

POLICY ON SERVICE CENTERS

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Policy

Policy Statement

Service Centers are established to provide goods and services for the convenience of their University customers. The Centers are expected to offer goods or services that are unique, convenient or not readily available from external sources. The Centers may not be subject to external market forces so initial approval and an ongoing review is needed. The rates charged by the Center to federal grants and contracts should not exceed reasonable market rates available in the community.

Any University department intending to establish a service center must submit a written request, approved by the departmental executive officer, to the Controller's Office for review. The sale of goods and/or services must be consistent with the University's mission and the normal activities of the college/department associated with the organization. In addition, existing service centers should provide a written purpose statement to the Controller's Office during the initial review of their rate calculation.

The costs of the Service Centers must be identified and can be billed to customers based on approved rate(s). The rates charged for goods and services are computed by the Service Centers and are reviewed and approved by the Controller's Office. The billing rates are to be set so that the Service Centers will break even over a period of one year. Prior year's surpluses or losses should be included in the next computation of rates. Recurring variances greater than 5 per cent should be resolved with the University Controller's Office.

Who Should Know This Policy

- Provost, Vice Presidents
- Deans
- Directors
- Department Executive Officers & Administrators
- Department Chairpersons
- Principal Investigators
- Office of Sponsored Programs
- Controller's Office
- Property Manager - Purchasing

Responsibilities

Service Center Director (or designee)

- Submit a request to establish a new Service Center.
- Manage the daily operations of the Service Center.
- Provide competitive rates and services while maintaining break-even margins and necessary fund balances.
- Prepare an annual budget and provide yearly, or more frequent, financial statements for the Center.
- Perform an annual review and rate analysis in time for customers to include any rate adjustments in their next year's budgets.
- Maintain detailed records supporting charges to internal and external users.
- Prepare schedule of equipment inventory items used by the Center including bar code inventory numbers for the Purchasing Department Property Manager.
- Process any charges for services provided to University customers and bill for services provided to external customers.

Department Executive Officer \ Dean \ Vice President

- Approve the establishment of new Service Centers and review the continued operation of existing ones.
- Approve Service Center annual budgets.
- Fund any deficits or disallowances created by Service Centers under their direction.

Property Control & Surplus Office

Upon receipt of the equipment inventory schedule from the service center director, verify the bar code number to an inventory number in the university fixed asset system. Provide the appropriate depreciation charge amounts to the Center director for the listed equipment.

Forward the reconciled equipment inventory schedule to the Director of Grants & Contracts and the Controller's Office for exclusion from the university's depreciation in the indirect cost proposal.

Identify items of equipment that were purchased from federal funds.

Controller's Office

Review and approve the rate calculation for all new Service Centers for accuracy and consistency with applicable policies and procedures.

Review existing service centers revenues annually to verify that those with operations significant in volume are included in the annual rate calculation review.

Monitor the rates for the Centers to determine if total billings for services are reasonable compared to the costs of operation.

Review rates periodically to determine if all unallowable costs are being excluded.

Notify the Center and appropriate administrators if the review identifies practices inconsistent with applicable policies and procedures.

Procedure

Establishing a Service Center

A written request to establish a Service Center must be submitted to the Controller's Office for review. The request must have been approved by the departmental executive officer and by the Dean of the College or appropriate Vice President of the unit. The request should include the following information:

- A statement of purpose which is consistent with the mission of the University and complies with University policies and procedures.
- Description of the services to be provided to customers.
- Description of who else (in or outside the University), performs these services or sells these goods.
- Listing of the potential customers (i.e. University departments, Federal grants and contracts, external users, etc.)
- Estimated budget of the proposed Service Center.
- Copy of the proposed charge-out rates and the rate calculation.
- Request for a new account number(s) for recording activity in the Service Center.
- Name and phone number of the person responsible for financial administration of the Service Center.

- Account number(s) to be charged should a deficit occur in the center, and person to be contacted in the event of such a deficit.
- Anticipated start up date for the Center.

Establishing Billing Rates for Service Centers

Introduction

Service Centers should establish a single rate per type of good or service for University customers including Federal grants and contracts. Goods or services whose billing rates would be prohibitive may require subsidization from the department, college or other organizational unit authorizing the Center's operation. Separate billing rates should be established for customers outside the University that include the full costs of providing the goods and services. Billing rates will be reviewed by the Service Centers each year and may be updated when it is apparent that the billings vary by more than 5 percent from the actual costs. Rates charged to University departments should be set to break even. The University is subject to periodic audit by the Federal government to assure that grants and contracts receive the lowest price for goods and services purchased from the University.

University Rates

Current Operating Costs: The Service Centers will identify all current operating costs for their operation. This includes both direct costs, such as salaries, wages, and fringe benefits, materials and supplies, and travel expenses, as well as applicable indirect costs, such as depreciation and maintenance. Any of the operating costs which are unallowable according to Federal guidelines will be excluded when the rates are calculated. Common examples of unallowable costs include alcoholic beverages, bad debts, charitable contributions, advertising, entertainment, fines and penalties, capital acquisitions, and capital lease principal payments. These unallowable costs should be recovered from another funding source. Interest payments on borrowed funds may be included in the rate calculation.

General Rate Guidelines: External rates should not be so low as to constitute unfair competition with private enterprise for similar services available in the area. Federal grantors must be charged a rate equal to or lower than the rate charged to any other customer. Federal grantors cannot be charged for services rendered free of charge to other customers. All customers must be subject to the same menu of costs for services.

Capital Usage Factors: Apart from interest and depreciation, the cost of purchasing capital assets cannot be included in the calculation of the billing rates. Federal guidelines do not allow the purchase cost of equipment to be charged directly to the service center. It is appropriate to include depreciation on the capital assets in the rates. The appropriate depreciation charge will be provided by the Property Control & Surplus Office based on the equipment inventory schedule prepared to establish the Service Center. The annual depreciation charges will recover the original cost of the asset over its useful life computed on a straight-line basis, less any salvage value. The portion of the equipment's purchase cost paid by federal funds is excluded from depreciation calculations.

Working Capital: This is defined as two months of budgeted expenses for future operating costs. This is the maximum allowable reserve which may be retained by a service center.

Prior Year's Surplus or Loss: Any prior year's surplus or loss should be included in the rate computation for the next year. A Center may justify retention of a surplus balance not to exceed the amount of accumulated depreciation on their capital assets, plus two months operating reserve (known as the working capital), plus subsidies received by the Center from the University. Subsidies may include direct charges such as salaries, supplies, or depreciation charges not included in the billing rates charged to customers. Identifying this surplus balance by transferring it to a separate account may be advisable for tracking purposes. This would ensure that recoveries of depreciation expense are available for future replacement of the capital assets.

A reserve fund will also be established centrally from which a department may request funding in the event of a deficit. The department may request a short term loan from this fund, but must demonstrate adjustment of the upcoming year's budget for the Service Center to recoup the deficit and repay the loan within the next fiscal year. This account will be monitored annually by the Controller's Office.

External Rates

Separate sales/services billing rates should be developed for external customers. These rates are designed to recover all costs including the unallowable costs excluded above and appropriate overhead costs (i.e. utilities, etc.). External rates should not be below rates for similar services available in the private sector.

Service Center Review and Approval

New Service Centers

The request to establish a Service Center will be reviewed by the Controller's Office utilizing the following criteria:

- The request is complete and has appropriate departmental, collegiate and/or vice presidential approvals.
- The request includes a statement of purpose which is consistent with the mission of the University and complies with University policies and procedures.
- The rate calculations are accurate and adhere to state and federal policies. Federal policy states that billing rates charged to federal programs must not exceed actual costs and must not include unallowable costs.

The Controller's Office will provide written notification of the results of the review to the department/unit after the review is completed. The notification will include the account number(s) that will be assigned to the Service Center.

Billing Rates for Existing Service Centers

Annually, each Service Center will provide the Controller's Office with a report stating whether the Center continues to meet its mission statement objectives and the following:

- Financial statements showing balances and the net income or loss for the fiscal year to date and expected year-end results. The annual Self-Supporting Budget Request documents required by the Budget Office will suffice for this requirement.
- The calculation of proposed billing rates for the next year.

The Controller's Office will review and monitor the billing rates for all centers. Judgments will be made as to whether total billings for sales and services are reasonable compared to the costs of operation. The rate calculations will be reviewed to determine if all unallowable costs are being excluded. The Centers and the appropriate administrators will be notified if the review identifies practices inconsistent with University or Federal policies and procedures.

Establishing Capital Reserve Funds

- As noted above, federal guidelines do not allow the purchase cost of equipment to be charged directly to the service center. However, depreciation on service center assets may be charged to the service center. Purchase of equipment must be funded from other sources including equipment reserves, gift funds or other unrestricted funds sources.
- If the annual equipment depreciation charges do not provide adequate funding for purchasing equipment, then service centers may request a loan to fund start-up costs for service center equipment. This loan from the equipment reserve account would be repaid out of depreciation charges included in the Center's rates throughout the life of the purchased asset. A new object code line will be created to track the build-up of depreciation reserve.
- Expenditures made using funds loaned from the equipment reserve account are restricted to capital equipment expenditures.

Record Keeping

The Service Centers should maintain detailed records supporting charges to University and external customers as well as information required for computing billing rates. These records should include the following:

- Name of person and department requesting the service.
- Account numbers for internal customers being charged for the service.
- Description and cost of the services being performed.
- Names and addresses of the external customers being billed for services.
- Total volume of activity for University customers, including Federal grants and contracts, and for external customers.
- Financial information necessary for computing billing rates.

Instructions

The charge-out rates for the Service Centers are computed annually based on the total costs (both direct and indirect) of the Centers.

The rate computation includes developing an annual expense budget, identifying the cost to the Center for the goods and services, allocating the expenses to the Centers and dividing by the amount of usage for each cost center. The rates for internal and federal customers should be set so that the revenue does not exceed the actual costs of providing the services. If the Service Center revenue exceeds or falls short of the actual costs for any one year then the next computation of rates must include the prior year's over or under recovery of costs. All University customers, including Federal grants and contracts, should be charged the same rates.

The annual budget is prepared by estimating the costs of salaries, materials, supplies, depreciation and other expenses necessary to operate the Center for the next year. Following are detailed instructions relating to the various steps included in the attached rate calculation examples.

1. **Direct Costs** - are costs that can be identified directly for each service and could include labor, materials and similar costs.
2. **Indirect Costs** - are costs that are not readily identifiable to a particular service so they are collected in a separate cost pool and then allocated to each service on some common basis.
3. **Total Costs** - is the total of the direct and indirect costs.
4. **Adjusted Costs** - is the total costs less the equipment purchased, the unallowable costs, and the adjustments for prior year surpluses or losses.
5. **Internal Customers** – any customer with a UNLV account in the accounting system.
6. **External customers** – any customer that does not have a UNLV account number.
7. **University Rates** - the adjusted costs are divided by the usage (hours, units, etc.) to determine the University rates.
8. **External Rates** - unallowable costs excluded in step 4 are added to the adjusted costs prior to dividing by the usage when computing the rates and then a percentage relating to the appropriate overhead costs is added to the University rates to determine the rates for outside customers.

More detailed information regarding these cost components will be available from the University Controller's Office.

Rate Calculation Examples

See Appendix A for examples, pages 10 - 14.

Who to Call with Questions

Gualberto (Berto) Rodriguez
Senior Accountant
berto.rodriguez@unlv.edu
895-5738 Phone, 895-4410 Fax

For Grant-related questions:

Lori Ciccone
Executive Director of Sponsored Programs
lori.ciccone@unlv.edu
895-5541 Phone, 895-4379 Fax

Adopted by the Cabinet March 28, 2000
Updated February, 2019

Appendix A

Sample Rate Calculation for Service Center
 Store Room Example
 Fiscal Years 20xx

	FY-20xx	
Cost of materials resold	200,000	
<u>Operating expenses: *</u>		
Salaries and wages	50,000	
Fringe benefits	12,000	
Maintenance agreements	-	
Supplies	10,000	
Freight or shipping	-	
Materials	-	
Other contractual services	-	
Equipment depreciation **	5,000	
Other _____	-	
Adjustment for Prior Years' Operations:		
Deduct surplus or add deficit	-	
Total operating expenses	77,000	
Calculation of necessary mark-up:	Total expenses	=
	Cost of materials	Percentage Mark-up on cost
	77,000	=
	200,000	38.5%

Sample Rate Calculation for Service Center
 Equipment Rental or Use
 Fiscal Years 20xx

An activity that provides equipment or instruments for rental or use can develop a rate for an individual item, such as a microscope. Rates for classes or groupings of like items, such as camcorders, also are possible.

The first step is to estimate annual usage of items. Usage can be measured by hours, half-days, days, etc. For this example, estimated annual usage is:

Items	Annual Usage Per Item	Total Days Usage
10 Tape Recorders	200 days	2,000
20 Camcorders	150 days	3,000
	Total Days Usage	5,000

The next step is to calculate per-day general operating expenses:

Projected General Operating Expenses:

Salaries	25,000
Employee Benefits	5,000
Supplies Expense	3,000
General Equipment Depreciation	2,000
Other _____	-
	35,000
Total Operating Expenses	35,000

Adjustment for Prior Years' Operations -

Deduct Surplus or Add Deficit	0
Total	35,000

Estimated Days Usage	5,000
Operating Expense per Day	\$7.00

Sample Rate Calculation for Service Center
 Labor Center
 Fiscal Years 20xx

For an activity, such as a machine shop, whose service center rates are composed of charges for labor and materials, the labor rate is an hourly rate calculated as follows:

Projected Operating Expenses:

Salaries	\$ 100,000
Employee Benefits	25,000
Supplies Expense	6,000
Equipment Depreciation	8,000
Other _____	<u> -</u>
Total Operating Expense	<u>139,000</u>

Adjustment for Prior Years' Operations - Deduct Surplus or Add Deficit	<u> -</u>
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Subtotal 139,000

Less Materials Mark-Up Recovery (1)	<u>5,000</u>
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Total \$ 134,000

Estimated Productive Hours (Appendix A - page 13) 4,976

Hourly Labor Rate (\$134,000 / 4,976) \$ 26.93

(1) Materials Mark-Up Recovery:

Cost of Materials	\$ 50,000
Mark-Up Percentage	<u> 10%</u>
Recovery	<u><u>5,000</u></u>

Sample Rate Calculation for Service Center
 Calculation of Productive Hours
 Fiscal Years 20xx

The estimation of productive hours used in calculating service rates is determined by deducting from available working hours vacation, holiday, and sick hours usage and nonproductive hours used for clean-up, general maintenance, etc.

Vacation hours earned varies by individual. Determination of sick-leave usage and nonproductive hours can be estimated using past experience of the department as a guide.

The productive hours calculated are those hours which are expected to be rechargeable.

An example follows:

	Employee 1	Employee 2	Employee 3	Total
Total Annual Working Hours	2,080	2,080	2,080	6,240
Less:				
Vacation Hours	120	120	144	384
Holiday Hours	96	96	96	288
Sick Leave Hours	80	120	120	320
Non-Productive Hours	120	64	88	272
Total Deductions	416	400	448	1,264
Productive Hours	1,664	1,680	1,632	4,976

Service Centers
Rate Calculation Flow Diagram

