University of Washington

Service Center and Recharge Center Guidelines

June 22, 2017

I. PURPOSE: To establish comprehensive University guidelines that govern and assist service centers and recharge centers in complying with applicable UW, State and Federal regulations. Service centers and recharge centers are entities within the University that provide fee-based services and/or products to the UW community. They may also offer goods and/or services to non-UW customers however, this may only be done when those services or goods are directly and substantially related to the educational mission of the University (APS 59.5(3)(b).

These guidelines apply only to service centers and recharge centers (hereinafter referred to as "centers") as the requirements for rate development, rate approval and financial statements are only applicable to those centers and are guided by applicable UW, State and Federal regulations. These guidelines also apply to program income activities where the program income is generated via a rate or rates for services/products in a manner similar to service and recharge centers. They do not apply to other revenue generating or cost transfer activities. Where unique differences exist, specific references will be made to service centers or recharge centers.

II. ESTABLISHING A CENTER:

a. A center should only be established after completing an internal marketplace analysis to ensure there is sufficient demand (customer base) for the services/products at a price point sufficient to sustain the center. A description of the customer base must be included in the center rate proposal.
b. If/when centers provide services/products to external users, they must avoid violating UW policy APS 59.5, Policy on Sales of Goods and Services. A description of the external customers and the process used to determine compliance with the aforementioned APS policy must be included in the rate proposal.
c. Centers must complete a proposal when initially establishing a center that includes, but is not limited to, a description of the services/products that will be provided, description of the anticipated customer base (internal and external), projected annual expense and revenue, estimate of the units of services/products anticipated for the period and the proposed rate(s) to be charged (see Cost Accounting and Rate Setting Guidelines (Section IV))

III. MAINTAINING A CENTER

a. Recharge (billing) rates and proposals:
   i. Established centers:
      i. Must review billing rates no less often than annually,
      ii. Must submit full rate proposals no less often than biennially,
      iii. Must submit full rate proposals if significant changes are made to the center's methodology used to calculate the rate(s), there are changes in the size or structure of the center's cost base, a significant surplus/deficit occurs and/or new services/products are added or an existing service/product is discontinued.
   ii. **New centers:** Rates must be reviewed and approved at the time the center is being established and no less often than biennially thereafter,
   iii. **All rate proposals:**
      i. Must be submitted to department chairs' and deans'/VPs' offices for review and approval. Note, department chairs' and deans'/VPs' offices may require a more frequent submission cycle, e.g., continuous annual review for the first few years,
      ii. Copy of the department chair and dean/VP rate approval email communication must be included with the full the approved rate proposal when required to be sent to MAA.
   iv. **Service center rate proposals:** All proposals must be submitted to MAA.
   v. **Recharge center rate proposals:** Initial proposal must be submitted to MAA.

b. Documentation:
   i. Centers are responsible for submitting appropriate documentation to the appropriate offices (see section III.b.) at the time the center is established and at biennial/annual review time.
   ii. Centers are responsible for maintaining documentation in accordance with the requirements of UW Records Retention Schedule (note, there are 3 sections pertaining to service/recharge centers. Click on 'R' under "Browse Alphabetically")

IV. COST ACCOUNTING & RATE SETTING GUIDELINES

a. Centers must consistently follow sound cost accounting practices/standards, including rate setting methodology and billing practices, i.e., Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB).
b. On an overall basis, the internal billing rates need to be set at a level that results in the center breaking even over a reasonable time, generally three years. (see section IV.r.).

c. Costs included in billing rates must be reasonable and considered necessary for the operation of a center and consistent with established Federal, State and local government and UW policies and regulations.
d. Costs usually include salaries, benefits, operations, travel, and equipment depreciation recovery (see section V.b.) if the costs are necessary to the center's operations.
e. Surcharges and UW institutional overhead and taxes (see section VI.f.) to external users must also be included in the billing rate when appropriate.
f. Costs must be allocated to service/products in accordance with relative benefits received or other equitable relationship. The following should be observed:
    i. Allocable costs are those that:
        a. Solely benefit the service/product.
        b. Benefit the service/product and other services/products in proportions that can be reasonably approximated. Note, documentation for how the costs were approximated must be maintained.
        c. Are necessary to the overall operations of the center and are wholly or partly allocable to the service/product (e.g., an allocation of center overhead).
    ii. Allocation of any costs (or revenues) to a service/product
        a. May not be shifted to other services/products without prior MAA approval
        b. May not be shifted if the shift will circumvent restrictions imposed by law or policy.
g. Federal Uniform Guidance defines allowable and unallowable costs. Centers should not incur unallowable costs unless other sources of funds (e.g. surcharges from external customers) are available and charged.
    i. These costs must be a necessary business expense for the center, e.g., advertising
    ii. Costs determined to be unallowable should not be recovered from internal users nor expensed on a center's operating account. Such expenses may be posted to a center's associated reserve account or other allowable departmental accounts.
h. Only costs expensed on the operating account can be included in the internal rate(s)
    i. E.g., building depreciation, rent, and operations and maintenance costs not paid by center cannot be included in the rate(s).
    ii. Exception: Facilities costs may be included in the rates charged by animal care facilities, if animals are "generally" removed from the animal research facility.
i. Capital equipment with a unit cost of $5,000 or more cannot be expensed on the operating account, and therefore cannot be included in the rate. However, equipment depreciation (see section V.b.) can be included.

Equipment included in the University's F&A rate cannot be depreciated in a center's rates. (See section V.a.ii.ii)

j. To avoid major fluctuations in rates, major non-capital purchases, e.g., software costing less than $1 million may be amortized over a period greater than one year. Arrangements to amortize costs should be pre-approved by MAA and dean's/VP's office.
k. Costs already reimbursed through the Facilities and Administrative (indirect) cost rate e.g., administrative salaries, equipment depreciation (See section V.a.ii.ii), cannot be included in center rates. For additional information contact MAA.
l. Basis for direct charges. The cost of the service/product will be charged directly to customers based on:
    i. A schedule of billing rates that does not arbitrarily discriminate between the University's' sponsored projects and non-sponsored projects (including use by the institution for internal purposes).
    ii. Actual consumption or use of the service/product multiplied by the billing unit.
    iii. Actual costs less applicable credits. Examples of applicable credits include:
        i. Purchase discounts, rebates, or allowances (including "educational discounts" where the arrangement(s) is not clearly and specifically identified as a gift by the vendor),
        ii. Recoveries or indemnities on losses,
        iii. Adjustment for overpayments or erroneous charges
        iv. Known facts, existing trends or other institutional budgeting practices, e.g., the prior year's operating account would be acceptable.
m. Separate billing rates: In most situations, separate billing rates must be developed for services/products that meet any of the following criteria:
    i. Any time a discount or surcharge is extended.
    ii. Costs associated with a particular service/product requiring substantially different levels of resources and are therefore significantly different cost than the costs of other services/products offered by that center (e.g., service/product A requires $100/billable unit whereas service/product B requires $150/billable unit).
    iii. Any time there are sales to external UW customers (i.e., customers not paying with a UW budget number). External UW customer rates are fully developed billing rates which must recover all costs, including building/equipment depreciation, unallowable costs (see section IV.g.), institutional overhead, sales tax (if applicable) and expenditures incurred by State/General Operating Funds. External UW customer rates will minimize the potential for competition (or unfair competition) with local enterprise and therefore may also

include a reasonable surcharge resulting in net revenue being realized. Such net revenue, however, may be subject to unrelated business income tax. (See Section VI.f.)

Note: Only under unusual circumstances can separate internal rates be established for the same service/product.

n. Center overhead. Center overhead are costs that cannot be directly attributed to a specific good or service but are still essential to the operations of the center, these costs are typically financed by a center's operating account and can be included in the billing rates for each service/product. These costs should be allocated in a logical manner, beneficial to the relationship of each service/product, e.g. a center's administrative costs.
    i. Centers must be able to assign directly charged costs, including clerical and administrative salaries, "relatively easily with a high degree of accuracy".
    ii. A brief description of the manner in which these expenses were allocated to each of the services/products must be included in the proposal documentation.
    iii. Administrative and clerical salaries may be charged to a center's operating account and included in rates if they meet the following criteria:
        i. They are necessary for the direct support of the center,
        ii. They are not included in the UW's F&A rate (contact MAA for more information).
        iii. A brief description of the activities is included in a center's rate proposal.

        Note: Ordinarily department wide activities, e.g., payroll coordinator, are not included unless the activities are material.

o. Schedule of billing rates: Centers must maintain an approved schedule of current billing rates and make them available upon request.
p. Billing:
    i. Centers must bill all customers in a consistent, accurate and timely manner. Given the significant amount of billings charged to sponsored projects and the federal requirement that projects to be closed within 90 days of termination, it is highly recommended billings be processed within 45 days of when the services were provided. Untimely billings processed against terminated and closed sponsored project budgets may need to be absorbed by the

center/department either with reserve funds or other non-center funds (i.e., cannot be charged to the center's operating account).

ii. Advanced billing for services/products is generally not allowed for internal UW customers. It is permissible when dealing with external customers.
Note: Advanced billing should not constitute priority of external customers over internal customers. Additionally, actual recharges applied to advanced billings must be based on the rate(s) in effect at the time the service was provided.

iii. Billings to internal University customers are done through Internal Sales Documents (ISDs) and should be recorded to the appropriate revenue code in each center's account and to the appropriate object codes in customer accounts.
See Object Codes and Revenue Codes and ISD guidance at https://f2.washington.edu/fm/fr/references

iv. Billings to external customers should be done with an invoice through the Invoice Receivables office or within a center's department. Refer to the Invoice Receivables website for receivables procedures, https://f2.washington.edu/fm/sfs/ir/intro.

q. Break-even operation: Center billing rates should be designed to recover the aggregate costs of services/products over a defined break-even period net of current operating costs borne by non-operating accounts. The break-even period for most services/products should be two to three years (e.g., year 1 established rates charged and expenses incurred; year 2 rates established prior to conclusion and final accounting for year 1; year 3 rates established incorporating final over/under recovery adjustments from year 1). A longer break-even period may be established when necessary and approved in advance by MAA and/or the Office of Planning and Budgeting. Exceptions to this may occur when providing services/products to non UW customers.

Should centers experience a large unanticipated over/under recovery within a rate cycle, exclusive of surcharges that may have been included in billings to external customers, a mid-year rate proposal or recovery plan may be required.

i. Realized revenue for a service/product does not have to equal the cost of providing the service/product during any one fiscal year provided the applicable billing rates are reviewed periodically for consistency with the "break-even plan" and adjusted as necessary. Carry-forward adjustments to future year rates may be necessary to accomplish a break-even status. This will require approval by the dean's/VP's Office, MAA (if service center) and, in some cases, the Office of Planning and Budgeting (OPB). Example, high "start-up costs" are incurred for a new center resulting in cumulative costs exceeding cumulative revenue during the first year of operation.

r. Deficits, Surpluses and Working Capital
    i. Deficits:
        i. Deficits incurred on a center operating account or related account, e.g., equipment reserve account, must comply with the University of Washington's Deficit Policy located on the Office of Planning and Budgeting's website (http://opb.washington.edu/).
        ii. Generally deficits must be factored into the next year's rate computations however a deficit may be recovered over more than one year with prior approval of a recovery plan, by the appropriate offices, including the dean's/VP's office, MAA and, in some instances, OPB.
    ii. Surpluses in excess of the working capital (see below) must be included in the center's recharge rates for the following year
    iii. Working Capital:
        i. Centers may retain, on an ongoing basis, a maximum of 60 days of current expenditures as working capital in their operating account with approval from MAA, department chair and the dean's/VP's office. For example, if the average monthly operating costs are $25,000 the center may retain up to $50,000 in working capital.
        ii. In cases of recharge centers only the dean's/VP's approval is required.
        iii. Funds or transfers (non-mandatory and voluntary) from non-Federal sources or from 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.

s. Revenue or expenditure transfers: Since revenue or expenditure transfers between centers and other accounts may impact billing rate computations (including break-even), such transfers generally are not allowable. Common exceptions to this include:
    i. Institutional overhead recoveries received from external billings transferred to a central institutional overhead recovery accounts in accordance with University policy (see Institutional Overhead),
    ii. Center generated transfers:
        i. Equipment depreciation recovery from a center's operating account to the equipment reserve account,
        ii. Net revenue resulting from a surcharge to external UW customers may be transferred to a center's reserve account provided the center can support the net revenue resulting from services/products provided to external UW customers.

t. Unrecovered costs: Centers do not have to include all of their costs in the rates. The center is responsible however to find an alternate source of allowable funding for costs not included in the rates. Centers may transfer unrecovered costs:
    i. Charged to the operating account but were not intended to be recovered in current or future rates. These may be charged to allowable sources, e.g., discretionary funds.
    ii. From the operating account to the equipment or other reserve accounts.

Note: Unrecovered costs must be tracked, documented and submitted to MAA on an annual basis, or when requested, so they can be excluded from F&A proposals. Prior MAA, department chair, and dean’s/VP office approval is needed for all account numbers that will incur center expenditures and/or fund a center's costs.

V. EQUIPMENT

a. Definition: To qualify as capital equipment an item must have a unit cost of $5,000 or more and a useful life greater than one year as set by the University's Cost Accounting Standards (CAS) disclosure statement.
    i. Equipment costing less than $5,000 should be expensed or charged to the operating account
    ii. Capital equipment costing $5,000 or more
        i. Cannot be charged to the operating account or included in rates.
        ii. Must be depreciated and only the annual depreciation amount may be included in a center’s rates assuming such depreciation has not been included in the University’s F&A rate proposal.

b. Depreciation:
    i. Billing rates cannot include the acquisition cost of capital expenditures. Instead, subject to limitations below, billing rates may only include “equipment depreciation” commensurate to the proportionate use of the equipment for center purposes.
    ii. Capital usage factors are computed based on depreciation methods for equipment. Capital usage factors for the lease/rental of equipment are determined based on the actual lease/rental amount.
    iii. If equipment is purchased with Federal funds or used for cost sharing on Federal awards, the depreciation associated with the equipment cannot be included in a center’s rates.
    iv. If equipment is included in the University’s F&A cost proposal and F&A rates a center may not recover deprecation in its rates until such time as the equipment is excluded from the F&A proposal/rates (generally 3-5 year cycle).

v. Centers must have a depreciation schedule approved by MAA and their respective department chair's, and dean's/VP's office.
   i. OASIS asset numbers must be included in the equipment depreciation schedule.
   ii. The center's reserve account should be listed as the accountable budget in the OASIS system
vi. Centers are responsible for processing depreciation recovery amount from each center's operating account to the appropriate approved reserve account via JV no less often than semiannually. Transfers should be kept up-to-date and annually reflect the total amount of depreciation recovered for that rate cycle i.e. center's fiscal year.
vii. Center rates cannot include unrecovered depreciation from prior years.
viii. Depreciation can only be included in rates if:
   i. the center has an equipment reserve account,
   ii. the asset(s) exists, is usable and being used, and needed for the center operations,
   iii. the equipment was not purchased with federal funds.

c. Computation of depreciation must be based on the acquisition cost of the capital assets involved:
   i. Billing rates for internal customers must exclude any portion of capital asset costs borne or donated by the Federal Government, as well as any portion of the cost prohibited from recovery by law or agreement. In addition any portion of capital asset costs used to meet cost share commitments must be excluded until the sponsored project(s) benefitting from the cost sharing has terminated.
   ii. Depreciation for equipment must be based on straight-line depreciation.
   iii. No depreciation may be computed or charged on equipment that has outlived its useful life unless a longer useful life was approved by MAA in advance.
   iv. Useful lives should normally be the same as the State useful lives for the respective type of equipment. A useful life longer or shorter than the State defined useful life may be used if:
      i. Prior approval is received from the respective Department chair and dean/VP office as well as MAA.
      ii. The nature of the equipment, technological developments, renewal and replacement schedule followed, and pattern of use indicate a shorter or longer useful life, e.g. technical obsolescence
      iii. The life of the asset is based on the date it was placed in service by the University which may not be the date placed in service by the center.

v. Replacement parts or supplies consumed in the performance of work are considered non capital, i.e., not equipment, and should be coded appropriately (see object (expense) codes) when ordered regardless of cost.
Please refer to the Equipment Inventory Office website for additional questions and guidance concerning equipment.

d. Equipment Reserve Accounts:
    i. An equipment reserve account, program types 21 and 23, is required to record equipment depreciation recovered through center rates (see section g.).
    ii. Equipment reserve accounts are considered part of a center's operations and must be used solely for center related expenditures, most commonly equipment acquisitions (see section iii).
    iii. Equipment purchases of $5,000 or more and a useful life of more than one year charged or debited to the center must be posted to the equipment reserve account.
    iv. Equipment reserve accounts for centers cannot be in deficit without prior approval from the Office of Planning and Budgeting.
    v. Establishing equipment reserve accounts:
        i. Complete a Budget Request Form
        ii. Submit completed request form to MAA via your department chair's and dean's/VP's office
        iii. After review and approval MAA will request the new account from the Office of Planning and Budgeting.
        iv. MAA will advise the center of the new account number when assigned

e. Capital asset records & inventories: Capital assets are tracked in OASIS. Each record (asset) must indicate the center equipment reserve account as the accountable budget unless an exception is approved by MAA. The center must maintain supporting documents including the basis for the exception and approvals. Complete physical inventories must be taken in accordance with capital asset policy to ensure the assets exist and are usable, used, and needed. Capital assets not meeting these requirements are ineligible for center deprecation recovery.

f. Equipment purchased with General or Departmental Operating Funds:
    i. Equipment used by the center, which is purchased with general or departmental operating (non-Federal) funds and not included in the F&A rate, may be depreciated in centers' rates.
    ii. The contributing department may be reimbursed for the cost of this equipment (see section VI.h.)
    iii. The center is allowed to recover equipment depreciation for equipment used by the center and purchased with GOF/DOF funds provided the center complies with the section e., Capital asset records & inventories

Note: Adequate documentation must be developed, maintained, and retained by the center to verify the equipment's original purchase cost, depreciation amounts recovered, etc.

g. JV’s to transfer depreciation recovery from the operating account to the equipment reserve account should be processed quarterly. Additionally, centers must have an approved Depreciation Schedule on file, at MAA and the respective dean’s/VP‘s office.
h. Leases:
    i. Capital lease costs should be expended on an equipment reserve account and depreciation included in the rates.
    ii. Operating leases, including associated interest expense (only if paid directly to a third party), may be included in the rates and expensed on the operating account.
    iii. The center must include a reconciliation which details the information of each lease, e.g. lessor information, associated equipment tag and payment schedule, with the annual rate proposal.
i. Sales of Equipment: When equipment is sold all the proceeds from the sale should be recorded in the reserve account. Any gain or loss should then be recognized in the operating account via a JV transfer from the reserve account and factored into the rates for the next rate cycle.

VI. ADMINISTRATIVE GUIDELINES

a. Official financial records:
    i. FIN is the official financial record for the University and must be the basis of all financial related information that affects billing rate computations. Non-FIN financial record keeping systems (e.g. departmental shadow systems) must be reconciled to FIN on a regular basis.
    ii. OASIS is the official fixed asset management system for the University. To include depreciation in a center’s rates the equipment must:
        i. Be in the OASIS system with a valid UW Tag Number.
        ii. Be identified separately from non-center equipment in OASIS.
        iii. Reflect a center’s equipment reserve account as the accountable budget unless an exception is granted (see section V.b.v.2.).

    Note: The center should contact the Equipment Inventory Office for assistance in maintaining this inventory.
    iii. HEPPS (Workday effective June 2017) is the official payroll/personnel system for the University. Employee salaries

and classifications used in the proposal should match the information in HEPPS (Workday effective June 2017). Any deviations should be noted, e.g., pay increases (both merit and step). In addition, if a center anticipates hiring new employees the proper job class codes must be used.

b. Separate budgeting and accounting: Centers must be separately budgeted and accounted for apart from non-center activities (e.g., teaching, research). Exceptions to this requirement are subsidies a center receives from other allowable sources (e.g., State/General Operating Funds, Research Cost Recovery Funds) to reduce the rate of providing services/products to internal customers. Regardless, the following rules apply:
    i. Center account(s) must contain only revenues and expenditures directly related to the provision of services/products for that center. Funds in these accounts cannot be expended for non-center activities such as teaching or research and should not include expenses being subsidized from other sources.
    ii. Budgeting of all center revenue and expenditures must conform to applicable University budgeting procedures.

c. Record keeping procedures and systems (e.g., subsidiary records, data not available in required detail or format from central University systems) must be established and maintained by centers to capture all financial or statistical data that is:
    i. Necessary for good internal control and center management.
    ii. Necessary for development and maintenance of service/product billing rates.

d. Account Types: All centers must have a separate operating account in FIN. In addition to the operating account, centers may also have the following related accounts:
    i. Reserve account(s).
        i. Equipment reserve accounts must be established to account for:
            a. All capital related expenditures being recovered by centers (i.e. depreciation recovery) see section V.b.)
            b. The costs of capital acquisition acquired by the center.
        ii. Surcharges to external users can be transferred to the reserve account. Revenue from surcharges to external users is the only revenue that can be transferred from the operating account. Center related expenses not recoverable from internal users can be expensed on the reserve account (e.g. advertising) in cases where the reserve account has a surplus balance. Commonly equipment reserve accounts are used for both equipment and surcharges.

ii. Non-Capital Inventory account: Inventories exceeding $25,000 must be maintained in a separate inventory account. Physical inventories of raw materials, work in process, finished goods, and re-sale merchandise must be taken annually. Inventories must be valued and adjusted using an inventory method approved by Financial Accounting. Adjustments should be made between the center operating account and the associated non-capital inventory account.
iii. Stores operations accounts must have, at a minimum, four distinct accounts as follows:
    i. Operating
    ii. Cost of Goods Sold
    iii. Non-Capital Inventory
    iv. Sales (to record internal and external revenue)

e. Institutional overhead recovered, in accordance with section IV.e., will be transferred to appropriate local funds accounts on a periodic basis, but no less frequently than once a year. Typically this is done quarterly by the Office of Planning and Budgeting.

f. Unrelated Business Income Tax: For centers making both internal and external sales, the sales made to external customers may be subject to the Unrelated Business Income Tax (UBIT). Whether a transaction is subject to UBIT requires a complex facts-and-circumstances analysis. Due to the complex nature of UBIT, MAA will collaborate with the Tax Office to determine if UBIT applies and the Tax Office may contact departments establishing a service center or recharge center for further information.

g. Financial Reports: The financial report is prepared periodically by the center to define cumulative activity for the biennium. The report summarizes the actual activity that has been recorded on the center operating account as well as accruals related to the time period being reported.
    i. Financial reports are normally prepared on a semiannual basis but may be required more/less often depending on department chair's, dean's/VP's, offices and/or MAA's requirement.
    ii. Service centers must submit financial reports to the appropriate department chair's, dean's/VP's Office and MAA.
    iii. Recharge centers must submit financial reports to the appropriate department chair's and dean's/VP's Office.
    iv. If a center reserve account(s) is in deficit a separate financial report should be submitted including an explanation how the deficit will be resolved.

h. Reimbursement:
    i. Reimbursement for funds provided and/or center costs covered from a non-center account(s), e.g. center equipment purchased with general or departmental funds, regardless of whether there is a

quid-pro-quo arrangement, e.g., free services equal to the amount of contribution, requires prior MAA approval, ,

    i. Non-center accounts that provided money to/invested in centers can be reimbursed by receiving services from the center without charge or by charging the cost of the service/product to the center's equipment reserve account.
    ii. For instances where the non-center account does not use the center they may charge, with prior MAA and dean's/VP's office approval, other costs to the centers reserve account.
    iii. Complete documentation must be maintained including:
        a. Dollar amounts invested in the center by other account(s).
        b. The detailed information on how the invested funds were used e.g., purchase of equipment, salary support, application to individual rates, etc.
        c. Attestation that the total dollar value of the services received by the non-center account(s) did not exceed the dollar value of funds/resources invested in the center from the non-center account(s).
    iv. Requires the center to impute revenue as if the reimbursement (non-center) account was actually paying for the services or products to ensure other users are not ultimately charged.

  ii. Under no circumstances can non-center accounts that provided money to/invested in the center be reimbursed for more than the dollar amount provided to the center.

i. Closing a Center:
  i. Contact Dean's or VP's Office to receive instructions regarding the proper handling of center accounts and the resolution of associated issues.
  ii. Contact MAA for final close out procedures.

j. Closing Approvers:
  i. Department chairs (grantor), Deans/VP's Offices). Note: the aforementioned may delegate their approval authority based on their current department, school and University Policy (
    i. Such delegations are at the discretion of the grantor
    ii. For a limited time in nature
    iii. Must be in writing or email
    iv. It is the responsibility of the department to ensure that proper authority is acquired and maintained
  ii. MAA

k. Exceptions: Centers may request specific exceptions to section VI guidelines. Such exceptions must be submitted in writing to Management

Accounting & Analysis and respective dean's/VP's office for review and approval. Approved exceptions usually will be temporary in nature and will not relieve the center of long-term responsibilities for complying with section VI., guidelines.

VII. Resources:

a. Glossary
b. FAQs
c. Management Accounting & Analysis (MAA)
d. UW Tax Office
e. Equipment Inventory Office (EIO)

APPENDIX A - GLOSSARY

Allowable Cost - The costs incurred to produce the products or services the service\recharge center distributes. Costs defined as unallowable by OMB Uniform Guidance, or defined as "Unallowable Costs" below, cannot be included.

Allocation - The process of charging a cost, or a group of costs, to one or more individual budgets in reasonable and realistic proportion to the benefit provided or other equitable relationship. All allocation methodologies must be thoroughly documented.

Assignment - The process of distributing costs within a service\recharge center's budget to the various products or services provided by that budget in reasonable and realistic proportion to the benefit provided or other equitable relationship. All assignment methodologies must be thoroughly documented.

Cost Studies - The process through which user rates are determined by estimating both the quantity of products or level of services distributed or provided and the cost of producing and/or providing the products or services. Cost studies may involve the process of allocation and assignment.

Depreciation - Equipment is considered depreciable if:

- the useful life is greater than 1 year, **and**
- it is used in center activities, **and**
- the cost is equal to or greater than $5,000 per individual equipment tag number (cost includes calibration, installation, freight, trade-in, and sales & excise tax), **and**
- The item was not purchased with federal funds.

Equipment (capital) - Tangible property other than land, buildings, improvements other than buildings, or infrastructure with a unit cost (including ancillary costs) of $5,000 or more which is used in operations and with a useful life of more than one year.

Equipment (non-capital) - Centers can purchase non-capital equipment costing less than $5,000 on their operating budget. Centers can depreciate only capital equipment costing $5,000 or more.

External User - Any entity (person or organization) external to the University that obtains products/services from a center, whose use of these products does not directly or indirectly benefit a specific University sponsored project, function, or activity and which are not charged to a UW budget number.

Facilities and Administrative (F&A) Costs - F&A costs, previously referred to as "indirect costs" represent costs that are included in the University's F&A rate which is negotiated with the Federal government and charged to sponsored agreements. Since these costs are recovered through the application of the F&A rate to sponsored agreements they cannot be included in a center's recharge rates.

Generally Accepted Accounting Principles (GAAP) – Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. GAAP establishes appropriate measurement and classification criteria for financial reporting. Adherence to GAAP provides a reasonable degree of comparability among the financial reports of state and local governmental units. In accordance with RCW 43.88.037), the Office of Financial Management adopts GAAP as applicable to state governments.

Governmental Accounting Standards Board (GASB) - GASB is the source of generally accepted accounting principles (GAAP) used by state and local governments in the United States. As with most of the entities involved in creating GAAP in the United States, it is a private, non-governmental organization.

Institutional Overhead - A rate calculated by the Office of Planning and Budget to reimburse the University for costs paid centrally such as rent, light, heat, etc. It is similar to, but distinct from, facilities & administrative (F&A) costs charged to grants. Unlike F&A costs, institutional overhead is charged on revenue received from external users. Internal users are not charged institutional overhead. This represents a pass through charge for the center and the center must add institutional overhead to the rates charged to external users. The institutional overhead should be added after all surcharges have been applied. Click here to see current rates.

Internal User - Any entity (person or organization) internal to the University that obtains services/products from a center, whose use of these services/products directly or indirectly benefits a specific University sponsored project, function, or activity and which is charged to a UW budget number.

Pass-Through Activity - An activity that does not occur on a regular basis where the expenditure for a product which, for departmental convenience, is collected in one budget and then redistributed in total to one or more other budget(s). Only the invoice costs of these products are charged to other budget numbers. No additional value is added to the product.

Service/Recharge Center (Center) - A UW department/unit/activity/project that produces, distributes, and charges another UW department/unit/activity/project for services and/or products. Services and/or products are offered on a recurring basis and are charged/sold at an established rate or price. Typically, there is value added by personnel in providing the product.

Specialized Service Facilities – Centers involving the use of highly complex or specialized equipment or processes. The costs of these facilities include their allowable direct costs and their full allocable share of F&A costs. Note, the full allocable share of F&A costs for these facilities are excluded from the UW's negotiated F&A rate.

Surcharge - An additional amount that can be charged to non-UW external (not charging a UW budget) users above the cost to provide the service. The surcharge amount is determined by the center.

Unallowable Cost - Costs that:
(1) are defined as unallowable by OMB Uniform Guidance, such as entertainment, bad debt, alcohol, and public relations;
(2) do not benefit any of the products of the center or the purpose of the budgets to be charged; and/or
(3) are included in the UW F&A rate therefore are not allowed for purposes of developing center rates.

Unallowable costs necessary for the operation of a center must be paid from non-operating funds of a center, e.g., depreciation recovery, surcharges to external users or other departmental funds. These costs cannot be paid from sponsored agreements.

Unrelated Business Income Tax (UBIT) – A federal tax imposed on income generated by sales by tax-exempt organizations (including the University of Washington) which constitute regularly carried on trades or businesses which are not causally related to achieving the University's exempt purposes.

Working Capital - Equal to two months (60 days) of operating expenses. This amount can be deducted from the prior year surplus when determining the amount of prior year surplus required to be carried forward into the current year's rate calculation.

University of Washington
Service Center and Recharge Center Guidelines

FREQUENTLY ASKED QUESTIONS

Q: When is a service/recharge center required?
A: When the objective is to recover the costs of providing a service and/or product by charging mostly internal users, then it is necessary to follow the service/recharge center requirements.

Q: Why are service/recharge rate calculations and established User Rates required?
A: Recharges are often direct costs on grants and contracts. As such, they must conform to federal requirements (OMB Uniform Guidance) for direct costs as well as specific federal requirements related to how rates/fees are established and assessed to users. In the event of an audit, documentation must exist to support these costs.

Recharges represent the distribution of costs across academic and administrative units, which affects financial reporting and analysis.

Q: What are the implications of not establishing and submitting rate calculations?
A: Recharges not supported by established and approved rates are considered unallowable charges to sponsored agreements. As such, charging these to sponsored agreements represents an audit risk to the University. This would result in either a repayment of those amounts (plus the associated F&A recovery) to federal and other sponsors and/or a prospective adjustment to the rate(s) being charged. Repayments will be the responsibility of the associated department.

Q: Is there a threshold for being defined as a service center?
A: Yes. Service centers charge $175,000 or more annually to federally funded sponsored programs OR $1,000,000 or more annually in total charges. Recharge centers charge less than $175,000 annually to federally sponsored programs AND less than $1,000,000 in total charges.

Q: What if the users are mostly/entirely non-sponsored (non-grant)?
A: The same requirements still apply.

Q: What if the good/service is being provided on a non-recurring basis?
A: Documentation of costs/rates and recording of revenues and expenses on the appropriate budget are still required. Refer to the Financial Management website on Self Sustaining Activities to determine the appropriate budget classification.

Q: What do we do if an existing budget reflects a mix of unrelated activities, only one of which is a recharge activity?

A: Separate budgets must be established for each type of activity that exists and all expenses and revenues redistributed to the appropriate budget.

Q: What happens if the center is established during the year?

A: Only the revenues and expenses related to the center should be charged (moved if previously charged to another budget) to the new center budget effective the date the center was put into service.

Q: If the costs associated with the goods/services provided are primarily or exclusively personnel time and the users are primarily or exclusively sponsored projects, when is it appropriate to operate this activity as a center (as opposed to charging an individual's salary directly to grants)?

A: The activity should be treated as a center when the total cost of the service/product to be recovered cannot be easily distributed among the user (customer) base. For example, personnel time that varies regularly, supplies that the center consumes in the course of business, allowable equipment depreciation, space rental costs, etc.

EQUIPMENT AND EQUIPMENT DEPRECIATION

Q: Can depreciation expense be taken for equipment that is past its useful life but still active in use?

A: It depends. Sometimes a center may elect to depreciate an asset over a longer period of time than the standard useful life used by the UW. If this is the case then depreciation may continue to be taken as long as the depreciation recovery does not exceed the acquisition cost or, if acquired as a gift, the fair market value determined at the time of acquisition.

Q: If I choose not to include equipment depreciation expense (recovery) in my prices, can I still build a capital reserve?

A: It depends. Generally the answer would be no as the equipment reserve normally can only be accumulated via depreciation recovery. However, if your center does business with external entities, i.e., those not paying with a UW budget, and there is a surcharge applied the costed rates, the surcharge recovery would be transferred to the reserve budget and some or all of it can be used to acquire new and/or replacement equipment.

Q: How do I buy new equipment if I don't establish a capital reserve?

A: The equipment would need to be funded through other resources such as departmental funds.

Q: What if my records for an original equipment purchase don't agree with the information in the University's asset system?
A: You should contact the Equipment Inventory Office (EIO) to determine the course of action to be taken.

Q: Does the cost of a capital lease get expensed over the term of the lease or depreciated over the useful life of the equipment?
A: The total cost of the capital lease should be depreciated (straight-line) over the life of the equipment. This depreciation expense may then be used in calculating your rates.

Q: Can I build the cost of a future replacement into my rates?
A: No. You can only include the actual annual depreciation in the rates. However, surcharges recovered from external customers, i.e., those not using a UW budget number, can be used for future equipment replacement.

BUDGET IMPACT

Q: What happens if my actual expenses exceed the budgeted amounts?
A: The budgeted amounts reflected in rate proposals represents an estimate of the cost of doing business for the rate cycle. It is normal that variances will occur due to unforeseen circumstances such as unexpected expenses, reduced demand for services, etc. The goal is to minimize these variances as much as possible. Under normal circumstances, any under/over recoveries will be rolled forward to the next open rate cycle. If over/under recoveries are substantial, centers should contact MAA to discuss potential mid-cycle rate adjustments.

Q: Is it possible to establish user rates that differ from the calculated rate I charge?
A: The user rate charged to internal customers (those paying with a UW budget number) can be less than or equal to the calculated rate, but cannot be greater than the calculated rate. When charging an internal customer less than the calculated rate, centers must ensure that other users are not subsidizing users paying the discounted rate. Also, rates for external customers cannot be less than the calculated rate which must also include the UW Institutional Overhead. Care must also be taken that rates for external users are market based to avoid unfair competition with the private sector. (Ref: RCW 28.B.63.040)

Q: Do I have to submit a formal proposal if I am keeping my rates the same as the previous year?
A: Maybe. Centers are required to submit a full rate proposal at least every two years however, if significant changes are made to the center's methodology used to calculate the rate(s), there are changes in the size or structure of the center's cost base, a significant surplus/deficit occurs and/or new services/products are

added or an existing service/product is discontinued the center must submit a formal (full) proposal.

Q: Can I adjust my prices mid-year?
A: Yes. If your estimates going into the year prove to be significantly different than the center's actual revenues/expenses, you should consider recalculating your rates. They will need to be submitted to MAA for review and approval. Once approved, the new rates can be used. It is recommended you discuss this with MAA in advance.

Q: The surplus from the prior year is large. Does the entire surplus have to be carried forward into the calculated rates?
A: Maybe. If part of the surplus is attributable to surcharges to external customers and/or equipment depreciation recovery it should be transferred to the center's reserve account. In addition, centers are permitted to retain 60 days of working capital. If there still remains a large surplus it need not be eliminated in its entirety within one year, however, a plan should be in place to reduce it over the course of no more than 2-3 years. Contact MAA for guidance.

Q: How is the surplus/deficit calculation handled for a center that provides multiple goods/services?
A: If the center is separately tracking expenses and revenues for each service provided then the over/under recoveries balances should be applied to the respective service. If, however, the center is not tracking the expenses/revenues separately for each service then the over/under recoveries should be apportioned to each service through a sound allocation methodology, e.g., based on benefit derived.