Appendix

1.0 Nondiscriminatory Rates

A Center must charge all internal users at the same rate for the same level of services or products purchased in the same circumstances. Rates should not differentiate among internal users; any deviation must be handled accordingly (see Subsidized Users, section 2.0). The use of special rates, such as high volume work or less demanding non-scientific application are allowed; however they must be equally available to all users who meet the criteria.

The federal government does not object to charging external users a higher rate; however, the excess revenues and cost associated with such need to be tracked separately to avoid the perception of overcharging.

2.0 Users

2.1 Internal Users
Internal users of service centers are those users whose ultimate source of funds is within the University or flows through the University (i.e. federal awards or patient care performed at affiliated hospitals). These include academic, research, patient care, administrative, and auxiliary areas which purchase services to support their work at the University.

2.2 External Users
External users are organizations or individuals whose ultimate source of funds is outside of the Institution. External users include students, any members of faculty or staff acting in a personal capacity, and affiliated hospitals.

2.3 Subsidized Users
All users must be billed for services received. If the University chooses to provide a service to a particular internal group of users at no charge or a lower rate, the billing rate must still be calculated for all internal users based on total center expenses and total units of output. The services for the subsidized users must be billed out at the calculated rate; however, the subsidy would be applied to a separate account representing the appropriate direct cost activity. The rate charged to this group must remain consistent with that charged to others; including accounts ultimately charged to federal awards.

3.0 Rate Components

3.1 Direct Personnel
The salaries and wages of all personnel directly related to service center activity (e.g., lab technicians or machine operators) should be included in the rate calculation, and charged to the service center’s operating account.

3.2 Administrative & Clerical Staff
The salary and wages of administrative staff in direct support or management of a service center outside that of their general obligations should be included in the rate calculation and charged to the service center’s operating account.

3.3 Fringe Benefits
Fringe benefits related to all personnel cost directly charged to the service center operating UDAK/account should be included in the rate calculation.

3.4 Materials and Supplies
The costs of materials and supplies needed to operate a service center should be included in the rate calculation. Keep in mind that most general office supplies are included in the institutional F&A rate.
calculations; and therefore should not be included in the center rate. If inventory is accumulated in a particular year, the service center should not include the costs of accumulated inventory in rates. Service centers that maintain significant inventory should establish a separate inventory account. A method to value inventory must be described, for example, FIFO. This is required in MUSC’s Disclosure Statement.

3.5 Other Expenses/Overhead Costs

Other operating expenses (including rental and service contracts, equipment operating leases, and professional services) and certain cost associated with the center development/improvement (i.e., center related travel, certain types of memberships) should be included in the center rate. Justification and documentation in support of such will be required.

3.6 Capital Equipment

Capital equipment is defined as an item with a purchase price over $5,000 (effective 3/25/99) and a useful life of more than one year. Federal guidelines do not allow the purchase cost of a capital item to be recovered through service center rates. However, they allow for the recovery of depreciation, external interest, or capital lease cost associated with the asset. Equipment which is not capitalized (under $5,000 effective 3/25/99) may be treated as an operating expense in calculating rates. The University’s accounting policy on Capitalization and Depreciation of Property, Plant, and Equipment should be referenced in order to define consistency between the costing practices within the Institution.

1. It is important that the government not be charged for the depreciation of a piece of equipment through a user charge, and again through the University’s F&A (indirect) cost rate. To avoid such, service center capital equipment must be flagged in the University’s equipment inventory system. Centers should reconcile their equipment inventory to the system biennially as specified in the UG.

2. The depreciation of all capital assets will be charged to the service center operating account using the straight-line method over the useful life of the asset; as reflected in the Fixed Asset Management system. Such treatment ensures that users pay only for equipment cost associated with the usage in the given year. Each year centers will need to budget depreciation amounts to be used in establishing rates for the following year. If changes are substantial, center needs to initiate contact with GCA for a review and potential revision of the official documented rates.

   a. Service center equipment must be depreciated using the useful life outlined in the University’s accounting policy. In certain circumstances, service centers with “specialized” equipment or equipment unique in the nature of its use, may need to use a more accurate useful life. This equipment would be unique to the specific service center activity, and not common to other University departments. Approval to deviate from the standard useful life must be obtained, and a special asset class should be established for each specialized asset.

   b. Federally-Funded Equipment

   Depreciation of equipment purchased by the federal government, whether or not title has reverted back to the University, cannot be included in the user rates. If the University has agreed to “cost-share” a piece of equipment in a federal award, the depreciation of the University-funded portion is also unallowable in the rates. Federal funding of equipment will be identified through the Fixed Asset Management System.

   c. Debt Funded Equipment

   Federal regulations do not allow for principle payments on debt to be recovered through service center rates. However, the service centers may recover the external interest associated with the debt if all of the following criteria are satisfied:
- An external financing source was used
- Equipment cost are over $25,000
- The arrangement is agreed to by the cognizant agency

3.7 **Operation & Maintenance and Utility Costs**

O&M and utility costs are assigned to all University departments, and are recovered through the Facilities and Administrative (Indirect cost rate); therefore they are not allowable in the center rate. Only specialized service centers are required to recover these costs through their center rate. Major/Central Service centers whom meet the operating expense requirement can potentially recover these costs in their rate with GCA approval.

3.8 **Unallowable Costs**

Unallowable cost must be excluded from the internal user rate calculation. These costs include: bad debt expense, interest, alcohol, and many advertising activities; along with cost recovered in the University’s F&A rate

(http://academicdepartments.musc.edu/vpfa/finance(gca/training/costtable.pdf)

A complete listing of allowable/unallowable costs can be found via the UG 2 CFR 200 Subpart E.

4.0 **Break-Even Concept**

A center must develop rates so that the revenues offset expenses over a reasonable period of time. A surplus or deficit should not exceed 10% of annual operating expenses for a given fiscal year; therefore furthering the importance of the Center self-reviews to initiate action with GCA (given GCA’s biennial reviews). This would initiate the needed adjustments to the Center rates via a carryforward of the surplus or deficit into the following period. For Example, the rates submitted for approval by March 1, 2026 for the fiscal year beginning July 1, 2026 would be based on the FY27 projected volume and expenses; plus/minus under/over recoveries carried forward from the fiscal year ending June 30, 2025 (See example 1 & 2).

4.1 **Example 1 (Surplus)**

<table>
<thead>
<tr>
<th>FY 2025 Actual</th>
<th>Budgeted Expense</th>
<th>FY 2027 Budgeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenues</td>
<td>$230,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>(220,000)</td>
<td>Less P/Y Surplus</td>
</tr>
<tr>
<td>Surplus</td>
<td>$10,000</td>
<td>Total Budgeted</td>
</tr>
</tbody>
</table>

Since the surplus for FY2025 is within +/- 10% \([(230-220)/220=4.5%]\), it will be subtracted from FY2027 budgeted expenses; thereby reducing the rate.

4.2 **Example 2 (Deficit)**

<table>
<thead>
<tr>
<th>FY 2025 Actual</th>
<th>Budgeted Expense</th>
<th>FY 2027 Budgeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenues</td>
<td>$230,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>(250,000)</td>
<td>Less P/Y Deficit</td>
</tr>
<tr>
<td>Deficit</td>
<td>$20,000</td>
<td>Total Budgeted</td>
</tr>
</tbody>
</table>

Since the deficit for FY2025 is within +/- 10% \([(230-250)/250=8%]\), it will be added to the budgeted expense in FY2027; thereby increasing the rate.

4.3 **Working Capital**

Centers may establish and maintain a 60 day working capital allowance through its charges. This is separate from the surplus funds; as it should be factored in through the projections for the upcoming period.

2/15/2017
4.4 **Transfers**
Centers that have accumulated surplus funds through billing to internal users may not transfer these funds out of the center operating account. The balance must be carried forward and used to adjust subsequent billing rates. This is separate from the allocable excess billed to external users (see Billing Procedures, section 5.4); again, the excess over the Center rate should not be applied to the Center operating account.

4.5 **Multiple Services Rates**
A Center providing more than one service at different rates may sometimes make a surplus on some services and a deficit on others. Centers must ensure that there is not cross-subsidization between user groups. Combining the results of various services is not acceptable if the mix of users differ; therefore higher prices charged to one set of users would subsidize the losses from a different set of users.

5.0 **Internal Controls and Responsibilities**

5.1 **Responsibilities**
Rates are to be calculated (originally and biennially) by the Business/Center Manager, and submitted for review to Grants and Contracts Accounting Cost Accounting (GCA). The Business/Center Manager will also complete periodic reviews (semi-annual/annual) to ensure that costs are recovered within the 10% break-even (described in Section 4.0).

GCA will be responsible for reviewing the rates and ensuring compliance with all applicable policies and procedures; as well as training and overall monitoring of Centers.

5.2 **Reviews**
The periodic reviews to be conducted by the Managers are important to assessing the Center’s position with respect to breaking-even; in addition to identifying potential mid-year adjustments (substantial increases/decreases in expenditures). Under special circumstances, rates will be adjusted through a mid-year reduction/increase; provided that such are subject to not only the review of the Business/Center Manager, but the review and approval of GCA. Mid-year adjustments will be treated as exceptions.

5.3 **Center Accounts**
All Centers must maintain separate accounts/UDAK, and Business Managers are responsible for ensuring such. Likewise, the establishment of new Center UDAKs should be reviewed by the Business Managers for desirability, feasibility, and to ensure they will operate in accordance with the relevant policies and procedures.

5.4 **Billing Procedures and Record Retention**
Billings must be based upon measured and documented utilization, which is properly authorized for the account charged. All billings should be processed on a timely basis, and will not exceed the established center rates for applicable individuals. The support for the charges, including documentation of expense and usage, should be retained by the Center for seven years to answer any user inquiries; or in case of audit. Invoices must provide the following information:

- The nature of the services rendered (description)
- The number of output based on the established base characteristic (e.g., units, hours, etc.)
- The amount charged per output
A service should not be billed for until it has been rendered; prepayments are not appropriate. Each center must cooperate in accordance with the University’s fiscal year. Centers should handle each year-end billing consistently; therefore ensuring that twelve months of cost recovery are associated with twelve months of incurred cost, for a more accurate break-even calculation at year-end.

At a minimum, external users will be charged for the full direct cost of the center operation. An allocable share of the University’s F&A (indirect) cost to the Center operation may be charged to external users. At no time should an external customer be charged less than the federal government and internal users for the same service. The federal government will always be treated as the most favored customer. Sales tax when applicable must also be charged to all external users who do not provide their tax exempt certificates.

Center revenues should not be recorded as credits to expenditure accounts. Transactions of this nature are normally used to record amounts received for returned goods and other expense-related adjustments. This treatment of revenue would misstate both revenues and expenses; as well as affect the calculation of center rates in following periods.