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Recharge Center Policy & Procedures

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1. Introduction and Definition

Recharge and cost centers are organizational units or activities that provide goods and services primarily to internal university operations and secondarily to external users, and charge the users for these services.

Academic and administrative offices may engage in the direct sale of goods and services only when those goods or services are directly and substantially related to the mission of the University.

The guidelines included in this policy only apply to Recharge Centers. This policy does not apply to other revenue generating or cost transfer activities. Certain requirements for rate approval apply only to Recharge Centers.

2. General Information on Recharge Centers

Establishing a Recharge Center

- The prospective Recharge Center must submit a proposal to establish a recharge center to the Chair of the cognizant Department for approval.
- The Chair will forward the approved Recharge Center proposal to the Dean's Office for its approval.
- The Dean's Office will forward the proposal to the Director of Regulatory Accounting, currently (June 2005) John N. Gardner, who will establish the appropriate account and budget number(s) for the Recharge Center.

Submitting Rate Proposals to Regulatory Accounting

- Recharge Center rate proposals must be submitted at least annually to Regulatory Accounting.
- Recharge Centers must additionally submit rate proposals to Regulatory Accounting when:
 - they are initially established,
 - new services or products are added, or
 - significant changes are made to the methodology used to calculate the rate(s). The Chair or Dean is responsible to review and approve recharge center rates prior to submission to Regulatory Accounting.

Information to Gather and Retain

- At a minimum, the following information should be clearly identified, documented, and retained by Recharge Centers (according to requirements of BYU Records Retention Schedule):
 - Expenditure, revenue, billable unit, etc. data needed to calculate the rate(s).
 - The method used to calculate the rates and track billable units.
 - Billing records identifying the account (speedtype) numbers or external customers charged, service performed or product sold, # of units sold, rate charged, total amount billed, etc.

Accounts

- All Recharge Centers must have a separate operating account.
- An equipment reserve account is required to include equipment depreciation in recharge rates.

Billing

- Recharge Centers must consistently and accurately bill all customers.
- Advanced billing for services or products is not allowed.
- Non-federal external or outside users may be billed at a higher rate than internal users. Revenues from external users must be tracked separately.

Inventory

Recharge Centers with inventories at fiscal year end must:

- Have an inventory account.
- Follow the inventory requirements of Financial Accounting.

Audit

- The records, operations, rates and practices of all Recharge Centers are subject to audit by Federal and Internal BYU auditors.

3. Expenditures/Costs

Expenditures/Costs

- Internal user rates can only include expenditures directly related to the operation of the recharge center.
- Internal user rates must be based upon and designed to ensure that a center operates essentially on a break-even basis over a reasonable period of time (5 years).
- Costs included in a rate must be reasonable, allocable, allowable, and consistently treated.
- Costs, including overhead or administrative costs, must be allocated to a service or product according to a reasonable approximation of the benefit received.
- Recharge centers must be able to assign costs, including clerical and administrative salaries, “relatively easily with a high degree of accuracy.”

Unallowable Costs (cannot be included in internal user rates)

- Recharge centers must **not** include these costs in their rates:
 - All unallowable costs, as defined by the Office of Management and Budget (OMB) Circular A-21, must not be included in the rates charged to internal users or charged to the recharge center operating account. Unallowable costs include, but are not limited to: entertainment, interest, bad debt expenditures and goods & services for personal use.
 - Building depreciation, rent, and operations and maintenance not paid by recharge center. (Only costs incurred by the recharge center can be included in rates.)
 - *Exception:* Facilities costs could be included in the rates charged by animal care facilities, if animals are “generally” removed.
- Cost of equipment \$5000 or greater (per item). However, equipment depreciation can be included if negotiated with administration prior to rates being made effective.
- Any costs already reimbursed through the Facilities and Administrative (indirect) cost rate. For additional information contact Grants & Contracts Accounting.

Unrecovered Costs

- Recharge Centers do not have to include all of their costs in the rates. However, the Recharge Center is responsible to find an alternative source of funding (which cannot be Federal funds) for costs not included in the rates.
- The Recharge Center is responsible to transfer any costs originally charged to the operating account that are not included in the rates.
 - Costs not included in the rates cannot be transferred to Federal budgets.
- Unrecovered costs can be transferred from the operating account to the equipment or other reserve accounts.
- Recharge Centers need to track unrecovered costs so they can be removed when an F&A proposal is prepared.
- Prior Regulatory Accounting approval is needed for all account numbers (speedtypes in PeopleSoft) that will incur recharge center expenditures and/or fund the recharge center's costs.

4. Rate Setting

Usage

- All usage must be tracked and factored into the rate calculation.
 - Accurate logs must be kept of all usage, whether billed or not
- Recharge Centers are required to update their rates at least annually. The rate for a particular good/service is calculated by dividing the total annual costs to provide the goods/services by the total annual usage for those goods/services.

$$\text{Annual Rate} = \text{Annual Costs} / \text{Total Annual Usage}$$

- The annual rate proposal consists of :
 - Calculation of rate(s) charged
 - Description of the goods/services being provided
 - Cost estimates associated with each activity
 - Explanation of methodology used to determine costs and usage
 - Other attachments that support the estimates used
 - A list of any recharge center costs paid from non-recharge center budgets, but not included in the rates

Rates/Charges

- All University users must be charged the same rate(s) for the same level of service or products under the same circumstances. Volume discounts or other special pricing mechanisms must be equally available to all users who meet the criteria.
- Recharge Centers can, with Regulatory Accounting approval, employ a minimum fee based on costs incurred to initiate the service, such as equipment set up costs, expendable supply costs, etc.

Internal (BYU) User Rates

- Internal user rates must be based upon costs.
- Recharge Centers should charge for all usage of goods or services. However, Recharge Centers can elect to use non-Federal, non-recharge center funds to pay for the services provided to specific users (e.g. students).
- Internal user rates cannot add charges to accumulate assets. Funds to purchase equipment costing \$5,000 or more, or to accumulate inventory, cannot be included in internal user rates.

External User Rates

- Rates charged to external users must add the charge for institutional overhead, unless approval from the Regulatory Accounting is obtained.
- “Surcharges” can be added to rates charged to non-University, non-Federal agency users. These surcharges can be used to reduce rates charged to users, build a working capital reserve, or to finance equipment purchases.
- Rates to external users who identify themselves as federally-funded and provide documentation should be set to recover cost plus institutional overhead. Appropriate documentation includes a copy of the federal award approval or award number that is paying for the services.

Billable or Sellable Units

- Billable or sellable units used to develop rates must be reasonable and accurate given the data available. For example, available hours should be adjusted for vacation leave, machine downtime, etc. to arrive at billable hours.

5. Taxes

Sales Tax

- If the recharge center sells “tangible personal property” to external users, then Utah State sales tax may be applicable. For further information about sales tax, please contact Accounting.

Unrelated Business Tax (UBIT)

- If goods or services are charged to external users at more than cost, the University may have a liability for unrelated business income tax (UBIT). An activity must meet all three of the following tests to be classified as unrelated business income (subject to tax):
 - The activity must be a trade or business,
 - The activity must be conducted regularly, and

- The activity must not be substantially related to the institution exempt educational or scientific purposes.
- If you have any questions on UBIT, please contact the Regulatory Accounting.

6. Deficits and Surpluses

Deficits and Surpluses

- Surpluses and deficits should be included in the recharge rates for the following year, with the following exceptions:
 - Deficits that cannot be covered by rate adjustments must be funded by the responsible department.
 - The funding of any cost determined to be unallowable is the responsibility of the department.
 - A deficit may be recovered over more than one year with prior Regulatory Accounting approval of a recovery plan.

7. Equipment

Equipment

- For recharge centers, the equipment capitalization threshold is \$5,000 or more as set by the University's policy.
 - Equipment costing less than \$5,000 should be expensed or charged to the operating account.
- The cost of equipment if costing \$5,000 or more cannot be included in recharge rates. However, depreciation for equipment costing \$5,000 or more may be included in recharge rates if negotiated with Regulatory Accounting.
- When equipment used in recharge operations is leased:
 - Operating lease: the lease cost may be included in the recharge rates.
 - Capital lease: depreciation may be included in the rates if requested and approved by Regulatory Accounting.

Equipment Depreciation

- Depreciation for equipment costing \$5,000 or more can be included in recharge rates.
- If equipment is purchased with Federal funds or used for cost sharing on Federal awards, its depreciation cannot be included in the recharge rates.
- Depreciation can only be included in rates if:
 - The recharge center has an equipment reserve account.
 - The equipment is still in use by the Recharge Center.
 - Recharge Centers have a depreciation schedule approved by Regulatory Accounting.

- Equipment Inventory Office asset numbers must be included in the equipment depreciation schedule.
- JEs to transfer the depreciation into the recharge operating account are submitted:
 - On a regular basis, and kept up-to-date.
 - For the entire rate-setting period (e.g. for the entire year the rates are in effect).
- Recharge rates cannot include depreciation from prior years.

Depreciation

- Equipment cannot be depreciated beyond its useful life. For example, if equipment has a 5-year useful life, it can't be depreciated after the 5th year (even if the equipment wasn't depreciated for each of the five years).
- Only straight-line depreciation may be used (acquisition cost of the equipment less residual value divided by its useful life).
- Useful lives can always be the same as or longer than the BYU useful lives for the type of equipment. A useful life shorter than BYU's may be used if:
 - Prior approval is received from Regulatory Accounting.
 - The nature of the equipment, technological developments, renewal and replacement policies followed, and pattern of use indicate a shorter useful life.

Sale of Equipment

- When equipment is sold all the proceeds from the sale and any gain or loss should be recorded in the equipment reserve account.

Equipment Reserve Accounts

- Equipment purchases of \$5,000 or more should be charged or debited to the equipment reserve account.
 - Equipment reserve accounts for Recharge Centers in academic units cannot be in deficit without prior Regulatory Accounting approval.

8. Reimbursement

General

- Under no circumstances can the non-recharge accounts that gave money to/invested in the Recharge Center be reimbursed for more than the dollar amount given to the Recharge Center.
 - A non-recharge account can only be reimbursed by receiving services without charge or by charging equipment to the recharge center's

equipment reserve account.

Reimbursement for Funds Provided from another Account

- With prior Regulatory Accounting approval, non-recharge center budgets that paid for the costs of/invested in Recharge Centers can be reimbursed by receiving services from the Recharge Center without cost or by charging its equipment cost to the recharge center's equipment reserve account.
 - A Recharge Center must carefully document:
 - Dollar amounts received from/invested in the Recharge Center by other account(s).
 - The individual services provided to or equipment items purchased for non-recharge account(s), including cost, number of units, and service or purchase date information.
 - The total dollar value of the services received by the non-recharge account(s) doesn't exceed the dollar value of funds given to the Recharge Center.

Equipment Purchased with General or Departmental Operating Funds

- Equipment used by the Recharge Center, which is purchased with general or departmental operating (non-Federal) funds, can be depreciated in recharge rates. The department can be reimbursed for the cost of this equipment if:
 - Prior approval is received by Regulatory Accounting.
 - Adequate documentation is developed, maintained, and retained by the Recharge Center to verify the equipment's original purchase cost, depreciation/use allowance amounts recovered, etc.
- To obtain reimbursement for the cost of the equipment used by the Recharge Center, change the speedtype in PeopleSoft to the Recharge Center equipment reserve account.

9. Closing a Recharge Center

Closing a Recharge Center

- To close a recharge center:
 - Contact Regulatory Accounting to receive instructions regarding the proper handling of Recharge Center accounts and the resolution of associated issues.
 - Notify the appropriate Chair or Dean's office.

10. Responsibilities

**Responsible
Party**

Responsibility

Regulatory Accounting

- Review and approve rates for recharge centers, and the associated journal entries (JEs), in a timely manner.
- Maintain a list of all the equipment asset numbers and their depreciation/use allowance amounts, which are included in the recharge rates.
- Provide rate setting guidance to recharge centers.
- Approve the establishment of recharge centers.
- Comply with Federal regulations regarding the treatment of recharge centers in the facilities and administrative rate computation.
- Track recharge center rate proposal, depreciation submission, and billing timeliness. Contact centers as needed.
- Review year-end balances for recharge centers to ensure that any surpluses or deficits are included in the rates for the following year(s).

Recharge Center Management

- Comply with Recharge and Cost Center Rate Policy and other policies and regulations associated with recharge center operations.
- Request the establishment of a recharge center or cost center from the Chair, Dean's and VP's office.
- Annually calculate and apply recharge center rates uniformly to all internal users. Submit these rates to Regulatory Accounting.
- Bill all customers in a timely and accurate manner.
- Prepare and retain documentation for the costs, billable units, and any other information used to develop recharge rates.
- Annually submit a list of the Equipment Inventory Office's equipment asset numbers depreciated & amortized in recharge center rates to Regulatory Accounting. This information should be attached to the journal entry to record depreciation.
- Request equipment reserve, inventory, and other accounts from Regulatory Accounting, as appropriate.
- Prepare the journal entries (JEs) needed to depreciate equipment, etc.
- Ensure only allowable costs are included in the recharge center rates.
- Notify Regulatory Accounting when it is anticipated that:

- New services/products will be provided, or costs will significantly change.
- The recharge center will no longer be operational.

School, College, or Department

- Ensure all Recharge Centers comply with the Recharge and Cost Center Rate Policy.
- Ensure rates only include costs directly related to the operation of the Recharge Center, and to the service/product the user receives.
- Provide funding for costs not included in the recharge rates and for unallowable costs.
- Fund deficits that cannot be recovered through the rates.

Financial Accounting

- Establish and Close Recharge Center operating account, equipment reserve account, and other accounts as appropriate.

Internal Audit

- Review, on a periodic basis, the records, operations, and practices of Recharge Centers.