

# Service Centers

**Service Centers** are revenue-producing university enterprises that provide services or products primarily to other university departments. The costs of providing those services are allocated to and recovered from users who benefit, including users funded by federally-sponsored grants and contracts. There are three categories of Service Centers: **Recharge Centers**, **Service Operations**, and **Specialized Service Facilities**.

## Recharge Center

**Provides services that are generally non-specialized and are not provided for the entire institution**

- Generally incidental to total department activity
- Typically has revenue of less than \$50,000 annually
- Rates based on incurred costs; recharges based on usage
- Recharges based on usage by other funding sources
- May only be used to recover direct costs of the activity
- Should not receive income from external sources

*E.g., Photocopies on a department copier, recharged to users*

## Specialized Service Facility

**Provides highly specialized or complex services to a select group of users**

- Must have an annual income of at least \$1,000,000 with at least \$500,000 originating from federal
- Rates should consist of both SSF direct and indirect costs
- Charges for the use of the specialized facilities should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the university and the cognizant Federal agency

*All Animal Care Facilities, as described in OMB Circular A-21*

## Service Operation

**Provides services or products to users principally within the university community for a fee**

- Develops the fee for the activities based on costs and charges users for their actual usage
- Predominant revenue source is interdepartmental billings
- Rates for internal users may include administrative and equipment depreciation costs specific to the SO
- May realize income in excess of expenses, excluding transactions involving funds from federal sources
- If activity is an indirect cost function, charges to sponsored projects for the activity are unallowable; if activity is a direct cost function, charges to sponsored projects are allowable and are included in the F&A base

## Rate Development

### Cost Components

**Expenses normally included in the rate calculation:**

- Direct personnel
- Fringe benefits
- Materials and supplies
- Costs of goods sold (COGS)
- Administrative costs (not allowed for Recharge Centers)
- Depreciation (not allowed for Recharge Centers)

### Breakeven Concept

**Recipients of federal funds are not to recover more than cost.**

- Rates generally calculated based on projections of operating expenses and volume of the services
- Goal: calculate a rate at which revenues reasonably offset expenses
- *Operating at breakeven*: no significant surplus or deficit as a result of charging federal users
- A five-year moving average is used to define the breakeven threshold. For example:

Year 1	deficit	-\$4,000
Year 2	deficit	-\$2,000
Year 3	surplus	\$2,000
Year 4	deficit	-\$1,000
Year 5	surplus	\$5,000
Net		0

### Non-discriminatory Rates

**Recipients of federal funds (direct federal and federal flow through) are not to discriminate in the price of services charged to government users.**

- The Federal government should always be charged rates based on cost, or the best available rate for the same level of services or products purchased in similar circumstances.
- The use of special rates, such as for high-volume work, are allowed; however, they must be equally available to all users who meet the criteria.

## Capital Equipment and Interest

- Depreciation on equipment used may be included in the calculation of cost of operation (rate) per A-21, but not the full cost of the equipment in the first year of purchase.
- An equipment reserve is set up for depreciation; purchases of capital equipment are allowed from the reserve account.
- If an internal loan contributes to equipment purchases, neither the principal nor interest can be included in the rate calculation; A-21 provides only for the recovery of interest on external debt.

## Operation and Compliance

### Record Retention Standards

**All Service Centers must adequately document their activities and maintain records to support expenditures, billings, and cost transfers. Examples of documents maintained include:**

- Work papers showing how the charge-out rate(s) were calculated
- Approval of rates in accordance with university policy
- Records supporting utilization or level of activity
- Billing records that identify the service provided to each user
- Effort reports of Service Center personnel

### Inventory

- Maintained for parts and supplies used in providing the service to ensure that these costs are expensed in the year they are used
- Physical inventories of raw materials, work in process, finished goods, and re-sale merchandise must be taken on a regular basis.