved by Financial Services.
    - Ensuring that the Recharge Operation is maintaining usage records for all services provided. *The records should include at least the following basic information: date of service, user name, user type (internal/external), service name, funding source, quantity, billing rate, revenue total, invoice number, billing date and invoiced amount.* If the rate charged is different than the published approved rate for the service, a valid explanation should also be provided in the usage records. This information should be maintained in an electronic format and available upon request from Financial Services or auditors. The total usage for the fiscal year for each service and user type should also match the usage information entered into the annual rate calculation template.
    - Ensuring that the approved rate(s) is used for all Recharge Operation billings.
    - Ensuring that the Recharge Operation operates within the breakeven tolerance range (*see Section 7.3*).
    - Ensuring that a periodic review of personnel effort charged to the Recharge Operation is conducted to ensure that the percent of salaries charged corresponds to the actual time spent on Recharge Operation work and is included on the recharge rate calculation templates.
    - Ensuring that the annual rate calculation template is submitted in a timely manner (*see Section 7.2*) so that rates can be approved before usage of the rates begin.
    - Ensuring that cash sale controls are established and maintained, as appropriate.
    - Ensuring that goods/services provided are reviewed on a periodic basis to ensure that they are necessary and are not readily available from outside sources. If they are readily available from outside sources, there must be an overriding economic, ethical or other institutional issue to support the continued need for these goods/services.
    - Ensuring that records are retained in accordance with record retention policies (*see Section 7.4*).

## Quarterly Reviews

Quarterly, the Manager should perform a high level review of the Recharge Operations accounts to determine the following:

* + - Are billings being performed timely?
    - Are users being billed at the approved rates?
    - Are there any uncollectible accounts that need to be considered for write-off?
    - Are there significant deviations from the costs/usage that were submitted to determine the rates?
    - Is the Recharge Operation on track to breakeven at year-end? If not, are there surpluses/deficits that need to be addressed through a mid-year rate review?
    - Have there been new equipment purchases that require depreciation recovery entries?

It is important the Manager review the fund balance (0-xxxxx-3120) to ensure that the surplus/budget is within the acceptable tolerance limits (*see Section 7.3*).

## Annual Reviews

**Recharge Operations must submit annual Recharge Operation Rate Templates to Financial Services by May 15th for review and approval. This deadline ensures that the review and approval can be completed by June 30th.** The approval of rates applies to both internal and external rates. Recharge Operations may not use recharge rates beginning on **July 1st** that have not been reviewed for compliance and approved by Financial Services, which is why it is very important that rate templates are submitted timely. This is an important compliance aspect of Recharge Operations and therefore, the following must be provided:

* + - A completed Recharge Operation Rate Template (using the correct version for the current FY)
    - Information on where users can get access to the recharge rate list

**Recharge Operation Questionnaires will be** **completed once** and only resubmitted if changes in recharge accounting have occurred and updates need to be made. The questionnaire should be reviewed annually by the recharge to make sure it is current and accurate. If changes are required, the Recharge Operation is responsible for making the updates and resubmitting to Financial Services.

**Pass Through** recharges do not need to submit an annual rate template (*since they charge actual good/service costs and not a rate*) but they must **submit an annual Pass Through Confirmation** **Form** to confirm that they are still operating as a Pass Through. These should be submitted timely as requested by Financial Services.

## Surpluses/Deficits

Recharge activity must operate on a breakeven basis. As some Recharge Operations may have seasonal fluctuations, units must operate within the surplus/deficit tolerances described below. If the unit exceeds these tolerance levels, as defined below, they must take immediate action to establish a plan to rectify the situation and bring the Recharge Operation within the acceptable levels of tolerance. Such actions may be a mid-year rate adjustment (*see Section 3.8*), immediate funding of a deficit, or a refund back to customers who utilized the Recharge Operation in the previous rate period. Surpluses may not be retained by the recharge or used for non-recharge related purposes.

*Surplus*

A surplus occurs when revenue exceeds expenses. If the Recharge Operation has a surplus that exceeds the tolerance levels defined below, the Recharge Operation must provide Financial Services with a plan to clear the surplus. This plan may be a mid-year rate adjustment (*refer to Section 3.8*), a refund back to customers who utilized the Recharge Operation during the current rate period, or other action plan to appropriately bring back the activity within the acceptable tolerance levels.

If a Recharge Operation ends a given fiscal year with an operating surplus or exceeds the tolerance threshold mid-year requiring a mid-year rate adjustment, a threshold of a 60-day working capital allowance can be used as guidance of how much of a surplus may be carried-forward into the calculation of the new rate. The Recharge Operation Rate Template calculates the working capital allowance; therefore, the Recharge Operation must factor the amount above this working capital allowance into the next year’s rate.

*Deficit*

A deficit occurs when expenses exceed revenue. If the Recharge Operation has a deficit that exceeds the tolerance level defined below, the Recharge Operation must immediately receive a subsidy from the guarantee account (*see Section 2.7*) or other identified account for the amount in excess of the tolerance level. If a Recharge Operation ends the fiscal year with a deficit within the tolerance level, this should be factored into the next year’s rate calculation.

If a Recharge Operation ends a given fiscal year with an operating deficit or exceeds the tolerance threshold mid-year requiring a mid-year rate adjustment, a threshold of a 60-day [working capital allowance](#_bookmark37) can be used as guidance of how much of a deficit may be carried-forward into the calculation of the new rate. The Recharge Operation Rate Template calculates the working capital allowance; therefore, the Recharge Operation must factor the amount above this working capital allowance into the next year’s rate.

*Tolerance Levels*

Tolerance levels for surplus and deficit fund balances are 90 days’ worth of expenses (on a 12-month rolling average). The tolerance level is solely a measure for assessing the appropriateness of the current rate. The tolerance level is different from the working capital allowance as the 60-day working capital allowance is the amount that can be held back from the surplus/deficit amount that is included in the rate determination.

## Document Retention

In accordance with **University Policy 2708**, financial records (support for invoices and expenses) associated with the Recharge Operation must be maintained by the Recharge Operation (or sponsoring unit after closure of a Recharge Operation) for **7 years**. The Recharge Operation managing unit is also responsible for maintaining complete documentation related to operations including:

* + - *Rate calculation and rate approvals (including documentation regarding methodology for rates set below the calculated rates for internal and rates set above the calculated rates for external)*
    - *Usage documentation*
    - *Annual budgets*
    - *Annual financial statements, if produced*
    - *Financial backup information, including evidence of mid-year review, lists of employees, equipment used by the Recharge Operation with allocation of associated depreciation data and volume/utilization data*
    - *Documentation of rate changes, if applicable, and approval/implementation dates of those changes*
    - *Copies of invoices with supporting documentation (e.g. order forms, correspondence, calculations, etc.)*

## Audits

Recharge Operations may be subject to federal and non-federal audits of sponsored programs, the University’s Single Act Audit and/or financial statement audit, internal audits or an internal review performed by Financial Services. Audits may require department participation and advance notice (to the extent possible) will be provided to the Recharge Operation.

Recharge Operations may also be requested to provide documentation not related to an audit. For example, rate negotiations between the University and the Federal Government regarding the University’s indirect cost (F&A) rate may require Recharge Operations to provide information and/or documentation upon demand.

## Closure of a Recharge Operation

Within 10 days of deciding to close a Recharge Operation, please contact your Divisional Office and Financial Services, advising of your decision. A completed **Recharge Operation Closure Form** should be attached to the email, which would include information regarding the following:

* + - *The date the Recharge Operation will cease operations.*
    - *The intended disposition procedures associated with any inventory (e.g. sale, write-off due to obsolescence, etc.).*
    - *An estimate on the collectability of the outstanding receivables.*
    - *The final surplus/deficit fund balance of the Recharge Operation.*
    - *The balance in the depreciation recovery account, if applicable.*

*For surplus balances*

If the final surplus is greater than one month’s operating costs, the balance over the one month's costs will be refunded back to the unit’s recharge customers on a pro-rata basis, within 30 days of closure. The refund will be allocated on the basis of charges made to customers in the last 12 months. If the surplus is less than one month’s operating costs, the balance is retained by the sponsoring unit and will be transferred via a non-mandatory transfer.

*For deficit balances*

If the Recharge Operation closes with a deficit balance, the sponsoring unit is responsible for funding the deficit. **A closed Recharge Operation may use its depreciation recovery account to offset any operational deficit or the sponsoring unit must transfer funds via a non-mandatory transfer.**

Any funds in the depreciation recovery account, after funding of any deficit balances, may be retained by the department with Budget Office approval. It is recommended that if University capital funds were used to fund the initial equipment purchase, any balance in the depreciation recovery account be returned to the University. However, if the department self-funded the initial equipment, it is recommended that the department retain any funds in the depreciation recovery account.

## Glossary

*Billable Unit*: A measure of the goods or services provided by a Recharge Operation that serves as the basis for the calculation of its rates. Examples include machine or labor hours, number of units, number of samples, etc.

*Breakeven*: The point where revenues equal expenses; the point where there is no surplus or deficit. The University’s breakeven period is two years.

*Carry Forward*: The balance of the previous year-end surpluses or deficit that become the opening fund balance in the next fiscal year. The cumulative carry forward amount can be comprised of balances from multiple years and is included in the current year calculation of rates and the breakeven analysis.

*Deficit:* Occurs when expenditures are greater than revenue and the beginning fund balance. A deficit fund balance is a debit balance (+). Ordinarily, deficits should be incorporated into the next year’s rate proposal or funded by a subsidy.

*Depreciation:* The systematic allocation of an assets cost over its useful life.

*Direct Costs*: Costs that can be identified specifically with a particular activity; or that can be directly assigned to such activities easily with a high degree of accuracy. Examples include salaries and wages, telephone services, supplies and cost of materials consumed performing the service.

*External User*: An entity or person with whom the University has no direct affiliation and for which the University has no fiduciary responsibility. The person or entity is external to the University’s mission but wishes to purchase the services of the Recharge Operation because of the unique equipment and/or its faculty/staff expertise. Typically, external users are those that must pay cash for goods/services and not through an internal transfer.

*Fund Balance*: Fund balance is the difference between Assets and Liabilities. The accounting equation is Assets = Liabilities + Fund Balance (Net Assets). It is basically the “bottom line.” Fund balances typically have a credit balance (surplus position); however, if a fund balance has a debit balance this means the account is in deficit due to overspending or liabilities exceeding assets. Fund balances are generally updated automatically.

*Guarantee Account*: An unrestricted account that will cover any and all associated costs of the Recharge Operation upon dissolution of a Recharge Operation or for sustained deficits (if another account is not identified in the closure process) or for unallowable recharge expenses. Ideally this account should only be used for recharge purposes.

*Indirect Costs*: Costs that are not directly identifiable to a specify activity (e.g., building depreciation, interest, operations & maintenance, central administration (general, departmental, student, sponsored project and library)) but are associated with the cost of doing research and/or training. Only Specialized Service Facilities are allowed to recover indirect costs.

*Internal User*: A unit, person or entity affiliated directly with the University. Internal users are those that pay for goods/services via an interdepartmental order (DD transaction in ACCTS).

*Interdepartmental Order*: A transaction type available within the ACCTS Cost Transfer Module that provides a mechanism for one unit to bill another for services/supplies.

*UBIT (Unrelated Business Income Tax):* Defined by the IRS as “an activity is an unrelated business (and subject to unrelated business income tax) if it meets three requirements: (1) it is a trade or business, (2) it is regularly carried on, and (3) it is not substantially related to furthering the exempt purposes of the organization.”

*Useful Life:* An estimate of the average number of years an asset is considered usable before its value is fully depreciated.

*Working Capital Allowance*: Equivalent to two months of operating expenses.

## Frequently Asked Questions

*General*

**Are there activities that Recharge Operations should probably not pursue?**

The following are generally activities that should not warrant a Recharge Operation:

* + - Activities that compete with private enterprise.
    - Activities involving goods/services that qualify as UBIT.
    - Activities that can be produced by another campus unit or private enterprise.
    - Activities that will create harmful intra-University competition.
    - Activities that have low customer demand and comparatively high operating costs.

## Are there any costs that Recharge Operations cannot charge to recharge accounts?

Federally unallowable costs should **not** be charged to a Recharge Operation account; however, due to system limitations the difference between the University and Federal fringe rate will be charged to the recharge account. This unallowable portion of the fringe benefit cost must be funded at fiscal year-end if not fully covered by revenue generated from external billings.

## We provide hourly services. Do I need to keep track of time charged?

It is recommended as part of audit file and record retention that if hourly charges are billed (e.g. consulting services), that some record of time worked is maintained to support the invoice.

## Can a Recharge Operation bill now for work that will be performed in the future?

No. Recharge Operations are only allowed to bill for services rendered and therefore prepayments are not allowed. If a Recharge Operation is performing a significant amount of work for an external customer, it may request a deposit. However, this deposit should be recorded as a liability in the Recharge Operations zero ledger account.

## Where can I find the forms referenced in this manual?

All forms related to Recharge Operations [are available at:](http://finserv.uchicago.edu/accounting/general/recharge.shtml)

<http://finserv.uchicago.edu/accounting/general/recharge.shtml>

## What questions do the auditors ask regarding Recharge Operations?

Typical questions asked by Federal auditors are:

* + - When was the recharge first established?
    - How is the recharge funded and how was it initially funded?
    - Does the recharge produce their own financial statements?
    - What methods are followed to reconcile charges to actual costs?
    - Do the rates include all allowable costs (direct and indirect costs)?
    - Are all users billed and at the same rate for the same services?
    - What statistics are used to compute billing rates?
    - How are under and over charges treated/adjusted?
    - Provide financial statements (revenue and expenses) for the Recharge Operation.

*Equipment*

## If I am required to break even, how will I replace my equipment?

By including depreciation expense in your rate, you are collecting the replacement cost based on usage. The offset to the monthly depreciation expense transfer entry is a credit to a ledger 8 depreciation recovery account. Once enough funds have accumulated in this ledger 8 account, Recharge Operations can purchase replacement equipment with these funds. *Note that equipment purchases cannot be charged to the Recharge Operating account, only equipment depreciation expense.*

## Can excess fund balances be used to purchase equipment?

No. Surplus fund balances must be adjusted through rate adjustments, refunds to customers or other appropriate mechanisms. These funds cannot be used to fund equipment purchases or other purchases.

## How do I obtain capital equipment information?

Please contact Capital Asset Accounting at [capitala](mailto:capitalassets@uchicago.edu)[ssets@uchicago.edu.](mailto:ssets@uchicago.edu)

## What if my equipment was purchased on a different account than the depreciation recovery account, do I still include it?

If the equipment is used by the Recharge Operation and was not purchased with federal funds, the equipment should be identified as recharge equipment in the Property Management System and the depreciation should be included in the Recharge Operation Rate Template.

## What if my equipment is used/shared by more than my Recharge Operation?

This should be identified on the Equipment tab (% Used by Recharge Operation) on the rate worksheet.

*Depreciation*

## My Recharge Operation is heavily subsidized and I do not want to include depreciation in my rates. Do I need to do anything?

Yes, this equipment should still be identified as recharge equipment in the Property Management System and on the Recharge Operation Rate Template “equipment” tab; however, no costs need to be assigned in the rate template itself.

## I purchased equipment mid-year so why do my depreciation expense entries not align with the acquisition date of my equipment?

Depreciation expense allocated to the Recharge Operation must align with the University’s depreciation policy. According to **University financial policy 1004.2**, “if equipment is acquired in the first half of the fiscal year, a full year’s depreciation is recorded in the first year. If the asset is acquired in the second half of the fiscal year, no depreciation is recorded in that fiscal year.” Equipment purchased in the second half of the year will not receive depreciation expense until the following fiscal year.

*Transfers*

## Can I transfer a surplus to a gift account?

No, it is not appropriate to transfer funds out of a Recharge Operation. The only transfers that should occur in the normal course of business are depreciation expense transfers and subsidies.

## What subaccount should I use to transfer a subsidy?

Subsidy transfers are processed on either subaccount **9415** (operating/program support within division) or **9417** (operating/program support other division). The exception is BSD Divisional Administration subsidies, which use subaccounts **942x.** Subsidies for the unallowable portion of fringe benefits should use subaccount **9499**.

*Supply Purchases*

## I received a volume discount on the purchase of supplies for the Recharge Operation. The supplies will be used over 2 to 3 years. Can I charge the full purchase to the recharge account in the year purchased?

No. Expenses should be charged in the period used. Charging the full expense will result in overcharging customers purchasing services in the first year. See Section 5.2for instructions on accounting for supply inventories.

**CHECKLIST - Accounting for Recharge Operations**

Revenue

* **Recognize revenue** in the month that services are provided whenever possible. *See section 6.0* of the Recharge Operation Procedure Manual for guidance on revenue.
* **Use** revenue **subaccounts 0800/0818 for external revenue**. External users are from outside the University or University affiliated individuals purchasing services for personal use. They would not have a University account to charge. Transactions are generally Bursar Cash Receipts. Subaccount 0819 should be used for vendor rebates (see below).
* **Use** revenue **subaccounts 0820/0899 for internal revenue**. In addition, use the appropriate revenue subaccount to indicate the ledger charged *(ex. if charging Federal awards (ledger 5) use a subaccount in the 085x range, where the third digit indicates ledger).* Transactions are generally Interdepartmental Orders. In addition, specific subaccounts within each range can be used to track revenue by service if other methods are not being used *(ex. service 1 to ledger 2 = sub 0821, service 2 to ledger 2 = 0822, etc.).*
* **Charge vendor rebates** to a unique revenue subaccount **0819**.
* **Indicate the month** that the services were provided in the transaction description whenever possible.
* **Indicate the specific service(s)** provided in the transaction description whenever possible.

Expenses

* **Charge** **all direct Recharge Operation related expenses (salaries/benefits and non-labor)** to the recharge account with the following exceptions: *federally subsidized expenses where the grant provides funding for Recharge Operations (ex. Cancer Center grant), federally unallowable expenses (ex. business meals, equipment purchases), equipment purchases, equipment depreciation not included in the recharge rates.*
* **Spread out the cost of multi-year supplies and services** per instructions in section 5.0 of the Recharge Operation Procedure Manual. **Large dollar supply and service purchases** that will be **used over several fiscal years** should **not be charged** to the recharge account **all in one year** but rather as supplies/services are used. This ensures better matching of expenses to revenues for the year.
* **Do not charge federally unallowable expenses** related to the **to the recharge account** but rather fund from other sources (with the exception of unallowable fringe – explained below). Examples of unallowable subaccounts are: 30xx, 6xxx and 99xx.
* **Ensure** that the **unallowable portion of fringe benefit charges** (i.e. difference between the University Benefit Eligible and Federal Benefit Eligible rate) is **covered by the additional revenue from higher external rates** **OR subsidized using subaccount 9499** by year end. This cost should **not be included in recharge rates**.
* **Do not charge equipment purchases** (subs 6xxx) to the **recharge account**. Only **equipment depreciation is an allowable cos**t but this must be arranged with Financial Services and when applicable, permission must be granted by the Division. Monthly depreciation charges will be done by Financial Services.
* **Use** the **appropriate subaccounts** when charging expenses to the recharge account. Refer to the Recharge Operation Procedure Manual for guidance. **Do not use lump sum transfer (96xx/97xx) subaccounts** unless permitted by Financial Services.
* **Provide** a **clear description** of the **expense in the transaction description**, especially for subaccounts such as 4900 (all other services) and 5900 (all other supplies). Additional information should also be provided for these subaccounts on the rate template.

Fund Balance

* **Monitor** the Recharge Operation **fund balance** in the recharge GL account **ideally monthly but at least quarterly** to ensure the established rates are not too high (surplus) or too low (deficit). There will be timing differences but, in some cases, **rates may need to be adjusted mid-year** to ensure breakeven.

Billing

* **Bill** recharge users **monthly** whenever possible in order to ensure that revenue is recorded in the correct period.
* **Collect billing information** (user name, address, type (internal/external), FAS account number, etc.) **when services are ordered**.
* **Submit all billing entries** (should only be done by the recharge, never by the user).
* **Bill for all services** and at the **approved rates**. If the user is given a discount, the **difference** between the total charge per the rates/usage and the amount charged to the user account **must be charged to the recharge guarantee account or other departmental account**. The recharge cannot choose to not bill a user or group of users.
* Users can be offered a volume discount if the recharge can prove that the higher volume results in a lower cost for the recharge. However, the charges should still be based on actual usage at the approved discounted rates. **Users (internal or external) should not be offered a fixed price for services. Charges should always be based on usage and rates.**

Usage

* + - * **Track usage units** by user type (internal/external) as well as specific service as services are provided and **maintain** the data in an **electronic format (ideally Excel or a format that can be converted to Excel)**. The data should include date of service, number of units sold, rate, account(s) charged (for internal users), type of users (internal/external), invoice number and billing date. This data is used for the annual rate template and may also be requested by Financial Services and by auditors in case of audit.

Subsidies

* **Make subsidy entries** using the **appropriate transfer subaccount** per the Recharge Operation Procedure Manual (*see section 3.5*). Subsidy entries are generally made at year end when the deficit that will not be included in future rates is known. Subsidies can be spread out over the fiscal year but Recharge Operations should be sure not to over subsidize. **Recharge Operations should also not “zero out” recharge account balances on a monthly basis**, especially if there is a surplus.

Surpluses

* **Surpluses over the threshold must be incorporated into the next years rate or refunded to customers.** Surpluses indicate that the current rates are too high and customers are being overcharged. In cases of surpluses, Recharge Operations should make sure that all applicable expenses have been charged to the recharge account. Recharge Operations must breakeven over time and cannot continue to carry surpluses. Also, surpluses cannot be removed from the recharge account and used for non-recharge purposes.

Schedule of Rates

* **Recharge Operation rates must be formally published, even if only providing services to internal users.** A schedule of approved rates must be published for customers and prospective customers to view, ideally online or available to users in some other format (ex. distributed price list/catalog, posted in the room services are provided). These lists must be available upon demand during an audit.

Recharge Rates

* All **Recharge Operation rates** charged to users must be **supported by a rate calculation on the annual rate template**. It is advisable to start populating the rate template with data from the prior year final template for items that generally do not change from year to year as soon as the current year template is available. **Internal** user rates **must not be higher** than **calculated** rates. The rates should also not be significantly lower than calculated rates and thus creating large deficits. **All services** provided by the Recharge Operation (and charged to users) **should have allocated costs and usage** so that rates can be calculated (except for pass through costs). Even if certain services are rarely requested, there must be support for the established billing rate. External rates can be higher than calculated rates. **All internal users** must be **charged the same rates for the same services**, regardless of funding source or any other factor.

Recharge Rate Approval

* **Submit** completed **rate template** no later than the due date of **May 15th**. **All Recharge Operation rates must be approved by Financial Services** through the annual Recharge Operation Rate Template review. Once review questions are received from Financial Services, the Recharge Operation should respond and make appropriate corrections as soon as possible. Rates should be approved no later than June 30th. **Financial Services must confirm that recharge rates were calculated in accordance with Federal regulations before new rates are used beginning on July 1st.**