

UNIVERSITY OF ROCHESTER

SERVICE CENTER GUIDELINES

I. Introduction

Service centers are university facilities, which provide specialized services to the educational and research community. These centers recover their operating costs by charging their users' fees at predetermined rates for the services provided. To the extent that these fees are charged to federally funded grants and contracts, Federal-costing principles must be taken into consideration in establishing these rates. Two principles are especially important: first, service center rates must cover only actual costs and not provide for any profit, and second, 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 auxiliary enterprises (e.g., 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

Departments wanting to establish a service center should complete a Service Center Information Sheet and put together an annual budget and proposed rate structure (see Exhibit A). The Information Sheet and its 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 an operating account number.

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 come to zero and have the following sections:

Expenditures: Service center expenses are budgeted just as any other expenditure account. Whether or not to fully cost a center depends upon the magnitude of activity; \$150K 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 administrative and facility expenses and the renewal and replacement of equipment. The center's indirect costs should be developed by the Indirect Cost section of the Budget Office. This office is responsible for calculating the University's indirect cost rate; therefore coordination provides for consistency in application of costing principles.

Expense Credits: Service centers which render services to university departments recover their costs through expense credits. The center must provide General Accounting with information, which will result in accounting entries to charge users'

accounts and credit the service center's operating account. The center should designate a specific subcode for these credits, and these subcodes 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. State and Federal regulations need to be taken into consideration and notification should be made to Financial Reporting and Analysis. Payment would be made by check and deposited into the center's operating account using a revenue subcode. If a premium is charged to external, non-government users, this activity should be contained in a separate account.

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 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 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 costs, so that the total cost of the center is divided by the total projected number of units produced per year. On the following page (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.

Table 1

OPERATING COSTS

Salaries and Wages	\$ 60,000
Fringe Benefits	9,000
Supplies	2,500
Materials	6,000
Telephone	2,000
Provision for Renewal/Replacement of Equipment	3,000
Facilities Expense	2,000
Consultant	1,500
Disposition of prior years (surplus)/deficit (prior year)	*(1,900)
TOTAL COSTS	\$84,100

*Applicable only when setting rates in other than the first year.

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

Less:	Vacation time	(80)
	Floating holidays	(40)
	University holidays	(56)
	Estimated sick time	(72)
	Other non-billable time	<u>(40)</u>

Sub-Total 1792 billable hours/year

X two employees 3584

CONSUMPTION RATE: \$84,100 Total Cost

3584 BILLABLE HOURS = \$ 23.46/hr.

UNIT COST RATE: \$84,100 Total Cost

500 BLACK BOXES = \$168.20/black box

Table 2

OPERATING COSTS

SALARIES & WAGES	\$ 30,000
FRINGE BENEFITS	3,000
OFFICE SUPPLIES	1,000
GENERAL ADMINISTRATION	3,200
FACILITIES EXPENSE	2,000
	<hr/>
TOTAL	<u>\$ 39,200</u>

PROJECTED COST OF GOODS TO BE PURCHASED

CHEMICAL SUPPLIES:	
CHEMICALS	\$ 40,000
GLASSWARE	<u>20,000</u>
TOTAL	<u>\$ 60,000</u>

$$\text{MARKUP} = \frac{\text{OPERATING COSTS}}{\text{PURCHASING}} = \frac{\$ 39,200}{60,000} = 65\%$$

EXAMPLE: 1 pint of acid costs \$ 10.00

$$\text{Service center price} = \$ 10.00 \times 1.65 = \$ 16.50/\text{pint}$$

V. Charge Out Procedures

High volume service centers should submit their internal charges via a computerized billing system and should contact the Controller's Office to obtain the appropriate format and develop the charge out procedure. In contrast, small service centers may submit a typewritten list of charges to be made to various accounts. Regardless of the size of the center, charges should be aggregated by account number and submitted monthly to the Controller's 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 operating accounts should include both revenue and expenditure activity. If the service center will generate external cash revenue for which bills are rendered, a receivable account should be established. 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 operating account. When cash is received, it should be deposited in the receivable account to offset 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 operating account, 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. 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 college or division budget 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 Budget 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 charges and to answer inquiries concerning those charges. The records of charges should be retained for a minimum of five years.

SERVICE CENTER INFORMATION SHEET

NAME OF SERVICE CENTER: _____

PURPOSE OF SERVICE PROVIDED: _____

RESPONSIBLE PERSON: _____ DEPARTMENT: _____

REQUESTOR: _____ EXTENSION: _____

INTENDED METHOD OF BILLING: _____

ESTIMATED ANNUAL VOLUME OF SALES: \$ _____

WILL PERSONAL OR EXTERNAL SALES BE MADE: _____ YES _____ NO

EXPECTED TYPE OF CLIENTS (COMMERCIAL, EDUCATIONAL, INSTITUTIONS,
UNIVERSITY PERSONNEL, ETC.) _____

APPROVALS:

DEPARTMENT HEAD: _____ DATE: _____

DEAN OR VICE PRESIDENT: _____ DATE: _____

UNIVERSITY BUDGET OFFICE: _____ DATE: _____

IF EXTERNAL SALES ARE ANTICIPATED,

TREASURER'S OFFICE: _____ DATE: _____

ACCOUNTING: _____ DATE: _____

NOTES:

TO BE USED BY ACCOUNTING

EXECUTIVE LEVEL: _____

DIVISION: _____

SCHOOL: _____

DEPARTMENT: _____

RECEIVABLE ACCOUNT: _____

ASSOCIATED RENEWAL & REPLACEMENT ACCOUNT: _____

ACCOUNT ESTABLISHED BY:

Finance Dept. Date

NOTES:

COPIES: RESPONSIBLE PERSON
 DEPARTMENT HEAD
 DEAN OR VICE PRESIDENT
 BUDGET OFFICE

If external sales, copy to Manager,
Financial Reporting & Analysis

SERVICE CENTER BUDGET WORKSHEET WITH F & A OVERHEAD

(Include with Information Sheet)

Service Center: _____ Budget for FY _____

Service Center Costs:

Salaries and wages (please detail) \$ _____

Fringe Benefits _____

Supplies _____

Other (please specify): _____

Provisions for: To be completed by Indirect Cost Accounting:

Administration _____

Facilities _____

Equipment Renewal & Replacement _____

Subtotal Expenditures _____

Income: To be completed by Service Center

Cash Revenue _____

Expense Credits _____

TOTAL -0-

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.

