

# HARVARD UNIVERSITY



## Academic Service Center Procedures Manual

Last Revised: August 2023

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### Introduction

#### Changes from Previous Guidance

Welcome to the Academic Service Center (ASC) Procedures Manual. The purpose of this manual is to provide guidance to tub-level and department and finance managers and other staff working in or overseeing service centers. This procedures manual is meant to accompany the revised ASC Policy (effective June 30, 2022). The major changes to the policy include the following:

- Eliminate the term “affiliate”
- Clarify that tubs have the authority to allow service centers to use less-than-full-external rates for non-profits

- Define the term “incubators”

## **Definition of an Academic Service Center**

A Harvard University ASC is an operation within an academic tub that charges for goods or services in direct support of the research or academic mission of the University. ASCs recover their costs through fees charged to users, including federally sponsored projects, based on established billing rates and actual usage of service.

There are two types of service centers covered by this policy: ASCs and specialized service facilities. There is a glossary of terms at the end of the manual.

## **Compliance - Why we care**

As a recipient of federal funding, the University must comply with [OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards \(2 C.F.R. §200\) \(“Uniform Guidance”\)](#). This guidance requires that costs incurred on federal awards must be necessary for the performance of the award and be a reasonable allocation of actual costs relative to the benefit received. Non-compliance could result in Government-imposed fines or disallowed costs. In addition, non-compliance could harm the University’s reputation and reflect negatively on future grant proposals. ASCs are reviewed and tested annually as part of the single audit required by Uniform Guidance, Subpart F Audit Requirements (§200.500).

## **Purpose and Audience**

The aim of this manual is to provide guidance on establishing, maintaining, and accounting for ASCs in accordance with Harvard University policy and federal regulations. The intended audience is faculty, students and staff in a Harvard University school/tub or unit involved in the operation of an academic service center.

The guidance applies to all ASCs, but ASCs that have less than \$100,000 in direct operating expenses **and** charge less than \$75,000 to federally funded awards do not need to comply with the specific procedures outlined in this document, but they must be able to demonstrate their exemption with financial detail from the most recent fiscal year and are subject to school-level review at any time. This review may include, but is not limited to, evidence of strong financial oversight and continuous compliance monitoring.

A particular type of ASC, known as a Specialized Service Facility (SSF), is defined by §200.468 of the Uniform Guidance. Because the indirect costs of SSFs cannot be included in the F&A negotiated rate the recovery of these costs occurs through rates by including the allocable portion of F&A costs (utilities, operations and maintenance, building depreciation, and interest). Harvard defines SSFs as specialized service centers that have \$2,000,000 or more in annual direct operating expenses.

### School/tub Level Officials

If you have any questions related to academic service centers, please contact the following subject matter experts:

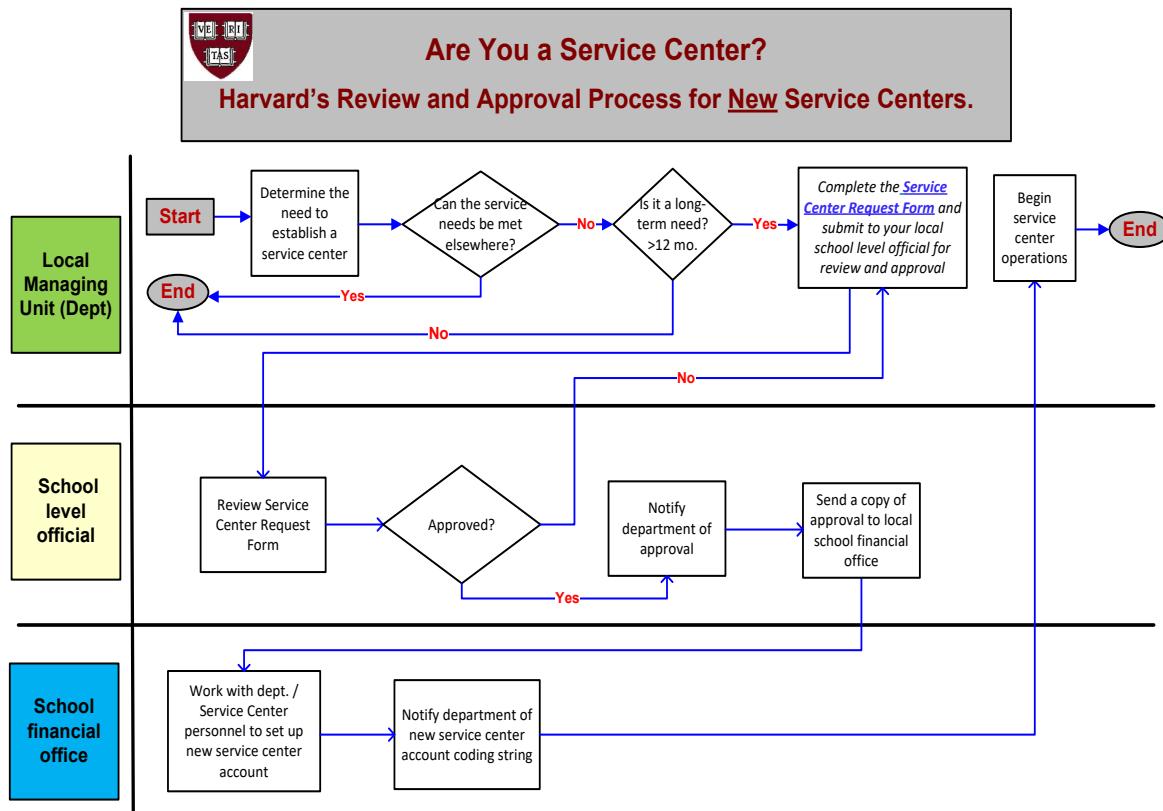
- FAS / SEAS: Nuala McGowan ([nmcgowan@fas.harvard.edu](mailto:nmcgowan@fas.harvard.edu))
- HMS: Brian Kimball ([brian\\_kimball@hms.harvard.edu](mailto:brian_kimball@hms.harvard.edu))
- SPH: Kristie Lister ([kfroman@hspph.harvard.edu](mailto:kfroman@hspph.harvard.edu))
- All Other Tubs: Judith Ryan ([judith\\_ryan@harvard.edu](mailto:judith_ryan@harvard.edu))

## Chapter 1: Creation of Academic Service Centers

### Do I Need to Create a New Service Center?

Prior to establishing a new service center, please see below for helpful questions in determining whether an ASC should be established:

1. Is there an effective allocation methodology that would distribute actual costs equitable to all users?
2. Is this service conveniently available elsewhere on campus?
3. Is the need for this service short-term?
4. Is this service provided for, or subsidized by, a federal award?
5. Is there a demonstrable demand for internal usage to meet research needs?



[View a digitally accessible version of the above decision tree.](#)

## *Helpful Links*

- [Request for New Service Center Form](#)
- School/tub Level Officials
- [Harvard University ASC Policy](#)

## **Process Considerations:**

- Complete the [Request for New Service Center Form](#) and obtain approval from the appropriate Tub level signing official(s)
- Assign a unique and descriptive service center name
- Designate a department or unit that is responsible for the service center
- Prepare a description of goods or services to be offered
- Identify and confirm funding for the initial stage of creation, especially if the services require acquiring major pieces of equipment
- Develop staffing requirements that include job descriptions, qualifications, salary, and percentage of time devoted to service center work
- Project a long-term viability plan
- Budget for the first fiscal year (and break-even period if longer than one year)
- Identify and confirm users and volume of demand (e.g. billable hours, number of units)
- Determine compliant rates (see p. 11) for each of the services to be rendered

## **Upon Approval:**

- Request an accounting string that is unique to the service center
- Document the rates on a user-facing website or document
- Create or implement a tool for tracking usage and billing
- Secure funding resources for the initial stage of creation

**Key Points:**

- The department completes [Request for New Service Center Form](#) and sends to school/tub level approvers for review and approval.
- School/tub-level office provides or denies approval
- Local unit works with school/tub level office to set up Harvard general ledger account codes

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## Chapter 2: Budgeting for Service Centers

Service centers must create annual budgets that include anticipated revenues and expenses. (*See Chapter 3: Rate Development*)

### Revenue Budget

The revenue budget should be based on the estimated volume of goods or services to be sold multiplied by proposed rates. Considerations should include prior year performance, prior year subsidy levels, and future needs of internal and external users.

Service centers derive revenue from the following sources:

- Internal customers – Recorded in expense offset object codes
- External customers – Recorded in income object codes
- Subsidies – Recorded as determined by tub

### Allowable Direct Costs

The expense budget should include all allowable costs for operating the ASC including administrative expenses **directly associated with operations of the facility**. Expense categories include:

- Salaries and fringe benefits
- Materials and supplies
- Maintenance and repair, including equipment maintenance agreements
- Equipment depreciation
- Rentals and leases, including equipment leases
- Travel & conferences
- Purchased services/professional fees

For more information on allowable direct costs please see the [Sponsored Expenditure Guidelines](#).

## Unallowable Costs

Unallowable costs **must be excluded** from the budget (as well as the internal user rate calculation) and may not be charged to the service center operating account(s). Examples of unallowable costs are listed below. *For a complete list refer to [Subpart E of the OMB Uniform Guidance](#).*

- Alcoholic beverages
- Airfare in excess of “coach”<sup>1</sup>
- Bad debt or uncollected billings
- Capital Equipment Purchase (only depreciation expense is allowable)
- Donations and contributions
- Entertainment
- Fines or penalties
- Gifts
- Internal Interest
- General Memberships
- Object code 8450 (unallowable costs)
- Salaries over the NIH cap
- Unallowable Sales tax<sup>2</sup>

## Carryforward of Prior Year Surplus/Deficit

The cumulative surplus from prior years (up to the allowable annual 15% threshold) must be included in rate calculations unless returned to users that generated surplus.

The cumulative deficit from prior years (up to the allowable annual 15% threshold) may be included in rate calculations or subsidized by the department or school.

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<sup>1</sup> For details see the [Harvard University Travel Policy](#)

<sup>2</sup> For more details see the list of [State Sales Tax Exemptions](#)

## Subsidies and Subsidized Rates

Subsidies occur when service center expenses are paid from an account outside of the service center's operating account. The total service center budgeted expenses should reflect the full unsubsidized cost of providing the services.

Subsidies can be applied in the following ways:

- **Subsidy (to Users)** – Funds provided to cover the difference between a lower rate paid by some users and the full rate. For example, subsidies may be provided by a specific department that wishes to subsidize only users from that department. The service center recovers the full cost of services provided to subsidized users by charging the PI account the subsidized rate, and charging the department subsidizing the account for the difference between the full rate and the subsidized rate. The service center records revenue for the full amount.
  - **Example 1:** Service center ABC Machines calculated rate is \$100 per unit and the user will be subsidized \$15 per unit.

Debit (PI Account):	\$85
Debit (Subsidizing Account):	\$15
Credit (Service Center Account):	\$100

- **Example 2:** Department provides a discounted rate of \$10 less than the calculated rate of \$50 to specific groups of internal customers (e.g. junior faculty, students, or members of a lab) in a lump sum. The group purchases 100 units within the year.

Throughout the year:

Debit (specific groups):	\$4,000
Credit (Service Center Account):	\$4,000

At year end:<sup>3</sup>

Debit (Subsidizing Account):	\$1,000
Credit (Service Center Account):	\$1,000

- **Subsidy (to Service Center)** – Funds provided to a service center to cover operating costs during the year or to cover deficits at year end.

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<sup>3</sup> Please note that an interim review would need to recognize the lump sum subsidy as part of the break-even calculation.

- Example 1: At year end the Department provides a subsidy to cover the deficit in excess of 15% for that year.

Carryforward deficit:	\$30,000
Total revenue amount:	\$450,000
Total operating expenses:	\$500,000
Subtotal (Deficit):	-\$80,000
Breakeven calculation:	16% (\$80,000/\$500,000)
Subsidy amount:	\$5,000
Deficit:	\$75,000
Breakeven calculation:	15% (\$75,000/\$500,000)

- Example 2: At year end the School/Department provides a subsidy to cover the overall deficit for that year.

Carryforward deficit:	\$0 (Fully subsidized previously)
Total revenue amount:	\$450,000
Total operating expenses:	\$500,000
Subtotal (deficit):	-\$50,000
Subsidy Amount:	\$50,000

## Support from Grants or Restricted Funds

Grants and restricted funds (e.g. endowment or restricted gift funds) cannot provide lump-sum subsidies to service centers. If a grant or restricted fund is supporting a service center, then allowable subsidized operating expenses must be charged directly on the award or fund in the general ledger.

### Key Points:

- Budget should be based on anticipated volume of services and the related expenses
- Subsidies from unrestricted funding sources must be recorded in accordance with your tub practice
- Unallowable expenses cannot be posted to the ASC's operating account

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## Chapter 3: Rate Development

A service center rate is the cost per unit of goods or services set to recover the expenses of the service center and achieve a break-even financial position. The use of a billable unit is essential to ensuring that users are charged only their fair share of the actual costs of the services provided.

Compliant rates are based on budgeted projections of operating expenses, including an allowable carryforward surplus or deficit, divided by projected levels of activity or revenue.

$$\frac{\text{Budgeted Expenses} +/\text{- Surplus/Deficit}}{\text{Budgeted/Projected Level of Sales of Goods/Services (Billable Units)}}$$

For example, a microscope costs approximately \$100,000 per year to operate and has an estimated usage (activity level) of 1,500 hours during the year. The resulting hourly rate would be calculated as  $\$100,000/1500 \text{ hours} = \$66.67 \text{ per hour}$ . A researcher using the microscope for 4 hours would then be charged \$266.68, or  $4 \times \$66.67$ .

Pricing that is contingent upon types or levels of usage should be developed for each discrete type of service (see Alternative/Discount Rates below).

### Break-even Expectation

The break-even period is a reasonable period of time (not to exceed one year) over which cumulative revenue for a service or product matches cumulative expenses. Service center billing rates should be calculated to recover the aggregate cost of a service or product over a defined period (normally one year). Some service centers require a longer break-even period due to startup costs, volume fluctuations or other extraordinary circumstances.

### Budgeted/Projected Level of Activity (Billable Units)

A billable unit is the measurement used to identify the specific goods and/or services provided by a service center.

Examples of billable units include:

- Labor hours
- Machine hours
- Unit cost

- Number of samples
- Tests performed
- Any other unit of measurement appropriate to the type of activity

## **Surpluses or Deficits**

It is not possible to predict what rate(s) will achieve an annual break-even financial position. The cumulative allowable threshold of +/- 15% allows for reasonable variances in volume or expenses. It will sometimes be necessary to adjust rates mid-year or at other times during the annual cycle to avoid surpluses or deficits beyond 15%.

Monthly and interim reviews of service center accounts should be performed as well as a year-end review to determine compliance with the annual surplus/deficit requirement.

- If there is an operating surplus in excess of 15% during the year, the rates should be adjusted to achieve break-even. If there is an operating deficit in excess of 15% during the year and the service center is not subsidized, the rates should be adjusted to achieve break even.
- If an operating deficit in excess of 15% exists at year-end, the excess deficit must be subsidized/written off with funds from outside the service center (support funds, unrestricted funds or applicable restricted funds).
- If an operating surplus in excess of 15% exists at year-end, the surplus beyond 15% must be returned to the users who generated the surplus and the 15% may be included to reduce future rates or be returned to users who generated the surplus.

All rate changes must be documented and dated for audit purposes. An example rate documentation form is included in Exhibit B.

## **Pricing of Multiple Discrete Services**

Service centers offering multiple services should calculate separate rates for each service. The goal is to create a billing rate that does not cross-subsidize services or user groups. Shifting the costs of services or users to other services or users would unjustifiably misalign service center costs and their benefit to grants and is, therefore, not allowed.

For example, where the service unit = 1 hour and the costs are per hour:

*Table 1: Example of Pricing of Multiple Discrete Services*

<b>Costs</b>	<b>Service A – Tech assisted Sorting</b>	<b>Service B – Self-service Sorting</b>
Senior Tech compensation	\$60	\$0
Supplies	\$10	\$10
Service Contract	\$15	\$15
<b>Total costs per service unit</b>	<b>\$85</b>	<b>\$25</b>

In this example, the fees for Service A and B could not be blended to arrive at a fee of \$55/hour for both services because the costs associated with Service A are different from those associated with Service B; one requires the skill of a senior tech and the other does not. The users of Service B cannot be charged more than \$25/hour in order to decrease costs for the users of Service A; i.e., the fees for Service B may not cross subsidize the fees for Service A.

### **Alternative/Discount Rates**

A service center may develop alternative discount rates for special use circumstances (e.g. volume discounts or off hours use). Discounted rates should reflect the lower cost for providing the services. These alternative rates must be available to all internal users.

### **Specialized Service Facility Rates**

Specialized Service Facilities (SSF) operating costs and indirect costs are excluded from the University's Federally negotiated F&A rate. SSF rates, therefore, must include both direct and indirect costs in calculations for break-even and rate setting. Schools/Tubs may choose to subsidize a portion of the indirect costs.

### **External Customers**

For external commercial customers, services centers may charge an add-on fee in addition to the F&A rate to cover the cost of unallowable and other expenses (e.g. bad debt, capital renewal or advertising) or to adjust to market rates.

For external non-profit customers, tubs may approve lower-than-full external rates at the request of a service center when the customer documents tax-exempt status or if the service center complies with another tub-specific method for confirming the customer's non-profit status. Rates for external customers cannot be lower than internal rates.

## Cancellation Fees

Cancellation fees or no-show fees can be charged to non-sponsored users and must be disclosed or displayed with rates. If a cost-based fee can be determined and documented, then sponsored funds may be charged. Invoices must describe the fee as cancellation or no-show fee.

### Key Points:

- Service center unit rates are formulated to recover operating costs (such as salaries, fringe benefits, material and depreciation) and achieve break-even
- A service center rate is the cost per unit of services or goods sold set to recover the expenses
- A service center must break even or recover costs based on actual usage within the approved break-even period
- One type of discrete service within a service center cannot cross-subsidize another discrete service
- If a service center offers any discounted rates (e.g. volume discount) that rate must be available to all internal users

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## Chapter 4: Account Set-Up

Each service center should have unique general ledger account information to ensure that both periodic and annual accounting is easy to record, track and monitor.

### New Service Centers

In order to obtain a unique Harvard general ledger account, new service centers must first be approved by the appropriate school/tub-level office(s). After approval, the finance office coordinates the establishment of new Harvard general ledger accounts.

Unique activities or subactivities can be established for each category of service. The service center must maintain sufficient general ledger accounts or alternative documentation to substantiate that there are no cross-subsidies between discrete services.

### Service Center Support Accounts

- Service center support accounts, also called support funds, can be established and used to record the following:
- Capital purchases (equipment over \$5,000)
- Offset entries for depreciation charged to service centers (entries are sent from school/tub offices to the OFAA – Office of Fixed Asset Accounting)
- Cost unallowable for federal reimbursement (*For examples of unallowable costs, please see Unallowable Costs*)
- Bad debt
- Add on charges to external customers
- Funds borrowed by the service center for startup that must be returned once the service center is beyond the initial break-even phase

If a service center support account does not exist, the alternative is to charge these expenses to unrestricted funds or create a support account.

Funds in a service center support fund **can only be used in support of the associated service center**. Transfers are allowed to reimburse schools/tubs for F&A charges or to repay borrowed funds.

**Key Points:**

- New service centers cannot operate without prior approval and account-set up by the appropriate school/tub-level office(s)
- New Harvard general ledger accounts should be set up sufficiently in order to track operating revenue and expenses for discrete services to aid in rate development
- Service center support funds are accounts that are used to record transactions associated with the service center but are not part of the annual rate calculations

## Chapter 5: Billing

Billing must be based upon measured and documented utilization. Service centers must maintain a published list of rates for all services or products available. Customers should be billed in a timely manner (recommended monthly) and can only be billed based on the established and published rates. Information necessary to bill customers should be obtained when orders are placed.

The costs of a service/product should be charged to customers based on:

1. Actual consumption or use of the service/product multiplied by the billing unit
2. A schedule of consistent billing rates

### Rate Consistency

Rates can be set based on hours, units, clock time, or any other metric that is the closest approximation for utilization of resources to produce the good or service. Rates established by service centers must be non-discriminatory, and all users of the facility must be billed for services. Non-discriminatory **means all internal users** must be charged at the same rate(s) for the same level of services or products purchased. (Note that subsidies are applied to the full rates, see Subsidies and Subsidized Rates in Chapter 2). **External** users may be charged a higher billing rate than internal users to recover indirect costs, other related expenses, or to subsidize internal users. A tub may allow a service center to offer less-than-full-external rates to external users if the service center obtains documentation of the customer's tax-exempt status or otherwise complies with tub-specific policies about tax-exempt status confirmation. Proof of tax-exemption must be retained at the local level. External rates cannot be lower than internal rates.

### Internal Users

Internal users are charged internal rates and pay for services or products using Harvard's general ledger coding. Internal users also include Harvard-based Howard Hughes Medical Institute (HHMI) investigators who are conducting research at Harvard University.

**Note:** Having a Harvard appointment **does not** identify an individual as an internal customer. Grants and programs not on the Harvard campus and not administered through Harvard University are considered external users.

## Recording Internal Revenue

Revenue from internal users should be recorded using an intra or inter-school/tub expense credit object code within the same super object code range as the debit. For example, an internal billing journal for lab services recharge will be prepared using object code 8100 for the debit and either object code 8109 or 8110 for the credit. *For a list of other object codes, see Appendix III: Service Center Object Codes – Examples.* Please see the [University Internal Billing Policy](#) for additional information.

## External Users

External users are customers whose funds, grants, or programs are not on Harvard's campus or administered by Harvard University. External customers may include tubs not consolidated into Harvard University's financial statements, users from tax-exempt institutions, the public, for-profit corporations, and any member of the Harvard faculty or staff acting in a personal capacity. An allocable share of the University's federally negotiated F&A rate may be charged to external users. In addition to F&A, service centers may also charge external commercial customers an add-on fee to cover incremental expenses (e.g. bad debt, advertising, or equipment renewal) or to subsidize internal users. For external non-profit customers,  tubs may approve lower-than-full external rates at the request of a service center when the service center obtains documentation of the customer's tax-exempt status or otherwise complies with tub-specific policies about tax-exempt status confirmation.

*See Exhibit B: External Rate Calculation Example and Exhibit C: Internal Users Rate Calculation Example for F&A add-on calculations.*

## Recording External Revenue

External revenues are charges paid by any user outside Harvard University. External revenues are recorded in income object codes, i.e. 5400. If add-on amounts are charged, these fees should be recorded either in unique income object codes or as revenue in the associated support fund.

External user revenue should be recorded as follows:

- The base fees for goods and services should be recorded as income in the service center using object code 5400 (or other applicable income code)
- F&A charges should be recorded or transferred to the school/tub level org in the 8924 object code series

- Add-on revenues can be recorded in the service center or in the service center support fund using object codes 5770 (or other appropriate income code)

It is not necessary to itemize the add-on fees for external users on the invoice, however, the service center must maintain supporting documentation that identifies the components of the rates charged.

## **Unrelated Business Income Tax**

If external users are charged a rate that is higher than the aggregate cost of the goods and services provided, the Service Center may have a liability for unrelated business income tax (UBIT). See [Tax Compliance for External Revenue-Generating Activities in the U.S. \(UBIT\)](#).

## **Sales Tax**

Sales of goods to external users are typically subject to sales tax. In general, services are not subject to sales tax. Sales tax, equivalent to the sales tax rate multiplied by the sale price, should be collected from the customer. Rates are based on the state in which the goods are picked up, delivered or consumed. Harvard University currently collects and remits sales tax on items picked up in or delivered to addresses in Massachusetts (6.25%), California (7.25% and up), and Illinois (6.25%). Harvard University is responsible for collecting sales tax on items that exceeds an individual's state threshold amount. For more information contact Tax Reporting at [tax\\_reporting@harvard.edu](mailto:tax_reporting@harvard.edu).

*Table 2: Sales Tax*

	<b>Massachusetts</b>	<b>California</b>	<b>Illinois</b>
Sales to tax-exempt organizations	Exempt with proper documentation (Forms ST-2 and ST-5)	No general exemption	Exempt with proper documentation (Illinois "E" number)
Personal and professional services	Exempt	Exempt	Exempt
Items purchased for resale	Exempt with certification	Exempt with certification	Exempt with certification
Casual and isolated sales (infrequent and nonrecurring)	Exempt	Exempt	Exempt
Sales shipped to another state	Exempt	Exempt	Exempt
Shipping and warranties (if separately stated)	Exempt	Exempt	Exempt
Clothing	Exempt	Taxable	Taxable

	Massachusetts	California	Illinois
Food (except prepared meals)	Exempt	Exempt	Reduced rate
Periodicals such as newspapers and magazines	Exempt	Exempt	Exempt
Other University publications	Exempt	Taxable	Taxable

Proceeds from taxable sales should be deposited into the University's Taxable Sales bank account. Deposit forms can be obtained from the Cash Management Office by contacting extension 6-0853.

For more information about sales tax, please contact the [Tax Reporting Office](#).

### **Key Points:**

- Rates must be established and published for internal and external users. All internal users must be billed the same rate (unless subsidized).
- External users can be charged a higher rate.
- Advance billing is not allowed: Billing cannot occur until goods or services have been rendered

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## Chapter 6: Monitoring Performance

It is recommended that ongoing service center operation cycles align with the Harvard fiscal year: **July 1 - June 30** although the starting dates of a new service center may vary. New service centers must have their proposed rate(s) based on a budget approved in advance of operation. All service centers must have their rates approved **annually by the school/tub level officer.**

For contact information, please refer to School/tub Level Officials.

### Initial Budget Approval Process

Initial budgets and rate proposals should be submitted before a service center account can be created. School/tub level officers will review budgets and rate calculation proposals and once approved request the new accounts. (*Contact your school/tub financial office for turnaround times*). The service center cannot begin operations until the rates are approved, and accounts are created.

### Annual Rate Approval Process

The annual rate calculation proposal information should be submitted to the school/tub officers by specific deadlines as they are communicated and should include the following:

- Annual financial operating results from the previous year. (*See Annual Financial Operating Reports*)
- Proposed or budgeted revenue and expenses and the allowable carryforward surplus/deficit from the year just ended, if applicable.
- Budgeted or projected billable units for each discreet service (if applicable) used to calculate proposed rate structure for service center.
- Proposed rate structure for the current year.
  - If rates are based upon calculations previously approved by the school/tub officers and there have been no changes in methodology, only a listing of proposed rates is required.
  - If rates include a less-than-full-external rate for users that document their tax-exempt status, the rate should be approved by the tub and the tub should clarify roles and responsibilities regarding confirmation and retention of tax-exempt status certificates.

- Description of any changes in methods from those previously approved by the school/tub officers. If there have been any changes in methods used in calculating rates, a new rate proposal may be requested by the school/tub officer.
- Any other information used to determine rate structure for all users. If calculating F&A and add-on fee for Commercial users, include methodology for calculations. If including equipment depreciation expense, include details of capital equipment, funding source, and depreciable life.

The school/tub officer will review and approve all rate proposals, including those that are based upon previously approved rate structures and will notify departments when completed. Rate proposals normally will be reviewed by the school/tub officers in the order received.

### **Annual Financial Operating Reports**

An annual financial operating report is required as part of the annual rate approval process. The operating report is used to determine that service centers are operating at or near break-even and that expenses are allowable and properly allocated to service center accounts.

Exhibit C shows a format that may be used when preparing annual financial operating reports. While departments are free to select alternative formats, the following key elements should be contained in all reports submitted to your school/tub officers for rate review purposes:

- The name of the service center, responsible department, account coding, support fund account number (if any), and contact person's name, email, and telephone number.
- Statement of the time-period for which the report is being prepared (normally, this period should be for one year and coincide with the University's fiscal year from July 1 to June 30).
- Breakdown of revenues should include revenues from external and internal billings.
- Breakdown of expenditures by cost categories. This section of the report should include at least the type of expenses shown on Exhibit C.
- Total revenues expenses and allowable carryforward surplus/deficit from the year just ended, if applicable.
- The amount of any subsidies and grant support if applicable.
- Any questions regarding the preparation of annual financial operating reports may be addressed to school/tub officers.

## Monthly Review and Analysis

In addition to the annual rate approval, service center managers are expected to monitor and evaluate their service center's activity each month, in order to:

- Determine accuracy of billings and expenses charged (including ensuring that appropriate and approved rates were charged).
- Identify and remove any unallowable costs charged to the service center.
- Monitor receivables for bad debt and remove accounts when deemed uncollectable.

The school/tub officer may perform a cursory review of service center income and expense on an as needed basis for monitoring and compliance.

## Interim Rate Review

A mid-year review of service center operations should be conducted by the local-level managing unit based upon the first six months of fiscal year operations. If needed rates can be reviewed and adjusted on a more frequent basis. Service centers with an exceptional (+/- 15%) operating surplus/deficit at midyear review may need to adjust rates to be charged during the second half of the fiscal year. This midyear review will help to ensure that the service centers will meet the break-even expectation.

*(See Chapter 3: Rate Development)*

If required by the school/tub, a request to change service center rates should be made as soon as it appears that the service center will not break even at year-end using the previously approved rate. Such requests should be routed to the school/tub officer for review and approval before the new rate is used.

## Key Points

- Service centers must have their rates approved prior to operations, on an annual basis, and when there are significant changes to rate calculation methodology.
- Mid-year rate reviews help the service center meet the break-even requirements.
- Each school/tub may have specific deadlines for rate and other necessary approvals.

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## Chapter 7: Documentation, Audit Compliance and Post-Operation Requirements

### Record Keeping and Retention

Documentation for revenues and expenses must be retained in accordance with the [University General Records Schedule](#), generally four years after the fiscal year end close.

- The service center managing unit is also responsible for maintaining complete documentation related to operations including:
- Rate calculation and rate approval
- Annual budgets
- Annual financial statements
- Financial backup information including evidence of interim review, lists of employees, equipment used by the service center with allocation of associated depreciation data and volume/utilization data
- Documentation of rate changes with dates for audit purposes
- Copies of bills/invoices with supporting documentation (e.g. order forms, correspondences, calculations)
- Documentation of tax-exempt status when less-than-full-external rates are used

### Audits

The Single Audit performed by an external audit firm includes a review of service center activity. Also, Risk Management & Audit Services may periodically perform audits of service center activities.

Service center managers will be contacted as far in advance as possible by the school/tub or school/tub officer if an audit is requested.

### Dissolution of a Service Center

A service center may be closed if it is deemed to be no longer necessary and/or viable. School/tub level approval may be necessary to close a service center. Other close-out procedures include:

- The service center must work with the school/tub finance office to close all accounts.

- The department responsible for the service center is also responsible for any charges that occur after the service center is closed. After closing the service center, the department should run a quarterly detailed transaction listing to ensure proper account close-out.

## Key Points

- Records must be maintained in accordance with the [University General Records Schedule](#).
- Documentation of rate changes and other financial information must be maintained for audit purposes.

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## Appendix I: Details on Specific Types of Expenses

**Capital Equipment** is defined as an item that is acquired for Harvard's operations (not for resale) with a purchase price of \$5,000 or more and a useful life of at least one year. In compliance with federal regulations, the initial purchase cost of capital equipment cannot be charged as an operating expense, however, service centers may recover equipment costs by including the equipment's annual depreciation into their rate development calculations. The initial purchase of capital equipment should be charged to the service center support fund or to any other appropriate source of funding outside the service center. Equipment costing or than \$5,000 is allowable and must be treated as an operating expense when calculating billing rates.

**Depreciation or Amortization** of capital equipment, external interest, or capital lease costs can be included in annual expenses and recovered through the service center rates. Entries moving depreciation to service center accounts must be prepared by your school/tub's finance office and sent to the OFAA (Office of Fixed Asset Accounting) in order for it to hit the service center account.

**Calculating depreciation** – depreciation of capital assets charged to service centers is based on the straight-line method over the useful life of the asset. Such treatment ensures that users pay only for depreciation expenses associated with the usage in a given year.

- **Useful lives** – Service center equipment is depreciated using the useful lives outlined in the accounting procedures for Capitalization and Depreciation of Property, Plant, and Equipment. In certain circumstances, service units with "specialized" equipment, or equipment that is unusual in the nature of its depletion or use, may need to estimate a more accurate useful life. Deviation from standard useful lives requires review and approval by the school/tub financial officer.
- **Federally-funded & University cost-shared equipment** – 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.
- **Debt-funded equipment** – Federal regulations do not allow for principal payments on debt to be recovered through service center rates.

**Lease, Rental and Service Contracts** and other professional services are allowable and should be included in the rate calculation for the fiscal year in which they were incurred. For capital leases, only the amount that would be allowed had the non-Federal entity purchased the property upfront, can be included in the service center rate. Unallowable costs associated with a capital lease would include amounts paid for profit, management fees, and taxes as these costs would not exist if the equipment was purchased up front. (2 CFR § 200.465) (If you have a question regarding the classification of a lease contact the Office of the Controller or your school/tub's finance office).

**Materials, services, and supplies** needed to operate the service center are allowable and should be included in the rate calculation. These expenses must be included in the financial analysis for the fiscal year in which they are used. If excess materials or supplies are purchased during the fiscal year, the service center must not include these costs in the current year's financial analysis. Amounts can be recorded as prepaid or if there are significant supplies or materials, a year-end inventory of assets should be completed and the amount booked as part of the year end closing process.

**Salaries, wages, and fringe benefits** for direct personnel and administrative staff whose efforts are directly related to the service center's activity or management should be included in the rate calculation. If an individual works on more than one activity, the costs associated with that individual must be allocated to the activities based on the proportional benefit. Likewise, administrative costs benefiting more than one service center activity must also be allocated. Effort reporting, a time study, or another equivalent method may be used to determine the appropriate allocation.

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## Appendix II: Glossary

**Uniform Guidance (2 CFR 200)** – guidance set forth by the Office of Management and Budget (OMB) that identifies the f administrative requirements, cost principles, and audit requirements related to specialized service facilities.

**Academic Service Centers (ASCs)** – Units within Harvard departments or centers that charge for goods or services that directly support the research or academic mission of the University and recover costs through charges to internal and external users.

**Billable Unit** – A measure of the goods or services provided by a service center that serves as the basis for the calculation of its rates. Examples include machine or labor hours, number of orders, number of samples, etc.

**Break-even** – The point where revenues equal expenses; where there is no surplus or deficit.

**Carryforward** – The allowable balance of previous year-end surpluses or deficits that become the opening balance in the next fiscal year. The cumulative carry forward amount can be comprised of balances from multiple years. The carry forward balance is included in the current year calculation of rates and the break-even analysis. The carryforward balance cannot exceed 15% of operating costs.

**Central Service Units** – Separate operating units that are generally not part of academic tubs and provide services to the entire University community. Examples of central service units include University Dining Services, Harvard University Information Technology, and Harvard Real Estate Services. Central service units are not covered under this procedures manual.

**Deficit** – An amount by which a center's expenses exceed its revenues.

**Direct Costs** – Costs that can be identified specifically with a particular activity; or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Examples include:

- Salaries and wages, and fringe benefits of employees performing the service
- Cost of materials consumed performing the service

**Depreciation** – A method of apportioning the cost of property and equipment over the estimated useful lives of the asset.

**Expenses** – Costs incurred to operate a service center, whether paid or accrued, that benefit only the fiscal period.

**Incubator** – An incubator is an entity that provides office space, funding, basic or specialized services, extensive business networks, and other necessary support to foster innovation for early-stage companies or entities. For purposes of this policy, requests for services that come to Harvard ASCs through incubators, (including Harvard incubators) will be charged full external rates.

**Indirect costs** – Costs incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, and instruction activity, or any other intuitional activity (Uniform Guidance, Subpart E). Examples include:

- General administration
- Space related costs (operations and maintenance, utility costs, building depreciation)
- Information technology costs

Specialized service centers are required to recover indirect costs.

**Internal User** – A user is charged internal rates and pay for goods or services for research and/or educational activities on behalf of Harvard charged directly to a Harvard 33-digit account. Internal users also include Harvard-based Howard Hughes Medical Institute (HHMI) investigators who are conducting research at Harvard University.

**External User/Commercial Customer** – An entity or person that is legally separate from Harvard that typically purchases goods or services for reasons of convenience, quality, or uniqueness of goods or services offered. Examples include PIs at affiliated hospitals, commercial research labs, and collaborators at other institutions.

**Local School/tub Level Official** – Designated approver for your school/tub or unit (see [ASC Policy](#) for complete list of contacts by school/tub).

**Specialized Service Facilities “SSF”** – Specialized Service Facilities are a category of ASCs with annual operating expenses of more than \$2 million or that provide highly complex or specialized services to a select group of users. The billing rates for these centers are based on their direct operating costs and an allocated portion of indirect costs. Since SSF costs (direct & indirect) are excluded from the university’s federally negotiated rate, SSF should include all associated indirect costs into their service center rates (i.e. allocable building depreciation & interest, O&M, etc.).

**Subsidy** – Financial support for a service center that is not generated by the sales of goods or services.

- **Subsidy (User)** – Funds provided to a service center to cover deficit when a certain group of users is charged a rate that is lower than the full rate charged to unsubsidized users. For example, subsidies may be provided by a specific department that wishes to subsidize only users from that department. The service center recovers the full cost of services provided to subsidized users by charging the difference between the full rate and the subsidized rate to the department providing the subsidy.
- **Subsidy (Service Center)** – Funds provided to a service center to cover operating costs or deficits. Subsidized users are charged a rate that recovers less than the total cost of the center's goods or services.

**Support Account** – An account established to record expense items that are unallowable as charges within the service center accounts (i.e. bad debt, capital purchases (equipment over \$5,000), any cost unallowable for federal reimbursement, etc.). Support accounts also include the offset for the depreciation entries, revenues collected from add-on charges for external customers and funds borrowed by the service center for startup that must be returned once the service center is beyond the initial break-even phase.

**Surplus** – An amount by which a service center's base revenues exceed its operating expenses. (Base revenue excludes F&A allocation or add-on fees to external customers. These incremental charges should be recorded in the support account.)

**Tax-exempt institution** – An entity that is exempt from Federal income tax under Section 501(c) (3) of the Internal Revenue Code of 1986, as amended, and provides a copy of the certificate of exemption or complies with other tub-specific policy to confirm tax-exempt status.

**Total Cost** – The costs of providing the service or product by the facility (direct cost) plus allocations of building use allowance, operations and maintenance expenses and general administration expense (indirect costs).

**Useful Life** – an estimate of the average number of years an asset is considered usable before its value is fully depreciated.

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### Appendix III: Service Center Object Codes – Examples

It is important that service centers use only intra or inter-school/tub expense credit object code within the same super object code range as the debit for their internal users billing. Please see [University Internal Billing Transactions Policy](#).

*Table 3: Examples of Service Center Object Codes*

Examples <sup>4</sup>	Debit Object Code to Use by Customer Departments	Credit Object Code to Use by Service Center – Inter School/tub	Credit Object Code to Use by Service Center – Intra School/tub
<b>General Laboratory Services</b>	8100 Lab Svc, GENERAL	8109 INTER Lab Services	8110 INTRA Lab Services
<b>General Technical Services</b>	8250 Technical Services, GENERAL	8251 INTER Tech Services	8254 INTRA Tech Services
<b>General Technical Services</b>	8250 Technical Services, GENERAL	8253 INTER Misc. Tech Svcs	8255 INTRA Other Tech Services
<b>Animal Per Diem</b>	8030 Animal per Diem Charges	8031 INTER Animal per Diem	8032 INTRA Animal per Diem
<b>Lab Supplies</b>	6600 Laboratory Supplies+Materials	6603 INTER Lab Supplies	6604 INTRA Lab Supplies

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<sup>4</sup> Please consult your school/tub officers if you have any questions about appropriate object code usage.

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## Appendix IV: Forms

- [Request for New Service Center Form](#)
- [Service Center Annual Rate Documentation Form](#)

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**Exhibit A: Annual Financial Operating Report Example**

[Service Center Name]

Operating Report

[Fiscal Year]

**Income:**

External Billings (Base Rate)	\$ _____
External Fees (F&A and Add-On) <sup>5</sup>	\$ _____
Internal Billings	\$ _____
<i>Total Income</i>	\$ _____

**Expenses:**

Salaries	\$ _____
Fringe Benefits	\$ _____
Materials & Supplies	\$ _____
Maintenance and Repair	\$ _____
Equipment Depreciation	\$ _____
Rentals and Leases	\$ _____
Travel & Conferences	\$ _____
Purchased services/professional fees	\$ _____
Other	\$ _____
<i>Total Expenses</i>	\$ _____
Net Operating Surplus/Deficit	\$ _____
Subsidy (if applicable)	\$ _____

Operating Account Number: \_\_\_\_\_

Support Fund Account Number (if any): \_\_\_\_\_

Contact Person: \_\_\_\_\_

Position / Title: \_\_\_\_\_

Email: \_\_\_\_\_

Address/Telephone: \_\_\_\_\_

Date submitted: \_\_\_\_\_

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<sup>5</sup> External Fees should only be included if the fees are deposited in your ASC Operating Account

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## Exhibit B: External Rate Calculation Example

### All Customers - FYxx Operating Expenses

Salaries:	\$70,000
Fringe:	\$24,500
Supplies:	\$37,000
Maintenance & Repairs:	\$11,000
Travel:	\$3,000
Office supplies:	\$500
Telephone:	\$800
Postage, Express Mail:	\$200
<b>Total estimated operating budget:</b>	<b>\$147,000</b>
<i>Estimated billable units (based on FYxx usage):<sup>6</sup></i>	3000
<b>Cost per run unit - (operating costs / # of units):</b>	<b>\$49.00</b>

### F&A Add-on for External Academic Customers - F & A Recovery Rate Calculation

Room A:	625 sq ft
Room B:	14 sq ft
Room C:	14 sq ft
Total Square Footage:	653 sq ft
Current FY Cost per square foot:	\$110.00
Total Cost of Space (Total Sq ft multiplied by current cost per sq ft):	\$71,830
Estimated billable units (based on FYxx usage):	3000

Add a line like above example to have Cost per sq ft (space cost /# units).

Cost per run unit - all customers (operating costs / # units):	\$49.00
F&A Add-on to external academic customers (space cost /# units):	\$23.94
Total cost per unit - external academic customers:	\$72.94

### Add-on for Commercial Customers

Cost per run unit - all customers (operating costs / # units):	\$49.00
F&A Add-on to external academic customers (space cost /# units):	\$23.94
Subtotal cost per unit - external academic customers:	\$72.94
10% Add-on to commercial customers (rounded to the nearest \$): <sup>7</sup>	\$7.00
Cost per unit - commercial customers:	\$79.94

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<sup>6</sup> Facility may use most appropriate units of service such as hours, revenue, number of users, samples, work orders, etc. In this example, we are utilizing # of units.

<sup>7</sup> Add-on fee is set at the discretion of the service center and can be based on additional costs that would normally be considered unallowable for Federal reimbursement. Alternatively, ASC can charge an add-on fee set at reasonable percentage.

## Exhibit C: Internal Users Rate Calculation Example

### Base Rate - Used for all Internal Customers

Table 4: Base Rate - Used for all Internal Customers

	FYxx Operating Expenses	Service A (%)	Service A (expenses calculated in hours)	Service B (%)	Service B (expenses calculated in units)
Salaries & Wages	\$70,000	40%	\$28,000	60%	\$42,000
Fringes	\$24,500	40%	\$9,800	60%	\$14,700
Supplies	\$37,000	80%	\$29,600	20%	\$7,400
Maintenance & repairs	\$11,000	80%	\$8,800	20%	\$2,200
Travel	\$3,000	40%	\$1,200	60%	\$1,800
Office Supplies	\$500	50%	\$250	50%	\$250
Telephone	\$800	40%	\$320	60%	\$480
Postage, Express Mail	\$200	15%	\$30	85%	\$170
Total Estimated Operating budget	\$147,000	N/A	\$78,000	N/A	\$69,000
Budgeted billable units/hours	N/A	N/A	1,800 Hours	N/A	1000 Units
Rate for internal customers	N/A	N/A	43.33	N/A	69

### F&A Add on for External Customers

F&A Recovery rate calculation:

Room A:	625 sq ft
Room B:	14 sq ft
Room C:	14 sq ft
Total Square Footage:	653 sq ft

Space allocated to services (based on expenses):

Service A:	53%
Service B:	47%

Current FY cost per square Foot:

Total cost of space (Total sq ft multiplied by cost per sq ft) \$110 \$71,830

F&A for External Customers (Total overhead cost multiply by allocable % divided by the billable units/hours for the service):

Service A:	21.15
Service B	33.76

Total Cost for External Academic Customers:

Service A:	64.48
Service B:	102.76

Add-on for Commercial Customers

10% add on to commercial customers:

Service A:	6.45
Service B:	10.28

Cost per run for External Commercial Customers

Service A:	70.93
Service B:	113.04