

**Purdue University
Recharge Center Policy**

INTRODUCTION

The authority for the establishment of rates, fees and charges for Purdue University is vested in the Board of Trustees and has been delegated in specific instances to the Executive Vice President and Treasurer or his designee. Executive Vice President and Treasurer Memorandum A-18 describes the rate setting authority of the Board and the Executive Vice President. Rates, fees and prices for all services provided by University departments must be approved in accordance with these policies prior to engaging in business practices with the intent to charge the customer for the service provided.

Recharge centers, also known as service centers, have been established throughout the University to sell goods and services to University departments in support of the missions of instruction, research, and public service. Examples of recharge centers include University Stores, Transportation Services, departmental shops and scientific services. Recharge centers are expected to be self-supporting by generating income from multiple funding sources, including cost centers outside the home cost center. Federal costing requirements place numerous limitations on recharge activities. These limitations are enumerated in this policy.

This document defines the policies for estimating, accumulating, and distributing costs for three classifications of recharge center activities: Departmental Recharge Centers; General Service Centers; and Specialized Service Facilities. Rate approval requirements, unallowable costs, limitations on recovery of costs, and treatment of capital equipment are addressed.

Not all income producing activities are covered by this policy. The following list identifies some activities outside the policy:

- Housing and Food Services
- Vice President for Student Services Auxiliaries
 - Student Health Center
 - Recreational Sports
 - Convocations
 - Student Concert Committee, Bands and Purdue Musical Organizations
- Intercollegiate Athletics
- Credit courses with Special Fees; Short Courses
- Conferences

However, these activities must obtain approval for charge rates in accordance with University policy as described above.

TYPES OF RECHARGE CENTERS

CENTERS COVERED BY THE RECHARGE CENTER POLICY

A. DEPARTMENTAL RECHARGE

Activities within academic departments that provide goods and services in support of instruction, organized activities, or public service are classified as departmental recharge centers. There are three classifications of departmental recharge operations.

1. **INSTRUCTION OR DEPARTMENTAL FUNCTION** : An activity of an academic department or decentralized unit that provides goods and / or services in support of instruction, research, or the specific departmental function. This activity will distribute costs/charges primarily inter/intra-departmentally. There is a need to separately track expenses for rate setting purposes. The net annual account activity is expected to be close to zero. Examples include specialized scientific testing and services, departmental shops and storerooms, and unique departmental activity.
2. **ORGANIZED ACTIVITY** : Typically a high dollar volume activity established for the purpose of providing training and / or laboratory experience to students as part of their educational requirements. Examples include the Veterinary Teaching Hospital, Purdue University Pharmacy, RHI Cafeteria, and University Theater. The Agriculture Research Farms, established as a unique laboratory in support of agriculture research and instruction, are also included in this category.
3. **PUBLIC SERVICE** : An activity that provides goods or services primarily to the public such as Agriculture Extension and other community outreach programs.

B. GENERAL SERVICE CENTER

A centrally established activity to provide the most cost effective goods or services to University departments in support of University business functions is classified as a General Service Center. These activities operate on a break-even basis. The goal is to exactly recover the costs of the goods or services provided. Examples include Printing Services, Transportation, Central Machine Shop, University Stores, and Telephone Operations.

C. SPECIALIZED SERVICE FACILITIES

"Specialized Service Facility" (SSF) is a recharge classification created in Uniform Guidance for highly complex or specialized facilities such as computing centers, reactors, etc. Uniform Guidance requires that the cost of SSF services provided to users include their allocable share of facilities and administrative (F&A) costs. Specialized service

facilities therefore require treatment in the University's F&A cost study to determine the SSF's allocable share of F&A cost.

In order to be classified as a Specialized Service Facility, the costs of the facility must be material in amount. A threshold of \$1 million has been established for consideration as a specialized service facility.

CENTERS NOT COVERED BY THE RECHARGE CENTER POLICY

AUXILIARY ENTERPRISES

Auxiliary Enterprises are entities that exist to furnish goods or services primarily to students, faculty or staff, and that charge a fee directly related to, although not necessarily equal to, the cost of goods or services. The general public may also be served incidentally by an auxiliary enterprise. Examples include Housing and Food Services, Intercollegiate Athletics, Vice President for Student Services Auxiliaries (Recreational Sports, Student Health Center, Convocations), Staff Benefits, and Parking Facilities.

RECHARGE CENTER POLICIES

APPROVAL FOR ACTIVITY

A recharge center will be approved only if the activity is appropriate for the University. For example, the establishment of an activity supported by sales to external customers for goods and services in direct competition with local businesses will not be approved unless it can be shown that the sales are related to the exempt purpose of the University.

Another issue to consider centers upon the nature of both the proposed activity and the department. If the department involved has a general fund allocation to perform the function, income generated from that function generally reverts to a central University account.

All rates and fees to be charged by approved activities must be approved in advance via submission of a request for rate approval. The rate approval process is discussed below.

Activities that are non-recurring, or occur on a periodic or irregular basis, also require approval of both the activity and the corresponding rates. The budgeting and accounting requirements will be evaluated on a case by case basis.

Departmental recharge accounts will not be established for miscellaneous activities such as postage or departmental copies. These "flow-through" costs may be incurred in the departmental general fund and redistributed to users on the basis of cost by debiting user accounts at cost (or the University approved copy rate) and crediting the expense general ledger account in the general fund.

COSTING

The full direct cost of the recharge center activity should be incurred in the recharge center account and subsequently included in charge rates. The costs incurred to provide a good or service may include salaries and wages, fringe benefits, graduate fee remissions, miscellaneous supplies, maintenance contracts, etc.

Items that are specifically restricted by the federal government under 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) may not be charged, including marketing, public relations, advertising, entertainment, alcoholic beverages, and others. Treatment of capital equipment and inventory are discussed in more detail below.

RATES AND SUBSIDIES

Rates for goods or services must be computed at the break-even level by estimating the full direct cost of the activity for the upcoming period (usually one year) less any accumulated surplus or plus any accumulated deficit from prior years operations (the fund balance of the recharge center account). Departments may choose to charge internal users at less than the break even rate by agreeing to subsidize the recharge center account.

Rates must be determined by allocating costs on a beneficial or causal basis to the user. In other words, the charge rate paid by the user should reflect the cost of the service consumed, not the costs for other unrelated services.

Rates must be established in a manner that does not discriminate between federal and non-federal activities. In practice, this means that federal projects may not be charged at a rate that exceeds the break-even rate. The break-even rate is calculated by distributing the total costs of the activity to all users of the activity, including those users the department may wish to subsidize. Under no circumstance may the cost attributable to subsidized users be recovered by increasing the charge rates to other users.

Federal projects must be charged on the basis of costs incurred for the recharge center activity. These costs must be distributed on a direct cost basis only, i.e., no costs of the activity may be included in the University's Facilities and Administrative (Indirect) Cost

Proposal and charged on an indirect basis. Therefore, it is very important that all direct costs of the recharge center activity be identified and charged to the recharge account. Subsidies must be posted to the recharge account on a basis that permits separate identification of the subsidy for costing purposes. Alternatively, salary and wage subsidy amounts may be charged to another account established for the specific purpose of underwriting the recharge center if approved in advance during the rate approval process.

EXTERNAL USERS

External customers are defined as persons or organizations with no direct relationship to the University. Questions often arise concerning certain groups of potential customers. The following list is not all-inclusive -- however, it may be useful to note that these are external customers:

- Purdue alumni and former students
- Colleges, universities, school corporations
- Municipal and state-supported institutions

Goods or services should not be provided to unrelated organizations or businesses unless those goods or services are of a specialized nature not otherwise available in the community or are provided as part of student instruction.

University-related entities are businesses and organizations that have a direct relationship with the University, its students and staff. Included in this internal customer category are:

- Purdue departments, including regional campuses
- Student organizations approved by the Dean of Students
- Professional organizations for students and staff
- Professional associations in which staff serve as officers

Sales to unrelated (external) customers must be billed at a rate which includes the direct cost of the good or service plus a mark-up equivalent to the current University research indirect cost rate. The income from the indirect cost recovery will be deposited to a general central university account, not the recharge account. When external rates are requested, the account number for the indirect cost credit must be listed on the rate request document in addition to the account number for the recharge activity.

MARKET PRICES

In instances where services are provided on a market price basis (not a calculated rate basis) the normal market price may be charged. However, justification of the need to use market prices must be submitted with the request to establish the market rates, along with sufficient evidence of market research to validate the price requested.

LIMITATION OF OVER / UNDER RECOVERY OF COSTS

Since charge rates are established on the basis of estimates for a given time period (usually one year), differences between estimated and actual income and expense will occur. These differences will be the surplus or deficit financial position in the recharge center account at year end. The fund balance of the operation must be included in future year rate calculations to ensure that the recharge account is operating on a break-even basis over time, and that users are being charged on the basis of total cost.

Federal requirements state that the cost of services may be billed to users. Therefore, the fund balance of the recharge center should conceptually be zero. Strict tolerances have been placed on the values of fund balances in recharge center accounts in order to minimize the risk of over or under recovery of cost. Rates must be reviewed at least annually to assure the following tolerance levels are met.

Fund balances related to departmental recharge centers, general service centers and specialized service facilities must conform to the current tolerance levels identified in the Recharge Center Procedures Manual. Accounts that fall outside these limits should be brought into tolerance within one year. In unusual circumstances a longer time frame may be used to achieve break-even status, but not more than three years unless an exception has been approved by the Comptroller's area. It may be necessary to adjust rates mid-year if it is apparent that a recharge center will be significantly out of tolerance during the course of the year.

Fund balance levels may vary from year to year based on the growth of the recharge center; therefore, fund balance targets should be established annually during the budget process. Ideally, rates should be revised concurrent with the budget process to achieve the target fund balance. This target fund balance will incorporate the tolerance levels identified within the Recharge Center Procedures Manual.

BILLING / BILLING CYCLE

Billing documents should be prepared at least monthly. A billing cycle that enables a substantial number of the charges to be billed during the calendar month in which the good or service was provided is encouraged. Operating procedures for documents that are not processed on a timely basis, and for year-end closing, will be communicated separately.

Appropriate documentation must be maintained for all services provided, demonstrating allocability of charges to the funding source.

SPECIAL COSTING CONSIDERATIONS

CAPITAL EQUIPMENT

DEPARTMENTAL RECHARGE CENTERS

- **INSTRUCTION OR DEPARTMENTAL FUNCTION RECHARGE CENTERS:** A depreciation factor for equipment purchased after July 1, 1998, may be included in charge rates to recover the costs of equipment.
- **ORGANIZED ACTIVITIES:** Equipment capitalization and depreciation portions of this policy do not apply.
- **PUBLIC SERVICE ACTIVITIES:** Equipment capitalization and depreciation portions of this policy do not apply.

GENERAL SERVICE CENTERS: A depreciation factor for equipment purchased after July 1, 1998, may be included in charge rates to recover the costs of equipment.

SPECIALIZED SERVICE FACILITIES: A depreciation factor for equipment purchased after July 1, 1998, may be included in charge rates to recover the costs of equipment.

AUXILIARY ENTERPRISES: Auxiliary enterprises are not covered by this policy.

The expense budget of the recharge center should include the depreciation factor for all equipment items to be recovered, not the purchase price of new capital items. The definition of equipment and the determination of useful lives for capital assets must be made in accordance with the University's capitalization policy.

CAPITAL LEASES

If equipment is acquired through a lease-purchase arrangement (capital lease), the annual lease cost of the equipment is an allowable cost of the recharge center when the lease period materially corresponds with the useful life of the equipment. In order for the interest component of the lease to be an allowable cost of the recharge center, prior written approval of the federal government must be obtained through the Costing

Office. Without prior written approval, the interest component may not be charged to the recharge center account and must be funded from non-federal sources of funds.

INVENTORY

Operations which hold merchandise for resale (e.g., University Stores) must maintain perpetual inventory records of the merchandise in order to determine the merchandise cost to be included in the selling price. The moving average cost method will be used for valuing merchandise for resale.

A physical inventory of merchandise for resale must be conducted at least once per year in accordance with instructions from Accounting Services. Adjustments to the accounting records which may be required to restate the book value of inventory to match the physical inventory are allowable transactions of the recharge center account.

INVENTORY MARK-UP FOR STOREROOM OPERATIONS

Operations that hold goods for sale, such as University Stores operations, will determine a mark-up percentage to be applied to the moving average cost of goods to determine the final cost or price to the end user.

RATE APPROVAL PROCESS

Recharge center and service center rates and activities described in this policy are subject to approval by the Vice President for Business Services and Assistant Treasurer. A packet of materials should be prepared to support each request for rate approval. The following information must be included in the rate request packet:

1. Request for Rate Approval Memorandum
2. Supporting Financial Documentation
 - a. Projected Statement of Income and Expense, which includes Projected Fund Balance
 - b. Rate Calculation
 - c. Salary and Wage Schedule