



# Recharge Basics

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# What is a Recharge?

- A charging mechanism for products or services provided by organizational units within the University.
- The units providing the products or services function as a non-profit business and recharge in order to recover the costs of providing such products or services.

# Why do we Recharge?

- To comply with federal costing policies
- Specifically, Circular A-21 “Cost Principles for educational Institutions” and Cost Accounting Standards Board (CASB) regulations tell us we must be consistent across the campus in terms of:
  - Treating costs as direct or indirect
  - Charging only allowable costs to federal funds
  - Estimating, accumulating and reporting costs

# Who Should be Paying?

- Not an easy question to answer!
- Need to consider the product/service being provided and other income sources available to the recharge department.
- Is it an allowable direct cost (Federal)?
- Is the department located in State supportable space (Facilities Management)?

# Should you establish a Recharge?

Yes, if:

- It's related to the mission of UCSD
- A demonstrated need exists
- It's a viable business decision and revenue will offset expenses
- Service will be provided on a regular and continuing basis.

# Basic Concepts

- Recharge activities are analogous to small non-profit businesses in that:
  - Budgets are earning estimates – they are not appropriations like campus core funds (e.g. 19900A).
  - Recharge activities must bill and collect revenues sufficient to cover all costs
  - Prior year surpluses and/or deficits must be addressed (more on this...)

# Cost Accounting Basics

Recharge activities must:

- Recover costs of providing goods/services
- Match revenue to expenses (GAAP requirement)
- Allocate costs as closely as possible to the benefit derived
- Use full costing – all costs directly attributable to providing the products, services and management of the recharge activity must be identified and included in the recharge proposal

# Cost Accounting Basics

All costs must be readily identifiable and associated with furnishing an activity's products or services. Costs must be:

- Reasonable
- Identifiable
- Consistently treated



# Allowable Costs

- Are consistent with UCSD policies and Governmental regulations (OMB A-21, CASB)
- Examples of allowable costs include:
  - Salaries, wages, benefits, supplies, equipment depreciation and other costs associated with providing products or services
  - Salaries, wages, benefits, supplies and other services associated with recharge administration (accounting, purchasing, etc.)

# Operating vs. Capital Cost

- Expenditures that yield benefit only in the immediate period or periods are considered operating expenses and deducted from revenues immediately.
  - Vehicle maintenance, fuel, supplies, etc.
- Expenditures that yield benefit over multiple periods are considered capital expenses and are deducted from revenues over time. The deducted expense in each period is called *depreciation*.
  - Vehicle purchases, equipment, renovations, etc.

# Equipment Depreciation

- Equipment purchases cannot be directly expensed, however, depreciation of inventorial equipment used by a recharge activity may be included.
- Any inventorial equipment, including gifted equipment, lease purchases or equipment purchased from another unrestricted fund, will be depreciated.
- Useful life schedules for equipment can be found on the UCOP website.

# Equipment Depreciation

- Equipment depreciation should be moved from the recharge (operating) fund to the equipment reserve funds on an annual basis.
- Accumulated balances in equipment reserve funds are used to upgrade or replace equipment in the activity. They cannot be used for operating costs.
- A discrete equipment custodial code should be used for each activity.

# Surpluses and Deficits

- A surplus occurs when actual revenues are more than actual costs
- A deficit occurs when actual revenues are less than actual costs
- The goal is to have recharge activities that operate close to break even.
- Every effort should be made to ensure that year-end surpluses or deficits do not exceed one/two month(s) of the recharging unit's activity.

# Surpluses and Deficits

- Actual (or projected) surplus or deficit must be included in the following year's rate calculation.
  - A year end surplus will:
    - Reduce the following year's cost pool and, therefore, the rate
  - A year end deficit will:
    - Increase the following year's cost pool and, therefore, the rate

# Surpluses and Deficits

- Amortization of a surplus or deficit can occur over a period of time (2-3 years)
- Surpluses from one product or service may not be used to offset deficits of another.
- Surpluses may not be transferred out of a recharge activity without prior approval.

# Non-UC Sales

- Products or services will only be sold to non UC users if:
  - The sale is related to the University's mission of teaching, research or public service
  - The products or services are not reasonably available elsewhere, or
  - The products or services provided are primarily for the convenience of students, employees or patients of UCSD



# Defining Non-UC Users

- Can they be recharged?
  - If yes, they are probably a UC user and are subject to internal campus rates. There are exceptions.
  - Sales to other UC's are generally infrequent, however, they too would be subject to the internal campus rate.
  - Outside organizations officially affiliated with UCSD are sometimes recharged using internal campus rates. If unsure, check with General Accounting.

# Defining Non-UC Users

- Affiliation Agreements which allow Non-UC users to be recharged at the lower internal rate must be approved by the Regents and/or Chancellor.
- If the service agreement is between UCSD and a Non-UC entity, they will, in most cases, be subject to the higher external rate.

# Non-UC Revenue

- Internal users are billed via a recharge journal.
- External users are billed and pay by cash, check or credit card.
- Activities that have non-UC users must use ISIS billing services by completing a detail code and/or category code and submitting to Student Billing Services. Billings must be recorded no less than monthly.

# Indirect Costs on Non-UC Sales

- Per University policy, recharges to external users must include indirect cost (overhead) recovery, which is accomplished by marking up the internal rate of the activity.
- Overhead recovery on external sales is aka 'Differential Income'.

# Differential Income Rates

Depends where the recharge activity located:

- In campus space (on campus): 45%
- In space that is not owned or maintained by UC (off campus): 22%
- Affiliated with the ship-use operation, with no space costs and all departmental support costs are factored into the charge rate: 16%
- The primary difference between the on/off campus rates are the Facilities Costs.

# Calculation of Differential Income

	Organized Research	Differential Income
Administrative <sup>(1)</sup>		
Departmental Administration	16.80	16.80
General Administration	6.50	6.50
Sponsored Project Administration	2.60	-
Student Administration & Services	0.10	-
Facilities		
Building Depreciation	5.00	5.00
Building Interest <sup>(2)</sup>	5.00	4.00
Equipment Depreciation	3.50	-
Library	2.00	-
Operations and Maintenance	13.00	13.00
Rounding	-	(0.30)
Rate	54.50	45.00

(1) Costing principles includes 26% cap on administrative cost reimbursement.

(2) Rate increases during this agreement are due to increases in building interest costs. These cost do not apply significantly to recharge activities.

# Allocation of Differential Income

- 65% to, or as directed by, the Vice Chancellor responsible for the activity that generated the overhead cost recovery
  - may be used to fund non-operating costs, such as equipment and capital improvements of the activity. With approval, may also be used for the operating costs of the department.
- 35% to, or as directed by, the Administrative Vice Chancellors

# Allocation of Differential Income

	Differential Income	Department Allocation*	Admin VC Allocation*
Departmental Administration	16.80	16.80	
General Administration	6.50		6.50
Building Depreciation	5.00	5.0	
Building Interest	4.00	4.0	
Operations and Maintenance	13.00		13.0
Rounding	(0.30)		(0.30)
Rate	45.00	25.8	19.2
<i>Calculated Distribution</i>		57%	43%
<i>Actual Distribution</i>		65%	35%

Admin Distribution Based on Cost Drivers	Share of 35%
Chancellor	3%
VCEBA	18%
VCRMP	7%
VCRMP - Facilities/OMP	72%
<i>(reference 2011/12 Campus Resource Allocations)</i>	100%

\*For discussion purposes only. Distribution based on CBO analysis of individual rate components. Note calculated distribution does not equal actual distribution.



# Overhead Waiver Requests

Generally, waiver requests are only approved for the activity's Vice-Chancellor's portion. Waiver requests must meet one of the following conditions:

- Capacity Considerations - When a sales/service activity needs outside sales to attain/maintain a desirable capacity
- Quid Pro Quo - When a particular client, or all clients, are providing something of tangible value to UCSD that can be counted in lieu of full overhead on the product or service charge

# Surplus Differential Income

- Activities may charge a rate in excess of full direct costs to Non-UC users only.
- Excess differential income is distributed to, or as directed by, the Vice Chancellor responsible for the activity that generated the overhead cost recovery.

# Contracts with Non-UC Users

- Activities receiving revenue from Non-UC users must execute a formal agreement (service contract) with each client.
- Departments works with Business Contracts to execute these agreements.

# Unrelated Business Income Tax

- Significant external revenue from recharges not substantially related to the University's tax exempt functions may be subject to federal Unrelated Business Income Tax (UBIT) reporting.
  - Most often applies to Auxiliary Services
  - The potential tax liability must be included when budgeting for the activity.
  - If unsure, check with General Accounting

# Rate Development

- Rates should be based on reasonable units of service.
- Reasonable service units might be:
  - Based on volume
  - Based on labor
  - Proportionally distributed, or
  - A combination of some or all of the above

# Service Units

- Ideally, service units:
  - Are identifiable and measurable
    - each, per dozen, per hour, per test, etc.
  - Accurately reflect the resources and costs necessary to produce
  - Accurately reflect the extent of benefit received by the user
  - An activity may provide one or more products or services each having a distinct service cost structure and rate.

# Basic Rate Definition

Estimated Cost of Providing  
Product/Service

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Estimated Number of Service  
Units to be Provided



Recharge  
Rate

# Basic Rate Methodology

	Product A	Product B
Labor	2,500	3,500
Supplies	300	600
Equipment Depreciation	200	400
Administration <sup>(1)</sup>	<u>1,000</u>	<u>1,500</u>
Total Cost	4,000	6,000
# Service Units	200 units	100 units
Cost per Unit (Internal)	\$20	\$60
Differential Income @ 45%	\$9	\$27
Cost per Unit (External)	\$29	\$87

(1) Recharge administration cost of \$2,500 allocated based on % of total cost.



# Calculating Billable Hours

When the rate is based on a per hour labor service unit, the rate per hour should reflect only the employees billable hours.

Annual working hours		2,088
Deduct unbillable hours:		
Vacation Leave	(120)	
Sick Leave	( 96)	
Holiday Leave	(104)	
Administrative Time	( 48)	
Total Unbillable Hours		<u>(368)</u>
Billable Hours		1,720

# Calculating a Rate per Hour

Total Salary            \$50,000

Benefits                 \$17,500

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Total Expense         \$67,500

Rate per Hour = Total Expenses/Billable Hours

$$\$67,500/1,720 = \$39.24$$

# Chart of Account Elements

- All activities:
  - Organization Code
  - Operating Fund (6xxxxA)
  - Recharge Account (63xxxx)
  - Recharge Rule Class (Fxxx)
  - Cost of Goods Program

# Chart of Account Elements

- Activities with equipment depreciation
  - Renewal/Replacement Fund (76xxxA)
  - Equipment Custody Code
- Activities with Non-UC Users
  - Revenue/Income account (5xxxxx)
  - ISIS Detail Code
  - Differential Income fund (76xxxA)

# Policies Affecting Recharge Activities

## External

- OMB Circular A-21 *Cost Principles for Educational Institutions*
- OMB Circular A-110 *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*
- OMB Circular A-133 *Audits of Institutions of Higher Education and Other non-Profit Institutions*

# Policies Affecting Recharge Activities

## Internal

- *BFB A-47 University Direct Costing Procedures*
- *BFB A-56 Academic Support Unit Costing and Billing Guidelines*
- *BFB A-59 Costing and Working Capital for Auxiliary Service Enterprises*
- *UCSD PPM 300-40 Guidelines for Recharge and Other Income Producing Activities (rescinded)*