

Service Center Accounting Policy

SOUTHERN RESEARCH INSTITUTE (SR)

For Questions Contact Controller (Ext 2481)

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SERVICE CENTER POLICY PURPOSE AND RESPONSIBILITIES

Purpose & Applicability

Southern Research Institute (SR) utilizes service centers for purposes of initially accumulating the costs for specific activities followed by the distribution or allocation of those costs to benefitting cost objectives. The benefitting cost objectives can be direct project/contracts or internal customers (departments, business lines or indirect cost pools). Service Centers which distribute costs direct to projects (direct service centers) are charged-out at standard fees and include animal care, special facilities and machines. Service Centers which distribute costs internally to benefitting cost objectives through cost allocations to overhead or G&A pools (indirect service centers) accumulate actual costs which are proportionately and equitably allocated to internal customers on a monthly basis. In all cases, each service center is mapped to a “MPROJ” accounting code for the accumulation of service center directly identifiable costs as well as other cost allocated into the service center.

The direct service centers are an essential capability requirement for a research institute and the service centers are physically located in Birmingham, AL., and Frederick, MD. The costs for these service centers include variable costs which fluctuate with usage as well as capacity or fixed costs.

The indirect service centers are basically support services including a combination of variable and fixed costs which benefit internal customers. In application, indirect service centers are an intermediate cost accumulation pool whose costs are fully absorbed against final cost objectives through application of overhead or G&A rates.

The fundamental objective of all service centers is the consistent and equitable allocation of the service center costs to benefitting cost objectives, direct or indirect.

The service center accounting policy is applicable to pricing/cost estimating as well as cost accumulation and reporting. Pricing and cost estimating for direct service center costs should be based upon current service center standard “per diem” or usage rates applied to estimated usage (animal days or machine units as defined for the specific service center(s)). During contract or project performance, direct service center usage will be measured and the benefitting direct cost objective will be charged at the standard per diem rate applied to the measure of usage. Direct service center costs charged to projects (cost objectives) are considered a direct cost and more specifically, “Other Direct Costs”. For each service center, cost accounting accumulates the actual costs as well as the aggregate usage charges (charge-outs or cost recovery) for each service center with the difference representing a variance between service center costs and service center charge-outs. Variances, favorable or unfavorable, will be recorded to the applicable Onsite OH.

Pricing and cost estimating for indirect service centers is through the application of the final overhead and/or G&A rate to the applicable cost allocation base. During

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contract performance, indirect service center costs are similarly allocated to the applicable base using the overhead rate or the G&A rate.

Regulations & Related Accounting Policies

Service center pricing/cost estimating and cost accounting are subject to the FAR (Federal Acquisition Regulations), agency FAR supplements (e.g. DFARS or Defense FAR supplement), contract specific clauses (which should rarely apply to service center costs) and CAS (Cost Accounting Standards). No FAR clause explicitly defines cost allowability or allocability (cost distribution) for service centers; however certain FAR provisions and two cost accounting standards do provide fundamental requirements which apply to service centers. The regulations which are relevant to service centers include:

- FAR 31.201-4: Allocability which provides the fundamental concept that a pooled cost should be allocated (distributed) to a base which reflects a causal or beneficial relationship (pool to base). An example of a common pooled cost, fringe benefits, are recorded in a fringe pool and allocated based upon the percentage of fringe costs to all direct and indirect labor dollars
- CAS 407: Standard costs for direct material and direct labor which would apply in part to the direct service center
- CAS 418: Allocation of direct and indirect costs, including “blanket direct costs” which are costs initially accumulated in a cost pool and then distributed to benefitting cost objectives (projects) based upon a proportional measure of usage or consumption.

In form, the service centers which allocate direct to contracts/final cost objectives are blanket direct costs charged to benefitting cost objectives (projects) at standard usage/per diem rates.

Southern Research Institute is subject to the requirements of CAS inclusive of the requirement to submit and maintain a CAS DS (Disclosure Statement) and to estimate, accumulate and report costs consistent with the CAS DS. The CAS DS reference to service centers is section 4.3.0 and the Service Center Accounting Policy is consistent with the disclosed practices; additionally, the Service Center Accounting Policy provides supplemental data, information and illustrations. The Service Center Accounting Policy is designed to assure compliance with applicable regulations.

Although there may be wide variation in size, complexity, and type of services provided by service centers, the service center accounting policy is designed to achieve consistency across all service centers. In particular, once established, a particular service center rate will be the baseline for pricing and the basis for cost accumulation. Updates, revisions or variations from standard usage/per diem rates must be reviewed and approved by the Southern Research Chief Financial Officer.

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Definitions

1. Service Center Project Accounting - A unique cost account established in CostPoint to capture the labor, travel, maintenance, outside services and supplies costs related to a specific service provided inclusive of cost allocated from internal intermediate service centers (DVMB AC Administration & Cage Washing and DVMB Occupancy Costs).
2. Service Center – an operating unit providing services to users for a usage or consumption based fee. Users include contracts (direct costs) and internal users (indirect costs).
3. External users or customers – government agencies or commercial companies with contracts or purchase orders whose statement of work requires the usage of one or more service center.
4. Internal users – internal users are typically the direct user, but in most cases, the ultimate user is an external user or customer (i.e. service center usage charges are booked to a contract project number/project status report). In the case of IR&D (independent research and development) there is only an internal user; however, the service center charges (cost accounting) are the same as if the internal user (IR&D) were an externally funded project.
5. Non-discriminatory rates - all government prime contracts or subcontracts are charged the same rate for the same level of services or products purchased in the same circumstances. Rates for commercial contracts or purchase orders may be charged at rates which exceed the rates charged to government contracts.
6. Capital equipment - an item with a value over \$5,000 and a useful life of more than 1 year for which Service Centers recover costs through depreciation charges.
7. Special equipment – items acquired specifically for a contract and separately charged to the benefitting customer and not within service center usage rates.
8. Service center rate & usage base - the cost per unit of output or per diem rate used to recover the expenses of the service center. The service center rate is a standard rate for each service center/activity based upon the estimated costs of that service center divided by the measure of consumption or usage at 80 percent occupancy. A standard occupancy rate (80 percent) is considered the normal operating capacity used to affect consistent and equitable usage charges to benefitting users. For any particular service center, users do not benefit from coincidentally high volume nor are users penalized by coincidentally low volume.
9. Service center rate and cost absorption variance - the difference between the standard charge-out rate and actual service center cost rates measured on a year-

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to-date basis. The service center rate variance applied to the year-to-date usage equals the year-to-date cost absorption variance. This variance, positive or negative (favorable or unfavorable) is then recorded as a credit or debit to the applicable on-site overhead pool (Birmingham or Frederick, respectively).

RESPONSIBILITY

Chief Financial Officer (CFO)

Overall financial responsibility for service centers rests with the CFO in coordination with the Controller. Collectively responsible for maintaining the project cost accounting records which accumulate the costs, the usage/charge-outs and the cost absorption variance for each service center. Responsible for maintaining/updating the Service Center Accounting Policy, Service Center references in the CAS Disclosure Statement and for reviewing and updating service center usage/per diem rates and providing current usage/per diem rates for budgeting and cost-estimating purposes.

Vice-President benefitting function

Overall operational responsibility for establishing service centers to support known and projected customer/contract requirements. Requirements for new service centers are coordinated with the CFO (for service center project accounting) as are the potential elimination or consolidation of service centers (to deactivate the applicable project code). The CFO is ultimately responsible for any “make or buy” decisions; specifically the (limited) feasibility of outsourcing any service center capability.

Service Center Manager

The individual with responsibility for the day-to-day operations of one or more service centers including the operational capability as well as assuring that service center usage is appropriately logged and identified to facilitate charge-outs by accounting. Responsible for ensuring that service centers comply with personnel and environmental safety rules and that service center equipment is maintained in an operationally ready state including equipment maintenance/calibration and/or equipment disposition or replacement.

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SERVICE CENTERS Animal Care

Service Center Listing, Project Account Number & Usage/Per Diem Rate Animal Care: Birmingham, AL., and Frederick, MD.

Location	Description	Project Number	Note
Birmingham, AL	DVMB AC Administration/Cage Wash	MPROJ.200.AL	1
	DVMB Occupancy Costs	MPROJ.205.AL	2
Birmingham, AL	Animal Care:		
	Rabbit	MPROJ.490.AL	5
	Ferret	MPROJ.491.AL	3 & 5
	Ferret-commercial	MPROJ.492.AL	3 & 5
	Primate	MPROJ.525.AL	3 & 5
	Primate-commercial	MPROJ.526.AL	3 & 5
	NTP Rat	MPROJ.545.AL	5
	Mouse	MPROJ.550.AL	5
	Rat	MPROJ.575.AL	5
	Pharmaceutical Mouse	MPROJ.590.AL	5
	Dog	MPROJ.595.AL	5
	NTP Mouse	MPROJ.615.AL	5
Frederick, MD	ACR AC Administration & Cage Wash	MPROJ.220.AL	4
Frederick, MD	Animal Care:		
	Primate	MPROJ.435.AL	5
	Mouse	MPROJ.440.AL	5
	Guinea Pig (GP)	MPROJ.450.AL	5
	Ferret	MPROJ.453.AL	5
	Rabbit	MPROJ.456.AL	5

Notes:

1. DVMB AC Administration/Cage Wash is an intermediate service center which services all animal care service centers in Birmingham. The costs are proportionately allocated to animal care service centers in Birmingham.
2. DVMB Occupancy costs is an intermediate pool to accumulate common occupancy costs including utilities, depreciation, maintenance & an allocation from Project Account 200. DVMB Occupancy costs are allocated based upon square footage.
3. Ferret and Primate costs are accumulated in project numbers 491 and 525, respectively. However, commercial usage charges are separately accumulated in project numbers 492 and 526, respectively.
4. ACR –FRC AC Administration & Cage Wash is an intermediate service center which services all animal care service centers in Frederick, MD. The costs are proportionately allocated to animal care service centers in Frederick, MD.
5. Please check Southern Research Insider Finance page for listing of current service center proposal pricing and billing rates.

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Service Center Listing, Project Account Number & Usage/Per Diem Rate Other Activity Service Centers: Birmingham, AL., and Frederick, MD.

Location	Description	Project Number	Note
Birmingham, AL	HTS (High Through-put Screening)-Large	MPROJ.495.AL	2 & 3
	HTS (High Through-put Screening)- Small	MPROJ.496.AL	2 & 3
	BSL3 Facility	MPROJ.596.AL	1 & 3
	BSL3 Facility-commercial	MPROJ.597.AL	1 & 3
	Combustor Run Days	MPROJ.620.AL	1 & 3
	Combustor Set Up/Take Down Fee	MPROJ.621.AL	1 & 3
	Tumor Passage Lab	MPROJ.592.AL	1 & 3
	Virology Assays	MPROJ.594.AL	1 & 3
Frederick, MD.	BSL3 Facility	MPROJ.459.AL	1 & 3
	BSL3 Facility-commercial	MPROJ.460.AL	1 & 3

Notes:

1. BSL3 facility costs are accumulated in accounts 596 and 459 for Birmingham and Frederick, respectively (no separate account for commercial usage). However, the commercial usage charges are separately accumulated and reported in project numbers 597 and 460, respectively.
2. HTS machine costs are accumulated in account 495 with no separate account for commercial usage. However, the commercial usage charges are separately accumulated and reported in project 496.
3. Please check Southern Research Insider Finance page for listing of current service center proposal pricing and billing rates.

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**Service Center Listing, Project Account Number, Allocation Basis
Intermediate Cost Centers which allocate to Projects/Direct Cost Objectives
based upon Project Direct Labor Birmingham, AL.**

Location	Description	Project Number	Allocation Basis
Birmingham, AL	Labor-CTI Prep Lab	MPROJ.280.AL	Note 1
"	Labor - CBI	MPROJ.281.AL	"
"	Labor - Riordan Lab	MPROJ.282.AL	"
"	Labor - E&E Analytical Lab Services	MPROJ.283.AL	"
"	Labor - E&E Catalyst Lab Services	MPROJ.284.AL	"
"	Labor - E&E Selective Catalyst Reduction	MPROJ.286.AL	"
"	Labor - Virology	MPROJ.287.AL	"
"	CBI General Supplies	MPROJ.460.AL	"
"	Molecular Spectro	MPROJ.465.AL	"
"	CTI Prep Lab	MPROJ.480.AL	"
"	E&E Analytical Lab Supplies	MPROJ.483.AL	"
"	E&E Catalyst Lab Supplies	MPROJ.484.AL	"
"	Thin Layer Chromtgrphy	MPROJ.485.AL	"
"	E&E Selective Catalyst Reduction	MPROJ.486.AL	"
"	Histology	MPROJ.500.AL	"
"	NTP Animal Days	MPROJ.510.AL	"
"	Virology Supp	MPROJ.540.AL	"
"	Necropsy	MPROJ.560.AL	"
"	Clin Path	MPROJ.565.AL	"
"	CTI Animal Lab Supplies	MPROJ.585.AL	"

Note 1: Allocated monthly to service centers based upon the percentage of labor to each project worked during the month.

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Service Center Cost and Cost Absorption Variance Reports (Hourly or Per Diem Based Service Centers/Labs)

Service center costs for each service center are accumulated by project number and current period and year-to-date costs are reported in a Project Status Report. Costs are reported and summarized as non-labor costs. Allocations in to a service center are displayed as a debit (DEB ALLOC) entry and allocation from a service center are displayed as a credit (CR ALLOC) entry. Certain internal intermediate service centers including DVMB Animal Care (AC) Administration and DVMB AC Occupancy fully allocate costs monthly and year-to-date to other service centers resulting in a net zero account balance. Service centers which charge out usage on a standard rate basis do not yield a net zero account balance and any cost absorption variance is zeroed-out as a debit or credit charge to the applicable on-site OH pool.

The SR Controller is responsible for maintaining all accounting records supporting service center cost accumulation and reporting as well as usage charges and cost absorption variances (comparison of per diem/usage charge rate to the actual cost rate).

SERVICE CENTER COST COMPONENTS

Direct Salaries (labor cost)

The portion of the salaries and wages of all personnel *directly* related to the service center activities (such as lab technicians or machine operators) should be recorded to the service center project number. These salaries and wages include direct project, technical & professional development, equipment maintenance, and training included in the rate calculation and charged to the service center's *operating* account. The salary that should be charged to the service center account is the percent effort that applies to that activity.

Fringe benefits

Fringe benefits will be allocated to services centers for all personnel directly charged to the service center operating account. The fringe rate is the SR fringe rate (one rate applicable to all labor dollars).

Non-labor Costs

Supplies - The cost of materials and supplies including shipping and mailing related to the service center.

Other Costs - Examples of other costs which may be charged to a service center are:

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- Equipment rental and outside service agreements;
- Maintenance, depreciation or repair costs for equipment or building improvements specifically identified to a service center;
- Technical conferences or travel, if related specifically to the service center operations;
- Intra-company allocations-in

These costs should be properly recorded using the chart of accounts maintained by the Controller. Costs should be appropriately classified as allowable or unallowable as defined by the Federal Acquisition Regulations based upon allowable/unallowable cost classification matrix maintained by the Controller. With the exception of certain travel expense limitations, virtually all other service center costs are allowable costs.