Recharge Basics

November 2011
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

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

(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

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

### Admin Distribution Based on Cost Drivers

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>Share of 35%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chancellor</td>
<td>3%</td>
</tr>
<tr>
<td>VCEBA</td>
<td>18%</td>
</tr>
<tr>
<td>VCRMP</td>
<td>7%</td>
</tr>
<tr>
<td>VCRMP - Facilities/OMP</td>
<td>72%</td>
</tr>
</tbody>
</table>

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

(reference 2011/12 Campus Resource Allocations) 100%
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

\[\text{Estimated Number of Service Units to be Provided}\]

\[=\text{Recharge Rate}\]
## Basic Rate Methodology

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

(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.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual working hours</td>
<td>2,088</td>
</tr>
<tr>
<td>Deduct unbillable hours:</td>
<td></td>
</tr>
<tr>
<td>Vacation Leave</td>
<td>(120)</td>
</tr>
<tr>
<td>Sick Leave</td>
<td>(96)</td>
</tr>
<tr>
<td>Holiday Leave</td>
<td>(104)</td>
</tr>
<tr>
<td>Administrative Time</td>
<td>(48)</td>
</tr>
<tr>
<td>Total Unbillable Hours</td>
<td>(368)</td>
</tr>
<tr>
<td>Billable Hours</td>
<td>1,720</td>
</tr>
</tbody>
</table>
Calculating a Rate per Hour

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Salary</td>
<td>$50,000</td>
</tr>
<tr>
<td>Benefits</td>
<td>$17,500</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td><strong>$67,500</strong></td>
</tr>
</tbody>
</table>

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)