

<b>Subject: Guidelines for Service Centers</b>	Author: Curtin/Ingram/Zink
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### **A. Background:**

A selected number of activities at the University must operate using business principles more closely aligned to the commercial than non-profit sector. These activities, generally referred to as Service Centers, require specialized accounting procedures that are not appropriate for other activities at the University. The 1993 restructuring of the Financial Records System created the opportunity for the adoption of enterprise accounting.

The basic elements of enterprise accounting include the following factors:

1. Business activities, unlike expenditure-based activities, rarely produce a break - even situation, or zero cash balance, at fiscal year-end.
2. Financial performance for self-supporting activities is best assessed through accrual accounting which matches revenues with related expenses. With accrual accounting, revenues are recognized when earned whether collected in cash or represented by receivables collectible in a future period. Similarly, expenses are recognized when charges are incurred whether paid in cash or represented by payables to be satisfied in future periods. Accrual accounting also requires the consideration, when material, of the effects of changes in inventory levels, bad debts, and charges for depreciation.
3. Business activities typically require reserves for various purposes such as working capital, capital equipment acquisition, contingencies, etc.

### **B. Definitions:**

1. Service Centers - Units operating on a self-supporting basis where financial resources are received as a result of exchange transactions involving the provision of services or the sale of goods.
2. Business Plan - The document prepared annually by a Service Center to explain and substantiate its self-supporting nature. At a minimum, business plans must include:
  - a. A one-year budget of expected revenues (and recoveries) as well as planned expenses (including expenditures and non-cash expenses such as depreciation) and other charges (e.g. transfers to/from reserves.)
  - b. A three-year plan incorporating major capital activities and service/sale strategies as well as the identification of any significant factors which might affect the financial performance of the Center.

- c. Detailed calculations to support pricing strategies.
- d. A history of the Activity's financial performance and service/sale productivity for three years if the activity has operated that long or for as long as specific financial records exist. (Where applicable the budget and financial history must provide information about receivables and payables.)
- e. Current rate schedule for all goods and services provided.

### **C. Criteria:**

Units seeking designation as Service Centers must satisfy the following criteria to qualify for enterprise accounting:

1. The unit must be self-supporting such that revenues and recoveries equal or exceed expenses, both in the short and long run.
2. There must be a direct connection between the unit's revenue/recoveries and its expenses.
3. The unit must depend on an expense-based fee mechanism for revenues/recoveries resulting from the provision of services or the sale of goods.
4. There must exist material amounts of: receivables/payables, inventories of merchandise for resale or goods for use in the provision of services, and/or capital equipment.

### **D. Policy:**

1. The manager of a designated Service Center shall prepare an annual business plan outlining yearly objectives, annual projections of revenue and expenditures, pricing schedules for services, as outlined above. Generally, the business plan shall mirror the management philosophies and operating parameters outlined in the unit's strategic plan. The business plan will be forwarded to the respective vice president for review and approval. Once approved, informational copies will be sent to the Office of Budget and Financial Planning.
2. Budgets shall be prepared for each Service Center in accordance with established University guidelines. This will be done annually as part of the regular process used in the preparation of the University's annual operating budget. The budgets shall include realistic projections of both revenues and expenditures consistent with the unit's business plan.
3. Revisions to the approved budget shall be made through the normal budget adjustment process in accordance with established University policies and procedures:
  - a. Service Center managers may transfer funds within the activity as justified programmatically. Intra-departmental transfers between expenditure categories are authorized.
  - b. Because of their self-supporting nature, interdepartmental transfers for Service Centers shall not take place. When it is in the best interest of the University, vice presidents may make exceptions where two separate centers function dependently. An example of this is the interdependence of the printing and publications operations.

- c. Service Centers shall receive no general fund subsidy from the University. All requests to revise the operating budget must be funded internally from realized revenue or interdepartmental charges.
4. Unencumbered funds remaining at fiscal close will be carried forward into the new fiscal year as unallocated fund balances. Fund balances will not normally be used to support operations, except for special provisions outlined in the business plan. Each Service Center shall have its own general ledger (GL) account where fund balances will accrue automatically. The primary purpose of this provision is to allow Service Centers to accumulate funds over time to make major equipment purchases and to fund other capital projects.
5. Fringe benefit costs for personnel assigned to the Service Center shall be budgeted and expended in accordance with the University's established practices. Unexpended fringe benefits may be re-budgeted and used as justified programmatically.
6. Effective July 1, 2008, the University implemented an administrative overhead charge for all Auxiliary Enterprises, Service Centers and "Program Budgeted" activities. (See Policy on Auxiliary Enterprises, Service Centers and Program Budgeted Administrative Overhead.) These overhead charges will be budgeted in the annual operating budget and reflected in the various rate schedules charged for goods and services. Consistent with this policy, annual rate schedules shall be requested and approved at the time of developing the annual operating budget incorporating the projected overhead amounts. The rates should include:
  - a. A published rate schedule for regular University activities, not including federal grants and contracts.
  - b. A published rate schedule for federal grants and contracts that does not include the overhead charge. (In cases where a service center provides goods and services to federal grants and contracts exclusively, there is no need for the dual rate schedules. In these cases, the Service Center is exempted from the overhead charge).
7. It will be the responsibility of the Service Center manager to prepare a brief annual progress report to the respective vice president. Informational copies of these reports should also be sent to the Office of Budget and Financial Planning and the Office of the VP for Finance.

#### **E. Procedures:**

1. A request to establish a Service Center shall be made in writing and sent to the Office of Budget and Financial Planning. This Office will evaluate the request against the objective criteria, as stated above, and make a determination as to the appropriateness of the request.
2. Vice Presidents and Deans may request that accumulated surpluses be transferred to a University plant fund account to establish a separate fund (account) for capital acquisitions. Requests shall be made in writing and sent to the Office of Budget and Financial Planning who will evaluate the appropriateness of the request. Once approved, this office will make the necessary transfer of funds to the plant fund.