Recharge and Cost Center Rate Policy

Last revised April 2013 and July 2013 where noted

1. Introduction and Definition

The guidelines included in this policy only apply to recharge and cost centers. This policy does not apply to other revenue generating or cost transfer activities. Certain requirements for rate approval and quarterly financial statements apply only to recharge centers. In the following, the term "recharge center" refers to both recharge and cost centers, unless otherwise noted.

2. General Information on Recharge Centers

Establishing a Recharge Center

- The prospective recharge center must submit a proposal to establish a recharge center to the Dean or VP for her/his approval.
- Dean or VP will forward the approved recharge center proposal to Management Accounting and Analysis (MAA) for its approval.
- Once approved by MAA, the Budget Office will establish the appropriate budget number(s) for the recharge center.

Submitting Rate Proposals to MAA – *updated 7/15/13*

- Recharge center rate proposals must be submitted at least annually to MAA and their respective Dean's/VP's office.
- Cost centers must submit rate proposals to MAA when:
    1. they are initially established,
    2. new services or products are added, or
    3. significant changes are made to the methodology used to calculate the rate(s).

Otherwise, the Dean or VP is responsible to review and approve cost center rates.

Information to Gather and Retain

- At a minimum, the following information should be clearly identified, documented, and retained by recharge centers (according to requirements of UW Records Retention Schedule):
  - Expenditure, revenue, billable unit, etc. data needed to calculate the rate(s).
  - The method used to calculate the rates and track billable units.
  - Billing records identifying the budget numbers or external customers charged, service performed or product sold, # of units sold, rate charged, total amount billed, etc.

Accounts

- All recharge centers must have a separate operating account.
- An equipment reserve account is required to include equipment depreciation or equipment use allowance in recharge rates.

Billing

- Recharge centers must consistently and accurately bill all customers.
- Advanced billing for services or products is not allowed.
- Non-federal external or outside users may be billed at a higher rate than cost (internal users).

Inventory

- Recharge Centers with inventories of $25,000 or more at fiscal year end, and all stores recharge centers, must:
  - Have an inventory account.
  - Follow the inventory requirements of Financial Accounting.

Quarterly Financial Reports – *updated 7/15/13*

- Recharge centers must prepare and submit quarterly financial reports to MAA and their respective Dean's/VP's office.
- Cost centers must prepare and submit quarterly financial statements to the Dean or Vice President.

Journal Vouchers – *updated 4/22/13*

- Recharge centers are responsible for submitting/processing required journal vouchers (JVs). Common JV's include:

        - Transferring equipment depreciation recovery or use allowance recovery from operating accounts to equipment reserve accounts.
        - Transferring "surcharge" revenue received from external users from operating accounts to the equipment reserve accounts.

          NOTE: Revenue from surcharges to external users is the only revenue that can be transferred from the recharge operating account.

        - Transferring operating expenditures the center does not intend to recover from users through the recharge rate(s). Examples of such expenditures include operating deficits and unallowable costs such as advertising.

      NOTE: These transfers should only be moved to a reserve account when the transfer does not result in a deficit in the reserve account.

    - Recharge centers are also responsible for attaching and maintaining back-up documentation related to journal vouchers.

Transfers

- Normally, the only allowable transfers from the recharge center's operating account are to:
    - Transfer surcharges to external users into the equipment reserve account.
        - Revenue from surcharges to external users is the only revenue that can be transferred from the operating account.
- Transfer costs not charged to users from the operating account into a non-Federal account.
- A surplus in the operating account cannot be transferred to a non-recharge center account or be used to pay for equipment items costing $5,000 or more.

Audit

- The records, operations, rates and practices of all recharge centers are subject to audit by Federal, State and Internal auditors.

3. Expenditures/Costs

- Internal user rates can only include expenditures directly related to the operation of the recharge center.

- Internal user rates must be based upon and designed to recover no more than the operating cost for the services or products being provided, including a maximum of 60 days of working capital.
- The cost of one service or product cannot be funded by or included in the rates of another service or product in the recharge center.
- Costs included in a rate must be reasonable, allocable, and allowable.
- Costs, including overhead or administrative costs, must be allocated to a service or product according to a reasonable approximation of the benefit received.
- Recharge centers must be able to assign costs, including clerical and administrative salaries, "relatively easily with a high degree of accuracy".

Unallowable Costs (cannot be included in internal user rates)

- Recharge centers must not include these costs in their rates:
  - All unallowable costs, as defined by the Federal Uniform Administrative, Cost Principles, and Audit Requirements for Federal Awards, or simply Uniform Guidance, must not be included in the rates charged to internal users or charged to the recharge center operating account. Recharge center managers should pay close attention to entertainment, interest, and bad debt expenditures because Federal audits at other universities have discovered these unallowable costs in recharge center operating accounts.
  - Building depreciation, rent, and operations and maintenance not paid by recharge center. (Only costs incurred by the recharge center can be included in rates.)
    - **Exception:** Facilities costs should be included in the rates charged by animal care facilities, if animals are "generally" removed.
  - Cost of equipment $5000 or greater (per item). However, equipment depreciation or equipment use allowance can be included.
  - Any costs already reimbursed through the Facilities and Administrative (indirect) cost rate. For additional information contact MAA.

Unrecovered Costs

- Recharge centers do not have to include all of their costs in the rates. However, the recharge center is responsible to find an alternative source of funding (which cannot be Federal funds) for costs not included in the rates.
- The recharge center is responsible to transfer any costs originally charged to the operating account that are not included in the rates.
  - Costs not included in the rates cannot be transferred to Federal budgets.
- Unrecovered Costs can be transferred from the operating account to the equipment or other reserve accounts.
- Recharge centers need to track unrecovered costs so they can be removed when an F&A proposal is prepared.
- Prior MAA approval is needed for all budget numbers that will incur recharge center expenditures and/or fund the recharge center's costs.

4. Rate Setting

Usage

- All usage must be tracked and factored into the rate calculation.

Rates/Charges

- All University users must be charged the same rate(s) for the same level of service or products under the same circumstances. Volume discounts or other special pricing mechanisms must be equally available to all users who meet the criteria.
- Recharge centers can, with MAA approval, employ a minimum fee based on costs incurred to initiate the service, such as equipment set up costs, expendable supply costs, etc.

Internal (UW) User Rates

- Internal user rates must be based upon costs.
- Recharge centers should charge for all usage of goods or services. However, recharge centers can elect to use non-Federal, non-recharge center funds to pay for the services provided to specific users (e.g. students).
- Internal user rates cannot add charges to accumulate assets. Funds to purchase equipment costing $5,000 or more, or to accumulate inventory, cannot be included in internal user rates.

External User Rates – *updated 7/15/13*

- Rates charged to external users must add the charge for institutional overhead, unless approval from the Budget Office is obtained.
- "Surcharges" can be added to rates charged to non-University users. These surcharges can be used to reduce rates charged to users, build a working capital reserve, or to finance equipment purchases.

Billable or Sellable Units

- Billable or sellable units used to develop rates must be reasonable and accurate given the data available. For example, available hours should be adjusted for vacation leave, machine downtime, etc. to arrive at billable hours.

5. Taxes

Sales Tax

- If the recharge center sells "tangible personal property" to external users, then Washington State sales tax may be applicable. For further information about sales tax, please contact the Tax Manager.

Unrelated Business Tax (UBIT)

- If goods or services are charged to external users at more than cost, the University may have a liability for unrelated business income tax (UBIT). An activity must meet all three of the following tests to be classified as unrelated business income (subject to tax):
  - The activity must be a trade or business,
  - The activity must be conducted regularly, and
  - The activity must not be substantially related to the institution's exempt educational or scientific purposes.
- If you have any questions on UBIT, please contact the Tax Manager.

6. Deficits, Surpluses, and Working Capital

Deficits and Surpluses

- Surpluses and deficits should be included in the recharge rates for the following year, with the following exceptions:
  - Recharge centers can retain on an ongoing basis a maximum of 60 days of current expenditures as working capital in their operating account with MAA approval.
  - Fund balances may not be retained or accumulated for purposes other than to provide a maximum of 60 days of working capital.
  - A deficit may be recovered over more than one year with prior MAA approval of a recovery plan.

Working Capital

- Recharge centers can retain on an ongoing basis a maximum of 60 days of current expenditures as working capital in their operating account with MAA approval.
  - The Dean or VP can approve the retention of a maximum of 60 days of current expenditures as working capital for cost centers.
- Funds or transfers from non-Federal sources or an existing fund balance can be used to acquire the working capital amount.
  - Costs to accumulate working capital cannot be included in internal user rates.

7. Equipment

Equipment

- For recharge centers, the equipment capitalization threshold is $5,000 or more as set by the University's Cost Accounting Standards (CAS) disclosure statement.
  - Equipment costing less than $5,000 should be expensed or charged to the operating account.
- The cost of equipment costing $5,000 or more cannot be included in recharge rates. However, depreciation or use allowance for equipment costing $5,000 or more may be included in recharge rates.
- When equipment used in recharge operations is leased:
  - Operating lease: the lease cost may be included in the recharge rates.
  - Capital lease: depreciation or use allowance may be included in the rates.

Equipment Depreciation– *updated 7/15/13*

- Depreciation or use allowance for equipment costing $5,000 or more can be included in recharge rates.
- For each class of equipment utilized by the recharge center, either equipment depreciation or use allowance may be used (but not both).
- If equipment is purchased with Federal funds or used for cost sharing on Federal awards, its depreciation or use allowance cannot be included in the recharge rates.
- Depreciation and use allowance can only be included in rates if:
  - The recharge center has an equipment reserve account.
  - The equipment is still in use by the recharge center.
  - Recharge centers have a depreciation or use allowance schedule approved by MAA.
    - Equipment Inventory Office asset numbers must be included in the equipment depreciation or use allowance schedule.
  - JVs to transfer the depreciation or use allowance amount into the recharge operating account are submitted:
    - On a regular basis, and kept up-to-date.
    - For the entire rate-setting period (e.g. for the entire year the rates are in effect).
- Recharge rates cannot include depreciation from prior years.

Depreciation

- Equipment cannot be depreciated beyond its useful life. For example, if equipment has a 5-year useful life, it can't be depreciated after the 5th year (even if the equipment wasn't depreciated for each of the five years).
- Only straight-line depreciation may be used (acquisition cost of the equipment less residual value divided by its useful life).
- Useful lives can always be the same as or longer than the State useful lives for the type of equipment. A useful life shorter than the State's may be used if:

    - Prior approval is received from MAA.
    - The nature of the equipment, technological developments, renewal and replacement policies followed, and pattern of use indicate a shorter useful life.

Sale of Equipment

- When equipment is sold all the proceeds from the sale and any gain or loss should be recorded in the equipment reserve account.

Equipment Reserve Accounts – *updated 7/15/13*

- Equipment purchases of $5,000 or more should be charged or debited to the equipment reserve account.
- Equipment reserve accounts for recharge and cost centers cannot be in deficit without prior Budget Office approval.

8. Reimbursement

General

- Under no circumstances can the non-recharge accounts that gave money to/invested in the recharge center be reimbursed for more than the dollar amount given to the recharge center.
- A non-recharge account can only be reimbursed by receiving services without charge or by charging equipment to the recharge center's equipment reserve account.

Reimbursement for Funds Provided from Another Account

With prior MAA approval, non-recharge center budgets that paid for the costs of/invested in recharge centers can be reimbursed by receiving services from the recharge center without cost or by charging it's equipment cost to the recharge center's equipment reserve account.

- A recharge center must carefully document:
    - Dollar amounts received from/invested in the recharge center by other account(s).
    - The individual services provided to or equipment items purchased for non-recharge account(s), including cost, number of units, and service or purchase date information.
    - The total dollar value of the services received by the non-recharge account(s) doesn't exceed the dollar value of funds given to the recharge center.

Equipment Purchased with General or Departmental Operating Funds

- Equipment used by the recharge center, which is purchased with general or departmental operating (non-Federal) funds, can be depreciated in recharge rates. The department can be reimbursed for the cost of this equipment if:
  - Prior approval is received by MAA.
  - Adequate documentation is developed, maintained, and retained by the recharge center to verify the equipment's original purchase cost, depreciation/use allowance amounts recovered, etc.
- To obtain reimbursement for the cost of the equipment used by the recharge center, change the accountable budget in OASIS to the recharge center equipment reserve account.

9. Closing a Recharge Center

Closing a Recharge Center

- To close a recharge center:
  - Contact MAA to receive instructions regarding the proper handling of recharge center accounts and the resolution of associated issues.
  - Notify the Dean's or VP's office.