



Developing Billing Rates
2018

What Is A Billing Rate?

The amount charged to recover some or all of the cost associated with producing a good or providing a service.

Billing Rates are:

- ❖ Determined by dividing the annual federal allowable costs associated with a particular product or service by the total annual billing units associated with that product or service
(i.e. an hour of machine time, a lab test).
- ❖ May vary by types of customers and/or services/products
- ❖ May also include surcharges to non-university users in an effort to promote full recovery.
- ❖ Rates being charged to CU users MUST NOT be greater than those charged to non-CU users.

When Is It A Billing Rate?

If a good or service is

- ❖ unique
- ❖ regularly occurring
- ❖ not readily available from external users
- ❖ benefiting the effectiveness of the University when available
- ❖ subject to federal and/or state costing regulations and guidelines

If one or more of the above criteria are met, a billing rate may need to be calculated and submitted for approval.

Only the costs associated with providing these goods or services are to be recovered from users through established and approved billing rates.

Who Has Billing Rates?

Service Centers:

An operating unit that provides goods or services throughout the University (internal customers) and may also offer the same goods or services to non-university customers (external customers), the costs of which are recovered through the use of approved billing rates.

Example: Electron Microscope, University Union

Recharge Centers:

An operating unit that provides goods or services within a single college or department. A recharge center's rates may not be officially posted but still require reviewing by the Comptroller's office.

Example: Departmental Copy Centers

Entrepreneurial Activity:

The purpose of this activity is to generate revenue. They do NOT do business with Federal customers. Likewise, they do NOT do business with internal customers who may charge federal grants. Be sure to build in a 21% Unrelated Income Tax component.

Example: Animal & Veterinary Sciences - Horse Judging Clinic

What Are Federal Allowable Costs?

Because Clemson is an institution that receives federal funds we are required to consistently apply these costing regulations and guidelines.

For a cost to be federally allowable, it must be:

✓ **Reasonable**

the nature and amount of the goods or services acquired reflect the action that a prudent person would have taken under the same circumstances.

✓ **Allocable**

assignment of a cost to a particular activity (i.e., a specific project, sponsored agreement, department) if the cost:

- (a) was incurred specifically for the activity;
- (b) benefits both the activity and other activities, and can be distributed amongst them in reasonable proportion to the benefits received; or
- (c) is necessary to the overall operation of the activity, although a direct relationship cannot be shown.

✓ **Not classified as unallowable in**

[2 CFR 200 Uniform Guidance](#).

Examples of Federal Allowable Costs

Operating costs which are recorded in the service center's account :

- ✓ Salaries & wages
- ✓ Associated university benefits
- ✓ Materials and supplies (directly related)
- ✓ Subcontracts and outside services
- ✓ Equipment lease or rental
- ✓ External interest expense
- ✓ Facilities expenses (utilities, custodial) paid directly by the service center
- ✓ Prior year operating deficit/surplus (carry forwards)
- ✓ Other directly related expenses (e.g., travel, communications)
- ✓ Depreciation related to capital assets purchased by the service center and recorded in the service center's account. Depreciation of equipment purchased with federal funds can not be included.



Must be able to specifically identify any equipment whose depreciation is included the billing rate. Equipment included in the University indirect cost rate calculation can NOT be included in a billing rate. Contact the Comptroller's Office if assistance is needed in making this identification.

Examples of Federal Unallowable Costs

- ✘ Unreasonable with regard to nature or amount;
- ✘ Unallocable;
- ✘ Specifically deemed unallowable in 2 CFR 200 Uniform Guidance;
 - ✘ Advertising of services/products,
 - ✘ Alcoholic beverages,
 - ✘ Bad debts,
 - ✘ Entertainment (amusement and social activities),
 - ✘ Goods or services for personal use,
 - ✘ Fines & penalties




Unallowable costs may be recovered through rates charged to external/industry customers.

Costs Which CANNOT be Recovered Through Billing Rates:

Costs that must not be included in billing rates because they are recovered through other means, such as the indirect cost recovery rate, include:

- ✘ Building depreciation;
- ✘ Purchase price or value of equipment (this should be depreciated).
- ✘ Facilities expense (utilities, maintenance, and custodial cost) paid directly by the university and not recorded in the service center account;
- ✘ University and departmental overhead costs that are not directly charged to the service center account (including depreciation on equipment purchased with departmental funds);

So How Is A Billing Rate Calculated?

1. Develop a cost estimate for each product or service to be provided. Increase or reduce the cost estimate by prior year carry-forward and reduce the cost estimate by any subsidies. This will give you estimated net cost.
2. Determine a total of the appropriate unit of output for each billing rate to be developed. This can be derived from past results and/or from inputs from likely users. Typical units of output are: hours of labor; hours of machine time; samples analyzed; units of measure such as pints, pounds, feet, etc.
 **Caution:** When hours is the chosen unit of output, it is important to ensure that the total hours used to calculate the hourly billing rate reflects estimated billable hours and not total compensated hours. There can be a significant difference between estimated billable hours and total compensated hours (vacation hours, sick hours, breaks, clean-up, conducting inventories).
3. Divide net cost estimate by the total unit demand estimate to determine the billing rate for a particular product or service.

$$\frac{\text{estimated net annual costs}}{\text{estimated annual billing units}} = \text{annual billing rate per unit}$$

Billing Rate Example

Allowable Direct Operating Costs for FY18:

Beakers	\$ 5,000
Paper Towels	\$ 700
Chemicals	\$ 10,000
Gloves	\$ 2,500
Misc. supplies	\$ 2,500
Labor & fringe	<u>\$ 50,000</u>
Total FY18 estimated allowable costs	\$ 70,000

Total FY18 estimated 7,000 samples
of samples

**Total FY18 estimated cost \$10
per sample**

(Paper towels are not an allowable direct expense; these types of supplies are usually purchased by a department for general departmental use and are included in the indirect cost rate)

This is an example of a lab that performs tests on samples for internal and external customers. Above are the estimated allowable costs for the service center.

Billing Rate Example

Internal Customer Rate Calculation:		External Customer Rate Calculation:	
Estimated # of samples	5,000	Estimated # of samples	2,000
Estimated cost per sample	x <u>\$10</u>	Estimated cost per sample	x <u>\$10</u>
Internal portion of total allowable costs	\$ 50,000	External portion of total allowable costs	\$ 20,000
Carry forward surplus from internal customers	\$(5,000)	Carry forward surplus from external customers	\$(4,000)
Subsidy from Dean	<u>\$(10,000)</u>	Subsidy from Dean	<u>\$ 0</u>
Total reduction to costs	\$(15,000)	Total reduction to costs	\$(4,000)
Total FY18 net estimated costs	\$ 35,000	Total FY18 net estimated costs	\$ 18,000
INTERNAL CUSTOMER		EXTERNAL CUSTOMER	
RATE PER SAMPLE	\$7	RATE PER SAMPLE	\$9

Billing Rate Subsidy: Operating expenses must be net of any subsidy received.

Non-Billed Users: If all costs are included in the calculation, then ALL users must be included in the total volume when calculating a billing rate, even users that will not be charged. (i.e. classroom use)

Carry-forward: The surplus or deficit resulting from the over or under estimating of billing rate expenses or units (generally calculated on a fiscal year basis).

Calculation Checklist

Service centers should review the billing rates calculation to ensure that:

- ✓ No mathematical errors exist
- ✓ Estimated revenues equal estimated expense
- ✓ Expense estimates are in line with prior years
- ✓ Expense estimates include only allocable and allowable costs
- ✓ Depreciation expense is only for non-federally purchased and separately identified equipment that has been accounted for in the service center's accounts
- ✓ An appropriate output measure was chosen to represent the billable unit
- ✓ Prior period operating surplus or deficit was included in calculations
- ✓ Service center managers are responsible for insuring that operating revenues and expenses are consistently recorded at the same department, fund and project level.
- ✓ Service centers should maintain detailed documentation of estimated expenses, revenues, surpluses, and deficits that support the basis for each billing rate calculation. This documentation should be readily available upon request.

How Is Billing Rate Activity Accounted For?

- Under normal circumstances, service centers should be able to cover operating expenses through established billing rates; however, departments may subsidize a service center.

- ❖ In order to accurately account for the subsidy, a journal entry must be processed to record the subsidized fees as an expense in the department's account and as a revenue in the service center's account.

- For E&G and PSA self-supporting units, record revenue from other university users to ***Internal Recoveries account code (48xx)***. For Auxiliary units record revenue in ***Auxiliary Revenues account code (46xx)*** or to ***Internal Recoveries account code (48xx)***.

- Record revenue generated from cash sales into another revenue account code.



Do not use an expense account to record service center revenues.

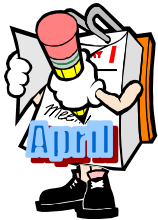


Billing rates charged to CU users cannot be higher than billing rates charged to non-CU users.

How Are Billing Rates Processed?

Procedure - Billing Rates

1. Service center managers are required to review billing rates annually, revise where necessary, and submit any changes (along with adequate justification) to the department's appropriate Business Officer.
2. Each Business Officer is then responsible for reviewing the prepared rates and communicating the rates to their Dean or Department Head.
3. After communicating with the Dean or Department Head, each Business Officer should then forward the prepared rates to the Comptroller's Office. Billing rates that result in a major change in philosophy or have a significant impact on users will be forwarded to the Executive Leadership Team (ELT) for resolution and approval.
4. After review and approval, the rates will then be posted to the Comptroller's website at <https://www.clemson.edu/finance/controller/rates/>



Unless otherwise announced, billing rates for each fiscal year are due to the Comptroller's Office on or before **January 15th**.

What are Some Common Mistakes?

1. Sufficient supporting data is not available to support the billing rate.
2. Billable hours not adjusted to reflect non-productive time (e.g., sick time, vacation time, holidays, breaks, setup/cleanup time, inventory).
3. Billing rate calculations include 100% of the S&W of assigned personnel when their people have other non-service center related duties and responsibilities.
4. Prior period operating surpluses and deficits are not reflected in the billing rate submission.
5. Depreciation for equipment purchased with departmental funds is included in the calculation.
6. A vehicle is purchased and maintained using departmental funds. This vehicle can **NOT** be included in any billing rate charged to CU users. The costs are already included in the F&A rate calculation as departmental administration.
7. A piece of equipment is purchased with federal funds. The project ends and the department retains ownership. This equipment can **NOT** be included in any billing rate charged to federal sponsors. The cost has already been paid for by the feds with funds from the original project. Replacement or maintenance costs paid by the service center can be included in the rate.

Where Can I Locate Relevant Regulations & Policies:

Other University Information:

Comptroller's Web Site:

<http://www.clemson.edu/cfo/comptroller/index.html>

- University Rates
- Billing Rates

Grants and Contract Administration:

<https://www.clemson.edu/research/grants-contracts/>

Sponsored Programs Web Site:

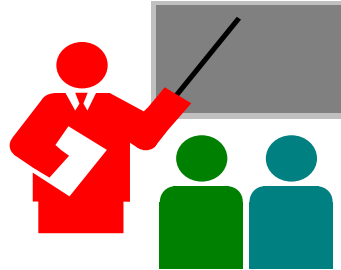
<https://www.clemson.edu/research/sponsored-programs/>

Other Documents:

[eCFR — Code of Federal Regulations](#)

- 2 CFR 200 Uniform Guidance: Cost Principles for Educational Institutions
https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl

Who Do I Contact With Questions?



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