SERVICE CENTER
GUIDELINES

I. Introduction

Service Centers are units within University of Rochester Cost Centers that charge for goods or services in direct support of the research or academic missions of the University and recover costs through charges/fees to internal and external users. To the extent that these fees are charged to federally funded grants and contracts, federal cost principles must be taken into consideration in establishing these rates. All Service Centers are expected to recover no more than the aggregate costs of their operations through charges to users. All Service Centers must be able to demonstrate compliance with federal requirements, and cannot use fee structures that discriminate against federal funding sources. If external cash revenue is generated, Internal Revenue and State Sales Tax regulations apply. Accordingly, universities should be careful in establishing Service Centers to keep in mind applicable Federal and State regulations. Please note, however, that central and auxiliary enterprises (e.g., IT, facility operations, dormitories, dining halls and parking facilities) which are used by students and staff are not considered to be Service Centers and, therefore, should not be covered by the following guidelines.

II. Establishing a Service Center

Prior to establishing a new Service Center the following questions may help determine if a Service Center is needed:

1. Is this a service available elsewhere on campus?
2. Is the need for this service short term or long term?
3. Is this service provided for, or subsidized by a Federal award?
4. What portion of users will be internal vs. external?

Departments that would like to establish a Service Center should complete a Workday Financial Data Model – Financial Activity Object (FAO) Request Form as well as a Service Center Additional Information Sheet (http://www.rochester.edu/adminfinance/finance/FinanceForms.html) and prepare an annual budget and proposed rate structure (see Exhibit A). These items should be sent to Cost Accounting. The FAO Request Form and the Additional Information Sheet, with attachments, provide appropriate University Officials with the opportunity to review the proposed Service Center and to ensure that it will be operated in compliance with Federal cost principles, State regulations and University policies. When approval to establish a Service Center has been granted, the Controller's Office will assign a Financial Activity Object (FAO) in URFinancials.

III. Service Center Budgeting

A Service Center's budget should be set up on an annual basis, which conforms to the University's fiscal year. This budget must total to zero and have the following sections:

Expenditures: Service Center expenses are budgeted just as any other FAO. The budget should include allowable and allocable expenses and should also provide for the renewal and replacement of equipment necessary for operating the service center.

Whether or not to fully cost a Center depends upon the magnitude of activity; $1,000,000 is a reasonable guide to use. If the Center is to be fully costed and include both direct and indirect costs, the budget should provide for facility and administrative expenses. The Center's indirect costs will be developed by the Costing Standards Group in the University Controller's Office. This group is responsible for calculating the University's Indirect Cost Rate; therefore coordination provides for consistency in application of cost principles.

Expense Credits: Service Centers which render services to University departments recover their costs through expense credits. The Center must generate accounting entries to charge users' FAOs and credit the Service Center's FAO. The Center should utilize Appendix 1 in the Service Center Policy for ledger accounts and spend/revenue categories for these credits, and these should not be used to charge any operating expenses of the Center.

Cash Revenue from External Sources: Service Centers may generate cash revenue from services provided to non-University users. Federal and State regulations need to be taken into consideration and notification should be made to Financial Reporting and Analysis. Payment should be made by check and deposited to the Service Center's FAO.

Attached are two Budget Worksheets for Service Centers. One includes provisions for facilities and administrative costs and the other does not.

IV. Service Center Rates

Billing rates should be calculated to recover the total operating costs of the Service Center. When the budgeted costs of the Service Center have been determined, the billing rate is established by dividing the total costs by a usage base. Selecting an appropriate usage base (e.g., consumption, output and cost of sales) is important in order to ensure the most accurate application of the Center's costs to its users.

Consumption and Output Usage Bases: Costs are distributed on the basis of some unit of measurement, such as hours, pounds or gallons. The base should be one which incurs expenses in proportion to the unit of measurement. When measures of consumption are unavailable or impractical, the basis of allocation may be to measure the output of the Service Center on a per unit cost, so that the total cost of the Center is divided by the total projected number of units produced per year. Table 1 is an example of a Service Center budget with rates established on either consumption (billable hours) or output (number of black boxes).

Cost of Sale Usage Base: Applicable for those Centers which are product rather than service oriented. Since the cost is known for each product for sale, an appropriate markup should be established to recoup the operating costs associated with the disbursement of the products. The markup is added to the cost of the product and the resulting price is what the Service Center should charge. See Table 2 for an example, of a cost of sale usage base for a chemical stock room.

V. Charge Out Procedures

High volume Service Centers should submit their internal charges via a computerized feed into URFinancials and should contact URFinancials Support to obtain the appropriate format and develop the timing and procedure. In contrast, small Service Centers may submit a Journal Entry indicating the various FAO's to charge. Regardless of the size of the Center, charges should be aggregated by FAO and submitted monthly to the Company Finance Office. The details of the charges should be retained by the Service Center and any inquiries made by users about the charges should be handled by the Service Center.

VI. Accounting Considerations

Service Center operations are classified as organized activities and their FAO's should include both revenue and expenditure activity. If the Service Center will generate external cash revenue for which bills are rendered, a Receivable Ledger Account should be recorded. In such circumstances, a receivable equal to the amount of the month's billing should be recorded every month and a corresponding credit recorded under revenue in the Center's FAO. When cash is received, it should be deposited with an offset to the receivable. It is the responsibility of the Service Center to ensure that funds from external billings are collected and that the receivables are controlled and reconciled.

If a renewal and replacement charge is to be made to the FAO, a Reserve Account should be established to accumulate the reserve and the costs of replacement equipment. The amount of the budgeted transfer for R & R shall be determined by the calculation of the depreciation on the equipment presently in use in the Service Center.

Finally, the balance of the Service Center account should come close to zero over time, and the balance, either positive or negative, should be rolled forward at the end of a fiscal year into the next year's budget to be recovered or returned through adjusted rates.

VII. Service Center Ledger Accounts and Spend and Revenue Categories

Expense Recorded as:

Ledger Account:	65610 Service Center Charges
Spend Category:	55650 Service Center Charges, or
	55660 Service Center Fully Costed Charges (Exempt from indirect)

Revenue Recorded as:

Ledger Account:	65610 Service Center Charges (internal customer), or
	46800 Miscellaneous Revenue (external customer)
Revenue Category:	55650 Service Center Charges (Spend Category for internal customer), or
	55660 Service Center Fully Costed Charges (Internal customer and exempt from indirect), or
	13700 Miscellaneous Revenue (Revenue Category for external customers)

Note: The reason for using a common and distinct Spend Category for internal charges is to allow for these internal charges to eliminate in consolidation. The reason for using a distinct Spend Category for external revenue is that external revenue needs to be tracked and recorded separately from Operating Revenues for Unrelated Business Income Tax annual reporting.

VII. Budgetary Review

As part of the University's normal budget cycle, a Service Center should prepare an annual operating budget with the proposed rates to be charged and submit it to the appropriate Company Finance Office. In addition, any significant changes in the size, purpose, or scope of the Service Center should be reviewed and approved by the submission of a new Service Center Information Sheet. If large surpluses or deficits occur during the course of the fiscal year, the Company Finance Office will contact the Service Center to resolve the problem.

VIII. Record Retention

It is the Service Center's responsibility to maintain records of the details of all rate calculations and charges and to answer any inquiries concerning those charges. The records of charges should be retained for a minimum of 7 years.

IX. Definitions

Definitions:

Billable Unit: A measure of the goods or services provided by a Service Center that serves as the basis for the calculation of its rates. Examples include machine or labor hours, number of orders, number of samples, etc.

Breakeven: The point where revenues equal expenses; there is no surplus or deficit.

Carry Forward: The balance of previous year-end surpluses or deficits that become the opening balance in the next fiscal year. The cumulative carry forward amount can be comprised of balances from multiple years. The carry forward balance is included in the current year calculation of rates and the breakeven analysis.

Central Services: Separate operating units that are generally not part of academic departments and provide services to the entire University community. Examples of central service units include University Mail Services and University Information Technology (including telephone and copier charges). **Central service units are not covered under this policy.**

Deficit: An amount by which a Service Center's expenses exceed its revenues.

Direct Costs: Costs that can be identified specifically with a particular activity; or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Examples include:

- Salaries and wages, and fringe benefits of employees performing the service
- Cost of materials consumed performing the service

Depreciation: A method of apportioning the cost of property and equipment (asset) over the estimated useful life of the asset.

Expenses: Costs incurred to operate a Service Center, whether paid or accrued, that benefit only the fiscal period.

Indirect Costs: Costs incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, instruction activity, or any other institutional activity (Uniform Guidance, Subpart E, §200.414).

Examples include:

- General administration (payroll, accounts payable, etc.)
- Space related costs (operations and maintenance, utility costs, building depreciation)

Internal User: A user that purchases goods or services for research and/or educational activities and charges an FAO in URFinancials.

External User: An entity or person that is legally separate from the University that typically purchases goods or services for reasons of convenience, quality, or uniqueness of goods or services offered. Examples include PIs at affiliated hospitals, commercial research labs and collaborators at other institutions.

Financial Official: Designated approver for your URFinancials Company.

“SSC’s”: Specialized Service Centers are a category of Academic Service Centers with annual operating expenses of more than $1 million **and** provide highly complex or specialized services to a select group of users. The billing rates for these centers are based on their direct operating costs and an allocated portion of F&A costs.

Note: Specialized Service Centers, or Fully-Costed Service Centers, are required to recover indirect costs.)

Subsidy: Financial support for a Service Center that is not generated by the sale of goods or services.

User: Funds provided to a service center to cover operating costs or deficits when a certain group of users is charged a rate that is lower than the full rate charged to unsubsidized users. For example, subsidies may be provided by a specific department that wishes to subsidize only users from that department. The service center recovers the full cost of services provided to subsidized users by charging the difference between the full rate and the subsidized rate to the department providing the subsidy.

Center: Funds provided to a service center to cover operating costs or deficits. Subsidized users are charged a rate that recovers less than the total cost of the center’s goods or services.

Support Account: An account established to record expense items that are unallowable as charges within the Service Center accounts (i.e. bad debt, capital purchases, salary over the Department of Health and Human Services “Cap”, any cost unallowable for federal reimbursement, etc.). Support accounts also include the offset for the depreciation entries, revenues collected from add-on charges for external customers and funds borrowed by the Service Center for startup that must be returned once the Service Center is beyond the initial breakeven phase.

Surplus: An amount by which a Service Center’s revenues exceed its expenses.

Total Cost: The costs of providing the service or product by the facility (direct cost) plus allocations of building use allowance, operations and maintenance expenses and general administration expense (collectively, indirect costs).

Uniform Guidance: Guidance set forth by the Office of Management and Budget (OMB) that identifies the administrative requirements, cost principles, and audit requirements related to specialized service facilities.

Useful Life: An estimate of the average number of years an asset is considered usable before its value is fully depreciated (as determined by Plant and Debt Accounting).

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Table 1
Consumption/Output Based Rate

OPERATING COSTS

Salaries and Wages	$ 60,000
Fringe Benefits	20,000
Supplies	2,500
Materials	6,000
Telephone	2,000
Provision for Renewal/Replacement of Equipment	3,000
Consultant	3,500
Disposition of prior years (surplus)/deficit	*(1,900)
TOTAL COSTS	$95,100

*Applicable only when setting rates in other than the first year. The Year-End amount should be projected from March Year-to-Date surplus/deficit.

40 hours/week x 52 weeks/year = 2080 hours/person/year

Less:	Vacation time	(120)
	University holidays	(56)
	Estimated sick time	(40)
	Other non-billable time	(120)
Sub-Total		1744 billable hours/year
X 2 employees		x2
Total Billable Hours		3488

CONSUMPTION RATE: $95,100 Total Cost / 3484 Billable Hours = $ 27.26/Hr

UNIT COST RATE: $95,100 Total Cost / 500 Black Boxes = $190.02/Black Box

Table 2
Cost of Sale Based Rate

OPERATING COSTS

Salaries and Wages	$ 30,000
Fringe Benefits	10,000
Mail and Photocopying	1,000
Equipment Maintenance	10,250
Travel and Conference	10,500
TOTAL	$ 61,750

PROJECTED COST OF GOODS TO BE PURCHASED

Chemical Supplies:	
Chemicals	$ 60,000
Glassware	20,000
TOTAL	$ 80,000

$$\text{MARKUP} = \frac{\text{OPERATING COSTS}}{\text{PURCHASING}} = \frac{\$\ 61{,}750}{\$\ 80{,}000} = 77\%$$

EXAMPLE: 1 pint of acid costs $ 10.00

Service Center price = $ 10.00 x 1.77 = $ 17.70/pint

Exhibit A SERVICE CENTER BUDGET WORKSHEET WITH F & A OVERHEAD – FY20__

(Include with Additional Information Sheet)

Name of Service Center: ________________________________ FAO: __________________

Service Center Costs (See Exhibit B):

Salaries and wages (please detail employee names)

______________________________ $______________________

______________________________ ______________________

______________________________ ______________________

______________________________ ______________________

______________________________ ______________________

Fringe Benefits ______________________

Supplies ______________________

Other (please specify)

______________________________ ______________________

______________________________ ______________________

______________________________ ______________________

______________________________ ______________________

______________________________ ______________________

Provisions for (to be completed by Cost Accounting):

Administration

Facilities

Equipment Renewal & Replacement

Subtotal Expenditures ______________________

Income (to be completed by Service Center):

Cash Revenue (External, if any is expected) ______________________

Expense Credits (Internal) ______________________

TOTAL ______________________

Please attach a list of all Service Center space for use in calculation of facilities cost. Also attach a list of all equipment in use for calculation of the renewal and replacement (depreciation) amount.

SERVICE CENTER BUDGET WORKSHEET WITHOUT F & A OVERHEAD - FY 20__

(Include with Information Sheet)

Name of Service Center: ________________________________ FAO: __________________

Service Center Costs (See Exhibit B):

Salaries and wages (please list employee names)

______________________________ $______________________

______________________________ ______________________

______________________________ ______________________

______________________________ ______________________

______________________________ ______________________

Fringe Benefits ______________________

Supplies ______________________

Other (please specify)

______________________________ ______________________

______________________________ ______________________

Subtotal Expenditures

Income:

Cash Revenue (External, if any is expected) ______________________

Expense Credits (Internal) ______________________

TOTAL ______________________

List all equipment in use for calculation of the renewal and replacement (depreciation) amount, including asset tag number, purchase date, cost and annual depreciation.

<u>Exhibit B</u>

Allowable Direct Costs

The expense budget should include all costs for operating the Service Center, including administrative expenses directly associated with the operations of the Service Center. Allowable expenses include:

1. Salaries and fringe benefits
2. Materials and supplies
3. Maintenance and repair, including equipment maintenance agreements
4. Equipment depreciation
5. Rentals and leases, including equipment leases
6. Travel and conference
7. Purchased services/professional fees

Unallowable Direct Costs

The following sample of costs MUST be excluded from the budget (as well as excluded from the internal user rate calculation) and may not be charged to the Service Center FAO. For a complete list of unallowable costs please refer to 2 CFR 200.

1. Alcoholic beverages
2. Airfare in excess of coach
3. Bad debt or uncollectible billings
4. Capital equipment purchases
5. Entertainment (including meals for employees)
6. Donations or contributions
7. Gifts
8. Memberships
9. Salaries over the NIH Cap