The University of Chicago
Recharge Operations
Procedure Manual

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1.0 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 administrators of recharge operations by detailing how to properly establish, maintain, and account for these operations in accordance with federal regulations and University policies.

1.1 Definition of Recharge Operations

Each recharge operation is categorized as one of three types of units: (1) Recharge Center, (2) Service Center or (3) Specialized Service Facility.

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, the goods/services provided by a Recharge Center are offered as a convenience to the employees and students of a department/division rather than the entire university community. Annual revenue generated from fees or operating expenses incurred 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. Recharge Centers are designed to recover actual costs and do not include F&A costs.

Service Center: An operating activity established for the primary purpose of providing goods and/or services to the University community for a fee. Typically, the goods/services provided by a Service Center are intended for University wide consumption and is not departmental/college based. Annual revenue generated from fees or operating expenses incurred 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, the Optical Imaging Core and Information Technologies (IT) Voice Services are examples of a Service Center.

Service Centers are designed to recover actual costs and do not include F&A costs.

Specialized Service Facility: A Specialized Service Facility (SSF) is a 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. At this time, there are no Specialized Service Facilities at the University of Chicago.

The following are not recharge operations and are not subject to recharge policies and procedures:

- Auxiliary Enterprises. 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, the University of Chicago Health Plan, Campus Parking Facilities and the International House.
- Recharges are generally not permitted for 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.).
- Units which provide a one-time distribution of expense. A recharge unit is an on-going activity.

1.2 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 (§200.468). 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.

2.0 Establishing a Recharge Operation

Recharge operations are established for operations 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 questions should be considered:

- Is this service available elsewhere on campus?
- Is the service identifiable (e.g. machine shop or glass blowing) as opposed to general (e.g. general administrative fee)?
- Can separate costs and budget be clearly defined for these activities?
- Is the need for this service short-term or long-term?
- Is this service provided for, or subsidized by, a federal award?
- Will this service be used by multiple client groups and sources of funds within the University?
- Is the volume of service expected to increase over time?
- What portion of the users will be internal vs. external?

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 to establish the recharge operation, and describe the plan for a compliant operation of this recharge operation.

2.1 Proposal Process

All proposals for the establishment of a recharge operation should contain the following items:

- New Recharge Operation Request Form.
- Completed rate calculation spreadsheet. (Note: As the recharge operation 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.)
- Request for an Unrestricted FAS Account. A guarantee account **must** be identified on the request form.

Any questions regarding the completion of the New Recharge Operation Request Form ('Request Form') or rate calculation spreadsheet should be sent to the Director of Accounting and Financial Reporting in Financial Services. It is recommended that the Request Form and rate calculation spreadsheet be reviewed by Financial Services for appropriateness prior to the initiation of the approval process.

2.2 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, Financial Services will create a Ledger 2 account in FAS for the recharge operation.

3.0 Rate Development and Budgeting

A recharge operation rate is the cost per unit of output used to recover the expenses of the center. Rates are based on budgeted projections of operating expenses, including a carryforward surplus/deficit, divided by projected levels of activity or revenue. 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 break-even.

3.1 Break-even 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 break-even” 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 break-even over a two year period.

3.2 Allowable Costs

Most direct operating costs associated to the recharge operation are costs that should be allocated to the recharge operation FAS account. These costs include, but are not limited to:

- Salaries and wages of employees working for the recharge operation
- Fringe benefits of the employees working for the recharge operation (the fringe benefit rates are available at the URA website: http://ura.uchicago.edu/page/fringe-benefit-rates).
- Supplies and Materials (consumables)
- Equipment Service Contracts
- Repairs and Maintenance
- Sub-contracts and Other Outside Services (e.g. professional services)
- Depreciation expense (see Section 4.2 for additional information)

It is important that all 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. Deficits will either be covered by subsidies or included in the next year's rate. Both of these topics are covered later in this procedure manual. Recharge operations cannot be used to fund expenses not related to the recharge operation.

Administrative Costs

Administrative costs, such as telephone costs, salary costs of administrative personnel, postage, and office supplies, associated with the recharge operation should be charged directly to the recharge operation FAS account. These costs must be related to the administration of the recharge operation (i.e., billing, preparing rate schedules, collections, etc.).

The appropriate portion of the salaries and wages of administrative staff supporting a recharge operation should also be charged to the recharge operation's FAS account and should therefore be included in the rate calculation. The recharge operation must demonstrate that the salary and wages of any administrative staff is directly related to the operations of the recharge operation. The portion of such an individual's salary which should be charged to the recharge operation is that percentage which represents the proportion of effort applied to the activity versus the individual's other university activities. General administrative support (i.e. the Chair reviewing proposed rate changes, centralized HR, IT or Finance support) should not be charged to the recharge operation FAS account.

3.3 Unallowable Costs

As the costs associated with a recharge operation are passed through to grants and contracts through the recharge operation billings, all costs incurred by the recharge operation must be allowable according to Uniform Guidance §200.400. The rate template was designed to exclude FAS subaccounts that are generally considered unallowable costs. Due to system limitations, the only unallowable cost that can be charged to a recharge FAS account is the unallowable portion of the fringe benefit expense. However, this portion of unallowable fringe benefit expense **must** be covered by revenue from external billings and/or funded by the department/division prior to fiscal close. Some common unallowable costs include the following:

- Advertising Costs
- 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 (unless specifically tied to the service rendered)
- Commencement and Convocation Ceremony Costs
- Contingency Provisions
- Equipment Purchases
- Fines and Penalties
- Fundraising Costs
- Fringe benefits in excess of Benefits Eligible – Federal Rate
- GEMS Card Charges (subaccount 9910/9913)
- GEMS Card Bank Service Charges
- Gifts to Employees
- Housing and Personal Living Expenses for University Offices
- Institutional Donations and Contributions
- Interest Costs for Internal Loans
- Investment Management Costs
- Lobbying Costs
- Membership for Civic, Community, Social, Travel or Dining
- Miscellaneous Charges (subaccount 9912)
- Pension Costs
- 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
- Costs included in the F&A calculation:
    - Building Depreciation
    - Interest
    - Operations & Maintenance
    - Central Administration (General, Departmental, Student, Sponsored Project)
    - Library

3.4 Nondiscriminatory Rates

Rates charged must be nondiscriminatory, and all users must be billed for services received. 'Nondiscriminatory' means that a recharge operation will charge all internal users at the same rate for the same level of services or products purchased in the same circumstances. The rate charged may be equal to or less than the calculated rate on the University Rate Template. Internal users may **not** be charged any amount higher than the calculated rate.

External users may be charged a higher rate, unless it is known by the recharge operation that the external user is using federal funds (e.g. Argonne, another University paying for the good/service on a federally funded award, etc.).

External customers using federal funds should be charged at the same rate as internal users. When determining the external user rate, the following should be considered:

- The external user rate can be increased to offset any shortfalls associated to an internal user rate being less than the calculated internal rate.
- The external user rate can be increased to cover the unallowable portion of the fringe benefit cost. NOTE: 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 external rate and what was actually charged must cover the unallowable portion of the fringe benefit cost) and if there are any shortfalls, this must be covered by a subsidy prior to fiscal close.
- The external user rate can be set to recoup University overhead charges (effective 7/1/16, until amended, the Other Sponsored Activity rate is 39.5%). However, the recharge operation must ensure that by charging this rate they will still achieve break-even and that charging any higher rate will not result in a surplus position for the recharge.

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 break-even (refer to Section 3.1 for the Break-even Expectation).

3.5 Subsidies

Subsidies occur when recharge operation expenses are paid from an account outside of the recharge operation's operating account. The total recharge operation budgeted expenses should reflect the full unsubsidized cost of providing the services. Through the completion of the rate calculation worksheet, 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. The rate

calculation worksheet allows users to identify the rate subsidy (Row 27) and the service level subsidy (Row 86) on the Summary tab.

3.6 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 Rate Calculation spreadsheet 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.

3.7 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).

3.8 Budgeting for Recharge Operations

Budgets should be based on anticipated volume of services and the related expenses. The rate template spreadsheet has a built in budget tool and should be utilized to guide the annual budget process as this tool ensures the budget is based on the rate analysis, with future expenditure projections and surplus/deficit corrections. It is important that the budget net 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 with the University budgeting process.

3.9 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 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. -year rate adjustments for **all** recharge operations must be approved 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.

4.0 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 operation FAS account. The equipment should be depreciated and the depreciation expense should 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 (Ledger 5 award).

4.1 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 if the department would like to include depreciation expense in the rate calculation. Recharge equipment is defined as having an equipment class code of 5900 (Recharge Equipment).

4.2 Depreciation Recovery

To the extent that the equipment is utilized by the recharge operation, the associated depreciation expense should 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 (Ledger 5), $50,000 was paid for by the department (Ledger 2/4) and $25,000 was paid for by a gift account (Ledger 6). 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, the recharge operation will have 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 FAS 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 be used for additional equipment for the recharge operation.

4.3 Replacement Equipment

Depreciation recovery allows the recharge operation to accumulate funds to purchase 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). The only allowable activities within these accounts are:

- Monthly depreciation entries on subaccount 9460.
- Purchase of equipment based on accumulated funds.
- Transfer of funding to support any purchases of equipment (e.g. $100,000 was recaptured through depreciation recovery but the equipment costs $120,000. $20,000 may be transferred into the account at the time the unit is making the equipment purchase).

4.4 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.

4.5 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 FAS account as an operating expense.

5.0 Inventories

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 accounts Ledger 2 via a cost of goods sold adjustment as described in Sections 6.1 and 6.2.

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.

5.1 Inventories of Goods for Resale

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 in FAS are complete and accurate. In order to minimize the risks of loss, theft, and obsolescence, inventory balances should be kept at a minimum.

5.2 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 operation 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 in FAS are complete and accurate. In order to minimize the risks of loss, theft, and obsolescence, supply inventory balances should be kept at a minimum.

6.0 Billing

Recharge operations billings should be based on actual usage of the recharge operation at the approved 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. FAS account number, departmental contact, etc.). Billings **must** occur after the goods and services are provided. Pre-billing users (prepayments by customers) is **not allowed**. All billings should be performed timely (at least once a month). 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. Exceptions may be made if the unit associated with the sponsoring award has agreed to pay the bill despite the untimely billing.

6.1 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 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.

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.

Other

Based on the needs of a recharge operation, 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.

6.2 Billing for Internal Customers

Internal customers are billed either through a billing system that interfaces directly with FAS or via the ACCTS Cost Transfer module. All internal billings submitted through ACCTS should be done via an interdepartmental order (DD transaction) by the recharge operation (these should not be initiated by the department paying for the goods/services). The interdepartmental order should be 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. The DD transaction **must** show the approved rate being billed to the customer. If needed, the recharge should attach supporting documentation to the interdepartmental order.

For recharge operations that bill via a billing system that interfaces with FAS, 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 advanced and the rate charged to internal users must not be higher than the calculated bill rate.

Revenue Recognition

If internal customers are billed in the same month as 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 FAS account for the department, division, or PI that received the goods/services and crediting the recharge operation Ledger 2 account (2-xxxxx-0820/99).

If internal customers are billed in the month subsequent to the sale/performance of the good/service, two accounting entries are required to appropriately recognize revenue:

1) *Record revenue:* In the month that the goods were sold or service provided, record revenue in the proper period via an ACCTS journal entry. This is accomplished by debiting the General (or zero) Ledger accounts receivable account control (e.g. 0-xxxxx-1370) and crediting the recharge operation Ledger 2 account (2-xxxxx-0820/99).

2) *Bill internal user:* Via an ACCTS interdepartmental order, debit the FAS account for the department, division, or PI that received the goods/services and crediting the recharge operation receivable account (e.g. 0-xxxxx-1370).

For internal customers, the revenue subaccount should be within the range of 0820 – 0899 as per the FAS User Manual. See section 7.4 for additional information on accounts receivables.

6.3 Billing for External Customers

Revenue from external users **must** be tracked separately from internal revenue (e.g., utilization of subaccounts 0800-19 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 purchasing company,
- A credit card number from the vendor, or
- Deposit in the form of cash or check.

If a deposit is received, this deposit should be recorded as a liability in the 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 is an unrelated business (and subjected to unrelated 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 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.

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 University Tax Reporting Office.

Revenue Recognition

For external customers, revenue is recorded via an ACCTS journal entry in the month the good/service was rendered. This is accomplished by debiting the General (or zero) Ledger accounts receivable account control (e.g. 0-xxxxx-1380) and crediting the recharge operation Ledger 2 account (2-xxxxx-0800/19).

For external customers, the revenue subaccount should be within the range of 0810 – 0819 as per the FAS User Manual. See section 7.4 for 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 (RMR) should be 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 is responsible for obtaining the appropriate banking supporting documentation for the RMR from the Bursar's Office.

6.4 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 both internal and external customers. For the accounts receivable account control, it is recommended that internal customers are recorded within the 1370-79 range and external customers are recorded within the 1380-89 range in order to differentiate between the types of outstanding receivables.

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 FAS. 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 for a recharge to establish an allowance for doubtful accounts. If the recharge 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 to the Ledger 2 account, subaccount 9912.

7.0 On-Going Management of a Recharge Operation

The Service/Recharge Center 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 the recharge operation complies with all University recharge policies and procedures.
- Ensuring recharge operations comply with appropriate University payroll, reimbursement, accounting, and personnel policies and practices.
- Reviewing the recharge operations' revenues and expenses at least monthly to ensure all financial activity is completely and accurately (e.g. to the proper subaccount) recorded to the recharge operation FAS accounts.
- Ensuring recharge operation billings are accurately, 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).
- Ensuring the approved rate(s) is used for all recharge operation billings.
- Ensuring the recharge operation operates within the breakeven tolerance range (see Section 7.3).
- Conducting a periodic review of personnel effort charged to the recharge operation to ensure that the percent of salaries charged corresponds to the actual time spent on recharge operation work.

- Submitting the annual certification and rate template in a timely manner (see Section 7.2).
- Establishing and maintaining cash sale controls, as appropriate.
- Reviewing goods/services provided on a periodic basis to ensure that the goods/services provided 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 records are retained in accordance with record retention policies (see Section 7.4).

7.1 Quarterly Reviews

Quarterly, the Manager should perform a higher level review of the recharge operations accounts to determine:

- Are billings being performed timely?
- Are there any uncollectible accounts that need to be considered for write-off?
- Are there significant deviations from the costs that were submitted to determine the rates?
- Is the recharge operation on track to break-even 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).

7.2 Annual Reviews

Annually, Service Centers and Specialized Service Facilities must submit recharge operation rate packages to Financial Services by May 15 for review and approval. This is an important compliance aspect of recharge operations and therefore, Service Centers and Specialized Service Facilities must provide the following:

- A completed rate calculation spreadsheet and budget
- A completed Recharge Operation Annual Questionnaire
- A rate sheet that can be posted to the web to advertise the rate(s)

While Recharge Centers do not need to submit their rates to Financial Services for annual rate approval, Recharge Centers must still complete and maintain their rate schedules for audit purposes (see Sections 7.4 and 7.5). As evidence of compliance with University policy and federal regulations, annually Recharge

Centers must submit their Recharge Center Self-certification and Annual Recharge Operation Questionnaire to Financial Services by May 15. Additionally, Recharge Centers are required to submit their rate calculations to Financial Services every three years for review.

7.3 Surpluses/Deficits

Recharge activity must operate on a break-even 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 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 in the previous rate period.

Surplus

A surplus occurs when revenue exceeds expenses. If the recharge operation has a surplus that exceeds the tolerance levels (defined below), the recharge 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 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 Rate Calculation worksheet 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 must immediately receive a subsidy from the guarantee account (see Section 2.7) or other identified FAS 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 can be used as guidance of how much of a deficit may be carried-forward into the calculation of the new rate. The

Recharge Rate Calculation worksheet 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 held back from the surplus/deficit amount that is included in the rate determination.

7.4 Document Retention

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

- Rate calculation and rate approval forms
- 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.)

7.5 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 rate may require recharge operations to provide information and/or documentation upon demand.

8.0 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. This email communication should include information on the following:

- The date the recharge operation will cease operations.
- The intended disposition procedures associated to any inventory (e.g. sale, write-off due to obsolesce, 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 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.

Break-even: The point where revenues equal expenses; the point where there is no surplus or deficit. The University's break-even 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 by FAS.

Guarantee Account: An unrestricted FAS Account (Ledger 2 or 4) 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).

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: The capital of a recharge operation that is used in its day-to-day operations. This is calculated as current assets (cash + accounts receivable + prepaid assets + inventory) minus current liabilities (accounts payable).

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 incur?

Unallowable costs should **not** be recorded against a recharge operation FAS account; however, due to system limitations the difference between the University and Federal fringe rate will be on the recharge FAS 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. For a comprehensive list of unallowable costs, click **here** for a link to Uniform Guidance §200.400.

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.

We provide services to Argonne. Can we bill a higher rate than internal users?

No. If it is known to the recharge operation that the external user will be paying with federal funds (federal award at another Institution, Argonne, etc.), the recharge must bill at the internal rate to ensure the government is not being overcharged.

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 (the Excel rate template, the Recharge Operation Annual Questionnaire, the Recharge Center Self-Certification, the New Recharge Operation Request Form, the form 70A, etc.) are available at: http://finserv.uchicago.edu/accounting/general/recharge.shtml

What questions do the auditors ask regarding recharge operations?

Typical questions asked are:

- What method are followed to reconcile charges to actual costs?
- Do the rates include all allowable costs?
- Are all users (including outside users) billed at the same rate for the same services?
- How do you document and what is the supporting documentation maintained in computing the 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.

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 capitalassets@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 rate calculation 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) on the rate worksheet.

Depreciation

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

No. This should not be identified as recharge equipment in the Property Management System and does not need to be identified on the Excel rate worksheet.

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?
It is normally 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).

Additional Resources

Accounting Systems Training (FAS, ACCTS, eLedgers):
http://finserv.uchicago.edu/pdf/Accounting%20Systems%20Training.pdf

ACCTS Cost Transfer Module Training Guide:
http://finserv.uchicago.edu/pdf/ACCTS%20Cost%20Transfer%20Module%20Manual.pdf

FAS User Manual:
http://adminet.uchicago.edu/fasmanual/index.shtml