1. Purpose

Some units of the University have specialized capabilities that can provide value throughout campus and to external clientele. The capabilities range from specialized expertise, equipment, facilities, and products. The University allows for approval of the specialized units to be recognized Service or Recharge Centers that can recover costs related to providing services to University customers as well as clientele that are external to the University. This policy and its procedures establish the required protocols for approving establishment and financial management of University Service and Recharge Centers.

2. Definitions

a. Service/Recharge Center: A University organizational unit that provides a specific product(s) or service(s) to the University’s academic and administrative communities and, in certain instances, to entities external to the University, through a system of charge-out rate(s).

   i. Service Center: established for the purpose of providing goods and services to University departments and to customers outside the University. A Service Center has annual billings totaling more than $10,000.

   ii. Recharge Center: established to provide services to customers within a specific college or department and does not have external users. A Recharge Center has annual billings totaling less than $10,000.

b. Billing Rate: The amount charged to a user for a unit of service. Billing Rates are usually computed by dividing the total annual costs of a service by the total number of billing units expected to be provided to users of the service for the year. There is a possibility that a Service/Recharge Center would have three different rates per service: internal rate for University customers, external rate for clientele that are not part of the University, and a federal rate for services that are part of a federally-funded project or activity.

c. Billing Unit: The unit of service provided by a Service/Recharge Center. Examples of billing units include hours of service, animal care days, tests performed, machine time used, etc.
d. Direct Operating Costs: All costs that can be specifically identified with a Service/Recharge Center. These costs include the salaries and fringe benefits, materials and supplies, purchased services, travel expenses, equipment rental or depreciation, interest associated with equipment acquisitions, etc. These costs do not include University facilities and administrative costs.

e. Equipment: An item of tangible personal property having a useful life exceeding one year and an acquisition cost of $5,000 or more. These are considered a capitalized asset. Purchases that do not meet these guidelines are considered consumable supplies.

f. Depreciation: A systematic, rational accounting process that allocates the cost of capitalized assets over their expected useful life.

g. Institutional Facilities and Administrative (F&A) Costs: These are costs that cannot be readily and specifically identified with a specific project, program or activity, but which provide an overall benefit to the University and sponsored agreements. Institutional F&A costs consist of general administration and general expenses such as executive management, accounting, payroll and personnel administration, operations and maintenance expenses, such as utilities, building maintenance and custodial services, building depreciation and interest associated with the financing of buildings, administrative and supporting services provided by academic departments, libraries and special administrative services provided to sponsored programs.

h. Unallowable Costs: Costs that cannot be charged directly or indirectly to federally-sponsored programs. These costs are specified in 2 CFR 220. Common examples of unallowable costs are alcoholic beverages, bad debts, charitable contributions, entertainment, fines and penalties, and goods and services for personal use.

i. External users: Individuals, businesses, groups, and organizations that are not part of the University community but are users of Service Centers' goods or services. Students, faculty, and staff making cash purchases from Service Centers are included as external users.

j. Breakeven: When revenues are equal to expenses.

k. Carry-forward: The difference between total revenues and total expenses for the center’s fiscal period that are carried forward to the next fiscal year.

l. Surplus or Deficit: The amount that the revenue generated by a service is over or under the costs of providing the service during a fiscal year.

m. Sponsored Program Agreement: Any activity (scholarly, professional, or creative) that University personnel conduct with support from external funding instruments such as grants, contracts, and cooperative agreements.

n. Sponsored Service Agreement: Unusual activity without an approved rate and requires a Sponsored Service Agreement with all external funding.

o. Service Agreement: An agreement used for a service that is normal and consistent with what the Service/Recharge Center would perform. The service could be internally or
externally funded, and standard terms and conditions must be set forth in an approved agreement at the time of service.

3. Policy

a. Billing Rates will be designed to recover not more than the cost of the services over a long-term period. Accordingly, it is not necessary that the rates charged for services be equal to the cost of providing those services during any one fiscal year, as long as the rates are reviewed periodically for consistency with the long-term plan and adjusted if necessary. Only costs incurred in providing the services will be included in the Billing Rates. These costs will exclude Unallowable Costs as prescribed in 2 CFR 220 and amendments thereto and net of applicable credits.

b. The Billing Rate computation must be documented and approved on a fiscal year basis. This rate may be adjusted when necessary. The reviews will be performed more frequently for new Service/Recharge Centers or when costs or revenues are uncertain.

c. All internal users must be charged for the services they receive and the Billing Rate must be consistent among all internal users.

d. Where a Service/Recharge Center provides different types of services to users, separate Billing Rates will be established for each service that represents a significant activity of the Service/Recharge Center. The costs, revenues, Surpluses and Deficits will also be separately identified for each service. The Surplus or Deficit related to each service will be carried forward as an adjustment to the Billing Rate for that service in the future years.

e. Where separate Billing Rates are used for different services provided by a Service/Recharge Center, the costs related to each service must be separately identified through a cost allocation process. When cost allocations are necessary, they will be made on an equitable basis that reflects the relative benefits each activity receives from the cost.

f. If a Service Center provides services to individuals or organizations outside the University, the Billing Rates charged to these users may be higher than those charged to internal users, but not lower. Any amounts charged to outside parties in excess of the regular internal Billing Rates will be excluded from the computation of a Service Center Surplus and Deficits for purposes of making Carry-Forward adjustments to future Billing Rates. These amounts may be used as a source of funds for Equipment purchases or replacement. Revenue from outside parties may have Unrelated Business Income Tax (UBIT) implications, and University protocols for UBIT, including those found in the SDBOR Accounting Policies & Procedures Manual, must be followed.

g. Separate funds will be established in the accounting system to record the actual direct operating costs of the Service/Recharge Center. Any Institutional F&A costs charged to external customers will be placed in separate fund(s) and used only for the Service Center replacement costs.

h. Actual costs and revenues will be compared at the end of each fiscal year. The goal is to run in a breakeven status; however, Surpluses or Deficits will be carried forward as an adjustment to the Billing Rates of the following year or the next succeeding year. Where
feasible, the adjustments may be made by increasing or decreasing the charges made to users.

i. Expenditures for Equipment purchases cannot be included in the costs used to establish Service/Recharge Center Billing Rates. The rates, however, will include depreciation of the equipment. Including equipment depreciation in the Billing Rates will generate funds that will enable Service/Recharge Centers to purchase equipment. The funds represented by the depreciation will be in an Equipment replacement reserve fund. When a Service/Recharge Center needs to purchase a new item of Equipment, the Equipment will be purchased from the Equipment replacement reserve fund.

j. It is not normally appropriate to transfer funds out of a service fund. Transfers can only be made for the amount of accumulated depreciation or for the amounts charged to outside users in excess of the normal internal Billing Rates.

k. In some instances, the Service/Recharge Center may need to be subsidized, either by intentionally charging Billing Rates lower than costs or by not making adjustments to future rates for a Service/Recharge Center’s Deficits. Since subsidies can result in a loss of funds for the University, they will be provided only when there is a sound, programmatic reason.

l. Financial, rate setting, statistical, and other records related to the operations of a Service/Recharge Center, including records supporting Billing Rate computation(s), must be retained by the individual Service Center in compliance with University’s records retention policy.

m. The Assistant Vice President for Finance and Business/Controller, or designee, is responsible for maintaining information and forms about Service and Recharge Centers.

4. Procedures

a. Once the potential opportunity has been identified, a determination needs to be made as to whether a Service Agreement, Sponsored Program Agreement, or Sponsored Service Agreement is required for the opportunity. Individuals may contact the University Office of Research and Sponsored Programs for guidance in this area.

b. The Service Center manager files a Service Center Approval Sheet. A Service Center Rate Template also needs to be completed and returned to the Office of Finance and Business for approval by the Assistant Vice President for Finance and Business/Controller, or designee.

5. Responsible Administrator

The Vice President for Finance and Business, or designee, is responsible for annual review of this policy and procedures. The University President is responsible for approval of this policy and procedures.

SOURCE: Approved by President on 09/16/2014.