

UC MERCED RECHARGE HANDBOOK

Recharge is a mechanism for the assessment and collection by one University department of a charge for goods and services furnished to another University department. All allowable costs associated with providing these goods or services are included.

A recharge is a direct cost, within the context of this handbook, which falls within one of the following three categories¹:

- Category 1: The cost charged to a University department for specific goods or services provided by another University department. Included in this category are goods and services provided by auxiliary and service enterprises, academic department support units, plant services departments, and other departments-other than central campus administrative offices-with approved recharge budgets.
- Category 2: The cost charged to self-supporting activities which are primarily funded from external income for identifiable services provided by central campus administrative offices.
- Category 3: The cost charged to University departments for special services and abnormal levels of services provided by central campus administrative offices which are beyond the normal services provided by those offices.

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- XIII. Recharge Budgets
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¹ Source for definition of recharges is from UC Business & Finance Bulletins (BFB) A-47, University Direct Costing Procedures

- XV. External Customers, Account Codes for Recharge Income and Sales Tax
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I. References

- A. Business & Finance Bulletin A-47
<http://policy.ucop.edu/doc/3420326/BFB-A-47>
- B. Business & Finance Bulletin A-56
<http://policy.ucop.edu/doc/3420329/BFB-A-56>
- C. OMB electronic Code of Federal Regulations (e-CFR, formerly OMB Circular A-21)
<http://www.ecfr.gov/cgi-bin/ECFR?SID=31f055ddace4d26ca6fcc199a50ea54f&page=browse>
- D. Contract & Grant Manual
<http://www.ucop.edu/research-policy-analysis-coordination/resources-tools/contracts-and-grants-manual/index.html>

II. Purpose

This handbook serves to establish a mechanism for defining, establishing and decommissioning recharge units along with developing, requesting, reviewing and approving new recharge rates. Recharge rates are established to allow recharge units to recover from extramural and University funded activities the costs for goods and services provided. The recharge policies and procedures have been established to provide consistent operational practices among the various recharge units, to ensure compliance with both University accounting policies and government regulations, and to ensure the equitable treatment of all users regardless of funding source.

Recharge unit policies and practices must reflect government regulatory costing principles such as those contained in the *Code of Federal Regulations Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Chapter I, Chapter II, Part 200, et al.)*. The University is subject to the Office of Federal Procurement Policy Cost Accounting Standards (CAS) (see above e-CFR in section I). These standards require the University to follow consistent cost accounting practices throughout the institution.

III. Functional Responsibilities

A. Campus Department

The campus department is responsible for the overall operation of its recharge units. Responsibility for recharge unit operation is delegated to the Manager with oversight of the service or unit. It is their responsibility to monitor operations and take corrective actions as needed. The designated Administrative Officer (AO) will assist the Manager in these duties. Depending on the size of the operation the designated Administrative Officer may act in the capacity of Recharge Unit Manager. The Recharge Unit Manager's responsibilities include the following:

1. Ensures recharge unit operations comply with all University recharge policies and procedures.
2. Ensures recharge unit operations comply with appropriate University payroll, reimbursement, accounting, and personnel policies and practices.
3. Reviews the recharge unit income (both internal and external sources), expenses, and rates throughout the fiscal year; and makes adjustments according to policy. Ensures a plan is developed and the Recharge Committee is notified when the department's review reveals that the unit is out of compliance.
4. Ensures that the recharge budget is reviewed and coordinated with the department's budget.
5. Ensures that recharge unit personnel charges, supplies and other expenses are charged to the correct full accounting unit (FAU).
6. Ensures the annual recharge financial report is prepared and submitted to the control unit on time.
7. Ensures the annual budget and proposed rate change submissions are prepared and submitted to the control unit on time.
8. Ensures rates are reasonable and are published including any approved subsidies.
9. Reviews recharge services on a regular basis, at least annually, to ensure that the services provided are necessary and are not readily available from outside sources.
10. Ensures monthly recharge unit billings are accurate, timely, and adequately documented. The billing rates should be consistently charged to all users of the service. Assumes any risk associated with nonpayment of goods and services when goods and services are provided prior to obtaining valid customer billing information.
11. Ensures the recharge unit operates within the break-even tolerance range, and in accordance with its budget. See Section VII, Deficits/Surpluses for further information.
12. Ensures recharge unit records are kept in good order for review and audit, and for the minimum required time (see *Section XIX, Records Retention*).

13. Ensures all recharge unit equipment is included in physical inventory records.
14. Conducts periodic review of personnel effort charged to recharge FAU. Ensures that the percentage of salaries charged corresponds to actual time spent on recharge center work.
15. Ensures the dean, director or department head is kept informed of all recharge unit matters.
16. Reviews ledgers for unallowable costs posted to the recharge unit's ledger throughout the year. Promptly transfers any unallowable charges to an appropriate FAU outside of the recharge operation.
17. Execute decommissioning of recharge units no longer in use with oversight and guidance provided by the Vice Chancellor/Dean.

B. Control Unit (i.e. Vice Chancellor/Dean)

1. Approves all recharge rate changes prior to submission to the Recharge Committee.
2. Reviews and approves annual recharge financial report.
3. Oversees and assists in formation of all new recharge units.
4. Oversees and assist in the monitoring of all recharge units within the control unit. Ensures they are in compliance with this handbook and UC financial policies.
5. Reviews services provided by the recharge unit on a regular basis, at least annually, to ensure that the services provided are necessary and are not readily available from outside sources. If they are readily available from outside sources, ensures there is overriding economic, ethical or other institutional issues to support the continued need for these services.
6. Oversees and assists in the decommissioning of recharge unit.

C. Committee Staff (i.e. Controller, CBO, BFS)

1. Provides cross functional group to include school, budget, costing policy, accounting and other technical expertise to support the review process for the Recharge Committee.
2. Provides support for ongoing fiscal review of the University's recharge operations.
3. Provides general accounting assistance to the recharge units, such as fund set up, accounting for depreciation, financial reporting issues.
4. Provides assistance on tax issues such as unrelated business income tax, sales tax, etc.
5. Performs review of annual budget, annual recharge financial report and rate proposals.

6. Administrators review process to include the following;
 - a) Components of recommended recharge and fee rates are allowable;
 - b) Recharge and fee proposals meet the criteria for a recharge/fee for service operation;
 - c) Expenses are well documented and actual expenses match campus financial schedules;
 - d) Backup materials are thoroughly reviewed (Depreciation, Salary Schedules, Assumptions);
 - e) Expenses are based on actual costs of services and goods provided;
 - f) Recharge and fee costs comply with Federal and other regulations;
 - g) Accumulated reserves are appropriate and are utilized in a manner consistent with their intent;
 - h) Prepare notification letters for the unit proposing the recharge activity after final adoption of the budget to inform the proposer of the Chancellor's final budget decision.
7. Provides ongoing training to the campus community.
8. Maintains and updates the recharge policies, procedures and rate schedules illustrated within this handbook.
9. Acts as primary contact for federal agencies, auditors and other outside entities relating to issues arising from the University's recharge operations.

D. Recharge Committee

1. To determine and communicate the process, including clear deadlines, for the establishment of recharges and fees that become effective at the commencement of each fiscal year. This process shall include deadlines for the Recharge Committee to recommend recharges and fees to the Chancellor; the schedule for the Chancellor to approve, amend and/or reject such recommendations; for the communication of approved recharge rates for the next succeeding fiscal year to campus units; and the inclusion of such rates into the proposed campus budget.
2. To analyze campus activities and recommend the most appropriate funding mechanism. The funding mechanism is the fee charged for providing a service to the recharge unit's customers. These mechanisms, for example, include recharges or direct fees for service, an administration fee, or centralized "utility" funding.
3. To establish the process by which proposals to establish new recharges and fees and/or amend existing recharges and fees shall be proposed to the Recharge Committee.

4. To review proposals to establish new recharge and fee activities to ensure that there is a broad and significant demand for the specialized service to be provided, and that recharge and fee rate components meet guidelines for Federal and non-Federal rates as outlined in the establishment criteria listed in Business and Finance Bulletins A-47, University Direct Costing Procedures; A-56, Academic Support Unit Costing and Billing; A-59, Costing and Working Capital for Auxiliary and Service Enterprises; BUS-72, Establishment of Auxiliary Enterprises; and OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
 5. To perform a review of rates and prices charged by existing recharge activities, fees for service and administrative fees, to ensure that they are based on actual costs of goods and services, are applied uniformly, and evaluated in the context of alternative methods and costs of accomplishing objectives, as stated in the above financial documents.
 6. To consider all requests for recharge and fee rate increases or new rates in light of the requirement that recharge activities cover actual costs, bearing in mind also the probable budgetary effect on user departments and the appropriateness of state funded subsidies. The Committee will recommend approval or disapproval; however,
 7. The Recharge Committee does not provide formal oversight of recharge or fee for service operations, including the investigation and resolution of issues such as quality, service provision, cost effectiveness, or customer service concerns of recharge operations. These matters should be resolved between the recharge unit and the customers they provide service to.
- E. The Office of the Vice Chancellor of Business and Administrative Services
1. The office has been delegated the responsibility by the Chancellor to ensure the University complies with the recharge policies and procedures of the University.
 2. Provides binding mediation on all recharge disputes between the recharge unit and its customers. For disputes between customers and a recharge unit within Business and Administrative Services, the Vice Chancellor of Planning and Budget will serve as an alternative in resolving disputes.

IV. What is a Recharge Unit?

Recharge units are units that provide specific, ongoing services to a number of campus units or projects, and recover the cost of providing these services from the unit served on a "rate basis." (If there is only one user, other accounting procedures are normally used.)

Recharge units develop rates to consistently and equitably recover the costs of the recharge operations such as salaries, benefits, equipment depreciation, material and supplies. Recharge units are expected to operate on a breakeven basis. See *Section VII Deficits/Surplus* below for additional information.

Recharge units should not be set up to provide goods or services that are readily available from outside sources. However, a recharge unit may be established if there is overriding economic, ethical or other institutional issues to support the need for the University to provide this service.

A. Non-Recharge Activities

1. Units which primarily serve members of the campus community as individuals, such as parking or housing services which are classified as auxiliary or service enterprises are not recharge activities. All charges from these units are recorded as income not recharge. The rates set by these organizations are not subject to review by the Recharge Committee. Central campus charges to auxiliary enterprises for administrative overhead costs are also excluded from this document.
2. Recharges are generally not permitted for normal and customary services of units within Institutional Services, Student Services, and General or Departmental Administration, e.g. central accounting and budgeting services.
3. Units that provide a one-time distribution of expense are not characterizing a recharge activity. A recharge unit is an ongoing activity.
4. This policy does not address those financial transactions considered to be expenditure adjustments from an FAU originally charged. The handling of these expenditure transfer actions is described in Business & Finance Bulletin No. A-47, University Direct Costing Procedures, *Section V, Expenditure Adjustments* (7/1/84 and 8/1/94).

B. Recharge vs. Non-Recharge Activity

1. Acceptable recharge activity:
Copy department: Expenses incurred by a department providing full document handling and copy service. Costs of providing the service include salaries, benefits, supplies, and equipment depreciation. These costs are accumulated and a rate is set to recover these costs on a work order basis.
2. Not a defined recharge activity:
Photocopy machine: Two departments share a photocopy machine. They decide to share the cost equally for toner, paper, etc. In this case no recharge activity is taking place. It is an allocation of direct costs. If the costs are collected in one organization, the portion relating to the other department can be transferred to the other department using a financial journal or non-payroll expense transfer.

V. Establishment Criteria

To be considered a recharge unit, the proposed recharge activity must meet some/all of the following:

- A. There exists a demand for this particular service by more than one department/unit/activity.
- B. Service will be provided on a regular and continuing basis.
- C. Service should be identifiable (e.g. glass blowing or machine shop) as opposed to general (e.g. general administration fee).
- D. Separate costs and budget can clearly be defined for these activities.
- E. Rates can be stated in measurable units of goods or services.
- F. Rates for goods and services must be charged at the same rate to all users and reflect the full cost of the operation, net of any approved subsidies. In establishing recharge rates, a recharge unit must charge all internal users the same rate for the same level of services or products purchased under the same circumstances. The use of special rates, such as for high volume work or less demanding non-scientific applications, is allowed, but must be equally available to all users who meet the criteria.

External users can only be charged at the same rate or at a higher rate than internal users. Revenue from external users should be tracked in a separate FAU. All users of the facility must be billed for services.

- G. Rates must be reasonable. Rates are considered reasonable if the nature of the costs and the related goods or services acquired or applied to provide the recharge service reflect the action that a prudent organization would have taken under the circumstances prevailing at the time the decision was made to incur these costs.
- H. There must be a sound business case to support providing these services and the manner in which they are provided. Alternative methods of providing these goods or services have been reviewed and the decision to provide or continue to provide these goods or services is in the best interest of the University and is in compliance with federal regulations. If the services are readily available from outside sources, there must be overriding economic, ethical or other institutional issues that support the continued need for the University to provide these services.
- I. The activity must operate on a break-even basis (see *Section VII - Deficits and Surplus* below).
- J. Goods or services should not be provided to outside consumers except where they are specialized or unique and their existence is primarily to support the academic mission of the campus. Entities which are directly affiliated with the University and share common services with the University are defined as internal customers for recharge purposes and cannot be charged a surcharge. These affiliated entities include: UC Merced Foundation, other UC campuses and UC affiliated DOE laboratories (Berkeley, Livermore and Los Alamos).

- K. The charges to external consumers should include a surcharge to recover campus indirect costs. All charges to outside entities, including surcharges, should be recorded in the appropriate revenue account. The appropriate revenue account should be selected based on the goods being provided or service being performed.

VI. Period of Review

All units must be reviewed annually. Even if a unit does not propose to change its recharge rates, all recharge units must present a financial report in March of each year.

VII. Deficits/Surplus

It is common for recharge activities to have a surplus or deficit at the end of any specific fiscal year because the actual revenues received and costs incurred during that year differ from the budgeted amounts used to calculate the recharge rate. However, over a period of several fiscal years it is expected that recharge activities will operate close to break-even. It is acknowledged there may be seasonal fluctuations in the units operations. Hence the unit must operate within the surplus/deficit tolerances described below. If the unit exceeds these tolerance levels, i.e. a significant deficit/surplus as defined in A below, they must take immediate action to establish a plan to rectify the situation and bring the unit within the acceptable levels of tolerance.

A. Definition of Significant Deficit/Surplus

A significant deficit/surplus is defined to be a general ledger balance where:

1. Balance is greater than one month's operating expense, where one month's operating expense is calculated as a rolling 12-month average.
2. If the balance at time of review is distorted due to seasonal inflows of recharge revenues or outflows of expenses an average balance can be calculated over the seasonal cycle.
3. If a recharge unit feels that they need to maintain a balance greater than one month's operating expense on an ongoing basis, they can submit a request to the Recharge Committee, through their control unit (See section III B), justifying the need to maintain this ongoing surplus or deficit. The recharge unit is subject to mediation by the Controller's Office for any item in dispute.

B. Deficits

If a unit has a significant deficit, it must develop a plan to clear the deficit (for example, reducing future expenses or charging higher recharge rates). That plan may also include institutional support (for example, the responsible department subsidizes the rates charged or lump sum amounts). The recharge unit is not required to charge 100% of their costs but the unit must have a plan to reduce the deficit balance to zero in as short a time as possible. The reduction period should not exceed three years. This plan must be submitted to the Recharge

Committee through the control unit as appropriate. If a plan is not submitted in a timely manner, the committee will recommend an appropriate department, Dean or Vice Chancellor's FAU and financially transfer the deficit.

C. Surplus

If a unit has a significant surplus the unit cannot raise its rates, except under extraordinary circumstances.

If a unit has a significant surplus, they must provide the committee with a plan to clear the surplus. The plan should eliminate the surplus in as short a time as possible; the reduction period should not exceed three years.

If no plan is received, the committee will reduce the published rates for the unit until the surplus has been reduced. The committee will determine the rate reduction to eliminate the surplus in a period not to exceed three years. Surpluses or other monies may not be transferred out of the recharge activity.

VIII. Allowable Costs to be Recovered in Recharge Rates

OMB Uniform Guidance defines direct and indirect costs for purposes of accounting for federal funds. Under the Uniform Guidance, recharges are considered direct costs to users. Direct costs are those costs that can be specifically identified with an activity, or costs that can be directly assigned to such activities relatively easily with a high degree of accuracy. No recharge activity shall be approved which shifts indirect costs as defined in the Uniform Guidance, to direct costs in violation of OMB's Uniform Guidance.

A recharge unit should not include charges for its use of space, i.e., building depreciation, utilities, University's general and administrative costs, as these are usually included in the indirect costs pool. However if the unit incurs additional specialized costs such as leasing cost for offsite facility, which are not funded from the indirect costs pool, these costs can be included in the rate and costs of the unit. These specialized space costs must be disclosed.

Generally, all direct costs associated with the recharge unit's operation should be charged to the recharge unit. However, costs which are unallowable for government costing purposes may not be charged.

A. Allowable Costs Which Can Be Included In Rate Development:

1. Salaries and wages of personnel associated with providing the service units, maintenance of equipment used in the recharge activity, or administering the recharge activity should be included. Associated fringe benefit costs should also be included. However, incidental administrative costs are unallowable. See unallowable costs below for more details.
2. Include all supplies and services costs incurred as part of the recharge operation or activity. The following are examples of such costs:
 - Contracts or agreements with non-University vendors, including consultants to provide all or a portion of the service units or some component of the service units, or to provide all or a portion of the administration of the recharge activity;

- Telephones, duplicating, data processing charges, professional certifications, etc.;
 - Lease costs paid by the recharge activity;
 - Inventorial equipment depreciation. Depreciation of inventorial equipment used in a recharge activity should be included where allowed and only if the depreciation is charged to the same fund of the recharge activity. Generally, depreciation will be allowed for equipment meeting the criteria defined further at *Section IX, Capital Equipment, Depreciation and Equipment Reserves, subsection C "Depreciation"*.
3. Costs incurred for necessary maintenance, repair and upkeep of equipment used in the recharge activity are allowable, provided that such costs do not appreciably increase the value or useful life of the equipment.
 4. Installation charges and allowable lease and loan costs. See *Section IX, Capital Equipment, Depreciation and Equipment Reserves, subsection B "Funding of Recharge Capital Assets"* for further information on allowable lease and loan costs.
 5. Costs of administering the recharge activity are appropriate and should be included. These costs are associated with the accounting, billing, purchasing, personnel, supervision, and other general support functions of the recharge activity and should be placed in the appropriate category on the budget form (salaries and benefits or supplies and services). Costs related to supervision by the department containing the recharge activity may be excluded at the option of the recharge activity, provided the costs of such supervision are not material or significantly benefit the recharge operation.

B. Unallowable Costs Which Cannot Be Included In Rate Development:

1. Administrative costs not related to the recharge activity are unallowable. Also, incidental administrative costs related to the activity are unallowable. Incidental administrative effort is when an individual contributes, for example, less than 5% of his/her annual effort in support of an activity.
2. In general, advertising and public relations costs are unallowable.
3. Bad debts, fines and penalties are unallowable. Exceptional charges that did not occur through the normal course of business are also unallowable.
4. Costs of entertainment (amusement, diversion and social activities) and any costs directly associated with entertainment (tickets to shows or sporting events, meals, lodging, transportation, etc.) are unallowable.
5. Costs already paid by the federal government are unallowable. This includes depreciation for equipment purchased with federal funds or space constructed with federal funds.
6. In general, acquisition costs associated with the purchase of equipment, land, or buildings are unallowable (depreciation is allowed; see above).

7. Depreciation, capitalized renovations, or leasehold improvements are unallowable when the underlying asset is already included in an F&A cost pool.
8. Costs associated with the operation and maintenance of space that is eligible for state operations, maintenance and plant (OMP) support, including building depreciation and utilities, are unallowable.
9. Interest expense is generally not allowed. Interest paid to external parties related to installment purchases of equipment is allowed if approved by the federal government before the actual acquisition of the equipment;
10. A reserve for improvements (RFI) (also known as a contingency or expansion reserve) is an unallowable cost for federal customers.
11. Exceptional charges that did not occur through the normal course of business, e.g. costs related to non-recovery of recharge income due to the department not billing recharge customers in accordance with the University recharge billing policies.

IX. Capital Equipment, Depreciation and Equipment Reserves

A. Capital Equipment

Capital (inventorial) equipment are stand-alone items with a useful life greater than one year and with a value greater than \$5,000. The total cost of capital equipment cannot be included in the recharge rate in the year of acquisition. Instead, equipment should be depreciated and the depreciation expense should be included as a cost in the rate development and charged as an expense to the recharge unit. Items which cannot be included in the recharge calculation are:

1. Equipment funded by the federal government or identified as cost sharing to a federal project.
2. Equipment funded by an award under a private contract and the contract is not completed. (If the contract is completed and there is remaining life in the asset, the unamortized balance remaining at the end of award can be depreciated and included in the rate calculation, e.g. asset has useful life of five years but a three-year life of the award, the asset may be depreciated for the remaining two years.)

All recharge unit equipment regardless of funding source must be entered into the UC Merced equipment inventory.

B. Funding of Recharge Capital Assets

Federal guidelines do not allow the purchase cost of equipment to be charged directly to the recharge unit. Purchases of equipment must be funded from other sources including equipment reserves, gift funds or other unrestricted fund sources.

Interest associated with the purchase of such assets (e.g. interest component of a capital lease) is not allowable hence cannot be charged to the recharge unit unless it satisfies the following criteria:

1. Interest must be paid to outside third party.
2. The purchase price or capitalized cost (in the case of a capital lease) of the equipment must exceed \$10,000.
3. A letter must be on file with the University's cognizant agency (DHHS) requesting approval to charge these interest costs to the recharge center. If the agency subsequently denies this request, all interest charged to the recharge unit must be transferred to other allowable funding sources.

Donated equipment is considered to be the equivalent economically of a cash donation that is subsequently used to purchase equipment. When a recharge center receives an equipment donation, the use of the equipment may be depreciated through the recharge center. The donated asset must be properly identified in UC Merced equipment inventory as a recharge unit asset.

C. Depreciation

Depreciation is an accounting term that recognizes that a capital asset's value is spread out over its useful life. The asset is "consumed" over an extended period of time, typically several years. This period is called the useful life of the asset. The University uses the straight-line depreciation method to depreciate all assets. The depreciation of equipment and capitalized improvements is allowable, unless the equipment or improvements were purchased with federal funds or were included in a Facilities and Administrative (F&A) cost pool. If you do not know if the equipment is included in an F&A cost pool, contact Research Accounting Services.

The Useful Life Schedule from the Office of the President must be used to develop your depreciation estimates to comply with GASB requirements. If a unit has detailed history and documentation that clearly shows that the life of the equipment should be extended or shortened, then the unit should request an exception. The Useful Life Indices are located at <http://eulid.ucop.edu/index.php>.

Any recharge proposal that includes depreciation expense will need to be supported by a detailed depreciation schedule that includes equipment item, UC property number, date purchased, useful life, and annual depreciation expense.

Depreciation must be charged using a "half year" convention beginning in the first year of purchase. Please contact Accounting Services for guidance on booking depreciation expense. The convention must be uniformly applied to all assets identified within the recharge unit. Under the "half year" convention the asset is depreciated for six months in the year it is acquired regardless of the actual date it was purchased. For example for equipment acquired in October 2012 with a three year useful life and a value of \$6,000, under the half year convention depreciation entries for the asset would be \$1,000 in FY12-13, \$2,000 in FY13-14 and FY14-15, and \$1,000 in FY15-16.

Departments may occasionally have the need for new classifications of equipment with new useful lives, due to previously non-existent types of items or due to the need for finer gradation of existing classifications. Please submit your requests to the Accounting Services and include reason for request, model number and description, manufacturer's name and contact. If gradation of existing classification, you must include current equipment code and useful life along with justification for finer gradation.

D. Equipment Costing Less Than \$5,000 or Having a Useful Life Less Than One Year

Any equipment costing less than \$5,000 or having a useful life of less than one year must be expensed in the year of acquisition.

X. Recharge Unit Inventory

If the recharge unit supplies a product, e.g. printed stationary, the goods purchased for "resale" should be charged to an inventory G/L account. This is a balance sheet account. Recharge Unit Managers should contact Accounting Services for more information on the accounting requirements and responsibilities for this type of account.

If an inventory account is used, the recharge unit must perform a physical inventory of all goods at least once a year (prior to fiscal close at June 30 in coordination with Accounting Services).

It is recommended that the inventory account be adjusted on a monthly basis to reflect purchases to and sales from this account. This will also allow a unit to monitor its operations more accurately. If this is not possible, the unit must, at least once a year in June, make a year-end adjustment to reflect the correct year-end balance in this account. Inventory records that include the number and cost of products on hand must support the balance in the G/L.

Inventories must be valued at cost (using the average cost method) or net realizable value whichever is less. If the unit cannot value inventory under the average cost method, please contact Accounting Services for guidance on whether the unit's preferred method is appropriate.

XI. Rate Development

Rates for goods and services must reflect the full cost of the operation, net of any approved subsidies, and the same rates must be charged to all internal users. In establishing recharge rates, a recharge unit cannot discriminate against any internal group of users. The use of special rates, such as for high volume work or less demanding non-scientific applications, is allowed, but must be equally available to all users who meet the criteria.

External users can only be charged at the same rate or at a higher rate than internal users. Revenue from external users should be tracked in a separate FAU. All users of the facility must be billed for services.

Rates must be reasonable. Rates are considered reasonable if the nature of the costs and the related goods or services acquired or applied to provide the recharge service, reflect the action that a prudent organization would have taken under the circumstances prevailing at the time the decision was made to incur these costs.

A. Major Aspects of Rate Development:

1. Units must develop rates that recover all the direct costs of the recharge activity and, when appropriate, indirect costs.
2. Direct and Indirect Costs

- a. Direct Costs: Rates are based on estimates of direct costs. Rates include estimates of costs that will be incurred (e.g., salaries, benefits, supplies) and estimates of quantities that will be produced (e.g., tests performed, hours worked, products provided).
 - b. Indirect Costs: Rates may also include indirect costs. Generally, the campus uses a standard mechanism to collect indirect costs. For example, the facilities and administrative rate (F&A rate) is used to recoup indirect costs from federal customers. The non-university differential (NUD) is used for non-university (also called outside or private) customers. In addition to the NUD, a unit may include a mark-up in a rate charged to non-university clients.
3. Units must develop rates that achieve a break-even financial performance. Similar to resolving operating surpluses and deficits, a three-year timeframe is reasonable for evaluating whether or not an activity breaks-even.
 4. A unit must not charge university clients in excess of the cost of the operation, unless when appropriately collecting for indirect costs.
 5. Units must act in good faith on behalf of their clients and develop rates that are reasonable. Rates are considered reasonable if the nature of the costs included and the manner in which the goods or services are being provided reflect the actions that a prudent organization would have taken under similar circumstances.
 6. Units must apply their rates consistently to all university clients. Units cannot discriminate for or against any university clients. Units may develop rates that take into consideration things such as high volume or less-demanding work; however, units must make these rates available to all clients who meet the specified criteria.
 7. Units may subsidize rates, but units must apply the subsidy against the full direct costs of the rate. The unit must apply the subsidy consistently to all university clients. The unit must record the full costs (including the subsidy) for the activity in an identifiable account.

B. General Rate Calculation

In its simplest form, or for a one-product recharge unit, a recharge unit's rate is cost-based. Users are allocated a share of the recharge unit's costs based on their relative use of the unit's products or services. A single, unitized cost rate (cost per unit of output) is used to recover the expense of providing a product or service. This rate is calculated by dividing the total budgeted cost by the total projected level of activity for the budget period.

"Total budgeted expense" equals all costs directly associated with a recharge unit's operations.

"Projected Level of Activity" is the total estimated volume of work to be performed in a recharge center, expressed as labor or machine hours, CPU time, or units of products or services to be provided. This is the denominator to be used in the calculation of the recharge unit rate, as shown below. The actual level of activity multiplied by the recharge unit rate determines the amount to be charged to each user.

$$\text{Rate} = \frac{\text{Total Budgeted Expense}^*}{\text{Total Projected Level of Activity for the Budget Period}}$$

*PLUS Prior Year Deficit or MINUS Prior Year Surplus

While most recharge unit rates will be cost based for each specific service or product, a recharge unit offering multiple related activities or products may establish rates for a variety of services that, in aggregate, recover the total costs of the unit. The unit must be able to demonstrate it has made reasonable assumptions in allocating common costs that cannot be easily identified to a specific service or product within the unit.

Rates are calculated on an annual basis.

C. Alternative Rate Structures

Some recharge units may experience special circumstances that call for rates utilizing an approach different from the general rate calculation. Rate structures or pricing mechanisms may be used as described below, but only if the resulting rates are non-discriminatory with respect to specific classes of users, e.g., Sponsored Research Contracts and Grants.

1. Subsidized Rates

For various reasons, a department may wish to have its recharge unit charge its users less than fully costed rates; and may choose to subsidize unit operations with operating budget or other unrestricted funds. In these circumstances, a unit should first calculate a fully costed rate in accordance with the "General Rate Calculation" discussed above. A percentage discount can then be applied to the fully costed rate to derive the desired subsidized rate to be used throughout the year. Subsidized rates must be consistently charged to all internal users. External users should be charged the fully costed rate(s).

2. Stores Service Units

A stores recharge unit rate is determined by dividing its administrative or operating costs by its projected cost of goods sold. Its rate is, therefore, a markup percentage on the cost of goods sold. If this method is adopted, the markup needs to fairly represent the operating and administrative services provided by the unit for the goods or services. If the cost of providing the operating and administrative services is similar for a \$1,000 or a \$100,000 order, then this method should not be used.

3. Volume Discounting

Sometimes economies of scale dictate that a significant quantity of a product or service can be provided to a customer at a lower overall cost than the normal per unit rate. Such a volume discount is allowed as long as it is:

- a) Disclosed and justified in the service center's proposed budget and rates; and
- b) Its effect is not discriminatory to a single type of customer, other than by amount of product or service provided.

4. Other

Other cost/rate structures to meet specific recharge center needs may be approved, but must be in compliance with federal cost principles (OMB A-21 and CAS).

XII. Rate Submission and Approval

Proposed recharge methodologies should be accompanied by sufficient justification, detail and documentation so that reviewers can easily follow the rationale and calculations supporting proposed rate structures.

The Recharge Committee will evaluate, among other things, the following aspects of a recharge activity:

- a. Whether or not all customers are treated equally and fairly;
- b. Whether or not the activity is managed using sound financial practices, including whether or not costs and subsidies are allocated appropriately; and
- c. Whether or not the pricing rationales that support recharge rates are reasonable, consistent and adhere to campus and federal guidelines.

While no two recharge activities are identical, in order for the review process to be most effective, all requests for new recharges should answer the following questions:

- a. What is the purpose of the activity? How does it serve the mission of the university?
- b. How does the recharge activity fit into the larger organizational structure (within the school/college or office/department)?
- c. Who are the primary customers of the activity?
- d. What is the annual budget of the recharge activity? Does the activity recoup all its direct costs, or is it subsidized? If general funds are used, how do you determine what is recharge and what is supported by general funds?
- e. What is the financial performance (revenue & expenses) for the most recent three years?
- f. How many rates are there within the activity and what is the pricing rationale(s)?
- g. Are there any modifications that need to be made to the activity?
- h. What metrics are used to define and measure the quality and success of the activity?

A. New Rate Activity Proposals (for new services currently not being provided)

New recharge activity proposals (for new services currently not being provided) may be submitted one month prior to the next recharge committee. The recharge committee dates are approximations but will be held in that time frame. See the below for the schedule:

Sept 1 deadline – For consideration at the ~ September 30 committee meeting

Mar 1 deadline – For consideration at the ~March 31 committee meeting

June 1 deadline – For consideration at the ~June 30 committee meeting

The recharge unit can expect a formal response from the Committee no later than 15 days after the committee meeting. The recharge unit will be informed of the recharge committee meeting in advance and in some instances, invited to attend to be available for questions from committee members.

Bear in mind though, all decisions are made by the Budget Advisory Committee (BAC) and the Chancellor but for proposals accepted, the Committee will make a formal recommendation to the BAC/Chancellor within the 15-day timeframe described in the previous paragraph. After approval is received, the recharge unit will be notified and must provide adequate notification (minimum of 30 days) to departments before the new recharge rate can start.

The control unit, prior to submission to the Committee, must approve all new rates.

Retroactive rate submission will not be accepted.

B. Existing recharge activities (including those that are currently provided for free)

Recharge methodologies proposing new rates (which includes where services were previously provided free of charge) will become effective the following fiscal year for a July 1st rate implementation. Proposals requesting changes to existing rates (including when the rate was zero) are accepted only once per year on an annual basis.

When providing financial data for past recharge activities in the proposal's documentation, the amounts should match the financial activity and balances as shown on the most recent June-Final general ledger. Any prior year surplus or deficit carry forward balances should be included in subsequent year rate computations.

Taking into consideration the budget process, the deadline for submittal is Nov 15, to be considered during the Dec 15 Committee meeting.

C. Discontinuing recharge activities or deleting rates

Recharge units may submit requests to discontinue recharge activities or delete rates during the quarterly submission process based on the deadlines described in section XII.A above.

Campus recharge units should only charge the rates that have been approved by the recharge committee. It is the recharge unit's responsibility to advise its customers of any rate changes. If discrepancies are found in the submission, the committee will determine if these errors are significant enough to warrant adjustment of prior billings. If the unit does not agree with the determination of the committee, they can appeal and resolve through mediation in accordance with section III.E.2 of this document.

XIII. Recharge Budgets

All recharge operations must develop a budget. Each recharge budget must be revised at the end of each year to reflect the revenue and expenditure levels expected in the following year. The fiscal close schedule includes a deadline for these revisions. As part of this yearly revision, units are expected to cover any deficits.

Conditions that warrant changes to the budgets might also be good indicators for rate changes. Units that determine budget changes are necessary for their recharge operation should review rates to ensure that they cover their current and anticipated costs while avoiding out of tolerance surpluses.

Equipment depreciation transactions will also require budgetary action. See *Section IX Capital Equipment, Depreciation and Equipment Reserves* for more information.

XIV. Billing

Billing must be accomplished within 60 days. Detailed procedures to be identified in *Section XVI, subsection H*.

XV. External Customers, Account Codes for Recharge Income and Sales Tax

A. External Customers

Goods or services should not be provided to external consumers except where they are specialized or unique and their existence is primarily to support the academic mission of the campus. Charges to outside consumers should include a surcharge to recover campus indirect costs. The primary reason recharge units exist is to share resources and provide services for internal users. Inappropriate outside use of recharge unit facilities could jeopardize the University's tax-exempt status, give rise to claims of warranty and other liabilities, or appear to involve unfair pricing in relation to service providers in the local business community.

Situations may arise, however, where the unique nature of a recharge unit's products or services and other factors justify allowing external users limited access to those products or services. Providing goods or services to external users also results in additional accounting and monitoring for the operations.

An external user is an entity or person over whom the University has no fiduciary responsibility regardless of the user's relation to the University's mission (e.g. students, staff and faculty acting in a personal capacity, other non-UC Universities, commercial entities, and the public at large). However the University has identified the following organizations that are considered to be directly affiliated with the University: UC Merced Foundation, UC Affiliated DOE laboratories (Berkeley, Livermore and Los Alamos), and other UC campuses. These entities are defined as internal customers for recharge purposes, and hence, are not subject to surcharge. Likewise, auxiliary units are not subject to surcharge as they are considered to be campus entities.

B. Account Codes for Recharge Income

All charges to outside entities should be recorded in the appropriate revenue account. The appropriate revenue account should be selected based on the goods being provided or service being performed. Accounting Services will provide revenue accounts.

C. Sales Tax

For most recharge transactions sales tax does not apply.

1. Sales tax is not assessed on recharge sales to internal customers.
2. Sales tax is also not applicable if there is no exchange of tangible personal property i.e. only services are involved.
3. Sales tax is not applicable if the external consumer buys the tangible goods for resale.

Any tax imposed will be a cost passed on to the recharge unit user. Any sales tax collected becomes a University liability. Sales tax is assessed on cost of goods sold, the recharge unit charge (mark-up) and surcharges.

See <http://www.ucop.edu/financial-accounting/files/sutm.pdf> (Sales and Use Tax Manual) for additional information.

XVI. How to Establish a New Recharge Unit

- A. Review all sections of this document.
- B. Ensure the operation meets the criteria of a recharge unit.
- C. Discuss proposal with the control unit to ensure it is in accordance with the mission of the unit and the University. Discuss with staff to understand roles and responsibilities for the new recharge unit. A proposal to establish a new recharge center must contain the following information:
 1. The recharge unit's name.
 2. A description of the product(s) or service(s) to be provided, and the potential users (internal and external).
 3. An explanation as to how the recharge unit rate(s) will be determined including:
 - a) Detailed annual expense budget by sub account and object code (including FTE with salary data) for the proposed unit;
 - b) Description of the activity base, its appropriateness, and the projected level of activity for the first year of operation;
 - c) The rate calculation(s) using the proposed budget amount(s) and the projected level(s) of activity for the first year of operation.
 4. The name, title, email and phone number of the individual delegated responsibility by control unit for the unit's financial affairs. Note: This person will be a contact for general questions from other campus units on

their recharge operation and will be the contact name on the recharge web site.

5. Submit a list of all of the capital assets that will be used in the recharge unit. The list should contain a description, PO number and property tag number.
 6. The signatures of the control unit, indicating the department's acceptance of financial and operational responsibility for the recharge unit.
- D. Proposals may be submitted either by uploading the files to the following website or via e-mail for consideration by the Committee
- E-mail: upload.Proposa.pcivy3guop@u.box.com
Cc: mriley5@ucmerced.edu
- E. Obtain approval of the Recharge Committee for the establishment of this recharge unit.
 - F. Work with Accounting Services to determine the appropriate revenue income account and fund to be used. Where possible, the unit should use an existing fund and differentiate the operations using account code. If the unit requires a new fund, Accounting Services will assign it.
 - G. Budget: If the recharge activity is approved, or if the rates are increased, the unit must have an assigned fund and work with the Campus Budget Office to establish or adjust the permanent budget for that fund.
 - H. Set up recharge billing and financial journal process to ensure that valid FAU information is received from customers and that customers are billed accurately, on time, and are provided with supporting documentation for the charges. The recharge unit assumes any risk associated with nonpayment of goods and services when goods and services are provided in advance of valid customer billing information.
 - I. If the unit will be using capital equipment to provide services, identify assets; determine assets' useful life and depreciation schedule. Review appropriate entries required to record depreciation. Consider frequency of booking depreciation entries, and identify appropriate reserve funds to record depreciation entries.
 - J. If the unit will be using inventory, ensure compliance with *Section X, Recharge Unit Inventory*. The recharge unit will be required to make an inventory adjustment at least once a year.
 - K. Set up procedures to review recharge activity on a regular basis, preferably monthly, but at least on a quarterly basis. The review should include monitoring rates, recharge surpluses, deficits, and ensuring the center complies with federal and University policies and procedures.

XVII. Closure of Recharge Operations

- A. Within 10 days of deciding to close a recharge operation, e-mail your control unit and the Recharge Committee, advising of your decision indicating when the operation will close and how the recharge unit intends to account for any remaining surplus or deficit. On receipt of this information, we will make all appropriate changes to the recharge web site.
- B. When a recharge unit ceases to operate, the remaining balance must be treated as follows:
 - 1. If a surplus greater than one month's operating costs remains, the balance will be refunded back to the unit's recharge customers on a pro-rata basis, within 30 days of closure. The refund will be allocated on the basis of charges made to these customers in the last 12 months.
 - 2. If a surplus less than one month's operating costs remains, the balance is retained by the sponsoring unit and moved to an appropriate FAU as previously defined in the original recharge unit set-up request if still valid.
 - 3. If a deficit balance exists, the balance must be transferred financially to an appropriate FAU in the department as previously defined in the original recharge unit set-up request if still valid. If the balance is not moved within 30 days of closing the recharge operation, the committee will select an FAU, transfer the deficit, and advise the designated Administrative Officer and Vice Chancellor that the transfer has been made. A decommissioned recharge unit may use its equipment replacement reserve fund to off-set any recharge operational deficit. The department with central Budget Office approval may retain balances in the reserve fund beyond deficit coverage.

XVIII. Recharge Reporting Format

A Recharge Proposal and Calculating Unit Rate(s):

To establish a new Recharge Unit prepare a one-page narrative for the proposed activity and calculate the rate to be charged to customers. A template has been developed and is available to assist in the development of the proposal and rate(s). The template along with instructions will be provided annually at the time the Recharge Call Letter is distributed.

B. Annual Report:

Follow the standard income and expense reporting format.

Proposals and Annual Reports must be forwarded to the Recharge Committee no later than January 31 for the annual process and at any time of year for changes.

XIX. Records Retention

Recharge unit charges are subject to audit as long as the contract or grants that they charge (either directly or indirectly) remain subject to audit requirements. Recharge units are also subject to periodic review by the University's Auditor and by external auditors. Recharge unit activities must be adequately documented and records maintained to support expenditures, billings, rate development and cost transfers. Each recharge unit must, at a minimum, retain the following records:

- A. Documentation to support the proposal and establishment, along with the approval for the recharge center: Six years after close of relevant contracts.
- B. Documentation as to how the rate(s) were calculated: Support for rates in existence for last six years after close of relevant contracts.
- C. Supporting documents related to expenses incurred, for payroll, AP vouchers, invoices, journals, etc.: For rates in existence for last six years after close of relevant contracts.
- D. Records supporting the amount and basis of billings (recharge income): Six years after close of relevant contracts.