



University of Pittsburgh

FINANCIAL GUIDELINE

Subject: Cost Centers

I. Guideline Background

Cost Centers represent self-supporting business enterprise activities that generally charge other University departments and sponsored agreements and are accounted for in entity 03.

The following types of activities represent cost centers at the University:

- Specialized Service Facilities
- Central Support Services
- Informal and Professional Educational Programs
- Auxiliary Enterprises

Specialized Service Facilities

Specialized Service facilities are characterized as institutional services involving the use of highly complex or specialized facilities that provide services primarily to sponsored research. Per OMB Circular A-21 the cost of each service shall consist of both its direct costs and allocable share of indirect costs, including general administrative expenses and facility-related costs. Examples of Specialized Service Facilities at the University of Pittsburgh include the Central Animal Facility, DNA Sequencing Facility, Protein Sequencing Facility and Mass Spectrometer Center.

Central Support Services

Central Support Services provide administrative support for other University departments and sponsored programs. The service provided might be available from commercial sources, but for reasons of convenience, cost, or control, the service is provided more effectively within the University. Per OMB Circular A-21 the cost of each service shall consist of both its direct costs and allocable share of indirect costs, including general administrative expenses and facility-related costs. Examples of Central Support Services at the University of Pittsburgh include Telecommunications, Motor Pool, Computing Services, Central Printing, Mailing Services, Inventory Stockrooms and Central Copying Services.



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Informal and Professional Education Programs

These programs include courses offered for non-degree credit, and non-credit programs offered for professional certification or self-improvement. Revenue generated by individuals paying fees to attend these programs is expected to recover all costs, including appropriate share of indirect costs. Per OMB Circular A-21 the cost of each service shall consist of both its direct costs and allocable share of indirect costs, including general administrative expenses and facility-related costs. Examples of Informal and Professional Education Programs at the University of Pittsburgh include Continuing Education Programs, Conferences and Seminars.

Auxiliary Enterprise

An Auxiliary Enterprise is defined as a necessary business function that contributes to and relates directly to the University's missions goals and objectives. Auxiliary enterprises provide a product or service to students, faculty or staff and are rarely charged directly or indirectly to federally sponsored programs. Services are provided in exchange for a fee that is related to, but not necessarily equal to, the total cost of services. Per OMB Circular A-21 the cost of each service shall consist of both its direct costs and allocable share of indirect costs, including general administrative expenses and facility-related costs. Auxiliary operations are managed essentially as self-supporting activities, although sometimes a portion of student fees or other support is allocated to assist these activities. These operations are expected to generate surpluses at sufficient levels that establish adequate reserves to fund capital projects without drawing on the University's general reserves and/or operating budget. Although services may be provided to other University departments, the primary source of revenue is fees charged to students, faculty and staff. Examples of Auxiliary Enterprises at the University of Pittsburgh include Student Housing, Food Services, Parking & Transportation, Property Management, and Bookstores.

II. Scope

This guideline provides requirements for accounting for a cost center, determining appropriate billing rates, and ensuring compliance with Federal regulations applicable to cost centers. This Guideline also establishes the responsibility of the Department Administrator to ensure the proper accounting for cost centers in accordance with Federal regulations and cost accounting practices. The University's guideline on cost centers applies to all departments managing cost recovery activities.



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III. Guideline

Budgeting and Accounting Requirements

Cost Center activity must be budgeted and accounted for separately from other departmental activities, and the assigned accounts should contain only those costs related to providing the particular goods or services. Funds from these accounts cannot be expended for other activities such as instruction or research. The account must be managed in such a way so as to match revenues and expenditures. Annual budgets for cost centers must conform to all applicable University budget procedures. Costs of institutional services must be allowable and charged directly to users based on actual use of the services and a schedule of rates that does not discriminate between federally and non-federally supported activities. Charges should not cover more than actual costs over a long-term period agreed to by the institution and the cognizant federal agency. Over or under recoveries must be factored into future years' rates. Immaterial costs incurred for these services may be excluded from the cost center rates and allocated as indirect costs providing the institution and the cognizant Federal agency agree to this arrangement.

Record Keeping Requirements

Departments must establish and maintain record keeping procedures and systems to capture all financial and statistical data necessary for internal control and for the development and maintenance of financial models that support their billing rates.

Advance Approvals

Advance notification and approval is required to establish a cost center. Written requests must be submitted to the Office of Financial Information for review and approval.

Development of Billing Rates

Billing rates are established at levels sufficient to cover all direct costs involved in the operation of the program, as well as their proportionate share of indirect costs as established each year by the Office of Financial Information. The billing rates should be designed to recover not more or less than the aggregate cost of providing the good or service over a defined break-even period. The Office of Financial Information will assist in determining appropriate break-even methodology, based on the following guidelines:



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III. Guideline (con't)

1. Surplus or deficit on a product/service cannot be shifted to other products/services or to other departments or University budgets.
2. Although the break-even period for most operations should be one year, a break-even may be achieved over a longer-term basis if agreed to by the University and its cognizant agency. (For example, high start-up costs may force costs to exceed revenue during the first few years of operation.) Carry-forward adjustments to future year billing rates may be necessary to achieve break-even in certain situations.
3. Separate billing rates should be developed for distinctive types of goods or services when the sales volume is significant and the cost of providing the goods or services is unique.
4. The cost of such goods and services will be charged directly to users, including sponsored agreements based on actual use of the services and a schedule of rates that does not discriminate between federally and non-federally supported activities of the institution, including use by the institution for internal purposes.
5. Unallowable costs will be excluded from the rate calculation as prescribed in OMB Circular A-21.
6. Billing rates should be established based upon financial data that corresponds with the University's fiscal year ended June 30.

Break-even and Timing Issues

1. Carry Forward Adjustments

Since the break-even period need not necessarily be the same as the fiscal year, programs may show a surplus (deficit) at year-end in the University's financial system. A surplus should be used to reduce subsequent year pricing or maintain cost center capital requirements, while a (deficit) would require an increase in subsequent year pricing or cost curtailment.



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Carry forward adjustments will be reflected in the department's unrestricted budget variance for the given fiscal year, however, adjustments to subsequent years' prices will balance any over or under recovery absorbed by the department. This satisfies the long-run break-even requirement with no net effect to the department. All efforts should be made to develop pricing strategies that will minimize such carry forward adjustments; thus minimizing a department's unrestricted budget variance for a given fiscal year. Under no circumstances can a deficit be funded by a surplus generated from another product or service.

2. Accruals/Deferrals

Although cost centers should generally operate on a fiscal year basis, certain individual programs may overlap fiscal years. When revenues are received and/or expenditures are incurred in one year that are applicable to the subsequent year, deferrals must be requested of the Office of Financial Information by submitting a written worksheet including adequate justification and supporting documentation. These worksheets are distributed annually by the Office of Financial Information in conjunction with the year-end closing process. Revenues and expenditures expected in the subsequent fiscal year but applicable to the current fiscal year may be accrued using the same process described above.

The Office of Financial Information will review the deferral and accrual requests to determine materiality and appropriateness. This process can only be used for the proper matching of revenues and expenses and is not to be used by carry forward surplus or deficit balances.

3. Surplus - Informal and Professional Programs only

In certain situations, Informal and Professional Education Programs may be designed to generate an excess of revenue over expense. This is allowable when the revenue generated is primarily from external individuals paying fees to attend these programs. These programs must contact the Office of Financial Information to establish themselves as such an activity and to arrange for the proper accounting for their surplus.



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IV. References

OMB Circular A-21 J. 44.

OMB Circular A-21 F.

OMB Circular A-21 – Appendix A, Cost Accounting Standards