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 (OMB Circular 21)*
  - *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 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* 7.00% for FY21; 4.96% without salary
  - *GAR* is 6% at Denver
  - *GIR* $20.00 per square foot for FY21

- 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 OMB 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>Total Hours</th>
<th>Vacation</th>
<th>Sick</th>
<th>Holidays</th>
<th>Daily</th>
<th>Total Hours in Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22</td>
<td>15</td>
<td>10</td>
<td>85%</td>
<td>2,080</td>
</tr>
<tr>
<td>Estimated Vacation Hours Taken</td>
<td>176</td>
<td>120</td>
<td>80</td>
<td>Estimated Sick Hours Taken</td>
<td>80</td>
</tr>
<tr>
<td>Estimated % of Day doing Production</td>
<td>6.8</td>
<td>6.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Hours Minutes</td>
<td>1,448</td>
<td>70%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minutes</td>
<td>60</td>
<td></td>
<td></td>
<td></td>
<td></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**
- [http://www.ucdenver.edu/about/departments/finance/Pages/ServiceCenter.aspx](http://www.ucdenver.edu/about/departments/finance/Pages/ServiceCenter.aspx)

**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 14\(^{th}\), 2020 - Cost Study Overview

- January 21\(^{st}\) & 22\(^{nd}\), 2020 – Workshops
  - One-on-one 30 minute long workshop sessions to help you with your cost study

- March 6\(^{th}\), 2020 (extended) – Deadline to Submit Cost Studies to Finance
Feedback

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

We will send out a survey towards the end of the Fiscal Year to collect your feedback about how this process went for you.
Questions?

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

- Becca Norman, Financial Analyst
  - (303) 724-6395
  - Becca.norman@cuanschutz.edu

- Accounting Help
  - 303-724-9610
  - Finance.accountinghelp@ucdenver.edu
  - Zac Gonzales, Corey Gillette, Ellen McGrath