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I. INTRODUCTION

This document contains policies and procedures governing the financial management of service centers and recharge centers. These policies and procedures are intended to provide consistent financial practices among the service and recharge centers and to ensure compliance with the federal cost principles for educational institutions contained in OMB Circular A-21, the federal Cost Accounting Standards, and other College policies.

What is a service center?

There are two types of service centers defined as follows:

A service center is an operating unit that has been established to provide goods or services to other College activities and that meets all of the following criteria:

1) the costs of its goods or services can be directly identified with activities in which the goods and services are used, i.e., its charges constitute direct costs to users;
2) its goods or services benefit instruction and/or research activities,
3) it is not classified as an Other Institutional Activity (OIA) or an Auxiliary;
4) it has a predetermined rate(s) for goods or services; and,
5) there is an element of direct overhead included in the rate(s), i.e., the unit is not simply redistributing the specific cost of individual items and/or labor hours.

Examples of service centers include College Printing and Mailing, Telephone Services, Electron Microscope Facility, Environmental Health and Safety, and the Animal Resources Center.

A specialized service center is a service center that meets all three of the following criteria:

1) it involves the use of highly complex or specialized facilities;
2) it incurs substantial annual expenses and chargeout volume; and,
3) its services are not readily available from external vendors.
A specialized service center bears its allocable share of facilities and administrative (F&A) costs. Examples include observatories, wind tunnels, reactors, etc. Dartmouth has no specialized service centers as of June 1997.
I. INTRODUCTION

What is a recharge center?

A recharge center is an operating unit that provides goods or services as a convenience to generally localized users. Recharge centers typically charge users a retroactive monthly fee based on actual usage and specific costs. Examples of recharge centers include departmental fax machines, copy machines, and postage meters.

Throughout this document, the term "service center" should be interpreted to include recharge centers unless the two are differentiated.

Who are the users of service centers and recharge centers?

Internal User A department of the College (including academic, research, administrative, and auxiliary departments) that purchases goods or services to support a program or activity at Dartmouth. Internal users also include investigators whose research is funded by grants to the College, since these grants represent College activities. Service centers bill internal users by posting charges directly to department accounts using a WebADI journal entry.

External User An entity or person that is legally separate from the College that typically purchases goods or services for reasons of convenience or uniqueness of the goods or services offered. For example, external users include students, faculty or staff acting in a personal capacity, the Mary Hitchcock Memorial Hospital (MHHM), the Lahey Hitchcock Clinic (LHC), the Dartmouth Hitchcock Medical Center (DHMC), the Veterans Administration Medical Center (VA), other colleges and universities, for-profit corporations, and organizations having agency accounts (entity 9x). External users are billed for goods and services through Accounts Receivable.

Before providing goods or services to external users other than those mentioned above, service centers should consult with the Controller’s Office, as these sales may be taxable.
II. GENERAL POLICIES

• Establishing a New Service or Recharge Center

To establish a service center, a department must demonstrate that there is both a compelling need for the center and a clear benefit to be derived from providing goods and services within the College rather than through external commercial markets. Advance approval to create a service center with annual gross expenses over $100,000* must be obtained from the dean or vice-president to which the center reports and the College Vice President and Treasurer's Office based upon a proposal reviewed and approved by the executive officer of the area. (*amount subject to periodic adjustment)

Advance approval is required from the executive or fiscal officer of the area to establish a recharge center having annual gross expenses over $100,000 (amount subject to periodic adjustment).

Although service and recharge centers (with $100,000 or less in expenses) do not need advance approval and are exempt from the annual rate documentation requirements (see Section V), they nevertheless must comply with these policies.

• Breakeven

The financial activity of a service center is expected to breakeven on an annual basis after including all subsidies. Any remaining operating surplus or deficit must be reflected in an adjustment to the current or future budgets and/or rates.

• Rates & Costs

Rates charged to internal users must be based on and designed to recover no more than the direct costs of the goods or services being provided. For external users, higher rates may be established to recover all costs of providing the goods or services, including any indirect costs (refer also to Section IV, Part F). All rates must be reviewed and approved in accordance with these policies and procedures.

• Non-Discriminatory Pricing

All rates established by service centers must be non-discriminatory, that is, all internal users must be charged the same rate for the same service under the same circumstances. Rates charged to external users can be higher, but not lower, than rates charged to internal users.
II. GENERAL POLICIES

• Subsidies

To achieve a breakeven bottom line, service centers may require a service center subsidy. A service center subsidy is an amount applied to cover the operating costs of a center that are not recovered from the prices charged to users. Thus, a service center subsidy does not differentiate between users, it is applied to reduce the rates for all internal users.

Another type of subsidy that is specifically targeted to a certain group of users is a user subsidy. These subsidies are provided by departments or cost centers to obtain lower rates for specific users. For example, such subsidies may be provided by a certain department that wishes to subsidize only users from that department.

• Consistency in Estimating, Accumulating, Allocating, and Reporting Costs

The methods and bases used to estimate costs, allocate costs, prepare service center budgets, and accumulate costing information for rate computations must be consistent with the College's cost accounting practices used to identify, record, and report actual charges. This is needed to ensure that comparable transactions are treated alike and that meaningful comparisons of estimated costs and actual charges can be made. In addition, service center costs can be allocated only once and on only one basis to any sponsored project, i.e., costs of a similar nature can not be charged directly to grant accounts (through service center rates) and also allocated indirectly to the same grants (through the inclusion of similar costs in the College's indirect cost pools).
III. SERVICE CENTER PRACTICES

A. Breakeven

Every service center is expected to breakeven on an annual basis after all subsidies have been recorded (if approved, breakeven budgets may extend over a longer period - see discussion of long-term breakeven below). In the event that breakeven at year-end is not realized, the net balance, whether a surplus or deficit, is carried forward and absorbed in the subsequent year.

The assumptions used to estimate expenses, calculate rates, and determine subsidies must reflect an annual net budget of $0 for each major product line and for the service center as a whole. Annual breakeven budgets include all subsidies and any actual or projected surpluses/deficits from the preceding year.

• Fiscal Year Period

Generally, service centers operate on a fiscal-year basis which coincides with the College's June 30 year-end. Service centers may operate on a calendar year or other fiscal-year basis if the center's normal business cycle warrants such treatment.

• Significant Variance During the Year

If, during the year, actual results and year-end projections indicate that a significant variance from breakeven is likely to occur at year-end, the service center should take appropriate action to reduce or eliminate the expected variance. This may be accomplished by reducing expenses, increasing revenues, revising rates, providing or reducing subsidies, or a combination of these actions. Any proposed mid-year rate changes are subject to review and approval before the revised rates are implemented (refer to Section V, Part B).

• Long-Term Breakeven

In certain circumstances it may not be possible for a service center to achieve breakeven results within one year. Multi-year, breakeven budgets may be established for a service center in these situations. Typically, this occurs when a new service center is established and its operation requires large capital outlays or other start-up costs, involves potentially significant volume fluctuations, is subject to especially volatile or uncertain market conditions, or is burdened with extraordinary expenses. An established service center that introduces a new product line or experiences a major disruption in its operation may also require a longer period of time to breakeven. Multi-year breakeven periods may also be considered for established service centers.
with actual surpluses or deficits which would result in a rate fluctuation that is expected to have a significant detrimental impact on users.

These long-term breakeven arrangements must be carefully considered in conjunction with a center's financial projections. In these cases, all rates must be periodically reviewed and compared against the long-term plan to determine if any additional rate adjustments are needed.

B. Non-Discriminatory Pricing

The non-discriminatory pricing policy requires that all internal users be charged the same rate for the same service under the same circumstances (refer also to section IV, Part B on user subsidies). The term "same circumstances" generally refers to the volume of services provided, the manner in which services are provided, or the purpose of providing the services, any of which may differ enough to justify a separate rate (e.g., different rates may be charged to users who purchase large quantities or who are using the services to produce other products for resale). No goods or services can be provided free of charge to any user(s) unless 100 percent of the service center's rate is subsidized.

Service centers may establish rate structures or agreements that allow for varying prices which reflect the level of demand during peak periods, the volume of individual purchases, or other similar factors that affect product costs and prices. These prices must be made available to all users and must be non-discriminatory with respect to specific classes of users.

Service centers providing services to external users should charge rates that will recover all costs of providing the goods and services, excluding any service center subsidies and including all indirect costs (see also Section IV, Part F). Service centers may use the federally approved indirect cost rate to determine its charges for indirect costs. Under no circumstances shall rates charged to external users be lower than those charged to internal users. (Note that care must be taken in setting rates for external users who are purchasing goods or services to be used in connection with a federally-funded research project.)

C. Capital Equipment

Capital equipment is defined as any property other than real estate having a useful life of two years or more and an acquisition cost of $5,000 or more per item. Acquisition cost is the net invoice price of the equipment including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the equipment operable. Acquisition cost also includes other charges such as the cost of transportation, installation, taxes, duty or protective in-transit insurance.
III. SERVICE CENTER PRACTICES

C. Capital Equipment (continued)

Refer to DCIS under Administrative Guide for more information on Dartmouth College Equipment Capitalization Policy.

• Repairs and Upgrades

Equipment repair and upgrade costs will be capitalized only when these costs are $1,000 or more and they extend the useful life of the equipment by two years or more. When such costs are capitalized, the asset value and useful life of the original piece of equipment will be updated to reflect the new value and adjusted useful life of the asset. Depreciation will also be adjusted to reflect the additional costs.

• Donated or Federally-Funded Equipment

If a service center receives donated equipment, the fair market value of that equipment at the date of the gift is used to record the asset and calculate the amount of depreciation recoverable through the rate (note that this practice is currently under review by OMB and may be prohibited in the future). If the federal government has provided full or partial funding towards the purchase of a piece of equipment, depreciation can not be charged for the portion of the equipment purchased with federal funds.

Equipment that is purchased with funds provided by a sponsoring agency must be used in a manner that complies with the terms and conditions of the grant. Often, equipment purchased with federal funds can be used for other purposes, provided such other use does not conflict with the primary purpose of supporting research on the grant that provided funding for the equipment.

• Depreciation

A service center may recover the cost of capital equipment after it is purchased by charging depreciation to the center's operations over the useful life of the asset (refer to Section XI, Exhibit A for asset classes and useful lives). If an election is made by a service center to include depreciation in its rates, all capital equipment within the center must be depreciated, and the depreciation policy must be applied consistently each year. A decision to exclude depreciation from the rate(s) requires the approval of the executive/fiscal officer.
III. SERVICE CENTER PRACTICES

• **Depreciation** (continued)

[NOTE: All equipment owned and/or depreciated by a service center must be clearly identified as such in the capital equipment inventory database.]

Where depreciation has been excluded from a center's rate(s), no capital equipment costs can be included in any indirect costs charged to sponsored projects. To ensure that this requirement is met, all service centers are required to annually submit to the Controller's Office a list of equipment owned by the center for which depreciation is, or is not, a cost component of the rate(s).

• **Equipment Renewal and Replacement**

An equipment renewal and replacement account (i.e., depreciation reserve) will be established for service centers that include equipment depreciation in their rate(s). Additions to the reserve account are made from depreciation charges to service center operations. The reserve balance can not exceed the original cost of the equipment (including capitalized repairs and upgrades).

Capital equipment purchases are not charged to the service center's operating account; instead, the equipment is capitalized and funded from the renewal and replacement account to the extent funds are available. The department is responsible for securing any additional funding needed to cover the cost of equipment purchases.

• **Funding of Capital Equipment**

In addition to funds from external sponsors and gifts from donors, the following resources may be available to finance capital equipment purchases:

1) service center depreciation reserves,
2) department reserves,
3) lease agreements,
4) external loans,
5) internal loans, or
6) any combination of the above.
III. SERVICE CENTER PRACTICES

- **Funding of Capital Equipment** (continued)

If funding from sponsors, donors, and reserves is insufficient to cover capital costs, internal loans from the College are generally available for small purchases of equipment having a useful life of 3-5 years. Loans for large capital expenditures can be obtained from external lenders utilizing the College's available bond financing or other line of credit. Requests for internal or external loans should be submitted to the College Budget Office. Requests for an internal loan and/or an allocation of external debt must be directed to the College Vice President and Treasurer's Office.

D. Inventories

Service and recharge centers with year-end inventories valued at $25,000 or more (on a replacement cost basis) must establish an inventory asset account. The service center is required to perform a complete count of the inventory at least annually and reconcile the inventory on hand to the inventory account. Contact the Controller's Office for assistance in establishing, valuing, and maintaining an inventory asset account.

E. Insurance

Insurance coverage for property and equipment owned by service centers is arranged through the office of Business Affairs. The College self-insures for theft and other damage to equipment other than mission-critical computers. There is no charge to the service center for this coverage. A deductible equal to the lower of 20% of the loss, or $1,000, is funded by the service center.

Insurance for mission-critical computers must be purchased through Business Affairs which maintains a separate policy for this type of property (including media). The service center is charged for an allocable portion of the premium for this insurance. Service centers having other highly specialized equipment should discuss their special needs for this type of property with Business Affairs to make certain that it is adequately insured.
IV. SERVICE CENTER RATES

Service centers are required to annually submit documentation of its rates to the Controller's Office. These rates must have the prior approval of the executive officer or fiscal officer. Refer also to Section VI.

A. Rate Defined

A service center rate is the price used to recover the cost of goods or services. If a service center provides distinctively different goods or services, it determines a rate for each separate service or major product line.

To compute the rate(s), a service center generally uses the following equation which includes any service center subsidy and any prior year operating surplus or deficit:

\[
\text{Rate} = \frac{\text{Budgeted Expenses(less Svc Ctr subsidy)}}{\text{Budgeted Level of Activity ("Activity Base")}} + /- \frac{\text{Prior Year Surplus/Deficit}}{\text{Budgeted Level of Activity ("Activity Base")}}
\]

Often, budgeted expenses and the activity base are determined by reference to historical, actual results which are then adjusted for any expected changes in costs and/or the demand for goods and services. The rate charged to individual users may vary from the calculated rate to the extent that a user is subsidized. Refer also to Part B of this section.

• Special Pricing

Some service centers may operate under unique circumstances that require the use of rates that are determined using a modified rate computation. With advance approval, these modified rate computations may be used by a center provided the resulting rates are non-discriminatory and comply with the overall breakeven requirements.

B. Subsidies

A service center rate may be subsidized in either or both of the following ways:

• Service Center Subsidy

A service center subsidy is provided to a service center to cover a deficit created when all users are charged a rate that recovers less than the total cost of providing the goods or services. For example, such subsidies may be provided by departments, schools, or the College to recognize the institutional support for certain goods or services provided by a service center.
IV. SERVICE CENTER RATES

• **Service Center Subsidy** (continued)

For example, assume a service center's expenses total $100,000, and it sells 25,000 units of X each year. The unsubsidized charge to users is therefore $4.00 per unit. If a service center subsidy of $25,000 is provided to the center, the charge to all internal users is reduced to $3.00 per unit.

• **User Subsidy**

Subsidies that are used to obtain lower rates for goods or services provided to certain groups of users are considered user subsidies. For example, such subsidies may be provided by a certain department that wishes to subsidize only users in that department. The service center recovers the full cost of services provided to these subsidized users (to comply with the non-discriminatory pricing policy) by charging the difference between the full rate and the subsidized rate to the department providing the subsidy.

For example, assume that the cost of X is $4.00 per unit, and Department Y decides to subsidize its users. Since the charge per unit is $4.00, Department Y would have to provide a user subsidy of 50 cents per unit to reduce the charge to $3.50 for any purchases made by members of Department Y. The user subsidy of 50 cents per unit is funded from Department Y's budget or other resources.

Refer also to Section XI, Exhibit E for examples of calculating subsidized rates.

If a service center is subsidized during the year and produces an operating surplus at year-end, its subsidy can be reduced by an amount which does not exceed the surplus or the subsidy, whichever is less. Any remaining surplus for the service center is used to adjust the center’s subsequent-year(s) rates in accordance with the breakeven policy. The appropriate fiscal officer(s) must approve the reduction of any subsidies. Refer also to Section V, Part B.

Note: if a change in circumstances during the year effectively makes the service center's charges excessive or disproportionate in some way, the center may be required to refund a portion of its revenues to users, carry forward the entire surplus, or take other remedial action before reducing its subsidies. All surpluses of this nature must be disclosed to the executive/fiscal officer and the Controller's Office.
IV. SERVICE CENTER RATES

C. Activity Base

An activity base (the denominator of the rate formula) is a measurement of service center activity that is used for cost allocations, rate computations, and billing purposes. More specifically, it is the estimated volume of activity of a service center, or line of business for which a rate is being calculated, expressed in terms of units or costs. Selection and use of an appropriate activity base ensures that users pay only their share of the costs for the goods or services received. The selection of an activity base is approved through the rate review process, and the same base must be used consistently from year to year.

It is essential that the activity base be related directly to the factors that drive costs in order to achieve the proper matching of revenues and costs. The activity base should reflect the anticipated level of activity of the service center or a line of business for the forthcoming year, taking into consideration such factors as seasonal and cyclical demands, increasing or decreasing trends in demand, and unavoidable losses of productive time (e.g., vacations, holidays, repairs to equipment etc.).

Refer to Section XI, Exhibits B & D for definitions of the more commonly used activity bases and examples of rate calculation using those bases.

D. Consistency in Costing

Costs that are included in the computation of service and recharge center rates should be consistently included each year if the costs are incurred for the same purpose in like circumstances. In no event should costs incurred for the same purpose(s) be treated as direct costs if similar costs are to be included in any indirect cost pools allocated to sponsored projects. Consult with the Controller's Office if you are not sure how this rule applies.

E. Recoverable Costs

What May Be Included in a Rate?

For internal users, rates are based upon and designed to recover no more than the allocable costs of the goods or services being provided. For external users, rates should recover all costs of providing the service, including any indirect costs. Refer also to Part F of this section.
IV. SERVICE CENTER RATES

E. Recoverable Costs (continued)

Below are some of the types of costs that may be charged to service center accounts. If a cost benefits two or more activities or product lines, the cost is allocated between them on a reasonable basis.

• salaries and fringe benefits

An appropriate portion of the salaries and fringe benefits of all personnel directly involved in service center activities (such as lab technicians or printing press operators) is included in the rate calculation and charged to the center’s operating account.

The salaries and benefits of any administrative staff or other personnel supporting a service center are included in the rate calculation to the extent that their time is devoted to this function. These costs are allowable as long as they are reasonable, are consistently applied, and reflect no more than the percentage of time actually devoted to the service center function. The allocable portion of salaries and fringe benefits should be recorded each month in the service center account(s).

• supplies and materials used in the delivery of goods or services

Costs incurred for the purchase of supplies, materials, and fabricated parts to be used or consumed in the process of providing goods or services. Examples include office supplies, paper, machine parts, lab supplies, photographs, photocopies, lab animals, etc.

• subcontracts and outside services

Costs incurred to subcontract a portion of the work to an external third-party. Examples include graphic design, printing, professional services, cleaning, consultants, etc.

• equipment leases and rentals
• equipment maintenance and repairs
• equipment depreciation

• prior year operating deficit (increase in costs) or surplus (decrease in costs)
• other directly-related expenses (e.g., postage, telephone, travel, etc.)
IV. SERVICE CENTER RATES

F. Non-Recoverable Costs

Below are some of the various types of costs which can not be included in a service center's rate for internal users, but which may be included in rates charged to external users:

• indirect costs related to service centers such as:

  labor costs for department administrators who are not directly involved in the day-to-day operation of the center, space costs such as utilities, custodial services, and building depreciation, general administrative services such as Purchasing, Controller's, Human Resources, etc., and any other such costs that are not solely and specifically assigned or assignable to service center activities.

• additional institutional indirect costs such as:

  building operation and maintenance expenses (utilities, maintenance, custodial services, and building depreciation), general administrative functions and general expenses, sponsored project administration, department administration, library expenses, and student services; an allocable portion of these costs is recovered from sponsored projects through the College's indirect cost rate.

• program costs

  In some instances, a service center may incur costs for an activity or function that is closely related in nature to the center's activity but is not an integral part of service center operations. Such costs are not recoverable through a service center rate. These costs are typically associated with personnel who are involved with the operation of a service center but serve a dual purpose, i.e., a portion of their time is devoted to service center operations and the remainder is spent on other department or institutional activities. Generally, program costs are the type of costs that would be incurred to achieve an institutional objective even in the absence of a service center. Only a small proportion of costs usually qualify as program costs.

  For example, assume that the manager of an internal print shop also handles all external purchases of printing services for College departments. The manager spends part of his/her time overseeing the operation of the service center, and the rest of the time is devoted to "program" activities, i.e., acting as purchasing agent...
for departments that contract for printing services from external vendors. The latter (program costs) are not recoverable through the print shop’s rates.

IV. SERVICE CENTER RATES

F. Non-Recoverable Costs (continued)

• unallowable costs

Unallowable costs include both direct and indirect costs that can not be recovered from federally-funded projects under the federal cost accounting standard, OMB Circular A-21. These include, for example, alcoholic beverages, entertainment, and bad debts. (Refer to Section XI, Exhibit C for more information on these costs.) Specific questions concerning cost allowability should be directed to the Office of Grants & Contracts.
V. COMPLIANCE REVIEW AND APPROVAL

A. Rate Proposal and Rate Changes

• Service Center

On or before May 1 of each year, a service center with over $100,000* of annual gross expenses is required to submit a rate proposal to the Controller's Office for approval. Even if the service center is not changing its rate, a new proposal supporting that rate is submitted for the next fiscal year. The rate proposal must also have the approval of the executive/fiscal officer responsible for the service center. (*amount subject to periodic adjustment)

Service centers with less than $100,000 in gross expenses are required to comply with all provisions of this policy, except that they are not required to submit a rate proposal each year. However, these centers will be periodically reviewed by the Controller's Office on a rotating basis for compliance with these policies.

A new service center must submit a rate proposal at least two months before it plans to begin operations.

Rate documentation includes the following information:

• Budgeted expenses listed separately by natural class and grouped by major category (e.g., salaries, benefits, supplies, equipment lease). Expenses are then increased or decreased by any subsidy and/or prior year surplus or deficit. Expenses must also be segregated by, or allocated to, major product lines in order to determine whether breakeven is achieved for each product line.

• Budgeted charges (revenues) based on the proposed rate(s) and the volume of activity for each type of product or service. This includes workpapers documenting the assumptions and method for determining the level of activity used to compute the rate(s).

• The position title and percentage effort of all personnel whose salaries and benefits are included in the rate(s). For confidentiality, only the aggregate of these salaries and benefits are included in the rate documentation. However, internal work papers documenting how the aggregate has been derived must be maintained by the service centers.

• For all equipment owned or used by the service center:
  - equipment type
  - date equipment is placed in service
  - acquisition cost
  - annual and accumulated depreciation
  - acquisition date
  - useful life
V. COMPLIANCE REVIEW AND APPROVAL

A. Rate Proposal and Rate Changes (continued)

- date of disposal or removal
- disposal costs
- salvage value

Refer to Section XI, Exhibit F for an example of rate documentation.

• Recharge Center

Every three years (or earlier if a change in practice occurs), a recharge center with over $100,000* of annual expenses is required to submit a statement to the Controller's Office on or before May 1 disclosing the method of distributing costs to users. The recharge centers with less than $100,000 in expenses are expected to comply with all other provisions of this policy, and they will be periodically reviewed by the Controller's Office on a rotating basis for compliance. (*amount subject to periodic adjustment)

B. Service Center Operations Review

In addition to the annual rate review process, service center managers are expected to regularly monitor their center's activity throughout the year to (1) ensure the accuracy of billings and expenses charged to the center, and (2) review the interim profit or loss on sales, and (3) determine, to the extent possible, whether breakeven will be achieved at year-end by product line and for the service center as a whole. When this review is completed by the service center managers, the area's executive or fiscal officer must be notified if the manager expects to have a significant budget variance. Refer also to Section V, Part A.

Any new rate or rate change must be reviewed and approved (by the executive/fiscal officer and the Controller's Office) before it is implemented. Some service centers may operate under circumstances where rate adjustments during the year are a routine part of their normal business cycle. In such situations, the service center manager is required to explain in the annual rate proposal the method used to determine these adjustments. A waiver from the normal rate change approval process may then be granted.

C. Extraordinary Expenses, Surpluses or Deficits

If, for any reason, a service center incurs an especially large expense or produces an extraordinary surplus or deficit, the size and nature of the variance must be disclosed to both the executive/fiscal officer and the Controller's Office. The service center must then develop a plan to revise rates, reduce or increase subsidies, or otherwise realign the service center's revenues and expenses.
D. Unrelated Business Income Taxes

Service centers that sell goods and services to external users may be engaged in an "unrelated trade or business" as defined by the Internal Revenue Code. Revenues from these activities are generally subject to federal and state income taxes and must be reported by the College on its federal income tax return (Form 990-T). Any service center that plans to make its goods or services available to external users should first contact the Controller's Office to discuss the tax implications of these activities.
VI. ACCOUNTING PROCEDURES

A. Revenues and Expenses

Proper accounting for the activities of a recharge or service center requires the matching of revenues and expenses. This matching is accomplished by recording revenues and expenses in the same account or series of accounts. Identifying the deficit or surplus for a given year enables service centers to apply its operating results against the projected expenses of a subsequent year and therefore adjust the future rate through past experience.

Recharge centers are not required to have a separate account for each recharge activity if the revenues and expenses related to each recharge activity can be clearly and accurately identified.

• Revenues

Revenues are amounts recovered from the sale of goods or services.

Internal User: Revenue from internal users (College departments) should be recorded using the natural classes for service or recharge centers (4811-4844). The corresponding expense natural class must be used when debiting department accounts for service center charges (7811-7844).

[Note: service and recharge center internal natural classes are used to record internal sales and purchases because, for the College as a whole, no "real" sales have been made, therefore there is no "true" revenue for accounting purposes. Internal purchases essentially represent a redistribution of service center costs to departments that purchase its goods and services.]

External User: Revenue generated from sales to external users should be recorded using external revenue natural classes (4641-4676).

• Expenses

Service and recharge center expenses should be recorded using the appropriate natural class, not a single natural class for all types of expenses. Expense adjustments should be credited against the natural class to which the expenses were originally charged.
VI. ACCOUNTING PROCEDURES

B. Subsidies and Transfers

• Subsidies

All subsidies received by a service center must be recorded in the service center's account. Subsidies should be recorded using the appropriate transfer natural classes based on the funding segments being debited and credited (4901-4982). Refer to the transfer matrix to determine the proper transfer natural class to use.

• Transfers

In general, the only allowable transfers from recharge or service centers are transfers of depreciation charges to equipment renewal and replacement accounts.

C. Billings

Billings must be based upon measured and documented utilization, and all billings must reflect the approved service center rates. Service center billings must include, at a minimum, the units purchased, the rate used to calculate the charges, and the months in which the charges are incurred. Support for the charges must be retained by the service center in sufficient detail to allow for the verification and reconciliation of internal and external billings by product line.

All billings are invoiced in the following manner:

Internal user: An internal user having authorized access to a College GL or PTAEO chart string is billed through that account.

External user: All external billings are invoiced by Accounts Receivable. Service center billings must be recorded on the accounting records when bills are issued.
VII. RECORDS RETENTION

Service and recharge center management is responsible for maintaining complete documentation of financial records, rate calculations, and supporting documents pertinent to service and recharge center activities.

All service center activities must be documented and the records maintained to support expenditures, revenues, billings, and cost transfers. Each service center must retain the following:

1. Work papers documenting how the rate(s) was calculated;
2. Records supporting utilization (level of activity);
3. Documents related to expenses incurred, including salary data for all current employees and depreciation schedules for fixed assets;
4. Records supporting the amount and basis of user billing, including invoices;
5. Records documenting and measuring the use of the services or products; and,
6. Records documenting and supporting the basis of shared costs.

Documentation must be retained in accordance with the College Record Retention Policy.
VIII. DEFINITIONS

Activity Base  A measurement of the goods or services provided by a service center that serves as the basis for the calculation of its rates. Examples include machine or labor hours, number of orders, number of copies, etc.

Auxiliary  An operating unit that furnishes goods or services to students, faculty, or staff. An auxiliary operation is managed as a self-supporting activity. Examples include residence halls, dining services, and the Hanover Inn.

Breakeven  The point where revenues equal expenses; where there is no surplus or deficit.

Capital Equipment  Property other than real estate having a useful life of two years or more and an acquisition cost of $2,500 or more per item.

Deficit  An amount by which a center's expenses exceed its revenues.

Depreciation  A method for apportioning the cost of property and equipment over the estimated useful lives of the assets.

Direct Costs  A cost that can be specifically identified with a particular program or activity with a high degree of accuracy.

Expenses  Costs incurred to operate a service or recharge center, whether paid or accrued, that benefit only the current fiscal period.

Facilities and Administrative Costs (F&A)  Expenditures incurred for common or joint objectives that therefore are not identified with, or charged directly to, a particular sponsored project or institutional activity. Facilities and administrative costs are considered to be "indirect" costs.

Fiscal Period  The College's financial accounting period that begins on July 1 and ends on June 30 of the following year.

Indirect Costs  Costs incurred for common or joint objectives that therefore can not be identified solely and specifically with a particular activity but must be allocated and distributed between benefiting programs or activities.
## VIII. DEFINITIONS

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inventory</strong></td>
<td>Goods or materials on hand that are (1) available for sale or (2) utilized in the production of goods or services that are then made available for sale.</td>
</tr>
<tr>
<td><strong>Inventory Asset Account</strong></td>
<td>An account used to record the dollar value of inventory on hand.</td>
</tr>
<tr>
<td><strong>Non-Discriminatory Pricing</strong></td>
<td>A pricing method that charges all users the same rate for the same service or product under the same circumstances.</td>
</tr>
<tr>
<td><strong>Other Institutional Activity (OIA)</strong></td>
<td>All activities of the College except: 1) instruction, 2) departmental research, organized research, and other sponsored activities, 3) facilities operation, administrative functions, libraries, student services, and 4) service centers and recharge centers.</td>
</tr>
<tr>
<td><strong>Program Costs</strong></td>
<td>Costs incurred to perform a function that is similar in nature to service center activities but is not an integral part of service center operations. These costs are typically associated with personnel who are involved with the operation of a service center but serve a dual purpose, i.e., a portion of their time is devoted to service center operations and the remainder is spent on other department or institutional activities. Generally, program costs are the type of costs that would be incurred to achieve an institutional objective even in the absence of a service center. For example, assume that the manager of an internal print shop also handles all external purchases of printing services for College departments. The manager spends part of his/her time overseeing the operation of the service center, and the rest of the time is devoted to &quot;program&quot; activities, i.e., acting as purchasing agent for departments that contract for printing services from...</td>
</tr>
</tbody>
</table>
external vendors. The latter (program costs) are not recoverable through the print shop's rates.

VIII. DEFINITIONS

Rate  A fee or unit price used to recover the costs of providing goods or services.

Recharge Center  An operating unit that provides goods or services as a convenience to generally localized users. Recharge centers typically charge users a retroactive monthly fee based on actual usage and specific, direct costs. Examples of recharge centers include departmental fax machines, copy machines, and postage meters.

Recoverable Costs  A cost incurred by a service or recharge center that is recoverable from users and is included in the rate computation.

Revenues  Amounts recovered from the sale of goods or services, whether received or accrued, that benefit only the current fiscal period.

Service Center  An operating unit established to provide goods or services to other College programs and activities that meets all of the following criteria:

1) the costs of its goods or services can be directly identified with activities in which the goods and services are used, i.e., its charges constitute direct costs to users;
2) its goods or services benefit instruction and/or research activities;
3) it is not classified as an Other Institutional Activity (OIA) or an Auxiliary;
4) it has a predetermined rate(s) for goods or services; and,
5) there is an element of direct overhead included in the rate(s), i.e., the unit is not simply redistributing the specific cost of individual items or labor hours.

Examples of service centers include College Printing and Mailing, Telephone Services, Electron Microscope Facility, Environmental Health and Safety, and the Animal Resource Center.
VIII. DEFINITIONS

Specialized Service Center  A service center that meets all three of the following criteria:

1) it involves the use of highly complex or specialized facilities,
2) it incurs substantial annual expenses and chargeout volume, and
3) its services are not readily available from external vendors.

A specialized service center bears its allocable share of facilities and administrative (F&A) costs. Examples include wind tunnels, reactors, observatories, etc.

Subsidy  There are two kinds of subsidies:

Service Center Subsidy  A subsidy provided to a service center to cover a deficit created when all users are charged a rate that recovers less than the total cost of the center's goods or services. For example, such subsidies may be provided by the College in recognition of the institutional support for certain goods or services provided by a service center.

User Subsidy  A subsidy provided to a service center to cover a deficit created when a certain group of users is charged a rate that is lower than the full rate charged to unsubsidized users. For example, such subsidies may be provided by a certain department that wishes to subsidize only users from that department. The service center recovers the full cost of services provided to these subsidized users (to comply with the non-discriminatory pricing policy) by charging the difference between the full rate and the subsidized rate to the department providing the subsidy.

Surplus  An amount by which a center's revenues exceed its expenses.

Unallowable Costs  Both direct and indirect costs that can not be recovered from federally-funded projects under the federal cost accounting standard, OMB Circular A-21. Examples include alcohol and entertainment expenses.
VIII. DEFINITIONS

User

There are two classes of users:

Internal User

A department of the College (including academic, research, administrative, and auxiliary departments) that purchases goods or services to support a program or activity at Dartmouth. Internal users also include investigators whose research is funded by grants to the College, since these grants represent College activities. An internal user pays for goods or services via a College GL or PTAEO chart string.

External User

An entity or person that is legally separate from the College that typically purchases goods or services for reasons of convenience or uniqueness of the goods or services offered. For example, external users include students, faculty or staff acting in a personal capacity, the Mary Hitchcock Memorial Hospital (MHMH), the Lahey Hitchcock Clinic (LHC), the Dartmouth Hitchcock Medical Center (DHMC), the Veterans Administration Medical Center (VA), other colleges and universities, for-profit corporations, and organizations represented by agency accounts (9-xxxxx).
IX. FUNCTIONAL RESPONSIBILITIES

The major responsibilities each party has in connection with the College's service and recharge center are as follows:

**Service Center Manager**
- Comply with service center policies and procedures.
- Develop rate(s) and maintain documentation for service center activities.
- Perform periodic review of rate(s) to ensure annual breakeven.
- Submit rate documentation form to the Controller's Office annually for review and approval by May 1.
- Develop annual budget in accordance with service center policies and the approved rate(s).

**Recharge Center Manager**
- Comply with recharge center policies and procedures.
- Maintain documentation for recharge center activities.
- Submit every three years to the Controller's Office for review by May 1 (or earlier if a change in practice occurs) a statement disclosing the method of distributing costs to users.

**Executive/Fiscal Officer**
- Ensure compliance with service and recharge center policies and procedures.
- Approve new service center or recharge center.
- Ensure that breakeven policy is met.
- Approve service centers decision to exclude depreciation in rates.
- Approve service centers disposition of surplus/deficits.
- Approve service center's annual rate proposal.

**Controller's Office**
- Implement service center policies and procedures.
- Review and approve rates for service centers.
- Review charging methodologies of recharge centers.
- Assist centers with accounting and costing issues.
IX. FUNCTIONAL RESPONSIBILITIES

Grants & Contracts
- Ensure federal cost principles for educational institutions contained in OMB Circular A-21 and the cost accounting standards are reflected in current policy.
- Report to the federal government on service center practices, negotiate long term pricing and breakeven agreements.
- Assist centers with cost allowability issues.

Vice President & Treasurer's Office
- Assist service centers with budget issues.
- Review and approve loans to service centers.
- Approve new service centers.

Internal Audit
- Ensure compliance with federal audits of institutions of higher education and other non-profit organizations contained in OMB Circular A-133.

CASB Compliance Officer/Committee (to be determined)
- Establish and revise service and recharge centers policies and procedures.
X. OTHER RESOURCES

Service and recharge center managers should direct any general questions about this policy to their department's administrative office. For specific issues pertaining to service or recharge centers, the following offices should be contacted:

<table>
<thead>
<tr>
<th>Issues</th>
<th>Department/Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Structure, Classification of Center, Cost Accounting, Depreciation, Equipment Account, Inventory Account, Taxes, Rates, and Policy Clarification or Exceptions</td>
<td>Controller's Office Ext. 6-3011, Hinman 6015</td>
</tr>
<tr>
<td>Budgets, New Service Center, Funding of Equipment, Breakeven Period</td>
<td>Vice President &amp; Treasurer's Office Ext. 6-2646, Hinman 6008</td>
</tr>
<tr>
<td>Indirect Costs, OMB Circular A-21, Allowability of an expense</td>
<td>Grants &amp; Contracts Ext. 6-3008, Hinman 6210</td>
</tr>
</tbody>
</table>
XI. EXHIBITS

A. Equipment Useful Lives

Below is a list of the various classes of College equipment and the associated useful lives to be used in calculating annual depreciation charges:

<table>
<thead>
<tr>
<th>Type of Equipment</th>
<th>Life in years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobiles &amp; Trucks</td>
<td>4</td>
</tr>
<tr>
<td>Trucks (heavy duty)</td>
<td>7</td>
</tr>
<tr>
<td>Special Purpose Equipment</td>
<td>7</td>
</tr>
<tr>
<td>(athletic, scientific, audio visual, tools, etc.)</td>
<td></td>
</tr>
<tr>
<td>Other Equipment</td>
<td>5</td>
</tr>
<tr>
<td>(including most computers)</td>
<td></td>
</tr>
<tr>
<td>Short-Lived Equipment</td>
<td>3</td>
</tr>
<tr>
<td>Furniture &amp; Fixtures</td>
<td>10</td>
</tr>
</tbody>
</table>

If depreciation is included in a rate that is based on a useful life other than those shown above, the assigned lives must be justified and documented as part of the rate documentation and approval process.
XI. EXHIBITS

B. Activity Bases

The following kinds of activity bases are commonly used to determine a service center’s volume and rates.

• Consumption Base

A consumption base is used when expenses are directly related to the quantity or costs of inputs (labor, material, or equipment) consumed in the process of providing a good or service. For example, assume that equipment is used or "consumed" as products are produced, and number of hours the equipment is used correlates with the cost of the products produced. In this case, the service center would base its rates and charges on the number of hours the equipment is used to produce its goods.

\[
\text{Rate Per Hour} = \frac{\text{Budgeted Expenses}}{\text{Estimated Equipment Hours}}
\]

• Output Base

An output base is used when costs are directly related to the amount of goods and services produced. An output base is therefore the total anticipated number of products or hours of service to be produced during the year.

\[
\text{Rate Per Unit} = \frac{\text{Budgeted Expenses}}{\text{Estimated Units of Production}}
\]

• Cost of Goods Base

Cost of goods base is applicable to service centers that are product rather than service oriented. Once the direct cost of each product is identified, a percentage is computed that, when applied to the direct cost, will arrive at a price that is sufficient to recover both the direct and indirect operating costs of producing the product.

\[
\text{Markup Rate} = \frac{\text{Budgeted Expenses}}{\text{Estimated Direct Cost of Products}}
\]
XI. EXHIBITS

C. Unallowable Costs

Examples of unallowable costs include:

**Alcoholic Beverages:** Under no circumstances is the cost of alcohol allowable on federal grants and contracts.

**Entertainment:** Entertainment is defined by Circular A-21 as "costs incurred for amusement, social activities, entertainment, and any items relating thereto, such as meals, lodging, rentals, transportation, and gratuities."

Costs associated with after-work-hours receptions or meals where alcohol is served or whose purpose is primarily social should be classified as entertainment. Refer to the College's Business Travel and Other Expense Reimbursement Policies for more information.

**Meals:** Business meals are unallowable unless the primary purpose of the meeting is to conduct service center business in accordance with a formal agenda and there is a clear and compelling reason to meet outside the office over a meal.

**Bad Debts:** Any costs, whether actual or estimated, arising from uncollectible accounts or other similar claims, including any related collection costs or legal fees, are unallowable.

**Interest:** Interest on internal loans is not allowable. Interest on external loans may be allowable when specifically authorized.

**Dues:** Dues are unallowable for organizational membership in professional organizations or societies unless it can be shown that such membership is necessary to accomplish the objectives of the service center.

**Advertising and public relations costs:** Advertising and public relations costs are generally not allowable. These costs are allowable only for the recruitment of staff or trainees, procurement of goods and services, disposal of scrap or surplus materials, publication of rates and services to members of the college community, and other specific purposes necessary for the ordinary operation of the service center.