February 13, 2012

VICE PROVOST GREENSTEIN

Subject: Final Report on Advisory Services Project No. P12C010
University of California Washington Center

Attached please find the final report for: Advisory Services No. P12C010- University of California Washington Center. It includes action plans that were developed by management. The action plans will be entered into the TeamCentral database and monitored until completion. With the issuance of this final report, please destroy any previous draft versions.

We very much appreciate the assistance provided to us by your staff during our review. If you should have any questions, please feel free to contact me at 510-987-9646 (e-mail: Matthew.Hicks@ucop.edu).

Matthew Hicks
Audit Director

Attachment

cc: Provost Pitts
    Executive Director Cain
    SVP Vacca
    CFO Taylor
    Manager Rak
Executive Summary

Introduction
We have completed an advisory service for the University of California Washington Center (UCDC). UCDC administratively reports to the Vice Provost, Academic Planning, Programs, and Coordination at the UC Office of the President.

Located in Washington DC, UCDC is housed in an 11-story building that provides residences (2 bed/bath, 1 bed/bath or studio) for up to 280 students and faculty and alumni from UC campuses. The property also includes classrooms, computer laboratories, offices, event spaces and a parking lot.

UCDC Services
Undergraduate students from UC campuses usually spend one quarter/semester at UCDC taking classes (seminars and electives) and/or participating in internships. The undergraduate academic program has its own faculty who are drawn from the UC campuses as well as local topic experts. UC faculty and graduate fellows performing research in Washington on a short term basis may reserve office or desk space at no charge.

In addition, other educational institutions pay to utilize residences, classrooms, or offices:
- University of Michigan: office, classroom, and residential
- University of Pennsylvania: office, classroom and residential
- The Washington University: residential only
- Johns Hopkins University: residential only (one term agreement for fall 2011)
- Notre Dame: office and classroom
- Columbia Law: office and classroom

The building serves as the home for the University’s Office of Federal Governmental Relations, Academic Programs and Multi-Campus Research units. UC currently has office space licenses with the following units:
- UC Federal Government Relations
- UC San Diego - Beyster Institute at the Rady School,
- CONNECT
- Forum for Collaborative HIV Research
- University of California, Institute on Global Conflict and Cooperation (IGCC)
- Inter-University Program for Latino Research (IUPLR)
- UC San Francisco Center for Drug Development Science (CDDS)
- The California Institute for Federal Policy Research
- Thirty Meter Telescope

Other sources of revenue include event space rental fees charged to internal UC and external nonprofit organizations, parking fees (monthly and daily), laundry, network printing, copy services, student activities including field trips, and miscellaneous fees (lost ID, overnight guest fee, etc.).

The following functions at UCDC are outsourced:
- Facilities Management
- Security System
- Mental Health Services
- Laundry machines
- Vending machines
Reorganization

Academic reorganization at UCDC began in April 2010 and included the appointment of a Governing Council composed of representatives from UCDC, UCOP, and the campuses. Prior to the reorganization, undergraduate programs housed at UCDC were operated by campuses each providing its own academic personnel and staff. As part of the reorganization, campus-based positions were eliminated. New roles reporting to the Executive Director were defined and filled. This resulted in UCDC appointing 2.5 FTE academic faculty positions, 3 FTE nonacademic faculty positions, 3 FTE program administrators, and a .5 FTE Academic Registrar.

The current budget reflects the transitioning to a student fee-based model, compared to the prior appropriation-based model. Campuses are still responsible for student billing and financial aid. UCDC may recharge each campus for academic and residence fees in a lump sum each term.

The FY10-11 budget for UCDC was $6,650,828. See Appendix A for details.

Objective and Scope

The objective of the UCDC advisory service was to assess the adequacy of the governance and internal control structure at UCDC with an emphasis on revenue stream-related activities and safety and security.

A risk assessment was performed to rank identified functions within operational areas to determine a risk rating. The scope of the assessment included safety and security (a management concern) and functions or areas that were rated high risk during the risk assessment process: receivables management, handling of cash and cash equivalents, reconciliations, events, and payments to lecturers from the academic program.

Activities performed as part of this advisory project included a review of policies and procedures, inspection of selected documents, interviews, and observations during a two day on-site visit.

Overall Conclusion

Given the reorganization and the fact that UCDC was functioning without a budget officer for nearly a year, until February 2011, the past 12 – 15 months has been a challenging time for UCDC. The lack of a Budget Officer was due to an employee on health leave and who later took a medical retirement. The existing staff had to take on extra work during this time, resulting in some temporary delays in processing and control breakdowns. Based on a review of policies and procedures, interviews and observations during the on-site visit, controls over safety and security appear adequate. However, controls over accounting need improvement. Issues noted in this report are not necessarily systemic.

We identified opportunities for improvement related to accounting procedures: improving the timeliness of invoicing and recharges, implementing a collections process, reconciling general ledger revenue accounts, performing budget to actual analyses, and invoicing clients using the correct event space rental fees. We also found that accounting is primarily performed on a cash basis, therefore some significant revenue and costs may not be properly accrued. Additionally, based on our discussions with UCDC and Business Resource Center (BRC) management, the transition of accounts payable processing to UCOP’s BRC has not yielded expected results. Numerous issues have surfaced during the transition, with some yet to be resolved.

Other opportunities for improvement include: developing a strategic plan, more frequent bank deposits, title code adjustments, and limiting corporate card purchases to University related expenses. For a detailed discussion of these issues, please refer to the subsequent pages of this report.
Management Actions
Management has provided Action Plans that will address the issues identified in the report and as detailed in the Opportunities for Improvement.
Opportunities for Improvement and Action Plans

1. Certain accounting procedures are not in compliance with UC guidelines or do not follow best practices.

During our review, we noted the following:

A. **UC credit card was used for non-UC purchases.** Per discussion with the former Events Coordinator, she used her UC corporate credit card to make food purchases for nonprofits that rented event space. The expense was included in the client’s invoice total. The former Events Coordinator was not aware or forgot the policy that UC credit cards are only to be used for UC purchases. This observation was resolved during fieldwork as a new Events Coordinator was hired and trained.

B. **Accounting is primarily performed on a cash basis.** Significant expenses are not accrued, with the exception of payroll. The Senior Business Analyst did not have system access to encumber expenses. UC policy requires accrual of significant revenue and costs related to housing.

C. **Event invoicing is not performed timely.** Many invoices are sent after the expense is incurred. In FY 10-11, over 50% (51 of 92) of the event clients were not billed until 30 days or more after the event, and in some cases, months later. In addition, the former Events Coordinator did not have access to see payment history (except for recharges) so she did no follow-up after sending an initial invoice. The Coordinator did not provide copies of any event invoices to the Business Office. Also, for UC recharges, the Events Coordinator did not always obtain the account information (FAU) until after the event, which delayed submission of the recharge request and the transfer of funds to UCDC.

D. **Appropriate recording and aging of account receivables is not performed.** The Business Office did not have access to all information on UCDC receivables or invoices. UC policy requires that all receivables be aged.

E. **Uncollectible accounts are not written off** as required by policy as all receivables weren’t tracked and aged.

**Action Plan:**

A. There is a new Events Coordinator and she received training including purchases may not be made for non-UC organizations.

B. The Sr. Budget Analyst does not have access to create encumbrances, memos or liens in the general ledger. Significant income should be accrued at year end; BRC only provides support to expense accounts and the Sr. Budget Analyst does not have access to make entries to the general ledger. Going forward, UCDC will send year end income accrual entries as needed to Corporate Accounting for processing.

C. The amount of work related to events has grown dramatically in the past 5 years. Also, there is a new Event Coordinator, beginning in July, and she has revised procedures to ensure more timely invoicing. Copies of all invoices now are provided to the Business Office.

D. The Sr. Budget Analyst now has access to all receivables data, is aging accounts, and has implemented a collection process.

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1 UC Accounting Manual R-212-2 Receivables Management (account aging pgs 32,33,41 and collections pgs 29,30,39) D 371-35 Honorariums pg4, BFB A-17 Housing and Food Service Operations
E. All outstanding invoices have been collected and properly credited. Aging invoices are now receiving notification of late payments. To date, management actions taken have generated immediate response and payment on outstanding debts. UCDC has also put in place a process to routinely review the status of aging invoices.

Target date:
A. Closed – The issue was resolved prior to issuance of this report.
B. Closed – The issue was resolved prior to issuance of this report.
C. Closed – The issue was resolved prior to issuance of this report.
D. Closed – The issue was resolved prior to issuance of this report.
E. Closed – The issue was resolved prior to issuance of this report.

2. UCDC collection efforts are inadequate to ensure timely payments.

There is no consistent collection effort which is a contributing factor to on-going late payments from third parties. Also, accounts delinquent over 150 days are not referred to a collection agency as required by policy.

- Other Universities - 3 of 5 non-UC institutions did not pay invoices within 30 days of receipt of invoice (Jan – May 2011) as required by signed agreements. Amounts due ranged from $43,000 to $110,000 and late payments ranged from 57 days to 6 months after UCDC sent the invoice. The agreements state in item 4.1 Default "The occurrence of any one or more of the following events shall constitute a material default ... failure to pay rent where such failure continues for a period of 10 days after notice from UC." The "Remedy" provision in the agreements gives UC the right to terminate the Agreement. There is no provision for late fees.

- Office Rent – research licensee rent payments for January - May 2011 (per the general ledger) indicates collections were deficient by $4,752.16 when compared to rent due. For payments received, we were unable to determine if there were any late payments as the date the check is received is not logged. Also, the agreements do not stipulate that a late fee may be charged so there is no penalty for late payments.

- Credit Card Use - During the on site visit, it was noted by management that no credit cards are accepted. It was noted that commonly payments were difficult to collect real time because individuals did not bring money or checks for payment and this was contributing to untimely payments of invoices (due to billing follow up, etc).

Action Plan:
The Sr. Budget Analyst is implementing a collection process utilizing UC Davis practices as she did not locate any UCOP letters/templates to use for this purpose.
- Other Universities – This will be addressed by the collection process mentioned in Observation 1.
- Office Rent – This will be addressed by the collection process mentioned in Observation 1.
- Credit Card Use – The University has a systemwide relationship with Bank of America for merchant card processing. The Business Manager will inquire with UCOP Financial Services and Controls to enroll in this service.
**Target date:**
*Other Universities and Office Rent – Closed - A collection process was implemented prior to issuance of this report.*
*Credit Card Use: July 1, 2012*

3. **The transition of accounts payable and recharge processing to UCOP’s Business Resource Center (BRC) has not yielded expected results.**

Beginning in April 2011, accounts payable and recharge processing was transitioned to BRC in Oakland.

UCDC key senior leadership believes they function more like a campus, processes set up in BRC may not be the best practices for their business needs. BRC recognizes that the transition has not been as smooth as anticipated and has regularly worked to respond to issues as they arise. BRC reviewed UCDC transactions since April 1, 2011, and determined they processed over 80% of UCDC transactions in five days or less; fulfilled their mission ensuring that financial transactions have a valid University purpose and comply with University policies.

Based on our review, we have concluded that there is a need for a more detailed discussion to resolve outstanding operational concerns between UCDC and the BRC.

**Action Plan:**
*UCOP leadership and UCDC advisory leadership will meet to discuss and resolve outstanding operational concerns between the BRC and UCDC.*

**Target date:**
*July 1, 2012*

4. **Recharges are not forwarded timely to BRC for processing.**

Recharging of other UC locations has not been timely. In reviewing a small sample, we noted a recharge from the prior fiscal year, ending June 30, 2010, wasn’t submitted for processing by UCDC until May 2011. Also, the Business Manager indicated that UCDC account was not credited with UC campus academic fees for the year beginning July 2010 until late May 2011. One of the causes is that UCDC did not obtain department accounting codes (FAU) prior to providing services or the start of the term.

Per further discussion with the Business Office, we were informed that beginning in March 2010, UCDC was no longer able to enter their recharges into the UCLA accounting system and despite numerous efforts; they were unable to get access restored. They were able to get the UCOP Budget Office to process some of them but most recharges were not processed until BRC took over in April 2011.

If recharges are not processed timely, there is a risk that the funds will no longer be available for transfer to UCDC.

During the site visit, it was discussed that it is difficult to know who to go to in UC for outstanding debt, especially when it involves a faculty from one of our campuses or students. This should be discussed further with UCOP EVP/Business Operations to increase VCA’s and Academic knowledge of these incidences and determine if there are other communications that might help this process.
**Action Plan:**
Management will discuss with UCOP EVP Business Operations regarding collecting outstanding debt from UC employees, students, or campuses.

The Business Office will investigate obtaining inquiry access to the recharge system.

**Target date:**
February 29, 2012

5. **Event clients were not invoiced the approved rates.**

We selected a sample of 12 large invoices totaling $32,952 of $162,155 total for the fiscal year (20% of annual dollar value). We compared event room rental rates to approved room rates in the Event Services Business Plan. None of the approved rates were charged and, in most cases, a lower amount was charged. $58,930 was due but only $32,952 was invoiced, a difference of $25,977.80. In some cases, non-UC organizations were charged the UC internal rate. We were unable to determine the reason for the lower invoicing rates as the Event Coordinator resigned before this review was complete. The event revenue budget was $180,000 for the fiscal year.

During the on site visit, the Sr. Business Analyst noted that the current pricing schedule for events was not being used by the new Events Coordinator. Management indicated that as the event clients were given cost estimates in advance of events that reflected the incorrect rates, UCDC is contractually obligated to honor these rates for events that have not yet occurred.

**Action Plan:**
Event rates are reviewed by senior management and are included in the Events Services Business Plan. The previous Events Coordinator was charged with “growing the events business” and appears to have used a rate schedule that was significantly different than the approved rates. Upon discovery, corrective action was initiated immediately. Since that time, the new Events Coordinator is only using the approved rates. Any exceptions to these approved rates must be approved by the Executive Director. Also, clients are provided a cost estimate when making an initial inquiry or reservation so any questions regarding cost can be discussed in advance. The new Events Coordinator maintains a log for each event including details of audio-visual and information technology equipment and access requests.

**Target Date:**
This observation was addressed during fieldwork.

6. **There is no formal approval process for exceptions to rates, discounts, and the honorarium structure.**

A process for handling exceptions should be documented and approved by the governance committee. Approval of any exceptions should be documented.

**Action Plan:**
An updated policy was drafted, reviewed, and approved by the Governing Council of the UC Washington Center during its meeting in November 2011.

**Target Date:**
Closed - The issue was resolved prior to issuance of this report.
7. **Title Code assignments are not appropriate for two staff.**

As a result of the reorganization last year, UCDC hired several Associate Academic Directors. Two of these individuals are not Academic Senate faculty and do not have a faculty affiliation with another UC campus. The other Associate Academic Directors have a faculty appointment at a UC campus and are members of the Academic Senate. While the principal responsibility of this position is teaching, the title codes assigned to the two UCOP-UCDC employees are not appropriate.

**Action Plan:**
*Academic Affairs, including Academic Personnel, the UCDC Academic Advisory Council (AAC,) and the Governing Council are in discussions regarding assigning different title codes to these positions.*

**Target Date:** July 31, 2012

8. **Financial budget to actual analyses are not performed.**

Due to the backlog of work resulting from a long term staff vacancy of over six months, management did not have time to perform any budget to actual analysis during FY10-11. As rates and recharges must be approved in advance of the term, UCDC management hasn’t validated that the rates used in the most recent fiscal year are adequate to cover their expenses going forward. As a result, there is a risk that UCDC may find current rates will not sustain ongoing operations.

**Action Plan:**
*The Business Manager was working on the FY10-11 budget to actual analyses during our review. Going forward, he expects it will be completed more timely as the department is now fully staffed.*

**Target Date:**
*Closed – This issue was closed during fieldwork.*

9. **Bank deposit frequency is not consistent with policy.**

UC policy *(BUS-49)* requires that cash be deposited at least weekly. UCDC is not currently in compliance with this requirement as deposits (mostly checks) are made every two weeks. As there is no lockbox, all checks are received on-site. Also, there is no credit card processing on-site, which adds to the volume of small checks ($5 to $200) received for daily parking, guest housing and short term stay fees, lost key or ID charges and other miscellaneous charges.

**Action Plan:**
*As of January 1st, 2012, UCDC began making check deposits on a weekly basis.*

**Target Date:**
*Closed - The issue was resolved prior to issuance of this report.*

10. **UCDC has been told they are self-sufficient, however, no strategic plan for this unit has been developed or discussed with the governance structure.**

While there are several documents that could provide input to a strategic plan such as a) the Draft Report of the UCDC Center Task Force, b) the Consolidation of UCDC Academic Programs and c) the Post –Consolidation Financials, additional effort is needed to develop a formal strategic plan for UCDC.
A formal plan should be developed to address the following considerations:

A. Review/revise the UCDC mission and goals.
   • Consider the strategic location and UC's visibility in the nation's capital
   • Evaluate possible ramifications – non-profit vs. for profit

B. Review resources needed for success
   • Currently available
     Key Personnel: There are currently 3 key leadership positions who are keeping the building and mission directed. While this is efficient, it does not allow for this team to do anything other than day to day maintenance of environment and attending to crisis. Strategic planning is not discussed regularly and is not evident to the building participants or the employees.
   
   • Future hires and acquisitions
     For example: The Events Coordinator position is tasked with growing revenue through use of the building by non-profits. In the past, as new college graduates have been hired, position turnover has occurred after a year or two. While this is cost effective in the short term, as this position is tasked with growing revenue, consider if the next recruitment should focus on a different candidate pool.

C. Consider how to get commitments from campuses for the future so that planning can be done.

Action Plan:
Vice Provost Greenstein will work with the Executive Director and Governing Committee to create a strategic plan that addresses the above considerations.

Target Date:
July 1, 2012
## UC Washington Center

### Appendices

#### Budget

#### Financials

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<th>Appropriations/Revenue</th>
<th>2010-'11</th>
<th>2011-'12</th>
<th>2012-'13</th>
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<td>115,000</td>
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<td>Campus Assessment by UCOP</td>
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<td>93,839</td>
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<td>TOTAL EXPENDITURES</td>
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| Annual Balance          | 585,955 | 484,951 | 275,795 |
| CARRYFORWARD ⁹          | 3,246,329 | 2,342,812 | 1,671,001 |

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<td>Major Maintenance Sub-total ¹⁰ ¹¹</td>
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<td>Technology Renewal ¹²</td>
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<td>1,156,762</td>
<td>480,281</td>
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| Annual Operating Position | 2,342,812 | 1,671,001 | 1,466,515 |
| DEBT SERVICE/UPGRADE RESERVE (cumulative) ¹³ | 456,974 | 556,974 | 656,974 |

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¹ University of California Washington Center

² Appendix A

³ Budget

⁴ FY '10-'11 through FY '12-'13 Financials

⁵ Appropriations/Revenue

⁶ Expenditures

⁷ Upgrades / Debt Service

⁸ Annual Balance

⁹ Carryforward

¹⁰ Annual Operating Position

¹¹ Debt Service Reserve

¹² Major Maintenance Sub-total

¹³ Technology Renewal
NOTES:
1 Campus Fees Calculation: FTE UC students x (Student Fee ($10,302) - 29% Return to Financial Aid ($2,988)) = Total Fee to UCDC (218 x $7,314 = $1,594,544). Assumes 7% increase in FY '11-'12 & '12-'13.
2 UCDC proposes collecting a Student Technology Fee to cover cost of new Student technology Aide Program and to augment reserve for technology renewal. Collection of fee to start with Fall '11 term. Initial fee $100 per student per quarter. Assumes 7% increase in FY '12-'13.
3 FGR costs will either be funded by OP Budget or through recharge to External Relations.
4 UCOP Information Resources & Communications currently covers annual expense for Internet access.
5 Includes student services unit.
7 Floors 4 - 11 for the purpose of debt service are considered residential. UCHS policy requires that the UC Washington Center residential operations meet annual debt service contribution.
8 Floors 1 - 3 for the purpose of debt service are considered non-residential. Under an agreement with UCOP in spring '08, UCOP fully funds non-residential debt service for the UC Washington Center.
9 Carry Forward includes reserves from the residential and building services operations. These reserves are set aside for contingencies such as major maintenance and unscheduled emergency maintenance.
10 Floors 4 - 11 for the purpose of major maintenance are considered residential. Residential major maintenance is supported out of residential operations revenues.
11 Floors 1 - 3 for the purpose of major maintenance are considered non-residential.
12 Schedule for technology renewal is laid out in the annual technology plan of the UC Washington Center which is reviewed by the UC Washington Center Operations & Management Advisory Committee (OMAC). FY '10-'11 expense includes unplanned server replacement, telephone system upgrade and deferred classroom A/V technology renewal.
13 Debt Service/Upgrade Reserve to be maintained w/ at least 25% of debt svc balance (about $460K); surplus reserve to be used as needed for major maintenance and/or upgrades.