

THE UNIVERSITY OF NEW MEXICO

Internal Service Center Rate Development Workshop

per Revised UNM ISC Policy 2440

A workshop presented by:

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Workshop Format



2-part Presentation:

1. PowerPoint – presented as a guideline
2. Excel examples of rate development – surplus example & deficit example

Time for questions at end



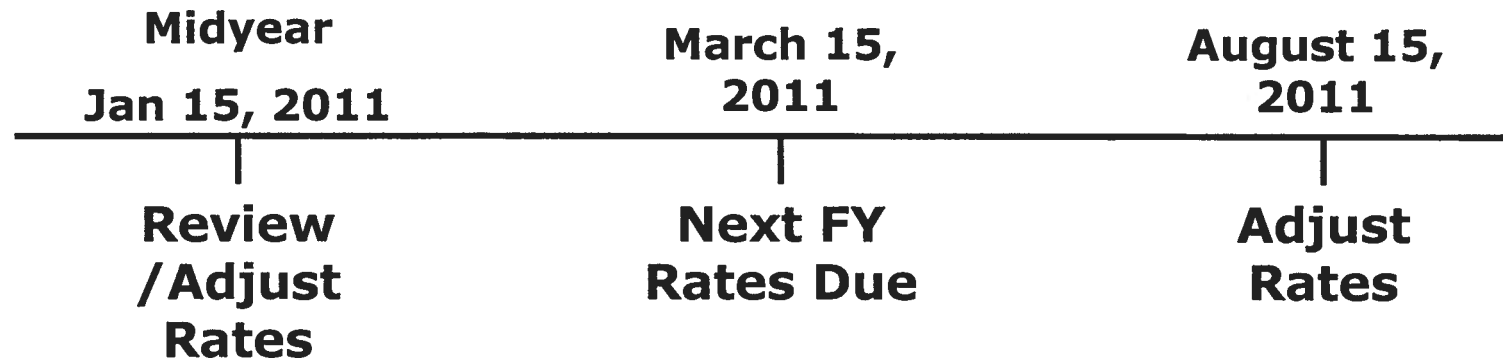
Workshop Topics



1. Internal Service Center Basics
2. Rate Development - 3 Part Process
 - Part 1 – Current FY Yearend Projection
 - Part 2 – Rate Development/Adjustment
 - Part 3 – Approval & Communication
3. Rates Reviewed After Year-end Close
4. Rate Development Worksheet Examples
5. Tips and Other Resources

Internal Service Center Basics

FY12 Billing Rate Timeline



1. Midyear-Jan 15, 2011
 - ✓ Review rates for current FY & adjust as needed
 - ✓ Develop rates for next FY

FY12 Billing Rate Timeline

2. March 15, 2011

- ✓ Major ISC rates due to Financial Services for review/approval for FY12
- ✓ All rates (major and minor) for FY12 developed and customers notified

3. August 15, 2011

- ✓ Adjust rates to reflect FY11 yearend surplus or deficit balance

Internal Service Center Basics

UNM Business Policy 2440 Internal Service Centers

- ◆ Revised and effective 7/1/10
- ◆ Revision high-lights:
 1. Now 2 classifications for ISC – Major and Minor
 2. Major - \$100,000 or more estimated annual operating expenses
 3. Minor – under \$100,000 estimated annual operating expenses
 4. Now a 10% excess rule for surplus or deficit (was 5%)
 5. YE Carried Forward (1900) balances reviewed/adjusted as needed around August 15th

Internal Service Center Basics

Revenue

- ◆ Internal vs. external
 - Both can be included in rate development
 - Other UNM departments, including federal grants
 - A UNM index is always involved
 - External customers include commercial, R&D, city and state, other schools, students, UH – anyone paying with cash, check, or CC
- ◆ Subsidies – may be in or out (surplus, deficit, I&G funding, R&D or Commercial Grant funds)



Internal Service Center Basics

Two types of ISCs

- ◆ **Major** – >\$100,000 est. annual expense
- ◆ **Minor** – < \$100,000

- ◆ 0699 Misc. Services account code for infrequent, low-volume internal sales, including copies, seminars (generally under \$20,000)
- ◆ Major ISCs submit rates for approval
- ◆ Minor ISCs and 0699 rates subject to review

Budgeted usage base defined

What is "Budgeted Usage Base?"

The relevant billing factor (annual utilization) stated in a measurable unit, and is the quantity used times the rate to determine the billing for the service provided.

(For ex., billable labor or machine hours, miles, days, samples, units, volume, kilowatts, attendees)

It is the *Denominator* in the billing rate equation.

If establishing a new ISC

- ◆ ISC Questionnaire
- ◆ Develop rate(s) (includes developing budget)
- ◆ Send above to Unrestricted Accounting
- ◆ Banner index setup (per guidance):
 - Request new Fund
 - Request new Index
- ◆ Input approved budget
- ◆ Start billing in a *timely* manner using 0610 account code

Gather the Data

- ◆ At Jan 15, 2011, gather the data for current FY11
 - Banner **FGIBDST** Budget Status Form (Operating Ledger or Income Statement)
 - Hyperion Operating Ledger report **Fohh001&2 operating ledger detail and summary**
 - Optional – run report for previous FY (FY10)
 - Other business stats: for ex., Lab Tech prepared 300 samples; number of machine hours; labor hours used
 - Research if costs expected to go up: example, a warranty contract may increase 5% for FY11

Rate Development/Adjust Process – Part 1

Financial tools – FGIBDST

Oracle Developer Forms Runtime - Web: Open > FGIBDST

File Edit Options Block Item Record Query Tools Help

Organization Budget Status Form FGIBDST 7.2 (BANP)

Chart: U Organization: 986B CBE Administration
 Fiscal Year: 08 Fund: 2U0246 MU Confocal Laser Scanning Lab
 Index: 986005 Program: P181 Internal Services
 Query Specific Account
 Include Revenue Accounts
 Account:
 Account Type:
 Activity: GNACTV General Activity
 Location:
 Commit Type: Both

Account	Type	Title	Adjusted Budget	YTD Activity	Commitments	Available Balance
0610	R	Internal Service Ctr Intern	0.00	15,347.50	0.00	-15,347.50
1900	R	Balance Forward Detail Ger	0.00	-6,392.43	0.00	6,392.43
1901	R	Budgeted Balance Change	-6,392.43	0.00	0.00	-6,392.43
2020	L	Administrative Professional	0.00	1,830.81	0.00	-1,830.81
2110	L	Fica Gen	0.00	133.54	0.00	-133.54
2140	L	Retirement Gen	0.00	199.56	0.00	-199.56
2160	L	Group Insurance Gen	0.00	125.64	0.00	-125.64
2180	L	Unemployment Compensati	0.00	4.58	0.00	-4.58
21A0	L	Workers Compensation Ger	0.00	3.48	0.00	-3.48
21J0	L	Other Staff Benefits Gen	0.00	57.66	0.00	-57.66
21L0	L	Accrued Annual Leave Gen	0.00	1,774.52	0.00	-1,774.52
70D0	E	Equipment Repairs Mainten.	0.00	16,888.41	0.00	-16,888.41
8060	E	Other Operating Costs Gen	-6,392.43	0.00	0.00	-6,392.43
Net Total:			0.00	-12,063.13	0.00	

Dup Item for Detail, Count Query for Orgn. Summary, Dup Rec for Encum. List
 Record 2/13 | | ... | | <OSC>

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Rate Development/Adjust Process – Part 1

More financial tools – Hyperion

FOH002

Operating Ledger Summary
Through The Month of JUN 2008

Run Date/Time: 09/23/08 11:20 AM

INDEX 986005 Confocal Laser Scanning Lab

Account Description	Budget (FYTD)			Actuals				Encumbrances Reservations	Balance	
	Adopted	Adjustments	Accumulated	Current Month	Percent	Fiscal YTD	Percent		Available	Percent
Revenue										
0610 - Internal Service Ctr Intern	\$0.00	\$0.00	\$0.00	\$2,190.00	0.00%	\$15,347.50	0.00%	\$0.00	(\$15,347.50)	0.00%
1000 - Balance Forward Detail Gen	\$0.00	\$0.00	\$0.00	\$0.00	0.00%	(\$6,392.43)	0.00%	\$0.00	\$6,392.43	0.00%
1001 - Budgeted Balance Change	\$0.00	(\$6,392.43)	(\$6,392.43)	\$0.00	0.00%	\$0.00	0.00%	\$0.00	(\$6,392.43)	100.00%
Revenue Total:	\$0.00	(\$6,392.43)	(\$6,392.43)	\$2,190.00	(34.26%)	\$8,955.07	(140.09%)	\$0.00	(\$15,347.50)	240.09%
Expenses										
2020 - Administrative Professional	\$0.00	\$0.00	\$0.00	\$1,830.81	0.00%	\$1,830.81	0.00%	\$0.00	(\$1,830.81)	0.00%
2110 - Fica Gen	\$0.00	\$0.00	\$0.00	\$133.54	0.00%	\$133.54	0.00%	\$0.00	(\$133.54)	0.00%
2140 - Retirement Gen	\$0.00	\$0.00	\$0.00	\$199.56	0.00%	\$199.56	0.00%	\$0.00	(\$199.56)	0.00%
2160 - Group Insurance Gen	\$0.00	\$0.00	\$0.00	\$125.64	0.00%	\$125.64	0.00%	\$0.00	(\$125.64)	0.00%
2180 - Unemployment Compensation G	\$0.00	\$0.00	\$0.00	\$4.58	0.00%	\$4.58	0.00%	\$0.00	(\$4.58)	0.00%
21A0 - Workers Compensation Gen	\$0.00	\$0.00	\$0.00	\$3.48	0.00%	\$3.48	0.00%	\$0.00	(\$3.48)	0.00%
21J0 - Other Staff Benefits Gen	\$0.00	\$0.00	\$0.00	\$57.66	0.00%	\$57.66	0.00%	\$0.00	(\$57.66)	0.00%
21LD - Accrued Annual Leave Gen	\$0.00	\$0.00	\$0.00	\$1,774.52	0.00%	\$1,774.52	0.00%	\$0.00	(\$1,774.52)	0.00%
7000 - Equipment Repairs Maintenanc	\$0.00	\$0.00	\$0.00	\$0.00	0.00%	\$16,888.41	0.00%	\$0.00	(\$16,888.41)	0.00%
8060 - Other Operating Costs Gen	\$0.00	(\$6,392.43)	(\$6,392.43)	\$0.00	0.00%	\$0.00	0.00%	\$0.00	(\$6,392.43)	100.00%
Expenses Total:	\$0.00	(\$6,392.43)	(\$6,392.43)	\$4,129.79	(64.60%)	\$21,018.20	(328.80%)	\$0.00	(\$27,410.63)	428.80%

Report Summary:

Total Revenue:	\$0.00	(\$6,392.43)	(\$6,392.43)	\$2,190.00	(34.26%)	\$8,955.07	(140.09%)	\$0.00	(\$15,347.50)	240.09%
Total Expenses:	\$0.00	(\$6,392.43)	(\$6,392.43)	\$4,129.79	(64.60%)	\$21,018.20	(328.80%)	\$0.00	(\$27,410.63)	428.80%
Net:	\$0.00	\$0.00	\$0.00	(\$1,939.79)	0.00%	(\$12,063.13)	0.00%	\$0.00	\$12,063.13	0.00%

Gather the Data

- ◆ Now begin to gather the data for FY12
 - Research if costs expected to go up:
 - example, a company may be increasing a warranty contract 5% for FY12
 - Make assumptions about revenue and expense trends
 - example, based on trend, expect number of units to increase 10%
 - or expect vehicle fuel to increase 10 cents per gallon

Rate Development/Adjust Process – Part 1

Direct costs only

- ◆ Direct related costs MUST be expensed to the index:
 - Salaries. If only part of an employee's pay is relevant to the ISC, this portion MUST hit the index. → EPAF or labor distribution
 - Materials and supplies – computers, laptops, equipment/software < \$5,000, lab supplies, office supplies
 - Maintenance contracts, repairs, equip rentals
 - Other: travel, transportation, honoraria, seminars, consultant fees, subcontracts, cell phones (not land-line unless dedicated), long distance charges, research costs

Indirect Costs (IDCs)

- ◆ What are Indirect Costs (IDC)?

Leases, facilities/ building, chairman's salary,
administrative costs = Overhead = F&A

Often these costs are shared with other indices or
departments and, so these are considered
"indirect."

*IDCs are **not** allowed in the rate calculation or to
be posted to the ISC index*

Depreciation Transfer JV

2 Part JV:

- ◆ Actual transfer using rule class JET
- ◆ Budget transfer using rule class BDT

BDT Budget entry transfer JVs (if not included in initial budget) need to be submitted and approved no later than noon March 31st.

JET journal entry transfers need to be submitted and approved no later than June 11th (was FY10 date).

Rate Development/Adjust Process – Part 1

Depreciation Transfer JV

Example-Internal Services index (P181):

JET Debit (D) index/acct code 1240

Credit (C) plant fund index/acct code 11J0

BDT Debit (-) index/acct code 1240

Debit (-) index/acct code 8060

Credit (+) plant fund index/acct code 11J0

Credit (+) plant fund index/acct code 8060

Note: If this was a Research Index (P161), then account code 11C0 would be used instead of 11J0; or if a Public Service index (P171), use account code 11F0; and so forth.

Yearend Projection for FY11

- ◆ Use gathered financial data to project Current Yearend totals
 - Estimate remainder of FY11 revenues and expenses
 - If have budgeted Depreciation, do not include;
A JV should be done to transfer to Plant Fund before March 31st



Rate Development/Adjust Process – Part 2

2 Rate Periods to Consider

At January 15th:

1. Current fiscal year (FY11)
2. Next fiscal year (FY12)

FY11 Rate Adjustment

1. Adjust FY11 rate(s) as needed based on FY11 yearend projection
2. Analyze using the 10% rule for surplus or deficit
3. Calculate the revised FY11 yearend projection

Will use the revised FY11 projection for FY12 rate development

FY12 Rate Development

- ◆ Use the revised FY11 yearend projection
- ◆ Analyze using the 10% rule for surplus or deficit
- ◆ Finalize FY12 rate
- ◆ Due March 15th

Remember: All ISC are intended to break even

Rate Development/Adjust Process – Part 2

10% Rule for Surpluses and Deficits

- ◆ Any surplus/deficit within 10% of total actual operating expenses is an acceptable range, but still needs to be analyzed; outside is a red flag that may create material unfunded liability or overcharging to customers (especially Federal customers)
- ◆ A deficit in excess of 10% of total actual operating expenses should be subsidized by other departmental unrestricted funding
- ◆ A surplus in excess of 10% of total actual operating expenses should be deducted from next year's estimated costs or earlier if possible, to adjust the rate down

Capital Reserve and Operating Reserve

- ◆ Normally, “Capital Reserve” = depreciation
 - **Excluded from “surplus” calculation**
 - S/b transferred to a Plant Fund index
 - Contact Property Accounting to set up

- ◆ Up to 60-day “Operating Reserve” = 16.67% of the total direct operating expense
 - *Must* be justified and documented
 - Must be approved by Unrestricted Accounting Office
 - When budget, use account code 80E0

- ◆ Reserves will increase total costs
 - thus, increase the calculated rate.

Capital Reserve

- ◆ Capital equipment should be depreciated:
 - Even if purchase not charged to the ISC
 - Defined as $> \$5,000$, > 1 year life, moveable
 - Computers and laptops $< \$5,000$ are not capital equipment – include as Materials & Supplies in year purchased
 - Only depreciate equipment **NOT** purchased with Federal Funds.
- ◆ Verify still have depreciation available using FFIMAST (need tag number)

Create Budget

- ◆ Rate development results should then be used to prepare the ISC FY12 budget.
- ◆ FY12 Budget can then be input into Banner Budget when period is opened

Rate Development/Adjust Process – Part 2

Surplus calculation example for FY12 Rate Calculation

Projected FY11 Year-end Internal Sales	\$500,000
Projected FY11 Year-end Operating Expenses	<u>420,000</u>
FY11 Projected Year-end Surplus	\$80,000
FY11 \$25,000 depreciation transfer to Plant Fund	<u>(25,000)</u>
FY11 Revised Projected Year-end Surplus	\$55,000

- ◆ Up to \$42,000 of the surplus (10% of \$420,000 operating expenses) can be left as part of next year's balance forward.
- ◆ \$13,000 remaining surplus (\$55,000 - \$42,000) must be deducted from the FY12 Rate Calculation estimated costs, to adjust the rate down.

Rate Development/Adjust Process – Part 2

Deficit calculation example for FY12 Rate Calculation

Projected FY11 Yearend Internal Sales	\$300,000
Projected FY11 Yearend Operating Expenses	<u>340,000</u>
FY11 Projected Yearend Deficit	(\$40,000)
FY11 \$25,000 depreciation transfer to Plant Fund	<u>(25,000)</u>
FY11 Revised Projected Year-end Deficit	(\$65,000)

- ◆ \$34,000 of the deficit (10% of \$340,000) must be added to the FY12 Rate Calculation estimated costs.
- ◆ \$31,000 remaining deficit (65K-34K) must be funded from other sources before FY11 year-end.

Rate Approvals and Communication

- ◆ Major FY12 rates due to Unrestricted Accounting Office by March 15th
 - Minor rates and 0699 rates may also be submitted if depts. wish these reviewed
- ◆ Inform customers of any current year (FY11) rate adjustments
- ◆ Inform customers of FY12 rates
 - Communication is key.



Rates Reviewed After Yearend Close

August 15th FY12 Rate Adjustment

- ◆ Policy 2440 (ISCs), states that rates are to be reviewed and adjusted accordingly for surpluses and deficits carried forward into new FY
- ◆ This should be done after yearend (FY11) has closed (August 15 is a target date)
- ◆ Objective is to breakeven



Rate Development Workbook Examples

2 Examples in Excel - Surplus and Deficit

The following examples are produced from the
Rate Development Worksheet (Excel)

This ISC Excel model can be found at

[http://www.unm.edu/~gacctng/changesinternalservicecenter
proc.html](http://www.unm.edu/~gacctng/changesinternalservicecenter
proc.html)

Tips and Other Resources

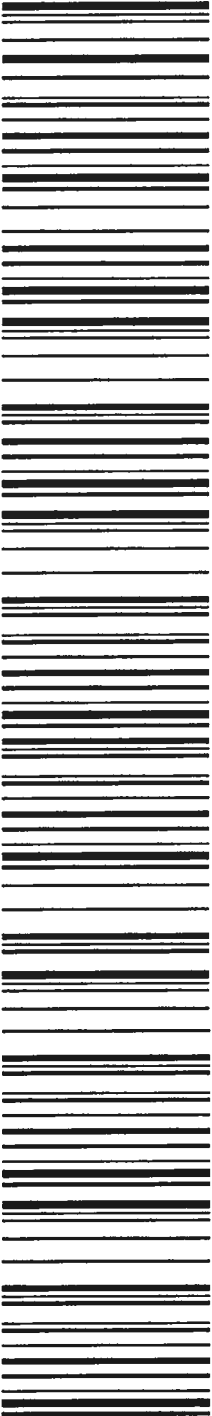
Reminders about ISC Rates....

- ◆ Inability to provide backup about how the rates were determined can result in charges being disallowed.
- ◆ It is Dept's responsibility to calculate rates and keep on file if you are a Minor ISC, or to submit for Controller approval if Dept. is a Major ISC.
- ◆ Cannot charge more than what the rate shows, but can charge less, as long as charge everyone the same rate.
- ◆ Remember the *objective*. Making a profit is a violation of policy. Budget to break even.

10% range is a red flag rule of thumb during the fiscal year

Policies to Review

- ◆ Policy 2440 ISCs (update in process)
- ◆ Policy 4310 Interdepartmental Sales
- ◆ Policy 2410 Federal Allowable/Unallowable Costs
- ◆ Policy 7000 Budgets
- ◆ OMB Circular A-21
www.whitehouse.gov/omb/circulars/a021/a021.html
- ◆ Main Campus Unrestricted Acctg website → ISCs
www.unm.edu/~gacctng/
- ◆ HSC Unrestricted Acctg website → Resources
[www.hsc.unm.edu/financialservices/accounting/
Service_Center.shtml](http://www.hsc.unm.edu/financialservices/accounting/Service_Center.shtml)



Questions? Concerns?

Please provide your feedback to:

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Thank you!