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10.3. Service Center Manual

10.3.1. Purpose

The purpose of this document is to establish the mechanism for defining, establishing, and closing service center activities and for developing, requesting, and implementing rates for these activities. These procedures provide for consistent operational practices among the various service center activity units, to ensure compliance with both University of Texas at Austin accounting policies and government regulations, including the Office of Management and Budget (OMB) Circular A-21 (http://www.whitehouse.gov/omb/circulars_a021_2004) and Cost Accounting Standards (CAS) (http://www.dcaa.mil/cam/Chapter_08_-_Cost_Accounting_Standards.pdf) to ensure equitable treatment of all clients regardless of the funding source.

A service center (18-account) provides goods or services at approved rates that are essential in supporting The University of Texas at Austin’s academic and research functions.

The primary purpose for establishing a service center is to allow the university to recover costs incurred for goods or services used and required. A service center can provide services to internal and external users. A service center must meet the following criteria:

- Operate on a break-even basis.
- Act as an ongoing activity, not a one-time distribution of expenses.
- Comply with both university accounting policies and federal guidelines published by OMB, Circular A-21, Section J., General provisions for selected items of cost (http://www.whitehouse.gov/omb/circulars_a021_2004#j).

Internal charges for goods or services to sponsored projects must not be greater than the actual costs of those goods or services, and federally sponsored projects must not be charged more than other users, internal or external.

Contact Federal Reporting at oa.sc@austin.utexas.edu to determine how services and/or service centers below the $50,000 threshold should be classified and operated.
10.3.2. Responsibilities

A. Federal Reporting

The Federal Reporting section (email: oa.sc@austin.utexas.edu) of the Office of Accounting and Financial Management works to ensure that service centers are operated, monitored, and accounted for in accordance with all applicable university policies, procedures, state and federal guidelines, and sound costing principles. Federal Reporting performs the following functions:

- Provides rate-setting guidance.
- Approves the establishment of new service centers.
- Collaborates with the Budget Office annually to perform budget reviews during the spring budget submission and fiscal year end (FYE) balance justifications.
- Responds to requests by internal, state, or federal audits.

B. Service Center Management

The Service Center manager works to ensure that the service center(s) are operated, monitored, and accounted for in accordance with all applicable university policies, procedures, state and federal guidelines, and with sound costing principles. The Service Center manager performs the following functions:

- Submits a rate review proposal to Federal Reporting (email: oa.sc@austin.utexas.edu) based on the service center type and classification.
- Ensures proposals include approval from the dean or vice president, the department head or chair, and a UBOC officer.
- Ensures rates are approved by Federal Reporting before they are charged to users.
- Ensures all users are billed in a timely manner and billing activity is reviewed to verify that rates are correctly applied.
- Retains all costs, projections, and any other information used to develop rates to substantiate charges in the event of an audit.
- Requests accounts from Federal Reporting as appropriate.
- Ensures rates only include costs directly related to the operation of the service center and the service or good the user receives.
- Analyze expenses and income to ensure the service center is operating on a break-even basis.
- Notify Federal Reporting (email: oa.sc@austin.utexas.edu) when it is anticipated that:
  - New services or goods will be added.
  - Services or goods provided or costs will significantly change.
  - The service center will no longer be operational.
C. Budget Office

During the budget submission period, Federal Reporting performs budget reviews and provides recommendations to the Budget Office. After fiscal year-end, Federal Reporting works with UBOC officers and service center managers to provide a summary of effective balances. For more information, refer to the Handbook of Business Procedures, Part 10.3.5, H. Breakeven Rates: (http://www.utexas.edu/business/accounting/hbp/10_costing/costing3-5.html).

D. Financial Accounting Services (FAS)

FAS processes new account requests with the necessary object code restrictions as requested by Federal Reporting.

E. Payment Information Services

Establish or modify Interdepartmental Transfer (*DEFINE VT5) formats for service centers as requested by Federal Reporting, including any required restrictions.

10.3.3. General Information About Service Centers

A. Introduction

The primary purpose for establishing a service center is to enable The University of Texas at Austin to charge and recover costs incurred for goods or services used and required in support of sponsored research programs or academic needs. A service center can provide services to internal and external users.

Service centers are established to obtain operational efficiencies, eliminate duplication of effort, and provide access to specialized services and/or products. Departments or units are encouraged to utilize existing service centers before requesting to establish a new service center.

B. Items to Consider when Managing or Proposing a Service Center

- Services provided are required and play a significant role in the fulfillment of the university’s educational, research, public service, and support functions, without regard to profit.
- The service center results in an overall cost reduction, measured as an increase in cost effectiveness, a decline in overcapacity, or an elimination of redundant services.
- Services must be provided at a reasonable cost to the university and cannot be provided conveniently, adequately, or economically by another service center or external entity.
• Services cannot be offered to the university community or external entities solely as a means of creating additional revenue.
• If similar services or goods are currently available from an existing service center, then the proposed service center must be able to demonstrate it can provide the services or goods to users more efficiently or economically, or provide for safer delivery of the services or goods.
• What are the goods or services that are included or provided?
• What procedures will be established to monitor activity and ensure the ongoing cost effectiveness?
• Is the anticipated user base comprised of internal users only or a mixture of internal and external users?
• Is the demand for the services sustainable and ongoing? If the services are only going to be in demand for a short time (due to technological changes, etc.) a new center might not be justified.
• Is there an outside entity or vendor providing the same or similar service? Describe why using an outside entity/vendor would not be beneficial.
• Does the service center have support from the dean or vice president and anticipated users?
• Will the service center be a fully self-supporting operation or will some of the costs be subsidized?
• Describe the alternative methods that were evaluated prior to proposing a service center and why they were rejected.
• The records, operations, rates, and practices of all service centers are subject to audit by federal, state, and internal auditors, and by the Office of Accounting and Financial Management.

10.3.4. Expenditures/Costs

A. Introduction
Rates can only include expenditures directly related to the operation of the service center and must be designed to recover no more than the operating cost for the services or goods provided.

Costs included in a rate must be reasonable, allocable, and allowable. The cost of one service or product cannot be funded by or included in the rates of another service or product. Failure to mention a particular expense does not imply that it is either allowable or unallowable; rather, determination of allowability in each case is based on the treatment provided for similar or related items of cost.

B. Allowable Costs
Service center managers must exercise due prudence to ensure expenses included in the cost pools are reasonable, consistently treated, and conform to
any limitations or exclusions. Service centers may include these costs in their rates:

- Salaries, longevity, and appropriate fringe rates from employees directly supporting the service center. Salaries must be appointed to the service center account and are verified.
- **Depreciation** on equipment purchased with nonfederal funds. Depreciation is based on a straight line calculation defined as the **acquisition cost** divided by **useful life**.
- Supplies or materials needed to operate the service center.

### C. Unallowable Costs

Service centers must not include these costs in their rates (not all inclusive):

- All **unallowable costs**, as defined by the Office of Management and Budget (OMB) Circular A-21 (http://www.whitehouse.gov/omb/circulars_a021_2004), must not be included in the rates charged to **internal users** or charged to the service center operating account, such as: entertainment, official occasions, tuition, scholarships, student aid, gift income, interest, advertising, recruiting, bonding, bad debt, marketing, severance pay, fundraising, housing allowances, personal living expenses, labor relations, lobbying, losses on other sponsored agreements/contracts, **deficits** from other service centers, proposal costs for agreements or projects, contingencies, fines and penalties from violations or noncompliance of any laws or regulations, and any costs already paid by the federal government.
- Building **depreciation**, rent, and operations and maintenance not paid by the service center. Only costs incurred and reimbursed by the service center can be included in the rates.
- Any cost specifically designated as unallowable within a sponsored agreement.
- Any type of reserve or contingency (e.g., equipment, supplies, and salaries or wages) amounts.
- Any costs already reimbursed through the **Facilities and Administrative (F&A) indirect cost** rate. Contact Federal Reporting at **oa.sc@austin.utexas.edu** for determination.
- Utilizing excess revenue to purchase equipment, consumables or other expenses, salary increases, salary supplements, tuition, or to offset losses in another service center.
- The records, operations, rates, and practices of all service centers are subject to audit by federal, state and internal auditors.

### D. Guarantee Account

In order to establish a service center, a guarantee account must be designated in the service center's initial proposal by the unit responsible for the service center. This account is a "guarantee" for the payment of unrecovered service center
expense or uncollectible revenue. The guarantee account cannot be a sponsored research 26-account.

**E. Unrecovered Costs/Subsidies**

*It Costs to Subsidize.* Service centers must include all of their costs in the rates.

- The university, school, or department may elect to subsidize a service center either by charging billing rates lower than actual costs or by choosing not to make adjustments to future billing rates at year-end for deficits.
- Subsidies have a significant financial impact on the department providing the funds and on the university as a whole. Commitments need to be held to a minimum.
- Subsidies occur when any cost pool expense associated with providing services are not included.
- Service center deficits caused by intentional subsidies cannot be carried forward as adjustments to future billing rates.
- The service center department must identify a guarantee account to be used to subsidize any cost pool expenses. The guarantee account cannot be a sponsored research 26-account.
- By signing the service center forms, the department is certifying that all costs associated with providing services are included. If any costs are subsidized, they must be clearly shown and justified within the service center proposal.
- Subsidies are fully documented as part of the submission package and must be approved by the following:
  - Department Chair/Head
  - Vice President’s Office
  - Unit UBOC Officer
- The records, operations, rates, and practices of all service centers are subject to audit by federal, state and internal auditors.

**10.3.5. Rate Setting**

**A. Usage**

All usage must be tracked and factored into the rate calculation(s).

**B. Rates**

- All internal users must be charged the same rate(s) for the same level of service or products under the same circumstances. For more information, see section 10.3.5.D, Internal University User Rates.
- Rates are structured for internal and external users if services are provided to nonuniversity users. For more information, see section 10.3.5.E, External User Rates.
• Rates may be structured on a collaborative basis if such an agreement exists between a university department and an external college, university, federal agency, or other entity.

• Collaborator rates must be fully documented and must be included as part of the proposal package. The collaborative rate structure is negotiated on a case-by-case basis. For more information, see section 10.3.5.F. Collaborative User Rates.

• Rates must be developed to recover the full cost of operating the service center and clearly document any costs that are subsidized by the department or with university funding.

• Rates to off-campus entities are based on total operating costs and must include the 26.5 percent institutional surcharge used to cover institutional facilities and administrative expenses.

### C. Distribution Base (Units of Product or Service)

The distribution base used to calculate rates must be reasonable and have a causal/beneficial relationship to the cost objective.

Provide a description of how the base is estimated. For example, if effort is the base, it must be adjusted for holiday/sick/vacation leave, possible equipment/machine downtime, training, or breaks, etc. to arrive at available billable hours.

**To calculate available billable hours:**

Working days per year = 260 (52 weeks x 5 days)
Working hours per year = 2,080 (40 hrs x 52 weeks)

**Assumptions:**

Annual vacation taken = 96 hrs (12 days x 8 hrs)
Holidays = 112 hrs (14 days x 8 hrs)
Sick leave = 48 hrs (12 months x 4 hrs)
Available working days per year = 232 (260 less vacation, holidays, and sick leave)
Available billable hours = 1,824 (2,080 – 256)
Percent of billable time = 87.7% (1,824/2,080)

### D. Internal University User Rates

**Internal users** are university departments represented by charges to accounts over which The University of Texas at Austin has fiduciary responsibility.

• Internal user rates must be developed to recover total operating costs. Any subsidies must be clearly documented.

• All users of the service center must be billed at the approved rates and in a timely manner.

• Internal user rates cannot add charges to accumulate or establish reserve funds.

• All users must be charged the same rates regardless of the funding source.
There is no discriminatory pricing for university departments for the same type of good or service.
University departments include departments within colleges and schools, areas within academic affairs, research, finance and administration, or student affairs. It does not include direct support organizations such as the alumni associations, clubs, organizations, etc.

E. External User Rates

External users are entities or persons over whom The University of Texas at Austin has no fiduciary responsibility, regardless of the user’s relation to the university’s academic or research mission. External users include universities/colleges other than The University of Texas at Austin, commercial entities, nonaffiliated not-for-profit organizations, other state agencies, students, and members of faculty or staff acting in a personal capacity.

- The university is not allowed to subsidize external users. External service center rates are based on total operating costs, and the rate must include the 26.5 percent institutional surcharge used to cover institutional facilities and administrative expenses.
- Income derived from the 26.5 percent surcharge must be transferred into the Institutional Portion of Service Center Income (19-0220-0696) account.
- External user rates to corporate entities may charge a markup in excess of the revenue generated by the markup if used to subsidize allowable costs for internal users.
- If a surplus balance is created as a direct result of the additional markup on commercial rates, the additional revenue generated must be used to offset allowable cost pool expenses.

F. Collaborative User Rates

- A collaborative or consortium agreement exists when entities combine expertise and resources from multiple entities in accordance with the requirements of the sponsoring entity.
- On a case-by-case basis, a department may propose a rate structure based on an existing collaborative agreement between the unit and an external college, university, federal agency, or other entity.
- Usage is based on an existing collaborative agreement allowing collaborative users to receive the same rates applicable to internal users.
- To offer collaborative rates, a service center must provide a copy of the collaborative agreement showing the name of the sponsoring entity, sponsored project name and account, and names of all Principal Investigators (PIs) and entities included in the collaborative sponsored project. In addition, the service center must provide the scope of work detailing the usage of the service center within the collaborative sponsored project.
G. Multiple Rates

Separate rates for different services provided must be separately identified and made on an equitable basis that reflects the relative benefits each activity receives from the cost. Four categories of cost that need to be allocated:

- Salaries of staff performing multiple services.
- Equipment **depreciation** if the same equipment is utilized for multiple services.
- Institutional F&A costs in the case of specialized service facilities only.
- Consumable expenses.

H. Breakeven Rates

A service center must operate on a break-even basis; no **surplus balance** is allowed. A service center operating on a break-even basis may have an **effective balance** equivalent to working capital (lesser of 60 days or 20 percent of annual expenditures). The breakeven policy is designed to provide service center managers with some flexibility in dealing with unanticipated income or expense fluctuations. Service centers cannot acquire working capital by increasing rates for the express purpose of accruing a working capital balance.

To determine whether the service center is operating on a break-even basis, calculate the effective balance and the tolerable breakeven amount and compare them.

**To calculate effective balance:**

\[
\text{effective balance} = \text{current year income} - \text{current year expenses} + \text{balance forward} - \text{accumulated depreciation for equipment maintenance or replacement}
\]

Tolerable breakeven amount = lesser of 20 percent x current year (CY) expenses, or CY expenses ÷ 12 x 2 months

If the effective balance is greater than the tolerable breakeven amount, the service center is deemed to have a surplus.

- **Surplus Balances (Over-recovery)**
  If a service center realizes a **surplus**, the service center manager must contact Federal Reporting at **oa.sc@austin.utexas.edu** to update cost pools and rates to alleviate surplus balances.

- **Deficit Balances (Under-recovery)**
  If a service center realizes a **deficit**, the service center manager must contact Federal Reporting at **oa.sc@austin.utexas.edu** to update cost pools and rates to prevent a future deficit.
A. Introduction
The type of activity the service center provides in conjunction with the annual revenue generated determines the review basis. For existing service centers, units can identify an account’s review basis by locating the report code within the *DEFINE CA3 screen. The table below shows the annual revenue thresholds per service center type, and the *DEFINE CA3 report codes for each review basis.

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition</th>
<th>Department Self-Certification</th>
<th>Biennial Rate Review</th>
<th>Triennial Rate Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analytical</td>
<td>Ongoing activity providing goods or services to internal or external users. The services provided are analytical and help in supporting research projects.</td>
<td>Up to $50,000 (ANL)</td>
<td>$50,000.01 - $250,000 (ANL-2)</td>
<td>Greater than $250,000 (ANL-3)</td>
</tr>
<tr>
<td>Administrative</td>
<td>Ongoing activity providing goods or services to internal or external users. The services provided are administrative in nature.</td>
<td>Up to $50,000 (ADM)</td>
<td>$50,000.01 - $250,000 (ADM-2)</td>
<td>Greater than $250,000 (ADM-3)</td>
</tr>
<tr>
<td>Institutional</td>
<td>Ongoing activity providing goods or services to internal and external users. University departments generally are not able to decline services, such as telecom services. Services are differentiated between core (institutionally paid with 14-, 19-, or 20-account funds) and noncore (billable) services.</td>
<td>Not Applicable</td>
<td>Up to $250,000 (INS-2)</td>
<td>Greater than $250,000 (INS-3)</td>
</tr>
<tr>
<td>Specialized Service Facility</td>
<td>Ongoing activity providing goods and services to internal and external users. Involves the use of highly complex or specialized facilities not readily available from an outside vendor. Rates are loaded with applicable expenses (fully burdened).</td>
<td>Not Applicable</td>
<td>Greater than $1,000,000 (SSF-2)</td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>

Clearing (CLEAR) and Pass-Through (PSTHR) account types are included in the 18-account fund group, but are not considered service centers and are not
subject to the same revenue thresholds or rate review requirements. These accounts are still subject to annual balance and budget reviews.

**B. Activities Not Included as Service Centers**
- Clearing and pass-through activities are included in the service center 18-account group but are not considered service centers.
- conference and workshop
- academic advising
- lease costs
- food services
- parking
- clubs/ organizations

### 10.3.7. Requesting and Approving a Service Center

**A. Preliminary Approvals**
- Review the items to consider when determining whether to propose a service center.
- Download and complete the appropriate service center forms ([http://www.utexas.edu/business/accounting/hbp/forms.html#s](http://www.utexas.edu/business/accounting/hbp/forms.html#s)).
- Obtain approval on the service center concept from the dean or vice president for the prospective proposal.

**B. Reviews of New and Existing Service Centers**
All service center rate proposal packages must be submitted to Federal Reporting (email: oa.sc@austin.utexas.edu) for review and approval.
- New service centers require additional reviews by the director of accounting and financial management and associate vice president.
  - All service centers regardless of anticipated income must submit a rate proposal for review to establish the service center.
  - Federal Reporting working with the service center manager determines the service center type and designate the rate review basis (self-certification, biennial, or triennial).
- Existing service centers with activity greater than $50,000.01 must submit rate proposals at the following times:
  - within their effective time periods (biennially or triennially), refer to section 10.3.6 Service Center Types and Review Basis in this manual
  - if new services or goods are added or removed
  - if significant changes are made to the rate methodology
- Existing service centers with activity less than $50,000 must submit a self-certification at the following times:
on a biennial basis
- if new services or goods are added or removed
- if significant changes are made to the rate methodology

If an existing service center’s projected income is changing on a permanent basis, thus placing it within a new revenue threshold and review basis, refer to section 10.3.6 Service Center Types and Review Basis in this manual. Contact Federal Reporting at \texttt{oa.sc@austin.utexas.edu} to review and modify the service center designation.

**C. Significant Changes to Existing Service Centers**

The criteria below are provided to assist you in determining what constitutes a significant change to an existing service center. Contact Federal Reporting at \texttt{oa.sc@austin.utexas.edu} if you need further clarification or assistance.

- Changes impacting the distribution base(s) and/or cost pool expenses to calculate the rate(s).
- The service center adds or expands services that were not previously approved by Federal Reporting.
- Any change that may have a financial policy implication and/or cost accounting concern.
- Elimination or merger of a service center.
- A permanent increase or decrease in projected future income that places the service center within a new revenue threshold and review basis. Refer to section 10.3.6 Service Center Types and Review Basis in this manual.

**D. Rate Proposal Package**

Submit a complete rate proposal or self-certification package to Federal Reporting at \texttt{oa.sc@austin.utexas.edu} for review.

Once the rate proposal package has been properly reviewed by Federal Reporting, the service center manager is instructed to begin gathering the necessary rate proposal form signatures. After Federal Reporting receives a signed signature page, a rate approval memo is issued finalizing the rates.

Service centers designated for department self-certification requires departments to internally update their rate proposal calculations but only submit the department self-certification form to Federal Reporting. A rate approval memo will not be issued by Federal Reporting. If the service center is subject to an audit, the department is required provide Federal Reporting a copy of the rate proposal showing how the rates were calculated and justifying the rates presented in the self-certification form.
E. Service Center Approval Criteria

- Proposal meets the approved thresholds.
- The services or goods are in demand by multiple users.
- Activity will be ongoing and is not a one-time distribution of expenses.
- Activity does not interfere with normal department functions.
- Goods or services are not currently offered by an existing service center at the university.
- Redundancy or duplication of goods or services does not occur.
- Services are identifiable (e.g., machine shop, glass blowing) and not general.
- Rates are stated in measurable units of goods or services.
- Does not compete with outside vendors if services are offered to external entities.
- Proposal is in concert with the mission of the university and/or the goals of department.
- Rates are based on actual or historical costs.
- Rates are structured to break-even annually.

10.3.8. Service Center Administration

A. Records Retention Requirements

The records, operations, rates, and practices of all service centers are subject to audit by federal, state, and internal auditors, and by the Office of Accounting and Financial Management. Service centers must adhere to the following requirements for records retention:

- Retain all costs, projections, and any other information used to develop rates to substantiate charges in the event of an audit.
- Maintain billing records to identify funding sources charged for services or goods, budget group numbers, internal versus external users, service or good rendered, number of units sold, rate charged, total amount billed, etc.
- Record retention procedures must comply with The University of Texas at Austin Record Retention Schedule (UTRRS). Refer to the schedule or contact Records Management Services at recordsmgmt@austin.utexas.edu or (512) 232-5657 for complete details.
B. Accounts

- If the proposal is approved, Federal Reporting will forward the new account request form submitted by the department to Financial Accounting Services (FAS).
- If equipment depreciation is included in the cost pool expenses, the new account form must include a request to open a 96-subaccount – Equipment Maintenance and Replacement to capture equipment depreciation returned to the service center via the approved billing rates and depreciation schedule.

C. Billing

- Service centers must consistently and accurately bill all users.
- Advanced billing for services or products is not allowed.
- Users must be billed once services are rendered and no more than three months after services are provided.
- Service centers must maintain a record of all billings to users to substantiate charges on all accounts in the event of an audit by federal, state, and/or internal auditors.
- External service center rates are based on total operating costs, and the rate must include the 26.5 percent institutional surcharge used to cover institutional facilities and administrative expenses.

D. Balances

- Balance reviews are conducted when rate changes are proposed, during the new fiscal year budget submissions, and when budget increase requests are made.
- Service center managers must justify balances to Federal Reporting as part of the annual balance review process with the Budget Office.
- Excess balances are reduced in the form of a rate reduction. Excess balances cannot be utilized to purchase equipment, consumables or other expenses, salary increases, salary supplements, tuition, or to offset losses in another service center.
- Fiscal year-end balances resulting from budgeted salaries or expenses that did not occur cannot be transferred and/or utilized for purposes unrelated to the operations of the service center.
- Deficits are eliminated by a rate increase or a transfer of adequate funding to the service center (approved by the dean and associate vice president, budget director, and director of financial services).
- Any transfer of funds made to a service center is accounted for as contributed capital and documentation related to the transaction that identifies the source, amount, date, reason, and authorization for the contribution must be retained for audit by federal, state, and internal auditors and by the Office of Accounting and Financial Management.
E. Multiple Service Centers
A unit may manage more than one service center providing various services or goods. Each service center must be separately managed along with the expenses and income associated with providing the services or goods. Revenue from one service center cannot be used to offset losses in another service center. The expenses associated specifically with one service center cannot be paid by another service center.

F. Transfers
The following rules govern transfers from service center accounts to other types of accounts.

- Revenue from surcharges to external users must be transferred into the Institutional Portion of Service Center Income (19-0220-0696) account.
- Transfers must have adequate justification and provide proper documentation for verification and validation.
- Fiscal year-end balances resulting from budgeted salaries or expenses that did not occur cannot be transferred and/or utilized for purposes unrelated to the operations of the service center.
- Transfer of funds to Designated Funds (19-accounts) or Plant Funds (36-accounts) must obtain prior approval by Federal Reporting (email: oa.sc@austin.utexas.edu).
  Note: Include supporting documentation to the VTA transaction demonstrating approval.
- A surplus in the operating account cannot be transferred to a non-service center account.
- The records, operations, rates, and practices of all service centers are subject to audit by federal, state, and internal auditors and by the Office of Accounting and Financial Management.

G. Overdrafts
Overdrafts are used to provide temporary spending authority for an account for various reasons. If the increase in spending authority is due to a change to an approved service center proposal, a transfer document must be processed in the FRMS Transfer System to increase the department’s budget. Generally, overdrafts do not automatically carry over to the new fiscal year.

The guarantee account associated with the service center must be used to cover deficits prior to requesting an overdraft. An authorized signer on the budget group (*DEFINE GG5 command) should send a written request via email to Federal Reporting at oa.sc@austin.utexas.edu.

Overdraft approval requests must include the following information:

- approval by the unit’s department head or chair
- forecast for remaining fiscal year income and expenses
- statement as to whether service center rates will be adjusted to prevent future overdrafts
- account number
- amount requested
- proposed expiration date
- reason for the overdraft
- date the overdraft will be covered
- how the overdraft will be covered (e.g. new income, transfer from another account, commitment from institutional funds, etc.)

Requests are reviewed by Federal Reporting with final approval granted by the director of financial services and the associate vice president. Federal Reporting will send an email to notify the requestor of whether the request is approved or denied. Approved overdraft amounts are added to the pool balance of an account by Financial Accounting Services (FAS).


**H. External Users**

Approval to provide services to external users for new service centers must be granted by the Office of the Executive Vice President and Provost. Rates must exclude all subsidies offered to internal users and include a 26.5 percent surcharge to cover institutional facilities and administrative expenses. Federal Reporting corresponds directly with the vice provost regarding approvals to external users.

10.3.9. Taxes

**A. Sales Tax**

If the service center sells tangible personal property to external users, then sales tax is applicable. A tax must be collected on all cash sales involving tangible, personal property. The Texas State Comptroller defines “tangible personal property” as something that can be seen, weighed, measured, felt or touched, or that is perceptible to the senses in any other manner, and this includes computer programs. Generally, sales of office furniture, construction equipment, and typewriters are taxable. Some services are also taxable. To determine if sales taxes are applicable, contact Financial Accounting Services (FAS) at 512-471-3723 or by email at oa.fas@austin.utexas.edu.
B. Unrelated Business Income Tax (UBIT)

If goods or services are charged to external users at more than cost, the university may have a liability for UBIT. If you have any questions regarding UBIT, please contact the Office of Accounting and Financial Management at oa.croberts@austin.utexas.edu.

10.3.10. Equipment

A. General

Only annual depreciation for capital equipment purchases can be included in the calculation of the service center rates. Capturing equipment replacement and maintenance costs in the rates allows the department or unit to build an amount for equipment replacement and maintenance. For complete policies regarding the treatment of equipment see the Handbook of Business Procedures, part 16. Inventory Control and Property Management: http://www.utexas.edu/business/accounting/hbp/16_inv/index.html.

Service centers must transfer equipment replacement and maintenance amounts to the service center’s 96-subaccount.

B. Capitalization Threshold

Effective Sept. 1, 2001, the equipment capitalization threshold was raised from $1,500 to $5,000. Any equipment received on or after Sept. 1, 2001, costing less than $5,000 must be expensed in the year of acquisition. Service center assets received prior to Sept. 1, 2001, with an acquisition cost between $1,500 and $5,000, may continue to be included in service center rates as depreciation until the asset has been fully depreciated.

C. Donated Equipment

Donated equipment is considered to be the financial equivalent of a cash donation that is subsequently used to purchase equipment. When a service center receives an equipment donation, the equipment may be depreciated as a direct cost of the service center. The inventory value of the donated equipment is an appraised or fair market value as provided by the donor.

D. Fabricated Equipment

Equipment fabricated specifically for use in the service center costing $5,000 or more is added to the university inventory system and can be depreciated.

- The service center provides Inventory Services with the description and documentation of costs when a capital equipment item has been fabricated.
• The costs to fabricate the equipment must be $5,000 or more and only include material costs and exclude university labor and fringe benefit costs.

E. Equipment Leases
When equipment used in service operations is leased:

• Operating lease costs may be included in the rates.
• For capital leases depreciation may be included in the rates.
• Interest associated with purchase of such assets (e.g., interest component of a capital lease) is allowable if interest is paid to an outside third party.

F. Equipment Depreciation
Depreciation for equipment can be included in service rates.

• Applicable to equipment purchased.
• If equipment is purchased with federal funds or used for cost sharing on federal awards, its depreciation cannot be included in the rate calculations.
• Only straight-line depreciation may be used (acquisition cost of the equipment divided by its useful life).

To calculate straight-line depreciation:

\[
\frac{\text{acquisition cost of the equipment}}{\text{useful life}} = \text{straight-line depreciation}
\]

• Acquisition cost includes equipment cost plus applicable taxes, freight, and installation costs to place the asset into intended use.
• Include the depreciation expense as a direct cost in the rate development. Depreciation must be charged in the fiscal year (and month) of acquisition.
• The depreciation schedule must include the equipment name, inventory number, element number, classification code, account used to purchase equipment, purchase date, and useful life.
• The depreciation schedule is validated using the NV1 command in *DEFINE.
• When billing users, split the income earned between the 95- and 96-subaccounts, based on the approved depreciation amount for equipment replacement and maintenance.
G. Equipment Purchased with General or Departmental Operating Funds

Equipment used by the service center, which is purchased with general or departmental operating (nonfederal) funds, can be depreciated in service rates. The department can be reimbursed for the cost of this equipment if:

- Prior approval is received by Federal Reporting.
- Adequate documentation is developed, maintained, and retained by the service center to verify the equipment's original purchase cost, depreciation amounts recovered, etc.
- Under no circumstances can the nonservice accounts that gave money to or invested in the service center be reimbursed for more than the dollar amount given to the service center.

H. Sale of Equipment

When equipment originally purchased with service center funds is sold, all the proceeds from the sale and any gain or loss is recorded in the service center’s equipment reserve account. Refer to the policies regarding the sale of equipment for equipment utilized in a service center and purchased with nonservice center funds.

10.3.11. Closing a Service Center

A service center will be closed if there is no income generated due to lack of demand or need for the services or goods provided, the service center becomes too inefficient or costly to operate, or the service center department initiates a request to terminate services.

Before closing, the service department is responsible for ensuring:

- Salary appointments to the service center account are removed.
- Expenses are disencumbered
- Institutional loans are fully paid
- Surplus balances greater than one month’s operating costs can be retained by the department. If a deficit balance exists, the balance is the responsibility of the department and is transferred to the guarantee account listed on file.
- If equipment used in the service center is no longer needed by the department, the equipment must be disposed of following the policies outlined in the Handbook of Business Procedures, 16.3. Removal of Equipment from the Inventory: http://www.utexas.edu/business/accounting/hbp/16_inv/inv3.html.
- In addition, the following policies apply to equipment being sold or transferred:
  - Proceeds from equipment sold or transferred to another university department or state agency must be credited back to the original account used to purchase equipment. Equipment purchased with
service center funds can be credited back to a Designated Funds 19-account.

To close a service center, the service center department must send an email to Federal Reporting (email: oa.sc@austin.utexas.edu) and include the following information:

- Name of service center (8-digit budget group)
- Reason for terminating services
- Effective date for termination of services

### 10.3.12. Glossary

**Acquisition Cost**
Cost of acquiring materials, supplies, or capital assets to includes taxes, freight, and installation costs to place the materials and/or assets into intended use. For donated capital assets, acquisition cost is its fair market value at the time of the donation (plus any acquisition related expenses such as freight and installation).

**Annual Salary**
Salary paid to an employee before any deductions.

**Applicable Credits**
Transactions that offset or reduce costs, such as purchase discounts, rebates, allowances, refunds, etc. For purposes of charging service center costs to federally sponsored programs, applicable credits also include any direct federal financing of service center assets or operations (e.g., the direct funding of service center equipment by a federal program).

**Billing Rate**
An amount established to charge for a specific service or good. The billing rate may vary by types of users and/or the service or good. However, rates charged to federal or state funds, either directly or indirectly, may not subsidize nonfederal or state users or rates in any way. The rate is determined by dividing the costs of a particular service/product by the distribution base. Billing rates may also include surcharges to nonuniversity users.

**Break-even Period**
Within a fiscal year an established period of time in which revenues and/or credits are expected to match expenses. Exceptions to the fiscal year include an approved long-term period.

**Capital Equipment**
A term used by some government agencies to identify equipment having an acquisition cost over a certain dollar amount and an expected service life of
a certain number of years. For more information, see the Object Codes for Purchases of Furniture, Equipment, Animals, and Artifacts website.

**Carry-forward**
The over- or under-recovery of operating expenses resulting from billing rates that do not recover expenses to operate the service center.

**Competition**
Businesses not affiliated with the university that offer the same goods or services. As it relates to the private sector, the university does not engage in the sale of a good or service to the public unless the activity is related to or a byproduct of the university's mission (instruction, research, or outreach).

**Cost Accounting Standards**
A set of uniform cost accounting principles, developed by the Office of Federal Procurement Policy Cost Accounting Standards Board ([http://www.whitehouse.gov/omb/procurement_casb/](http://www.whitehouse.gov/omb/procurement_casb/)), which must be followed by the university as a recipient of federal funds.

**Cost Pool**
A grouping of expense items used in the determination of cost of a function or activity.

**Cost Recovery**
The recovery of actual costs incurred. In terms of federal projects, the university normally enters into agreements with the government to charge only actual costs to the projects when the money is accepted.

**Deficit Balance**
The amount by which the costs of providing a service exceed the revenue generated by the service during a fiscal year.

**Depreciation**
A method of allocating the capitalized cost of an asset over its useful life. Depreciation of donated equipment is calculated based on its fair market value at the time of the donation.

**Direct Labor**
All labor that is physically traceable to the finished good or service.

**Direct Operating Costs**
All costs that can be specifically identified with a service provided by a service center. For example, salaries, wages and fringe benefits of university faculty and staff directly involved in providing the service, materials and supplies, purchased services, depreciation, etc.
Effective Balance
Used to determine whether a service center is operating on a break-even basis.

To calculate effective balance:
- current year income
- current year expenses
+ balance forward
- accumulated depreciation for equipment maintenance or replacement
= effective balance

Tolerable breakeven amount = lesser of 20 percent x current year (CY) expenses, or CY expenses ÷ 12 x 2 months

If the effective balance is greater than the tolerable breakeven amount, the service center is deemed to have a surplus.

Effort
The time devoted to the service center activity being measured, expressed as a percentage of the total time spent on all activities conducted under the terms of employment with the university.

External Users
Entities or persons over whom the university has no fiduciary responsibility, regardless of the user’s relation to the university’s academic mission. External users include universities and colleges other than The University of Texas at Austin, commercial entities, nonaffiliated not-for-profit organizations, other state agencies, students, and members of faculty or staff acting in a personal capacity.

Facilities and Administrative (F&A) Costs
The costs of administrative and supporting functions of the university; such as executive management, payroll, accounting and personnel administration; operations and maintenance expenses, such as utilities, building maintenance and custodial services; building depreciation and interest associated with the financing of buildings; administrative and supporting services provided by academic departments; libraries; and special administrative services provided to sponsored projects.

Fully Burdened
Fully burdened costs include all direct and indirect costs. Direct costs include salaries (including fringe), equipment/maintenance reserve, and consumables. Indirect costs include but are not limited to administrative support and operating costs for facilities.

General Accepted Accounting Principles (GAAP)
A set of codified accounting standards established by authoritative accounting rulemaking bodies, principally the Financial Accounting
Standards Board or the Governmental Accounting Standards Board. Accounting practices deemed to be appropriate because of universal application over time.

**Hours**
- **Actual Hours Worked**
  Total hours for which an employee was paid less vacation, sick, and holiday hours.

**Hours, Available Billable**
- Only those hours that are directly spent and billed to a specific project.

**Hours, Base**
- The total hours available for an employee in the year. For full-time employees, this are 2080 available hours (assumes a 40 hour workweek for 52 weeks). For employees working less than full time, the base hours are adjusted according to the percentage of employment. For hourly employees (LTEs, students, etc.) hours worked and base hours are the same.

**Hours, Unbillable**
- The portion of time that an employee who is directly involved in a project (as opposed to administrative or maintenance employees for example) spends on matters not directly chargeable to a project (e.g., cleanup, departmental meetings, break time, reading mail, etc.).

**Indirect Cost**
- A cost or group of costs that are not directly identified with an activity.

**Indirect Labor**
- All labor that is not direct labor.

**Internal Users**
- Internal users are university departments represented by charges to accounts over which The University of Texas at Austin has fiduciary responsibility.

**Rate Documentation**
- All worksheets, spreadsheets, timesheets, analyses, calculations, and other paper work that support the computation of rate(s) charged for goods or services.

**Subsidy**
- Funds from a source other than funds generated by the service center to cover the costs of a particular service.

**Surplus Balance**
- The amount by which the revenue generated by a service exceeds the costs of providing the service during a fiscal year.
Total Salary Dollars
   Annual salary (or base period used) plus fringe benefit dollars. Costs of fringe benefits are a cost of the period during which they are earned, whether or not used during that period. Therefore, when calculating total annual salary dollars, the cost of all fringe benefits related to salary earned that year are included.

Unallowable Costs
   Costs that cannot be charged directly or indirectly to federally sponsored programs. These costs are specified in Circular A-21 issued by the U.S. Office of Management and Budget (http://www.whitehouse.gov/omb/circulars_a021_2004)
   Common examples of unallowable costs include advertising, alcoholic beverages, bad debts, charitable contributions, entertainment, fines and penalties, goods and services for personal use, interest (except interest related to the purchase or construction of buildings and equipment), selling and marketing expenses.

Unrelated Business Income Tax
   Federal tax assessed to a not-for-profit organization in lieu of federal income tax on income generated by the organization from activities not related to the organization's mission. For more information, see the Handbook of Business Procedures, 5.4. Unrelated Business Income Tax (UBIT): http://www.utexas.edu/business/accounting/hbp/05_sales/sales4.html.

Useful Life
   Expected life of an asset expressed in years.