UNIVERSITY OF GEORGIA
Finance & Administration

16.1 Departmental Sales and Services Activity

Policy Statement

Departmental sales and service (DSS) funds are considered institutional (state) funds and should only recover costs for providing the sales or service. If salaries will be charged to DSS funds, then employee benefits will need to be funded by the DSS revenue sources. Most DSS revenue sources are from billing rates charged to customer for providing sale or service. The billing rate should be developed for the activity based on incurred costs and charges users for their *actual usage*. The rate(s) should be computed so as to cover only allowable costs, which should include salaries, wages, employee benefits, costs of materials and supplies, travel, repairs and maintenance, outside service costs, departmental administration, equipment depreciation, or other support costs. Departmental administration is typically about 15% of directly related costs for activities. There should be no markup for profit. Some DSS activities will not have a billing rate (eg. Incidental by-product sales) and should charge a reasonable rate to coverany costs. DSS funds are also used to deposit miscellaneous income departments may receive on rare occasions or for immaterial amounts.

A departmental sales & service activity can sell to external users in addition to internal University units. External users are defined as entities that do not have a University fund; or students, faculty, or staff acting in a personal capacity. The service may be provided on a direct (ownership) basis or on a contractual (rental or service agreement) basis. An external rate can be established for external users to include, in addition to the direct costs, indirect costs such as building/room depreciation (space used), equipment depreciation, utility services, and departmental administration.

Departmental Sales & Service activities whose income is generated from billing rates must have documentation that clearly outlines the basis of costing practices and business procedures of the activity including:

- Supporting documentation and calculation of rate(s), including direct costs of items. Detailed supporting documentation should be available for an audit upon request.
- The financial position with respect to 'break-even' is reviewed periodically (at least annually) so the rate may be adjusted if necessary.
- Documentation that the rate(s) is applied uniformly to all users.
- Billings are timely and adequately documented, receivables billed are controlled and reconciled, and cash receipts are deposited timely.

The purchase of goods and services within the University System of Georgia is accomplished using University System Service Level Agreements. These agreements may be between UGA and other USG institutions or UGA and the University System Office and may be both sponsored agreements and sales and service agreements. Intra USG purchases of goods/services are exempt from a competitive procurement process and will be addressed through a Service Level Agreement. Please refer to Procurement section 4.10 "University System Service Level Agreements" for policy, procedure, and forms related to these agreements.

Procedures

Budgeting DSS funds

Even though DSS funds have their own funding source, a budget is required to be established and maintained each fiscal year to provide an estimate of the income and related expenses expected and allow budget balance validation by transaction processes. Revenues and expenditures should be estimated and budgeted in the appropriate account codes. The total budget (revenue + expenditures) for the DSS activity should be zero. Budget amounts for DSS activities do not represent real funds, but are merely estimates of anticipated revenues and expenditures.

Accounts Receivable and Revenue Recognition

Services must be billed after the service has been rendered. Prepayments for services are not appropriate from University customers, but may be allowed for external users. Deposits to reserve space or hold dates can be required before service is rendered. Departmental Sales & Service activities should handle year-end billings consistently each year to ensure that revenue is recognized and recorded in the same fiscal year that expenses are incurred. For outstanding invoices to external customers, a DSS activity may submit a request to record accounts receivable and current year revenue at fiscal yearend.

Deferred (unearned) revenue

At the end of the fiscal year, DSS activities which have unearned actual revenue from external sources (customers outside the University) can request to defer those revenues to the next fiscal year. The deferred request applies to actual revenue and **not** budgeted revenues or budget balances.

Unearned revenue exists when revenue has been collected in advance for a product or service but the product has not been delivered or the service has not been provided. For conference and workshop activities, unearned revenue can exist when registration fees are collected in the current fiscal year but the conference/workshop is not being held until the next fiscal year. Or, registration fees have been collected but the conference/workshop is held so close to the end of the current fiscal year that not all invoices for conference expenses have been received by year end close out.

To request the deferral of unearned revenue, contact Accounting at 706-542-1197 or acctng@uga.edu for a copy of the deferral request letter template. There are two templates, one for conference/workshop activity and another for all other departmental sales activity. All requests must be made using one of these two templates. The templates have been approved by state audit. Therefore, no changes should be made to the wording of the template.

The due date for deferral requests can be found in the fiscal year end letter. A copy of the year end letter is available on the Accounting department's web site Year End Letter

At the end of the fiscal year, a comparison will be made between actual excess unearned revenue (actual revenue less actual expenses) and the requested deferral amount. Despite the requested deferral amount, a department **cannot** defer more than its actual excess unearned revenue. If actual excess unearned revenue exceeds the requested deferral amount, the deferral will be limited to the amount requested.
Prior to year end close out, Accounting will process a general ledger journal to defer the unearned revenue amount. The entry will debit the DSS revenue account code and credit a University liability account code.

During the Accounting departments adjusting period, after year end close out, a comparison will again be made between actual excess unearned revenue and the requested deferral amount. Accounting will process additional general ledger journals if necessary.

In the new fiscal year (usually mid to late July), the deferral entries processed in June will be reversed. The reversal entry will debit the University liability account code and credit the DSS revenue account code.

Departments can begin processing DSS transactions right away in the new fiscal year. It is **not** necessary to wait for the reversal entry to be posted.

Carry Forward

At the beginning of each new fiscal year, Accounting will run an allocation process that will create entries for each Department into an actuals revenue account (499100) credited with the amount of carry forward for the specific type of funding. Each department will be able to see an actual revenue when comparing budget to actuals.

An offsetting revenue will be debited in the overall UGA Institutional department to offset this revenue. This will zero out the revenue overall and result in net zero revenue in current year revenue.

Accounting will also run an allocation process that will create and post budget journals to record revenue budget and expense budget for the amounts calculated as carry forward available. The budgeted revenue and budgeted expense amounts will equal each other as well as the actuals revenue ledger entry described above.

If prior year carry forward resulted in expenditures greater than revenues, the negative carry forward will be recorded and budgeted in the current year. This will reduce current year budgets and departments will need to limit spending until the deficit is made up (i.e. sales are generated/collected to equal the deficit). Budget and actuals should be moved to cover these if current year revenue will not cover the deficit.

Moving carry forward budgets and actuals can be done by following the Budgeting Revenues and Expenditures by Fund Guidelines found on the OneSource Resource page under Chart of Accounts at https://onesource.uga.edu/resources/chart_of_accounts/.

Each school/college/unit should follow carry forward requirements as outlined in the Board of Regents Business Procedures Manual Section 2.2.1 Current Funds under Departmental Sales & Service funds 141xx that states the following:

Georgia Code 20-3-86 allows for Departmental Sales and Services (DSS) year-end fund balances to be exempt from state law concerning lapsable funds. DSS Revenues and Expenditures shall be contained in Fund Group 14xxx.

Departmental Sales and Services revenues and expenditures, which include Continuing Education, have the following characteristics:

- Activity should generally be self-supporting.
- Activity should not normally use State appropriated funds.
- Revenue and associated expenses for each DSS activity should be readily identifiable; e.g., by class code, department, project indicator, etc.
- At least 50% of the revenue source must be from external sources; e.g., student, faculty, staff, general public, grantors, other institutions/agencies, etc.

Note: Revenues classified as Quasi-Revenue are **definitely not** Departmental Sales and Services.

In addition, each school/college/unit should internally document how the carry forward funds will be used. This information may be needed at the request of the Board of Regents.

Unrelated Business Income

To limit the University's liability for Unrelated Business Income Taxes (UBIT), each departmental sales & service activity should be aware of and limit the number of sales to external users. DSS activities that have external sales must notify the Accounting department at 706-542-1197 of their activity. Additional guidance on Unrelated Business Income can be found at: Unrelated Business Income Tax (UBIT)

Sales & Use Tax

Departmental Sales & Service activities should also be aware that sales of goods for ultimate consumption to individuals or businesses that are not exempt from sales tax must collect Georgia sales & use tax, which will be remitted to the Georgia Department of Revenue. Questions about sales and use tax should be directed to the Accounting department at 706-542-1197. Additional guidance on Sales and Use Tax can be found at **Sales and Use Tax**

Service Level Agreement - This is a sample template that has been stylized for an agreement between The University System Office of the Board of Regents of the University System of Georgia (USO) and The Board of Regents of the University System of Georgia by and on behalf of the University of Georgia (UGA). This agreement may be modified accordingly based on who is providing the service.

Service Level Agreement - This is a sample template that has been stylized for an agreement between The Board of Regents of the University System of Georgia by and on behalf of *USG Institution Name* and The Board of Regents of the University System of Georgia by and on behalf of the University of Georgia (UGA). This agreement may be modified accordingly based on who is providing the service.

Policy definitions

Sales & Service Activity

Sales or service providing activities are classified in three categories: auxiliary enterprises, sales & services of educational activities, and service centers. The classification of a service activity depends on the source of its revenue, its relation to the education process, and its relation to the consumer. The University of Georgia needs to be aware of any outside entity that may be providing the same type of sales or services. University System of Georgia Board of Regents policy 7.11.1 states that an “institution of the University System shall not enter into competition with private industry.”

1) Auxiliary Enterprises

An auxiliary enterprise is an entity that exists to furnish goods or services to students, faculty, or staff for their personal consumption in support of their educational activities or experience. The general public may also be served by some auxiliary enterprises. Auxiliary enterprises are self-supporting activities and do not receive any state or general funding to finance their operation. Auxiliary units charge a fee directly related to, although not necessarily equal to, the cost of goods or services. Revenue for auxiliary enterprises should cover all direct operating expenses, including maintenance, utility services, debt service, provisions for renewal and replacement (through depreciation of capital assets), and working capital to finance accounts receivable and inventory. Some examples are residence halls, food services, stores and gift shops, parking, campus transit bus service, student health service, and others. Auxiliary enterprise funds are recorded in funds 12xxx and are not considered departmental sales and service funds.

2) Sales & Services of Educational Activities

This category includes (1) revenues that are related incidentally to the conduct of instruction, research, and public service or (2) revenues of activities that exist to provide an instructional and laboratory experience for students and that incidentally create goods and services that may be sold to students, faculty, staff, and the general public. The type of service rendered takes precedence over the form of agreement by which these services are rendered. Some examples are sales of products and services of agricultural related activities, film rentals, sales of scientific and literary publications, and conference/workshops. Since the revenues of this category are incidental to academic type activities, the sales price of these by-products are usually determined by the market for that item or the fee for the service is calculated to cover costs such as labor and supplies. These sales & service activities are typically recorded in funds 141xx.

3) Service Centers (includes activities within departments)

A service center is an operating unit providing a service, a group of services, or products (1) to various University departments rather than to individuals and is supported by internal charges to the user department's fund or (2) to fulfill its primary mission (instruction, research, public service & outreach) for entities external to the University that basically do not restrict or stipulate how the payment for services is used or reported. The services may range from highly specialized to routine functions. Such a service might be purchased from commercial sources, but for reasons of convenience, cost, or control is often provided more effectively through an on-campus unit. Some examples are scientific apparatus repair shops, glassblowing shops, instrument-making shops, mailing services, duplicating services, office machine repair shops, data processing, central stores, animal care facilities, testing or analysis services, clinical services, and others. Service Centers use Departmental Sales & Service fund codes 141xx to account for their activity. See the Service Center policy at: Service Centers

Responsibilities

Responsible University Senior Administrator: Vice President for Finance & Administration
Responsible University Administrator: Associate Vice President for Finance Division
Policy Owner: Accounting
Policy Contact: Darlene McConnell darlene.mcconnell@uga.edu
Policy Contact Phone Number: 706-542-6874

Record Retention

For expenditures processed with grant funding, all documentation should be retained for the life of the grant, plus seven (7) years. [Research Grant Records 0472-09-006]
For all other expenditure types, records may include but are not limited to: check requests, purchase orders, invoices, journal vouchers, departmental requisitions, justifications of purchases, payment authorizations, reports of receipt of goods or services, and related documentation and correspondence. Retention is five (5) years. [Accounting Records 0472-03-001]

Related information

Accounts Receivable:
https://onesource.uga.edu/resources/accounts_receivable/
Accounts Receivable UPK Training
Accounts Receivable, Deferred Revenue and Carry Forward Presentation

[Cash Management](https://onesource.uga.edu/resources/cash_management/):
https://onesource.uga.edu/resources/cash_management/
Cash Management UPK Training

Policy Dates

Effective Date:
Date Last Updated: 05/28/2019
Date of Last Review: 5/18/2020
Date of Approval:
Previous Version of Policy: