Table of Contents

I. **Intro** *(Slides 1-2)*

II. **Service Center & Cost Study Basics** *(Slides 3-7)*
   a) What is a Service Center (3)
   b) Should you establish a service center (4)
   c) Cost Studies & Steps to Establish a Service Center (5-7)

III. **How To Do A Cost Study** *(Slides 8-12)*
   a) Template Options (11)

IV. **Important Service Center Issues** *(Slides 13-20)*

V. **Conclusion** *(Slides 21-24)*
   a) Policies (21)
   b) Dates and Deadlines (22)
   c) Feedback (23)
   d) Questions and Contact Information (24)
What is a Service Center?

• A unit providing services or goods to other University departments on a recurring basis

• Service or user fees are assessed to recover the center’s operating expenses
  • *It is possible to subsidize these fees to charge less than cost*

• Charges should not exceed break-even or “at cost” rates
  • *Federal or state rules and regulations (2 CFR 200 (Uniform Guidance))*
  • *Grant or affiliate agreements*
  • *Non-Discriminatory rates for all internal users (including affiliates)*

• Not for a profit – charge at break-even rates

• May serve public too – but majority of customers should be internal

• Core Laboratories – centralized, fiscally self-sustained units established to provide unique laboratory or professional services in an economic or efficient manner to research purposes
  • *Sponsored core & Auxiliary core*
  • *Member and non-member rates*
Should you establish a Service Center?

• If it is related to the mission of the University
• A demonstrated need exists
  • *Economic or efficiency benefit*
  • *Strategic planning*
  • *New services*
• Services are required to charge at cost
• A solid business plan and fiscal responsibility
• There is no other service center offering a similar service/product that is already established
Why A Cost Study is Required

• Assessed rates must be in compliance with federal costing policies or any governing rules or agreements
  • Costs must be directly related to the operation (direct or indirect costs)
  • Only allowable costs are included in the rate assessment

• Minimize audit risk
  • Cost studies to substantiate the “at-cost” rates
  • Cost studies for service centers with annual revenues exceeding $50,000 are reviewed by the Finance Office
  • Newly established service centers, to maintain appropriate rates

• Consequences if not in compliance
  • Return of funds
  • Penalty
  • Jeopardizing grant funding
Steps to Establish a New Service Center

1. Submit Cost Study Proposal to Finance Office at Finance.ServiceCenters@ucdenver.edu
2. Finance review/approval
3. Route to DFA/Dean’s Office for approval
4. Submit Chartfield Forms to Finance.ServiceCenters@ucdenver.edu
5. New Org set up
6. New speedtype set up
7. Ready to go!
What is in a Cost Study?

- A descriptive overview of goods or services provided
- A description of the customer base
- List of subsidy and support sources
- Prior year numbers for comparison
- All allowable operating costs including...
  - *Direct costs*
  - *Indirect costs*
  - *Labor*
  - *Consumables*
  - *Depreciation*
  - *Overhead charges (GIR and GAR)*
- Projected sales/service quantities, usage and revenue
- Calculation or allocation of the assessed rates (break-even)
- Approval from DFA/Administrator
How to do a Cost Study
Three Step Process

1. Gather data
2. Organize data
3. Input data into cost model
Cost Study
Step 1: Gather Data

• Labor (direct v. indirect)
  • Direct Labor includes people working on the goods and services.
  • Indirect Labor includes those supervising them, who have no actual impact on service/product. But their labor is related to the service center, and allowable

• Operating supplies & services

• Overhead costs
  • GAR 7% at Anschutz; 4.96% without salary
  • GAR is 6% at Denver
  • GIR $21.00 per square foot

• Equipment and Depreciation

• Sales and service usage projection
Cost Study
Step 2: Organize Data

- Labor
  - *Include benefits*
  - *Percent of effort in service center*
  - *Productive time, administrative time*
  - *Grant subsidy*

- Operating supplies and services
  - *Identify costs to specific product or service*

- Capital equipment
  - *PO # or Tag #*
  - *Include non-federal depreciation*
### Cost Study Templates

#### Top Down Template
- This approach goes from general to specific
- Identify the big picture first and all of its components
- Requires history and greater knowledge to come up with a reliable pricing plan

**Pros:**
- Can be time saving for well-established service centers

**Cons:**
- Often less accurate
- Less detailed
- Requires more history and knowledge

#### Bottom Up Template
- This approach begins at specific details and builds on those to see the big picture
- Typically recommended for new service centers

**Pros:**
- Generally, more accurate
- Better for new service centers without a history to base the cost study on
- More accurate and better suited when history/knowledge is lacking

**Cons:**
- More time consuming
COST STUDY
Step 3: Enter Data in Model

• Select template model (top down or bottom up)
• Allocate costs appropriately
  • Top down or bottom up
  • Depends on number of services and ability to redeploy slack time to other projects.
  • By unit of sale (e.g. hour, piece, service)
  • Affects utilization check figure
• Calculate rate for various services
Important Service Center Issues

- Billing Rate Rules
- Billable Hours
- Rate Setting
- Depreciation
- Operating Reserve
- Timely Billing
- Deficit/Surplus
Billing Rate Rules

• Actual and reasonable costs – break even rates

• Unallowable costs:
  • Bad debts, entertainment, fundraising, internal interest
  • Capital equipment (depreciation only allowed)
  • Full list see Federal Regulations

• Rates must be:
  • based on a cost study
  • published
  • stated in a measurable unit
  • reviewed and adjusted at least annually
  • non-discriminatory between federal & non federal
Billable Hours

- Time Shrinkage
  - 40 hours/week x 52 weeks/year = 2,080 hrs.
    - Less holidays
    - Less vacation time
    - Less sick leave time
    - Less meeting time, break-time
    - Less administrative duties

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<tr>
<th>Time Shrinkage</th>
<th>Total Hours</th>
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<tbody>
<tr>
<td>Vacation</td>
<td>22</td>
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<td>Sick</td>
<td>15</td>
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<tr>
<td>Holidays</td>
<td>10</td>
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<tr>
<td>Daily</td>
<td>85% (8.5%)</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Hours in Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,080</td>
</tr>
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</table>

| Estimated Vacation Hours Taken | 176 |
| Estimated Sick Hours Taken    | 120 |
| Estimated % of Day doing Production | 80 |

<table>
<thead>
<tr>
<th>Total Hours</th>
<th>Minutes</th>
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<tr>
<td>1,448</td>
<td>70%</td>
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<td>60</td>
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University of Colorado
Anschutz Medical Campus
Rate Setting

- Beware of excessive optimism estimating demand
  - make realistic forecasts
- Compare to market
  - Reality check
  - If no market, maybe survey.
- Compare to prior year rates
Depreciation

• Depreciation is included in the cost study to set aside funds to replace capital equipment
  • Depreciation funds are transferred quarterly
  • Funds are set aside in a Fund 72
• Equipment costing $5,000 or more is considered Capital Equipment and is depreciated
• Note: Equipment purchased from a Fund 30 or 31 does not accrue depreciation – as it is purchased with Federal Funding
Operating Reserve

• Operating capital
• Build into rates
• Prevent deficits & Smooth rates
• Maximum allowed reserve is 60 days of operating expenses
Timely Billing

• Require speedtype before rendering service
• Journal internal billings at least monthly
• Improves cash flow
• Timely grant billing
• May use MOU/IUCA for larger, ongoing deals.
• Timely invoicing and revenue accrual for external sales

If you have any additional accounting issues for your service center, please contact the accounting help desk at finance.accountinghelp@ucdenver.edu or (303) 724-9610. For any iLab billing issues, please contact Karina Patino-Guzman at karina.patino-guzman@cuanschutz.edu.
Surplus vs. Deficit

• Surplus – occurs when actual revenues are more than actual costs
• Deficit – occurs when actual revenues are less than actual costs
• Unexpected surplus or deficit?
  • Consult your financial statements
• Surplus and Deficits roll over to the next year’s cost study
  • Adjust operating reserve to smooth rates
Policy & Template

Service Center Web Page
- [https://www.cuanschutz.edu/offices/finance-office/services-resources/services/service-centers](https://www.cuanschutz.edu/offices/finance-office/services-resources/services/service-centers)

Policy Web Page
Got to the UCD website: ucdenver.edu
- Resources For → Faculty/Staff
- [University Policies](#) → Finance Policies
- Scroll down and select “[Internal Service Centers & Core Lab Policy](#)”
Dates & Deadlines

- January 18, 2023 - Cost Study Overview

- January – February 2023 – Workshops
  - One-on-One workshops available to help you with your cost study. Please email karina.patino-guzman@cuanschutz.edu to schedule.

- March 17, 2023 – Deadline to Submit Cost Studies to Finance
Feedback

We value your feedback and are here to support you with your service centers.

We will send a survey where you can anonymously submit your feedback after this session.
Questions?

• Service Center Mailbox
  • Finance.ServiceCenters@ucdenver.edu

• Karina Patino-Guzman, Financial Analyst
  • (303) 724-6395
  • karina.patino-guzman@cuanschutz.edu

• Accounting Help
  • 303-724-9610
  • Finance.accountinghelp@ucdenver.edu
  • Zac Gonzales & Patrice Avalos