
TO: SERVICE AGREEMENT AU FINANCIAL ADMINISTRATORS, ACADEMIC BUSINESS & OPERATIONS TEAM

FROM: GENERAL ACCOUNTING & TAX
TINESA BEYERS, SR. DIRECTOR ACCOUNTING & FINANCIAL REPORTING
CHRISTINE FRACZKOWSKI, ACCOUNTING SUPERVISOR
MARIA ARAQUE, ASST. VP TAX & FINANCIAL COMPLIANCE

SUBJECT: SERVICE AGREEMENT AU – ACCOUNTING & FINANCIAL REPORTING PROCEDURES

This memo is meant to provide guidance on the accounting and financial reporting implications that arise from service agreements, and how the financial reporting affects Loyola University Chicago's (LUC) annual tax return reporting. Service agreement AUs are used to capture the financial activities related to contracts/agreements whereby LUC is providing a service to an external entity. The entity is paying LUC for a specified service, and LUC is billing the entity for its services. The procedures outlined in this memo are only for service agreement AU's that start with 106XXX, and does not apply to grant AU's that begin with 5XXXXX.

- I. Overview
- II. Financial Activity Reporting
- III. Expense Transfers
- IV. AU Closure/Extension
- V. End of Fiscal Year Reporting

I. OVERVIEW

Service agreements are unique in that the activity that LUC is performing for the external entity may be considered unrelated business income (UBI). UBI is defined as an activity that is a trade or business, is regularly carried on, and the activity does not directly relate to LUC's exempt purpose. For additional details and examples of UBI activities, please visit: <https://www.luc.edu/finance/unrelatedbusinessincometaxubit/>.

Every service agreement is evaluated for UBI by LUC's Tax department. If the agreement is deemed to be UBI, then the University must report the income/loss of the activity on a fiscal year basis to the Internal Revenue Service (IRS) and determine the income tax impact, for each year that the agreement has financial activity.

II. FINANCIAL ACTIVITY REPORTING

Service Agreement AUs – General

Only those revenues directly related to the service agreement contract should be recorded in the service agreement AU. Only those expenses directly related to the service agreement should be recorded to the service AU. Service AUs

function like operating AUs, and therefore there are no “carry forwards” or “net assets” that remain in the service AU at the end of each fiscal year.

Service Agreement with Income (Revenue exceeds Expenses)

The University is required to report the income for each service agreement that is classified as UBI on the annual tax return, therefore, it is critical that the AU reflects the fiscal year activity accurately as it occurred. A service agreement AU will have income if the department collected a fee that was higher than the expenses incurred for the agreement.

Additional expenses that are unrelated to the service agreement should not be posted to the service agreement AU.

Service Agreement with a Loss/Deficit (Expenses Exceed Revenue)

A service agreement AU can have a loss/deficit if the department providing the services has spent more on expenses than the fee charged for the service provided. An overall loss *at the completion* of the agreement **should not be common or recurring**. The fee structure of the agreement should be evaluated for any future agreements.

A department should NOT transfer expenditures out of the service agreement AU if the AU is in a deficit, otherwise, the true economic benefit of the agreement is not reported correctly on the tax return.

III. EXPENSE TRANSFERS

If service agreement expenses are initially recorded to an incorrect AU, expense transfers must be submitted. Please refer to <https://www.luc.edu/finance/transfers/>.

For salary incorrectly recorded in an operating or service agreement AU, submit a salary transfer request form to cfraczkowski@luc.edu.

For salary incorrectly recorded in gift or grant AUs, an updated payroll form must be submitted for the individual. During SPA review, if a payroll adjustment is needed for retroactive pay, SPA will process the adjustment.

For non-salary transactions incorrectly recorded in a gift or grant AU, submit an expense transfer form to GRNTCON@luc.edu for SPA to process.

For non-salary transactions incorrectly recorded in an operating or service agreement AU, submit the appropriate transfer form (Accounts Payable / ProCard / GL Transfer form (formerly Expense Transfer)).

IV. AU CLOSURE OR EXTENSION

Once all services are completed and all revenues and expenses are recorded for a service agreement, the AU should be closed in the general ledger. Please send an email to Financial Systems (financialsystems@luc.edu) and copy Christine Fraczkowski, cfraczkowski@luc.edu who will confirm all the balance sheet activity is zeroed out and that the AU can be inactivated.

If the service agreement end date needs to be extended, please email financialsystems@luc.edu to alert them of the new end date. The end date should mirror the agreement’s end date unless an exception is needed. If an amended contract is available, please include it with the extension request.

To view your department's service agreement AUs, access the Service Agreement balances report in BI: Accounting Unit Reports > Service Agreement Balances – 106XXX.

If the AU status column is Active "A" and the project has ended, please inactivate the AU.

BI Login: <https://bi.luc.edu/>

V. END OF FISCAL YEAR REPORTING: REVENUE DEFERRALS/EXPENSE ACCRUALS

Service agreement AUs need to be reviewed, especially at the end of the fiscal year, so that revenue and expense are recorded properly. Please refer to the [General Accounting Presentation](#) on the [Finance's Year End Information Sessions](#) site for further details on preparing and submitting year end deferral and accrual entries, where to find the forms, and their associated deadlines by department.

Revenue Deferral

If a service agreement's activity is not complete by fiscal year end (June 30th) and activity will continue into a subsequent fiscal year, the PI/financial administrator **MUST review if A REVENUE DEFERRAL JOURNAL ENTRY** may be necessary. A revenue deferral is needed when revenue is recorded in advance of completing the service obligations outlined in the agreement.

Revenue Deferral Example: AU 106XXX received a payment of \$75,000 during the current fiscal year. Only \$50,000 worth of services has been completed this year and the remaining services will be completed in the following year. A deferral entry for \$25,000 should be submitted to defer the revenue to the next year.

DR 106XXX-3690 (other income) \$25,000 Defer Revenue to FYXX
CR 106XXX-2210 (deferred revenue) (\$25,000) Defer Revenue to FYXX

Expense Accrual

If by the end of the fiscal year the agreement has incurred expenses that have yet to be invoiced, an expense accrual should be submitted. Every effort should be made to ensure that all salary and non- salary expenditures are recorded by the end of June.

Expense Accrual Example: AU 106XXX has shipping expenses of \$17,000 that have not posted to the AU as of June 30th. The department has yet to receive the invoice from the vendor. An expense accrual should be set up to reflect those expenses as of June 30th.

DR 106XXX-6220 (shipping) \$17,000 Accrue ABC Shipping
CR 106XXX-2030 (accrued expense) (\$17,000) Accrue ABC Shipping

Conclusion

The guidance in this memo is effective immediately and special attention should be made for the upcoming year-end on June 30, 2024. We thank you in advance for your collaboration in ensuring that the University's financial statements and tax returns are accurate and prepared in accordance with Generally Accepted Accounting Principles and IRS regulations.

If you have any questions on this memo, please contact us.

General Accounting Department: [Tinesa Beyers](#) or [Christine Fraczkowski](#)

Tax & Financial Compliance: [Maria Araque](#)