University of California
San Francisco

Recharge Basics
Rate Components

Recharge Review
Budget & Resource Management

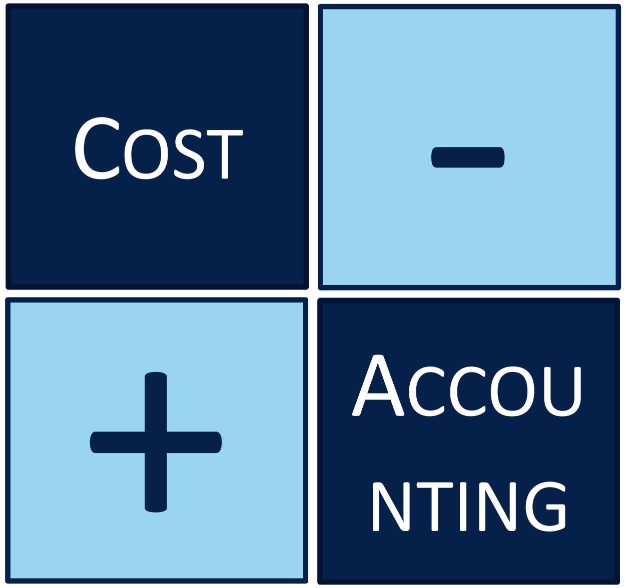
This module will help you understand **Cost accounting basics** and all **allowable costs** to include in recharge rates

Topics

- Cost accounting basics
- Allowable costs
- Unallowable costs
- Facilities and Administration costs
- Leased space costs
- Depreciation
- Surpluses and deficits
- Working capital

Cost accounting basics establish that recharge activities must:

- Recover the cost of providing goods or services
- Match revenue to expenses in the same accounting period, adhering to Generally Accepted Accounting Principles (GAAP)
- Allocate costs as closely as possible to the benefit derived
- Use Full Costing – All costs directly attributable to providing the products, services, and management of the recharge activity must be identified and included in the recharge proposal



Only costs that are **allowable** can be included in the rate calculation

- The federal government will not reimburse, either directly or indirectly, certain kinds of unallowable costs
- Any unallowable costs should be removed from the cost estimate for the rate calculation

Federal Cost Accounting Standards establish principles for the allowability of costs included in the recharge rates as:

REASONABLE	Costs are necessary for recharge operation and realistically reflect the benefit provided
IDENTIFIABLE	Costs can be identified specifically with the recharge products, services, or administration
CONSISTENTLY TREATED	Costs incurred for the same purpose, in like circumstances, must be treated as either direct or indirect costs
ALLOCABLE	A cost is allocable as a direct cost if the benefit received is identifiable with the goods and services provided

Allowable costs per Uniform Guidance include but are not limited to:

Salaries, wages, fringe benefits	Supplies	Services	Equipment depreciation
Other directly assigned costs associated with providing the product or service	Directly assigned or allocated recharge administration expenses	Contract services	Working capital (up to two months of operating expenses)

Unallowable costs per Uniform Guidance include but are not limited to:

- Alcoholic beverages
- Entertainment
- Memberships (except for professional organizations)
- Advertising (with some exceptions)
- Bad debts and related legal expenses
- Fines and penalties
- Short-Term Investment Pool (STIP)
- Fundraising expenses and lobbying costs
- Legal settlement costs
- Charitable contributions

Direct charges for costs that have been included in the Facilities and Administration (F&A) cost pool are unallowable costs to federal customers

Administration

- Central administration
- General Accounting
- Personnel Office
- Departmental Administration
- Payroll office
- Affirmative action monitoring
- College administration
- Grant and contract accounting
- Purchasing office
- Computer facilities (administration)
- Advertising costs (for personnel)
- Selected subscriptions

Facilities

- Bond interest related to buildings
- Lease costs
- Library services
- Environmental health and safety
- Maintenance/operations
- Risk management
- Transportation costs
- Building depreciation
- Equipment depreciation
- Custodial services
- Utilities
- Mailing costs (routine)
- Security (campus police)

Leased space is generally assigned the off-campus Facilities and Administration (F&A) Costs Rate which only includes the 26% administration component

Departments acquiring **leased space (off-campus)** must pay for the full cost of space, related maintenance, and institutional support services including but not limited to:

- Information Technology
- Transportation
- Facilities
- Security

Expenses for such services that are allowable under 2 CFR Chapter II, Part 200 et. al. Uniform Guidance can be direct charged against grants and contracts, as these costs are not recovered through the F&A rates applied to off-campus space.

Capitalized expenses **cannot** be directly charged to a recharge activity, however:

- **Depreciation of capitalized expenses** (equipment, software, and facilities renovation for leasehold improvements) directly related to a recharge activity may be included.
- Depreciation is calculated on a straight line basis using the full cost and the useful life.
- Equipment depreciation must be moved from the recharge fund to the recharge equipment reserve fund on an annual basis, at minimum.

Depreciation is an accounting tool that is used to recognize and apply the cost of acquiring an asset across its useful life

Depreciation Criteria	Equipment	Software	Leasehold Improvements	Building Renovations
Minimum Value (per unit)	$5,000	$5,000	$35,000	$35,000
Useful Life (minimum 3 years)	3-20 years	3 years	Length of the lease	Remaining useful life of the building
Added to the Asset Management System	Yes	No	No	No

Purchases below these thresholds are treated as operating costs, which are expensed when purchased and are not depreciated.

Equipment depreciation costs are **not** allowed on a recharge if:

- All or part of the equipment cost was paid by the federal government
- Equipment depreciation is already included in campus Facilities and Administration (F&A) Costs rate
  - Capitalized equipment purchased on or before December 31, 2019 that has not been included in a recharge rate proposal by June 30, 2020 is unallowable in recharge rates, as the cost is already included in the F&A rate cost pool

Recharge activities should break-even and avoid the accumulation of large surpluses or deficits

Net Position	Surplus	Deficit
Occurs when:	**actual** revenues are ***more*** than **actual** costs of providing service units	**actual** revenues are ***less*** than **actual** costs of providing service units
When included in the following year's rate computation:	will **reduce** the following year's cost pool and, therefore, the rate	will **increase** the following year's cost pool and, therefore, the rate

- A **surplus** or **deficit** may be amortized over a 2 or 3 year period to lessen the impact on the following year's rates
- **Surpluses** or **deficits** from one product or service **may not** be used to offset deficits from another
- **Surpluses** **may not** be transferred out of a recharge activity without prior approval

Recharge activities may budget up to two months of expense (16.6% of the annual plan) into the rate calculation for **working capital**

- Creates a **surplus** or reserves an existing **surplus**
- Helps to prevent STIP (Short-Term Investment Pool) expense
- Is redistributed to users when the recharge is discontinued

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