

INTERNAL SERVICE CENTERS

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I. PURPOSE OF CHAPTER 13

This chapter of *The Guide* articulates the Adams State College's policy for Internal Service Centers (ISC). The policy provides guidelines for establishing, costing, pricing, and administering ISCs. An ISC is a campus department that provides goods/services for itself or for other college departments. An ISC is established when management determines that a good or service is most effectively provided within the college, although the same good or service may be available commercially. The purpose for creating an ISC fund is to control the cost of providing goods/services within the college. The costs of providing the goods/services are distributed through a charge schedule that is uniformly applied to all users. ISC policies and procedures have been established to provide consistent operational practices among the various ISC units and to ensure compliance with government regulations.

Note: A copy of this ISC chapter should be read and reviewed by all staff responsible for the management of an ISC.

II. APPLICABILITY

The policy and procedures described in this chapter are applicable to all ISC units.

III. DEFINITIONS

Internal Service Center (ISC): An ISC is an organizational unit that provides a specific type of good or service to ASC departments, (rather than to individuals or the general public), and is supported by interdepartmental charges to the user department's operating ORG UNIT. The users typically determine the amount of goods/services they obtain. While such a good/service could be purchased from commercial sources, for reasons of convenience, cost, or control, the good/service is often provided more effectively through a ASC service center. The rates charged by an ISC are generally formulated to recover operating costs.

ISCs provide activities for which a Rate Schedule is required. This rate schedule is developed annually.

In addition to the previously-stated information, ISCs:

- Are established primarily to provide goods/services to other ASC departments, sponsored programs, or activities.
- Operate as a discrete unit having control of revenues and expenses.
- Are ongoing activities.
- Charge all INTERNAL users equally for services at a rate calculated to recover their costs over a fixed period of time.

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- May make sales to external entities. However, if external sales are made, they are usually incidental.

Acquisition Cost: is the total value of resources expended and committed to bring equipment or buildings and improvements up to intended and useful condition. Total “capitalized costs” may include, but are not limited to, the cost of an item, freight, taxes, in-transit insurance, installation/modification costs, consultant services related to acquiring the item, construction costs, capitalized interest, and the current book value of college assets given in exchange. For donated capital assets, acquisition cost is its fair market value at the time of the donation (plus any acquisition related expenses such as freight and installation).

Allowable Costs: are costs that satisfy **all** of the following conditions:

1. **Are reasonable:** A reasonable cost reflects the action a prudent person would make under the circumstances in light of their stewardship responsibility to the college community, State of Colorado, Federal Government and the public. Major considerations involved in the determination of the reasonableness of a cost include:
 - a). Whether the cost is generally recognized as necessary.
 - b). The restraints or requirements imposed by such factors as arms-length bargaining and federal/state laws and regulations.
 - c). The extent to which the actions are consistent with established Adams State College policy.
2. **Are properly allocable** to goods/services in accordance with relative benefits received or other equitable relationship. Costs allocable to a particular good/service cannot be shifted to other goods/services. A cost is allocable to a good/service if it is necessary to the provision of the goods/services and meets either of the following conditions:
 - d). The cost solely benefits the good/service.
 - e). The cost benefits the good/service and other goods/services or activities in proportions that can be reasonably approximated based on benefits derived, a traceable cause and effect relationship, or logic and reason where neither benefit nor cause and effect relationship is determinable.
3. **Are historically based** (with appropriate adjustments for applicable credits).

Note: In the case of *current operating costs*, projected costs may be considered in lieu of historical costs to the extent they are based on objective evidence (for example, approved changes to next year’s operating budget) and not on speculation.

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4. **Are not specifically unallowable.** Refer to Section VIII.B. of this chapter for a list of unallowable costs per federal regulations as articulated in Section J of A-21.

Applicable Credits: are receipts or negative expenditures that operate to offset or reduce costs. Examples of applicable credits include purchase discounts, rebates, or allowances (including “educational discounts” where the arrangement is not clearly and specifically identified as a gift by the vendor), recoveries or indemnities on losses, and adjustments for overpayments or erroneous charges.

Auxiliary Enterprise Units: as used in the ISC policy, are departments or activities which were established primarily to provide goods/services to students, faculty, staff and/or the general public, but which also regularly provide goods/services to ASC departments, sponsored programs or activities. For example, the Bookstore and the Department of Housing are auxiliary enterprise units. These units are not considered as being ISCs.

Break-Even Period: is a reasonable time-period in which cumulative allowable and allocable revenues for a good/service should equal cumulative expenses. This period of time is usually the fiscal year.

Capitalized Costs: see Acquisition Costs.

Depreciation: Depreciation accounting is a system of allocating the acquisition cost of an asset (equipment, building, parking lot, etc.) over the estimated useful life of the asset, usually measured in years, but sometimes based on volume of usage. Each accounting period is charged with a proportionate depreciation expense for the estimated useful life of the asset, rather than charging the full cost of the asset as an expense in the year in which it was acquired. Please refer to Section VIII.E of this chapter for information on ‘Equipment Considerations in Billing Rates’ that includes the depreciation requirements.

Direct Costs: Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other ASC activity, or that can be assigned to such activities relatively easily with a high degree of accuracy. **Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.** Where ASC treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances must be treated as direct costs of all ASC activities.

Equipment: is an article of non-expendable, tangible personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more. This includes donated equipment whose fair market value at the time of donation is

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\$5,000 or more, and equipment being constructed whose component parts may be less than \$5,000 each but whose total cost will be \$5,000 or more.

External Customer: is any customer, other than one paying for the goods/services by charging a ORG UNIT-Account combination. Agency Funds are considered to be external customers.

Facilities: are the physical space occupied by the ISC, including utilities and routine maintenance such as custodial services.

Facilities and Administrative (F&A) Costs: F&A costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other ASC activity. **Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.** Where ASC treats a particular type of cost as an F&A cost of sponsored agreements, all costs incurred for the same purpose in like circumstances must be treated as F&A costs of all ASC activities.

Operating Costs: include but are not limited to:

- Salaries and wages,
- Employee benefits,
- Cost of materials and supplies,
- Travel,
- Transfer of cash for provision for renewal and replacement of equipment and facilities (depreciation), and
- A share of institutional administrative expense (general administrative recharges and general infrastructure recharges).

IV. INTERNAL CONTROL

ISCs are operated as essentially self-funded business units. Their business activity consists of interdepartmental sales, and may also include inventory for resale and occasional cash or credit sales to the general public. ISCs must follow the appropriate internal controls for cash, inventory, and accounts receivable as prescribed in the respective chapters of *The Guide*.

V. ACCOUNTING, BUDGETING, AND COSTING

A. Accounting

As self-funded business operations, ISCs must be budgeted and accounted for in a 3xxx fund designated as and ISC fund by the Controller. In addition, ISCs must be budgeted and accounted for separately from other departmental activities that take place in the following funds:

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- Current operating expenses in Auxiliary/Self-Funded.
- Equipment/facility purchase, renewal, and replacement activities in Renewal and Replacement Fund.

Normally, ISCs should not operate out of General Fund ORG UNIT-Account combinations.

B. Budgeting

ISCs must have ORG UNIT-Account combinations and budgets established in accordance with existing policy and procedure. Annual budgets must reflect the ISC's expected revenue, funding support, and expenses. Since the annual budget for an ISC ORG UNIT is normally prepared several months in advance of the beginning of the fiscal year, the new budget must reflect the projected expenses, revenues, and surplus/deficit to the end of the current fiscal year.

C. Costing

The ISC costing structure must contain **all** of the allowable and allocable costs and **only** the allowable and allocable costs of operating the ISC. This includes all **direct costs** (salaries, wages, benefits, supplies, travel, utilities, etc.), and all **indirect costs** (general administrative recharges/GAR and general infrastructure recharges/GIR). General Fund support may be provided as described in Section XI of this chapter. Only the salaries, wages and benefits of staff whose efforts support the ISC can be charged to the ISC. All proposed cost allocations must be reviewed before charging departmental general administrative salaries, wages, and benefits to an ISC. The costs of operating an ISC may not be commingled with the costs of other operations.

VI. ESTABLISHING AN INTERNAL SERVICE CENTER

Directors, or Department Chairs authorize the creation of an ISC, as required by the administering department's policy. The creation of an ISC also requires authorization by the Vice President of Finance and Administration and/or the President, and/or the Board of Trustees. Start-up costs, such as purchasing initial equipment, supplies, or inventory, should be funded by the administering department.

The benefits, including relative prices and quality, of the proposed ISC providing the goods/services must be weighed against the benefits of obtaining similar goods/services from commercial sources or other college sources. In contemplating the creation of an ISC, departmental management must consider a variety of criteria.

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A. Need Determination

The department must determine that a valid need for the ISC exists by evaluating the following:

1. Does a demand exist for the goods/services to be provided? This demand should be by more than one department/unit/activity.
2. Will a significant volume of recharging (sales), both in dollar amount and number of transactions, occur?
3. Will the goods/services be provided on a regular and continuing basis?
4. If services are to be provided, will they be unique or specialized, as opposed to general administration or other ASC support services already available?
5. Will the ISC be competing with an entity in the private sector?

C. Compliance

Before establishing an ISC, the department must determine that the **all** of the following criteria can be met:

1. All elements, and only the elements, of cost incurred in providing the goods/services will be recharged to the customers.
2. Costs of other activities will not be charged to the ISC, except to the extent that the other activities are charging for goods/services provided.
3. Recharged amounts must be based on approved, predetermined rates, which are then applied to the actual quantities of goods/services provided.

VII. BILLING RATES

During the annual budget process, ISCs are required to calculate and publish a rate schedule. This must be reviewed and approved by the responsible departmental person

ISCs must review their rates at least annually and adjust them if necessary to eliminate surpluses in excess of allowable reserves, or to correct deficits.

The Banner Finance System general ledger is the official system of record for the college, and must be the basis for all financial related information used in developing ISC billing rates. Financial and statistical data used in developing billing rates should be based on a one- year period. This period normally should be the college's fiscal year that is July 1 to June 30.

A. Billing Rate Development Considerations

All ISCs, no matter how small, must have approved billing rates for goods/services which:

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- Can be substantiated with ISC **allowable** cost and usage (sales) calculations.
- Are reviewed and updated on a regular basis, no less than annually, during the budget process.
- Are stated in measurable units of goods/services, e.g., hours of services, number of items bought, weight of items bought, etc.
- Are separately developed for distinctive types of goods/services when sales volume is significant and the cost of providing the goods/services is unique. Surpluses or deficits on a type of good/service cannot be shifted to another type of goods/services unless it can be demonstrated that the mix of users is not different between sales activities that gain and those that lose.
- Are not based on prorating or other indirect methods of cost allocations.
- Are not based on the rate structure of external businesses.
- Are non-discriminatory. Non-discriminatory means that all internal users must be charged the same rate(s) for the same level of goods/services purchased. Refer to Section IX.B of this chapter for alternative rate structures. Volume discounts or other special pricing mechanisms must be equally available to all users who meet the criteria. External users, including Agency Fund ORG UNIT (Fund 8xxx) may not be charged at a rate less than that charged to internal users. However, external users may be charged a higher rate. Students are considered external users for purposes of charging for goods/services. The Controller must approve any exception to this requirement.
- Are established at levels sufficient to cover all **allowable** direct costs involved in the operation of the ISC, as well as indirect costs which are applied at a rate to be set each year.
- Are designed to recover not more or less than the aggregate **allowable** costs of providing the goods/services over a defined break-even period. The break-even period for most operations should be the fiscal year, although a longer break-even period may be established when necessary. (For example, high “start-up” costs may exceed revenue during the first few years of operation.) Carry-forward adjustments to future year billing rates may be necessary to achieve break-even in certain situations.
- Do not include the full cost of equipment, but do include the full, allowable depreciation charge on equipment, buildings, and improvements. Refer to Section VIII.E. of this chapter for more information.

After taking into consideration all of the above rate-setting criteria, it is essential that billing rates be set in such a way as to make the ISC a “break-even” operation. On average, during the course of the fiscal year (or other

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reasonable time period), the ISC should not have a month end fund balance surplus - adjusted for college contributions - in excess of 60 days of operating expenses. ISCs will be considered as "break-even" if their month end fund balance, on average for the fiscal year or other reasonable time period, does not exceed 60 days of operating expenses.

Although a break-even position is desirable at the end of the fiscal year, it is not practical to expect ISCs to *exactly* break even. Since rate schedules are estimates of costs and utilization, ISCs may show a fund balance surplus or deficit at year-end. This estimated surplus or deficit must be incorporated into the next year's billing rate calculation, and prices for the subsequent year must be adjusted accordingly. Carry forward balances will be reflected in the ISC's auxiliary/self-funded ORG UNIT for the given fiscal year. In the subsequent fiscal year, price adjustments must be made in order to offset any "over" or "under" recovery. Although this approach satisfies the long-run break-even requirement, every effort must be made to develop pricing strategies that will minimize fund balance carry forward adjustments.

Under no circumstances can an ISC deficit be funded by another ISC that has a surplus.

Under no circumstances can an ISC surplus be directed to other ASC activities.

B. Unallowable Costs

Since ISCs may, during the course of their regular operations, provide goods and services to sponsored projects supported by Federal funds, it is imperative that the ISC be aware of what costs are not permissible for inclusion in the billing rates for internal customers.

Section J of *A-21* identifies those costs that are allowable, as well as those that are prohibited, for charging to federal programs: (<http://www.whitehouse.gov/omb/circulars/a021/a021.html>). Therefore, ISCs may not include the costs listed below in their internal customer billing rates. These costs must be funded by other resources, (such as general fund budgets, gift funds, or other non-ISC auxiliary/self-funded monies), provided by the ISC's department or administrative unit. ISC managers are responsible for ensuring that the following unallowable charges are not included in the billing rates to internal customers:

- **Advertising:** only advertising for recruitment of personnel and procurement of goods or services, e.g., position vacancies and request for bids is allowable. All other advertising is unallowable.
- **Alcoholic Beverages**
- **Alumni Activities:** costs incurred for, or in support of, alumni activities and similar services.
- **Bad Debts**

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- **Commencement and Convocation Costs**
- **Contingency Provisions:** contributions to a contingency reserve or any similar provisions made for events, the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening.
- **Defense and Prosecution of Criminal and Civil Proceedings, Claims Appeals and Patent Infringement**
- **Donations and Contributions**
- **Entertainment Costs** (typically official functions): costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities). Expenses for staff morale and performance appreciation activities per college policy are allowable.
- **Financial Aid**
- **Fines and Penalties**
- **Fund Raising**
- **Goods or Services for Personal Use**
- **Interest Costs:** with the following exception: Interest cost is allowed when paid to an external party (not the College Treasury) and associated with the following assets, provided that the total cost (including depreciation, operation and maintenance, interest, etc.) does not exceed the rental cost of comparable assets in the same locality.
 - Buildings acquired or completed on or after July 1, 1982.
 - Major reconstruction and remodeling of existing buildings completed on or after July 1, 1982.
 - Acquisition or fabrication of equipment completed on or after July 1, 1982, costing \$10,000 or more, *if agreed to by the government.*Contact the Controller before incurring any equipment or facility interest costs. Interest cost paid to the college - such as that paid on cash deficits, on borrowings to fund equipment purchases, or on borrowings to fund facility purchase or remodeling - is unallowable.
- **Lobbying Costs** incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the executive branch of the federal government to give consideration or to act regarding a sponsored agreement or a regulatory matter. Improper influence means any influence that induces or tends to induce a government employee or office to give consideration or to act regarding a government-sponsored agreement or regulatory matter on any basis other than the merits of the matter.
- **Memberships, Subscriptions and Professional Activity Costs** in any civic or community organization, country club, social or dining club.

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- **Promotional Items and Memorabilia** including models, gifts, and souvenirs.
- **Public Relations Costs:** includes community relations, and means those activities dedicated to maintaining the image of the college, or maintaining or promoting understanding and favorable relations with the community, public at large, or any segment of the public.
- **Rental Costs** under “less-than-arms-length” leases are allowable only up to the amount that would be allowed if the college owned the property. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other.
- **Student Activity Costs:** costs incurred for intramural activities, student publications, student clubs, and other student activities.
- **Transfers of Cash** to a renewal and replacement ORG UNIT in excess of that equal to the depreciation expense calculated on existing equipment and facilities.

C. Interim Rate Reviews

Since rate schedules are estimates, adjustments to them should be expected, and should be made as frequently as practical, e.g. quarterly, semi-annually, or following year-end closing. The ISC management must review the business operations, including the billing rates, if during the fiscal year, it appears that a substantial fund balance deficit or significant surplus is developing. It may be necessary to adjust rates up or down in response to such a situation.

Revised rate schedules must be reviewed and approved by the responsible departmental person.

D. Operational Considerations With Respect To Billing Rates

ISCs must:

- Charge all users of goods/services at the established, approved rates.
- Not provide any subsidy to any user or class of users.
- Maintain documentation supporting each charge. This must identify the customer, the date of the sale, the goods/services provided, and the rate charged for the goods/services.
- Initiate billing transactions when goods/services are provided, but no later than for end-of-month financial system closing. ISCs must not initiate billing transactions in advance of providing the goods/services. Progress billings may be made for jobs in progress.
- Charge the cost of goods/services directly to users, including sponsored programs on actual use of the goods/services and a schedule of rates that does not discriminate between federally and non-federally

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supported activities of ASC, including use by ASC for internal purposes

E. Equipment And Depreciation Considerations In Billing Rates

The acquisition cost of equipment used in providing the ISC's goods/services may not be included in the billing rate for recovery in the year of acquisition. **Only a depreciation expense factor may be included in the billing rate calculation.**

Depreciation is not booked as an expense in the Finance System general ledger per Colorado Higher Education Accounting Standards. However, a cash transfer to the renewal and replacement ORG UNIT provides the same effect on fund balance. The calculated annual depreciation expense (cash transfer) is then used in determining billing rates. A cash transfer equal to this amount must be made each year from the ISC auxiliary/self-funded ORG UNIT to the ISC renewal and replacement ORG UNIT. All equipment must be purchased from the renewal and replacement ORG UNIT. No equipment (cost of \$5,000 or more) may be purchased from the auxiliary/self-funded ORG UNIT. Operating costs must be charged to the ISC auxiliary/self-funded ORG UNIT and must not be charged to the renewal and replacement ORG UNIT.

ISC equipment depreciation normally is calculated on an annual straight-line basis, assuming no salvage value, and using 1/2 Year Method. The cost of the equipment - including applicable GAIR and excluding costs paid by federal sponsored projects - is divided by the useful life to determine each year's depreciation expense. One-half of a year of depreciation is charged during the year the equipment is purchased, and one-half a year of depreciation is charged after the final year of the equipment's useful life. The years in between are charged the full amount of annual depreciation.

For example, assume that a computer is bought on March 15, 2001 for \$6,000 and has an estimated useful life of five years ($\$6,000/5$). The depreciation and transfer, as shown by the chart below, is \$600 during year number 1, \$1,200 per year in year numbers 2, 3, 4, 5 and \$600 in year number 6.

FY 2001	\$ 600
FY 2002	\$1,200
FY 2003	\$1,200
FY 2004	\$1,200
FY 2005	\$1,200
FY 2006	\$ 600

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This entry should be done on an annual basis. If you do not know the full acquisition cost of the equipment when setting your billing rates for the year in which you buy the equipment and, as a result, an overage or a shortage results, the amount of this overage/shortage should be included in the rate setting for the next fiscal year. The depreciation charge and transfer ceases after the acquisition cost of the equipment has been fully depreciated.

A sample depreciation schedule can be found on the last page of this chapter.

Depreciation calculations can only include items of equipment that meet **all** of the following conditions:

1. The equipment items exist and are usable, used and needed.
2. The equipment items are identified separately from non-service center equipment.
3. The equipment items have not outlived their depreciable life. Equipment items that have outlived their depreciable life are considered to be fully depreciated.

Depreciation calculations must exclude any portion of acquisition costs borne or donated by federal fund sources. The projected cost of replacement equipment cannot be used in depreciation schedules.

Each department must determine the “depreciable life” of its equipment. This must take into consideration such factors as type of construction, nature of the equipment, technological developments or obsolescence, economic efficiencies, and renewal/replacement policies for the individual items or classes of capital assets. Depreciable life should not be confused with “physical life.” The latter term refers to the total length of time an item of equipment is physically retained and used. For example, due to technological developments or obsolescence, an item of equipment might have a depreciable life of five years. The item might actually be kept and used periodically as “backup”, however, for an additional two years beyond the depreciable life.

Occasionally a piece of equipment will be disposed of before the end of its useful life. When this occurs there is a portion of the acquisition cost related to the remaining years of useful life that has not been included in previous billing rate calculations. This is the un-depreciated cost of the asset. The un-depreciated cost, reduced by any payment (consideration) received on the disposal of the equipment, may be included in the next billing rate calculation. This allows for full recovery of the cost of the equipment. This does not apply to old equipment traded in on new equipment. In this situation, the un-depreciated value of the equipment traded in becomes a part of the acquisition cost of the new piece of equipment.

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Refer to section X of this chapter, *Inventory Acquisitions*, for information addressing when an ISC is selling its equipment to another ASC department.

F. Building And Capitalized Improvements Usage Factor

Some large ISCs are responsible for providing their own building space and for maintaining improvements on those buildings. Billing rates for these service centers may include a capital usage factor for buildings and capitalized improvements. This factor is calculated based on straight-line depreciation with an estimated useful life of 40 years.

Depreciation calculations can include buildings and improvements that meet **all** of the following conditions:

1. The buildings and improvements exist and are usable, used and needed.
2. The buildings and improvements are used in part or whole by the service center.
3. The calculation excludes any portion of acquisition cost borne or donated by federal fund sources.
4. The calculation is calculated on an annual rate of 2.5% of building and capitalized improvements.
5. The calculation is limited to that portion of building space, which is net assignable square feet, which benefits or relates to the service center.

VIII. SAMPLE RATE CALCULATIONS

A. General Rate Calculation

In its simplest form, or for a one product ISC, the ISC's rate is cost based. This means that users are allocated a share of service center's costs based on their relative use of ISC 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 for providing the goods/services by the total **projected level of activity** for the budget period:

$$\text{Rate} = \frac{\begin{array}{l} \text{Total Budget Expense} \\ \text{(Plus Prior Year Under-recovery, or} \\ \text{Minus Prior Year Over-recovery)} \end{array}}{\text{Total Projected Level of Activity for the Budget Period}}$$

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Section XIV of this chapter contains an example of the annual billing rate calculation, including a sample depreciation schedule.

Stores ISCs that sell inventory will use a slightly different calculation to determine an average markup over the cost of their goods sold. The 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 which should generate sufficient revenue to cover the cost-of-goods sold plus the administrative costs.

$$\text{Rate} = \frac{\begin{array}{l} \text{Total Budget Expense} \\ \text{(Plus Prior Year Under-recovery, or} \\ \text{Minus Prior Year Over-recovery} \\ \text{excluding cost of inventory)} \end{array}}{\text{Total Projected Cost-of-Goods Sold}}$$

The billing price of the goods sold is then the cost increased by the rate calculated above.

An ISC offering multiple related goods/services may establish rates for a variety of services that, in aggregate, recover the total costs of the ISC. It is of paramount importance that, in establishing its rates, an ISC does not discriminate against any internal group of users.

B. Alternative Rate Structures

Some ISCs may experience special circumstances that call for rates utilizing an approach different than the general rate calculation. Tailored rate structures or pricing mechanisms may be used as described below, so long as the resulting rates are non-discriminatory with respect to classes of users, e.g. federally sponsored programs.

1. Time-of-Day

ISCs that have wide fluctuation in usage during the day, or between Monday-Friday verses weekends and holidays, may establish a 'time-of-day' rate structure. Higher rates may be charged during hours of peak use, "prime time," to provide incentives to reduce the demand for services during peak times. This structure helps all users by improving performance during peak hours and encouraging the utilization of off-peak hours, thereby reducing the cost for additional equipment.

ISCs utilizing a 'time-of-day' rate structure must show that all users have an opportunity to use the center during non-peak hours, and that no

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particular user - especially federally sponsored programs - is disadvantaged by the proposed rate structure. This type of rate structure is used most frequently in computer and communication ISCs.

2. Volume Discounting

Sometimes economies of scale dictate that a large 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 disclosed and justified in the ISC's proposed budget and rates, **and** its effect is not discriminatory to a single type of customer, other than by amount of product or service provided.

IX. INVENTORY ACQUISITIONS

Inventory for resale by ISCs should be acquired in such a manner that costs are minimized. Since bulk purchasing can result in significant price reductions, the quantity to purchase should be carefully evaluated using historical sales activity. Quantities expected to be in inventory for an excessive amount of time should be evaluated using an economic order quantity model that takes into account the costs to acquire and to carry the inventory. Bulk purchases may be made when the evaluation indicates that they are cost effective.

Inventory being sold by an ISC to other college departments must be purchased by the ISC ORG UNIT, and charged into an inventory account. When sold, an inventory account must be credited for the cost of the item(s) sold, and a cost-of-goods sold account must be debited for that same amount.

The Inventory Policy, which is covered Chapter 11 of *The Guide*, provides detailed accounting information on inventory booking and resale.

X. SUPPORT

Upon occasion, an ISC may not be able to generate sufficient revenue to cover all of its costs and funding demands. When this occurs, the administering department must decide upon a corrective action. Examples of such actions include, but are not limited to:

- Reduce costs
- Increase charge rates
- Provide additional resources
- Terminate the activity
- Change service levels.

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XI. RECORD KEEPING

ISCs must establish and maintain record keeping procedures and systems to capture all financial and statistical data necessary for internal control and for the development and maintenance of billing rates. Records of all sales and services provided to customers must also be maintained to document the goods/services sold and the pricing of each. Records of equipment acquisition and the calculated depreciation factor must be retained to support the billing rate calculation.

Each ISC must, at a minimum, retain the following:

1. Documentation as to how the billing rate(s) were calculated.
2. Records supporting the amount and basis of user billings (revenue).
3. Documentation on the life of equipment.

XII. EQUIPMENT AND OPERATING CAPITAL FINANCING ARRANGEMENTS

Federal cost policy does not allow ISCs to include in their current rates a factor to build cash reserves to fund future costs such as new equipment, unanticipated major repairs, or expansion of the ISC. In addition, ISCs cannot build into their current rates a component to fully fund the initial investment in its retail inventory. Only the cost-of-goods sold is an allowable cost. These cash needs must be funded out of other non-ISC funds available to the ISC's department. If that is not possible, the ISC should contact the controller to arrange for an internal loan. Loans for the acquisition of equipment ideally should be repaid over a period of time that is not less than the life of the equipment being bought. The annual depreciation charge included as a cost in determining the ISC rates will provide the revenue to repay the loan. For loans to fund unanticipated major repairs, ISCs and should consider when the ISC's rates will reflect the repair cost in determining the period to repay the loan.

The college's Controller will charge interest on these internal loans. Since interest paid to another college departments is not an allowable cost to federally sponsored programs, this interest must be paid by non-ISC funds and may not be included in the ISC's rates.