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

• 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 & budget office review/approval
3. Route to DFA/Dean’s Office for approval
4. Submit Chartfield Forms to finance.chartfields@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

<table>
<thead>
<tr>
<th></th>
<th>2080</th>
<th>Total Hours in Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacation</td>
<td>22</td>
<td>176 Estimated Vacation Hours Taken</td>
</tr>
<tr>
<td>Sick</td>
<td>15</td>
<td>120 Estimated Sick Hours Taken</td>
</tr>
<tr>
<td>Holidays</td>
<td>10</td>
<td>80 Estimated % of Day doing Production</td>
</tr>
<tr>
<td>Daily</td>
<td>85%</td>
<td>6.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total Hours Minutes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,448 70%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>60</td>
</tr>
</tbody>
</table>
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
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

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 12th, 2022 - Cost Study Overview

• January – February 2022 – Workshops
  • *One-on-one workshops available to help you with your cost study. Please email karina.patino-guzman@cuanschutz.edu to schedule*

• March 18th, 2022 – 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, Velibor Puhalo, Deborah Johnsen, Patrice Avalos