



## **Service Center Policy**

Effective February 1, 2014

## **Table of Contents**

<b>A. Introduction</b>	<b>1</b>
<b>B. Definitions of Recharge and Service Centers</b>	<b>2</b>
<b>C. Terminology and Key Rules for Minor and Major Service Centers</b>	<b>3</b>
<b>D. Rate Development</b>	<b>8</b>
<b>E. Appendix</b>	<b>10</b>

## **A. Introduction**

### **Overview**

Service centers are established for the purpose of providing goods and services primarily to University customers. The centers are expected to offer goods or services that are unique, convenient, and not readily available from external sources. The provision/performance of goods and/or services must be consistent with the University's mission and with the normal activities of the college/department associated with the service center.

The costs of service centers can be identified and billed to customers based on approved rates. The rates charged for goods and services are computed by the service centers and reviewed by the appropriate entity on an annual basis. The billing rates are set so that the service centers operate on a break even basis.

### **Reason for Policy**

Application of the policy is needed in order to ensure that goods and services:

- Comply with government requirements. The government monitors, by routine audits, the University's compliance with Federal regulations.
- Are charged at rates that recover the costs of providing the goods and services.
- Are being provided at reasonable rates when compared to external providers.

Service centers must be able to demonstrate compliance with applicable UofL, federal, and other governmental entities' policies and procedures. The primary federal guidelines and oversight of Service Centers is covered by the Office of Management and Budget's (OMB) Circular A-21, with added emphasis on Section J.

### **Service Center Committee Responsibilities**

In order to address the increasing complexity of administering service centers at UofL, the University Provost, Dr. Shirley Willihnganz recommended the establishment of a Service Center Committee. Though not all inclusive, the primary goals of the committee are as follows:

- Create one central and standard Service Center policy and guideline, and continuously monitor implementation, coordination, and clarification of Service Center policy and guidelines.
- Review and approval/disapproval of new Service Center requests, and reclassification/declassification of current programs to/from Service Center status.

The Service Center Committee was appointed by Dr. Willihnganz and is comprised of a broad and multi-dimensional group of faculty and staff, and is headed by a designated committee chair.

## B. Definitions of Recharge and Service Centers

The following section outlines the basic definitions and characteristics of Service Centers and Recharge Centers at UofL. Though these types of centers share certain attributes, there are significant differences in size, complexity, and operating procedures. However, it is important to note that both Recharge and Service Centers will be assigned a Chart of Accounts program code that begins with an “S” designation.

### Recharge Center Definition

Recharge Centers are organizational units or activities that provide goods and services for University departments and the University community. Recharge centers charge a fee to Internal Users that is based upon the expected actual direct costs of providing the good or service. These expected direct costs are used to establish service rates. The service rates are expected to recover sufficient revenue to equal direct costs, i.e. “break-even.” Recharge Centers may be centrally or departmentally supported. Their activities are **non-research and non-academic oriented**. Printing services and computer support services are examples of a Recharge Center.

In addition to meeting the above definition, the total **direct cost** of providing the good or service exceeds **\$10,000** per fiscal year. Recharge centers are expected to break even annually. Recharge activities with operating expenses **less than \$10,000 per year are exempt** from this policy.

### Service Center Definition

Service Centers are organizational units or activities that provide goods and services for University departments (internal) and potentially for entities outside of the University (External Users). Service Centers are focused on research and academic activities. Service Centers charge to Internal Users and to External Users who pay with federal funds a service rate that is based upon the expected actual and appropriate **direct** incurred costs for the good or service, and possibly certain allowable types of indirect costs (see below). For example, in many cases, equipment depreciation may be included in the service center rate. This differs from Recharge Centers where equipment depreciation is not allowed to be included in the costs of operation, and therefore, not included in the service rate. In some circumstances, Service Centers may charge External Users a service rate that exceeds the service rate for Internal Users and External Users who pay with federal funds. If a Service Center desires to charge an External User a higher service rate, the Service Center should obtain concurrence with that rate from the Office of Budget and Financial Planning (BFP) and the Controller’s Office to ensure proper compliance with unrelated business income tax reporting. Federally funded projects are entitled to the lowest service rate offered by the service center for the same type of service(s). **IMPORTANT NOTE:** Costs which are included in the University’s applicable Facilities and Administration (F&A) rates are **NOT** to be included in any service center rate. The University’s F&A rate applicable to Other Sponsored Activity is to be assessed to service rates/total service costs incurred for all External Users, including those paying with federal funds.

## **Types of Service Centers**

There are two administrative classifications of Service Centers at UofL; Minor, and Major.

The costs for each type are accounted for in the same manner. The definition of each is set forth below:

### ***Minor Service Center***

A Minor Service Center provides goods and/or services to other university departments, and External Users. Rates are based on **direct** costs and with approval from the Office of Budget and Financial Planning (BFP), allowable indirect costs for depreciation on equipment. These operations generate between approximately **\$10,000 - \$500,000** of revenue and/or interdepartmental credits per fiscal year, and are expected to break even annually.

### ***Major Service Center***

A Major Service Center provides goods and/or services to other university departments (Internal Users), and External Users. The services are not always available from outside vendors. Services provided usually involve highly complex and specialized facilities. Rates are based on **direct** costs, and with approval from the Office of Budget and Financial Planning, allowable indirect cost. These operations generate approximately **over \$500,000** of revenue and/or interdepartmental credits per fiscal year.

### **Allowable Indirect Costs**

For purposes of rate determination, “allowable indirect costs” are Indirect Costs incurred within the service center for multiple goods or services, but do not include costs incurred on a general university wide basis or in support of federal programs. These allowable indirect costs may be allocated on a per unit basis or other reasonable method to projects within the service center.

Examples of such costs include: 1) salaries and benefits of service center administrative support, 2) supplies utilized within the service center not directly attributable to a service or project, and 3) current year depreciation on service center equipment.

## **C. Terminology and Key Rules for Minor and Major Service Centers**

The following presents the major terms utilized for Service Centers at UofL. Where appropriate, the key rules associated with the term are also included.

**Internal Users** – This includes, colleges, schools, departments, and entities that are accounted for in any of the following UofL Annual Financial Statements; 1. University of Louisville and Affiliated Corporations; 2. University of Louisville Research Foundation, Inc.; 3. University of Louisville Athletic Association; and 4. University of Louisville Foundation Inc. and its nonprofit Affiliates.

The rate charged to Internal Users should be based solely on direct costs and should not include any indirect (Facilities & Administrative, or F&A) costs or any “mark-up”. The rate should be enough to cover allowable direct costs, but not generate a residual. Service Centers must breakeven (revenues = expenditures) over time.

**External Users** – This user group excludes Internal Users but includes users from outside of UofL, including but not limited to other educational institutions, companies, the general public, students, and any members of faculty or staff acting in a personal capacity. At a minimum, External Users will be charged for the full costs (approved service rate plus applicable institutional Facilities & Administration, or F&A, costs) of the services performed (see “Indirect Costs and F&A Costs” section below). The rate charged to certain External Users (e.g. non-federal external users) may be higher than total costs (i.e., may include a “markup”), provided the Service Center has obtained approval of that rate from the Office of Budget and Financial Planning (BFP) and the Controller’s Office to ensure proper compliance with unrelated business income tax reporting. Users which are utilizing federal funds (including federal flow through) to pay for their service projects are not to be charged any additional “markup” and are entitled to the lowest approved service rate offered, plus applicable F&A costs. When the expenses for an External User are processed as part of a sponsored program speedtype, the F&A cost will be automatically posted when the expenses are posted in the University’s accounting system. If the External User is directly invoiced by the Service Center, the Service Center is responsible for ensuring the applicable F&A cost is included in the billing.

**\*Know Your Customer** - *There may be occasions when an entity normally accounted for in the above financial statements is classified as an External User (e.g. – a UofL entity acts as an agent for an external party to gain a favorable Internal User rate), or an Internal User is classified as an External User (e.g. – Dr. X has a business that is separate from UofL, if she wishes to engage the Service Center to perform a project related to her business, the external rate should be charged). Service Center managers should exercise care in determining the funding source and purpose of a given business transaction.*

**\*Billing Your Customer** – *It is required that the Service Center knows and documents how the user intends to pay for service(s) **prior to performing the service(s)**. This documentation determines the rate eligibility of the user (e.g. – a user paying with federal funds shall receive the lowest service rate).*

**Direct Costs** - Costs specifically assignable to the operations of a service center. All direct costs must be budgeted and charged directly to service center operating accounts. Direct costs include, but may not be limited to:

- Salaries and fringe benefits
- Supplies/materials
- Travel – *costs are limited; check with Office of Budget & Financial Planning*
- Telecommunications
- Non-capitalized equipment (<\$5,000)
- Printing

- Repairs and Maintenance on Equipment
- Rental and Service Contracts

**Indirect Costs and F&A Costs** – Are not usually included in development of service rates for Internal Users or for External Users which pay for services with federal funds. **Service Centers should discuss such costs with their BFP analyst before they calculate proposed rates.** This will save time and effort. Service rates potentially could include certain indirect costs incurred by the Service Center for multiple goods or services or campus-wide indirect costs only if inclusion of such costs is consistent with OMB Circular A-21 and if such indirect costs are NOT included in the institutional Facilities & Administration (F&A) Rate calculation. F&A costs should not be included in service center rates; instead, F&A costs are to be assessed separately on the total amount charged for performance of the specified services based on applicable service rate. The University's applicable F&A rate for Other Sponsored Activities (which includes service) is available at <http://research.louisville.edu/grants-manage.htm>. A lower F&A rate may be assessed to certain non-profit External Users only as allowed by University policy/standard practice.

**Depreciation** - The depreciation of capital assets charged to Service Center operations is based on the straight line method over the useful life of the asset. Such treatment ensures that users pay only for depreciation expense associated with the usage in a given year. UofL capitalizes equipment of \$5,000 and higher. The Controller's Office will provide guidance on the service life for specific types of equipment, and will also provide an accounting mechanism to track eligible depreciation.

**NOTE:** Depreciation of equipment **purchased by the federal government**, whether or not title has reverted to the University, **cannot be included in the user rates.** Where the University has specifically agreed to "cost share" equipment in a federal award, depreciation of the University-funded portion is also unallowable in the rates.

**Residuals and Deficit** – Service Centers should establish rates that enable the Service Center to breakeven each fiscal year, and over time. In practice, this may not occur due to a variety of circumstances. In order to account for financial uncertainties, UofL has adopted a policy that allows Service Centers to have up to a 10% residual or deficit in a fiscal year. The 10% is calculated on total annual operating costs.

Any residual or deficit of 10% or less will be carried forward into the new fiscal year, **but** the calculation of service center rates for the new fiscal year must include the residual or deficit. For example, if a Service Center had a 5% residual in FY12, this would indicate that rates were too high and should be lowered in FY13 (all other things being the same). The new rates should have the effect of lowering the residual in FY13. The University will provide the proper accounting mechanism to track any residuals.

**Establishing and adjusting rates** - Service Centers are required to formally review and present their rates **every 24 months to the Office of Budget and Financial Planning**, and if operating results exceed, or are expected to exceed the +/-10% threshold, the rates should be adjusted at that point. However, Service Center personnel should monitor their financial performance on a regular basis and **at least**

**every six months.** Rates should be revised as appropriate prior to the end of the formal 24 month review period in order to minimize the possibility of over and under recoveries. The rate review and modification process will be part of the program budget process which is coordinated by the Office of Budget and Financial Planning (typically in January and February).

**NOTE:** The “establishment” date for a Service Center begins when the UofL Service Center Committee approves the establishment of the new Service Center.

**Over and Under Recovery** – Reasonable efforts must be taken to avoid the accumulation of residuals and deficits greater than or less than 10% of the revenues less expenses. The policy governing such actions is as follows:

- The calculation and determination of over and under recoveries greater than 10% shall be on a two year (biennial) basis beginning with July 1, 2013.
- At the end of the two year period (June 30, 2015) the over or under recovery will be determined.
- Service Centers are required to break-even over time.
- Any residuals greater than 10% must be used for the benefit of users via reduced rates.

Residuals greater than 10% may not be used to fund Service Center operations.

Any deficits greater than 10% must be written off with funds from outside the Service Center. The write off amount may be from unrestricted funds or applicable restricted funds.

**Examples:**

1. SC9999 had a 9% over recovery in FY13, and a 2% over recovery in FY14. – *The SC must adjust rates to lower the surplus, and may only budget 10% of the surplus (the 1% left over may not be budgeted or used).*
2. SC8888 had a 20% over recovery in FY13, and a 15% under recovery in FY14. –*The 10% policy does not apply.*

**Subsidy** - Subsidies are non-Service Center funds that are applied/ supplied (either centrally or at the school, unit or departmental level) from non-federal sources to offset the cost of the Service Center services for the Internal User. The respective Unit Head, Dean or VP for a Service Center may approve a subsidy for services performed for specific Internal Users or for specific services used by Internal Users. All Internal Users should be offered the same subsidy for comparable services.

The Service Center must keep track of all the subsidies that were allowed during a year. Records must include the rate(s) charged for the service, the date, the actual cost of the service, and what would this service cost if charged at un-subsidized, actual rate. This will help identify imputed revenue issues.

**Working Capital** - In addition to full recovery of actual costs, Service Centers may have a financial need for increased operational liquidity. UofL allows Service Centers to have a working capital reserve of up to 60 days' worth of operating expenditures.

## **Unallowable Costs**

Costs defined in OMB Circular A-21, Section J that are not eligible for reimbursement from the federal government and must not be recorded in Service Center accounts. These include but are not limited to:

- Advertising
- Alcoholic beverages
- Bad debts
- Commencement or convocation costs
- Contingency provisions
- Contributions, donations, remembrances
- Entertainment
- Fines and penalties
- Goods or services for personal use of employees
- Personal use of an institution-furnished vehicle
- Public relations
- Student activity costs
- Travel - first-class

## **Recordkeeping and Retention**

All Service Centers must follow UofL financial systems policies and procedures. Documentation must be kept for all business operations. It is critical that Service Centers ascertain the source of funding that users will use to pay for a service. In effect, will the user pay with federal funds or non-federal funds? In most cases, this source of funding determines the appropriate service rate to charge.

## **Taxes**

It is important that Service Centers familiarize themselves with University policies on sales tax and unrelated business income tax. Both policies can be found at the University's Tax Department website.

**Sales Tax** - Service Centers may upon occasion provide goods or services that are subject to state sales tax. To the extent that taxable sales occur, the University and its affiliates are responsible for collecting and remitting sales tax on the transactions. Where taxable sales are made to other schools or to entities that are otherwise tax-exempt, Service Centers must obtain a tax exemption certificate from the recipient. Note that individuals (including students, faculty, and staff) are not exempt from sales tax.

**Unrelated Business Income Tax** - Additionally, Service Center activities may be subject to unrelated business income tax (UBIT). If a Service Center consistently books revenue from external or commercial sources and such activity accumulates residuals or demonstrates any other facts that might indicate a profit motive, the Service Center may be liable for UBIT.

Questions regarding sales tax and income tax should be directed to the Tax Department which has the responsibility of reporting and remitting any taxes that may apply.

## D. Rate Development

As noted earlier, the financial goal of Service Centers is to breakeven over time. Therefore, the Service Center rate should be enough to recover the allowable expenses. This is depicted in the following formula as:

$$\frac{\text{Budgeted Operating Costs +/- Prior Year Carry Forward}}{\text{Expected Units of Activity}}$$

**Example 1:** The XYZ Lab Service Center has a machine that performs Soil Testing. The machine costs \$40,000 per year to operate (allowable costs) and is expected to have an activity level of 1,000 hours. The XYZ Lab Service Center had a \$3,000 deficit last fiscal year which was within 10% of its budget. Plugging this information into the formula, we get a per hour rate of \$43.00 per hour for the machine.

$$\frac{\$40,000 + \$3,000}{1,000 \text{ hours}} = \$ 43.00 \text{ per hour}$$

Notice that XYZ Lab Service Center had to build the \$3,000 prior year deficit into the current year rate in order to **break-even over time**

**Example 2:** The Chemical Oceanography Service Center (COSC) employs two full-time researchers whose combined salaries and fringe benefits total \$200,000. They also have other direct costs as follows; supplies and materials \$28,000; telecommunications \$5,000; travel \$1,000; and repairs and maintenance of equipment \$19,000. The total costs for COSC are \$253,000. COSC had a residual of \$11,000 last fiscal year which was within 10% of its budget.

COSC performs two types of tests/services as follows: 1) pH Levels and 2) Hydrocarbon testing. COSC estimates that 80% of its resources are spent on pH level testing and 20% on Hydrocarbon testing. Therefore, the budgets for the two tests are 1) pH Levels - \$253,000 x 80% = \$202,400 less .80 x \$11,000 residual = \$193,600 and 2) Hydrocarbon - \$253,000 x 20% = \$50,600 less .20 x \$11,000 residual = \$48,400. COSC also estimates that they will perform 2,900 pH level tests and 80 Hydrocarbon tests. Plugging this information into the formulas, we get following rates per test.

pH Level Testing	$\frac{\$202,400 - \$8,800}{2,900 \text{ tests}}$	=	\$ 66.76 per test
Hydrocarbon Testing	$\frac{\$50,600 - \$2,200}{80 \text{ tests}}$	=	\$605.00 per test

**Non-discriminatory Rates** - A Service Center must charge all Internal Users at the same rate for the same level of services or products purchased in the same circumstances. Rates must not differentiate among Internal Users. The use of special rates, such as for high volume work or less demanding non-scientific applications, is allowed, but the special rates must be financially documented and **be equally available to all users**. The federal government does not object to charging other External Users a higher rate than that charged to Internal Users, but internal rates must be based on total usage.

**Subsidized Users and Subsidies** - Services provided to all users must be accounted for and documented. If the University chooses to provide a service to a particular internal group of users at no or reduced charge than other users (e.g., audio-visual services as part of an instructional program) by subsidizing the costs of the service, the subsidy must be calculated for all Internal Users based on total service expenses and total units of output. The services used by the subsidized user group must be accounted for (i.e. the cost the user pays together with the subsidy provided.) The Service Center must ensure that the actual service **rate** charged to this subsidized user group is consistent with that charged to other Internal Users (i.e. the sum of the rate the user pays from his/her budget and the subsidy). **No service rate charged to any user may be lower than the rate charged to a federally funded service activity.**

**High Volume Services** - Special rates can be available to high volume services, provided the same high volume rate (and volume threshold) is applied to federally-funded users.

**Transfers** - Service Centers may not transfer excess balances. Balances must be carried forward in the Service Centers operating account and used to fund future rate adjustments.

**Pricing of Multiple Services** – A Service Center is required to perform and document the rate calculation and break-even analysis for **each type of service it provides** (i.e. – multiple rate structures may be necessary). A Service Center providing more than one service may sometimes realize a residual on some services and a loss on others. **Service Centers must ensure that there is no cross-subsidization between user groups**. Combining the results of various services is not acceptable if the mix of users for each service is different.

**University Administrative Fee** –The purpose of the university administrative overhead fee is to partially offset central University expenses associated with administrative support of certain, specific “stand alone” programs, such as Service Centers, Auxiliary Enterprises and other program budgets. The assessment rate is 10% of the gross expenditures of each Service Center program.

Effective July 1, 2014, Research Service Centers are excluded from this charge.

*The University Administrative Fee is separate from, and not included in the Facilities & Administrative (F&A)/Indirect Cost calculation. The University Administrative Fee cannot be part of the rate charged to a user using federal funds as the payment source.*

## APPENDIX

### Establishing a Service or Recharge Center

Action	Procedure
Initial Proposal to create a new Center	Department contacts their Budget and Financial Planning analyst (BFP analyst) for guidance. Based on this information, BFP will advise department of proper classification of proposed activity. If proposal meets the requirements of a Service or Recharge Center, BFP will provide a Service Center application package that the department must complete.
Completing Service Center Package and BFP and Service Center Committee Workflow	<p>Department completes the SC package and sends back to their BFP analyst. The analyst will review proposal and contact dept. as needed to gain full understanding of proposal.</p> <p>Upon completion, the BFP analyst will meet with the Chair of the Service Center Committee (Director of Budget and Planning) to finalize review, and prepare the application for dissemination to the UofL Service Center Committee. This committee will review the application and can recommend approval, request more information, or deny the application.</p>
Service Center Committee Decision	<p>If proposal is disapproved, the BFP analyst will notify department, and if necessary work with department to modify proposal or provide an alternative solution.</p> <p>If approved, BFP analyst will notify department regarding the formal establishment of the Service Center.</p>
Setting up the new program in UofL Financial System	Department will complete the on-line "Request for New Program or Project Form" and send to BFP. The appropriate BFP analyst will review for completeness and accuracy, and gain BFP Director's approval. The new program request is then sent to the Controller's Office where it is formally established. Once established, the BFP analyst will contact the requesting department to ensure that they have received the new program code.

**Service and Recharge Center Comparison Matrix**

<b>Description</b>	<b>Departmental Activities</b>	<b>Recharge Center</b>	<b>Minor Service Center</b>	<b>Major Service Center</b>
<b>Parameters:</b>				
Annual Direct Costs	\$1 - \$9,999	> \$10,000	Approximately \$10,000 - \$500,000	Approximately > \$500,000
Requires Service Center Account	No	Yes	Yes	Yes
Primary Function	Non-research and non-academic	Non-research and non-academic	Research and/or Academic	Research and/or Academic
<b>Indirect Costs Allowed in Setting Rates</b> <b>Internal Users:</b>				
Equipment Depreciation	No	No	Yes (with approval)	Yes (with approval)
Building Repair (Refurbishment, plumbing, etc.)	No	No	Depends; contact BFP Analyst	Depends; contact BFP Analyst
Maintenance & Operation (Custodial, Utilities, etc)	No	No	Depends; contact BFP Analyst	Depends; contact BFP Analyst

<b>NOTE:</b>	All External Users must be charged the full applicable UofL F&A charge.	All External Users must be charged the full applicable UofL F&A charge.	All External Users must be charged the full applicable UofL F&A charge.	All External Users must be charged the full applicable UofL F&A charge.
<b>Break-Even Concept &amp; Pricing:</b>	<b>Departmental Activities</b>	<b>Recharge Center</b>	<b>Minor Service Center</b>	<b>Major Service Center</b>
Formal Rate Review	Biennially - but not required	Biennially	Biennially	Biennially
Pricing for Internal Users		Break-even concept - Pricing for users using Federal monies (grants/contracts) cannot be charged a higher rate than any other Internal or External User	Break-even concept - Pricing for users using Federal monies (grants/contracts) cannot be charged a higher rate than any other Internal or External User	Break-even concept - Pricing for users using Federal monies (grants/contracts) cannot be charged a higher rate than any other Internal or External User
Pricing for External Users <sup>1</sup>		May charge a higher rate than Internal Users. In addition to the rate, overall pricing/billing must also include applicable institutional F&A.	May charge a higher rate than internal users. However, if External User is the Federal Gov't, or is using federal funds as the source of payment the lowest internal rate must be charged. In addition to the rate, overall pricing/billing must also include applicable institutional F&A.	May charge a higher rate than Internal Users. However, if External User is the Federal Gov't, or is using federal funds as the source of payment the lowest internal rate must be charged. In addition to the rate, overall pricing/billing must also include applicable institutional F&A.

<sup>1</sup> If a higher rate is charged for External Users that exceeds the direct costs and the applicable indirect cost rate, the rate must be reviewed and approved by BFP and the Controller's Office to ensure regulatory and tax compliance.

Operating Results are within +/- 10% of the budget	N/A	Factor into next biennial period's rates	Factor into next biennial period's rates	Factor into next biennial period's rates
Operating Residual Results are greater than 10% of the budget	N/A	Factor into next biennial period's rates. Amount over 10% may not be budgeted.	Factor into next biennial period's rates. Amount over 10% may not be budgeted.	Factor into next biennial period's rates. Amount over 10% may not be budgeted.
Operating Deficit Results are greater than 10% of the budget	N/A	Factor into next biennial period's rates	Factor into next biennial period's rates	Factor into next biennial period's rates
<b>Miscellaneous:</b>	<b>Departmental Activities</b>	<b>Recharge Center</b>	<b>Minor Service Center</b>	<b>Major Service Center</b>
University 10% Administration Fee Applies – Non Federally Funded Users	Yes	Yes	Yes	Yes
Allowable Working Capital Reserve	N/A	60 days – 16.67% of budget	60 days – 16.67% of budget	60 days – 16.67% of budget
Reserve for Equipment Allowed?	No	No	Yes – based on straight-line depreciation of capitalized equipment purchased with NON-FEDERAL Funds	Yes – based on straight-line depreciation of capitalized equipment purchased with NON-FEDERAL Funds