

21 and 22 Account User's Guide

The purpose of this user's guide is to provide guidance to campus on setting up new 21 (Recharge) and 22 (General Operations) accounts. Your campus service representative can answer any questions you might have or provide further assistance if required.

Definitions:

Recharge Center (21): These accounts are used for business activities related only to internal customers (CSU). The revenue in these accounts should be coded to internal revenue object codes (48xx-49xx). These account types should never be in deficit, and any surplus should not exceed 2 months working capital. If a deficit exists at year-end the department is responsible for either covering the deficit or developing a plan to recover the deficit that is approved by Campus Services. For a matrix of what subfunds are allowed to cover deficits on these accounts visit the Business and Financial Services website under guides and manuals.

General Operations (22): These accounts are for business activities that are external to CSU. The revenue in these accounts should be coded to external revenue object codes (43xx-44xx). These accounts should never bill 53 (Sponsored) accounts. These accounts should never be in deficit. If the deficit exists at year-end the department is responsible for either covering the deficit or developing a plan to recover the deficit that is approved by Campus Services. Any deficit not covered at year-end will carry forward to the next fiscal year. In the next fiscal year the deficit will need to be covered, or a plan to recover the deficit will need to be approved. A matrix of what subfunds are allowed to cover deficits on these accounts is currently be reviewed and will be posted on the BFS website when complete. Also, if a deficit is substantial or reoccurring a re-approval of the business plan and billing rates can be required by Campus Services.

New Account Requests

Before submitting the business plan, billing rates, three year projection and budget, the department should first assess the viability of the activity. There must be reasonable assurance that the internal or external business venture will generate the necessary revenue required to cover the operating costs. The anticipated revenue should also be \$5,000 or more.

New account requests need to include a business plan, billing rates, three year projection and a budget, with appropriate signatures. Once approved by the department, the documents should be sent to Campus Services (Campus Delivery 6003) for approval. New Recharge Accounts need to be approved by Campus Services, the Controller and Sponsored Programs. New General Operations Accounts need to be approved by Campus Services, the Controller and Tax Manager. Campus Services will route the document to the appropriate approvers based on account type request.

After final approval, Campus Services will send an email to the requestor to inform them the account has been approved and the Kualu Account document can be created. The business plan, billing rates, three year projection, budget and approval email need to be attached to the Kualu Account document.

Review of 21 and 22 Accounts

Campus Services reviews the balances in 21 and 22 accounts on a monthly basis to ensure the account is not in deficit and to ensure a 21 account does not have a surplus larger than 2 months working capital. If the account is in deficit or has a surplus larger than 2 months, Campus Services will contact the Fiscal Officer on the account to get an explanation on the deficit or surplus. If an account deficit is substantial or recurring, a revised business plan and re-approval may be required.

Any 21 account that bills 53 accounts (Sponsored Accounts), is subject to a review at least every 5 years. This review is done in Campus Services in conjunction with Sponsored Programs. During this review, the invoices are reviewed and compared to the business plan and billing rates. If the invoice does not match the business plan and billing rates it is a finding in Campus Services' review. Depending on the severity of the finding, Campus Services will conduct the 21 Billing 53 review the following year, or within 2 years instead of 5 years. If during the next review the finding is not resolved, a meeting will be scheduled with the Department, Business and Financial Services and Sponsored Programs to discuss solutions to resolve the issue. If recommendations are made, the account will be reviewed the following year, and if the corrections are not made, further action will be considered. To avoid a finding make sure to send business plans and billing rates to Campus Services for review and approval.

Business Plan

A business plan offers a means of communicating plans to others and provides the basis for cost recovery. The process of putting a plan together encourages the fiscal officer to take an objective and critical look at the business as a whole. A business plan becomes an operating tool to help manage the business and make it successful.

The business plan is a narrative format and creates a foundation document for reference as the business evolves. It provides a guide for monitoring how well the business is meeting its original objectives and helps identify any variances caused by changes in the business activity. A business plan should include five general categories: General Description, Market Analysis, Revenue and Expense Analysis, Additional Considerations, Billing Rate Calculation, and Three Year Projection.

A. General Description

This section should briefly describe the business activities by answering the following questions:

1. What is the service/product?
2. Who will use it (internal or external customers)?
3. What other products do you plan to develop?
4. How does this activity relate to the mission of the university, college, or department?
5. Who will oversee the operation (include position title)?
6. What assumptions are you making about the economy or other related factors that may impact your projections? Identifying and monitoring these factors will help anticipate needed changes in operations.
7. If this account is in deficit, what account would cover the shortfall?

B. Market Analysis

This section should include a comprehensive review of the target market and should assess whether the product/service demand warrants establishing a new activity or continuing an existing activity. Although this review is subjective, billings to customers must ultimately cover expenses incurred. Therefore, it is imperative to determine whether sufficient sales/revenue exists to ensure the on-going viability of the activity.

For a 22 account, rates must be calculated to assure that they are fully costed (direct and indirect costs), not subsidized by general funds. Colorado's statute on competition with private enterprise (C.R.S. §24-113-104) requires that:

- Any good or service offered to anyone other than students, faculty, staff and invited guests of the University, if offered through a competitive bid process, must offer a valuable educational or research experience for students as a part of their education or fulfill the public service mission of the institution; and
- Any bids by CSU shall include all direct and indirect costs of providing the good or service unless the agency receiving the bid requires all bidders to use a specific procedure or formula. Indirect costs can only relate to 22 accounts.

There are exceptions to these requirements for "facilities for recreational, cultural, and athletic events or facilities for food services and sales." Contact the Office of Policy and Compliance or the Office of General Counsel for assistance in applying these rules.

Analyze your market by answering the following questions:

1. What is the current client base?
2. How do you reach clients?
 - a. Advertising, Referrals, Other (Explain)
3. For internal clients, what is the approximate number of accounts to be served? Will it serve 53 accounts?
4. How does your product/service meet the market need?
5. Could changes in your product/service better meet the market needs?
6. Who is your competition? How do your charges compare with the competition (support should be included)?
7. Is this cost prohibitive (does it exceed revenue)?
 - a. If yes, you may want to reevaluate continuing the activity
 - b. If you believe this activity is imperative to the mission of the University and must continue, even if cost-prohibitive, explain your justification and reasons for this
 - c. Explain any current subsidizing agreements that this account has and identify the accounts providing funding
8. Are there any patent or license issues related to the activity?
9. If this account is in deficit, what account would subsidize it (a 21 account cannot subsidize a 22 account)?

C. Revenue and Expense Analysis

Identify all revenues including internal, external or other state agency customers. Identify all expenses required to deliver goods and services. These expenses include direct labor and operating expenses required to produce the goods or services. These revenues and expenses will be itemized on the Budget Request form.

The following questions may help develop the revenue and expense analysis:

- Does this activity provide services/products for both internal and external customers? If yes, which of the following three methods is used to record revenues and expenses:
 - Operate out of a 21 account and bill the 22 account. Please identify the 21 or 22 account.
 - Split revenues and expenses between 21 and 22 accounts based on proportional sales that are internal versus external.
 - Operate out of one account where either external revenues in 21 accounts or internal revenues in 22 accounts are less than \$5,000. If internal revenues are less than \$5,000 and on the 22 account that cannot include charges to 53 accounts.
- Are the revenues and expenses evenly distributed over the fiscal year (July-June)?
 - If no, please explain (i.e. costs accumulate on a monthly basis, but sales occur only in March)
- Does this account generate billings to external customers?
 - If yes, do you use the Banner Commercial Accounts Receivable System?
 - If no, do you have an in-house system to maintain records of these billings?
 - Are you recording these as receivables on Quali Financial System? How often (i.e. monthly or quarterly)? At a minimum book your receivables on a quarterly basis.
- Does this activity use equipment?
 - If yes, was the equipment purchased from this account?
 - If no, what account purchased the equipment?
 - Is the cost of the equipment included in the billing rate?
 - NOTE: For 21 accounts, equipment purchase costs (depreciation) cannot be included in the billing rate unless the equipment was purchased from the 21 account. When equipment is fully depreciated, depreciation expense should be eliminated from the billing rate.
 - Contact Property to ensure the proper accounting is done for the equipment (if greater than \$5,000)
- Does this activity have inventory?
 - If so, how often is the inventory counted to verify accuracy of records?

D. Additional Considerations

The following questions may be helpful in developing this section:

- Do the activities produce or use hazardous materials? If so, Environmental Health Services should also review your Business Plan. Include a description of any potentially hazardous waste produced or used

Billing Rates

Billing rates are calculated to ensure cost recovery. Review billing rates annually and adjust for any changes. Updates to the billing rates need to be sent to Campus Services for review and approval prior to using. Billing rates are developed using one-year financial and operating data. Normally this period is the University's fiscal year (July 1 – June 30), but the activity may use other appropriate time periods. When considering another base period, please explain what the base period is and why the alternative is necessary. It is the fiscal officer's responsibility to retain schedules of current and past billing rate calculations. Billing rates should also include more than just a list of numbers. It needs to be evident how those numbers were calculated.

For example, if an employee working on the account has a salary of \$50,000 and we want to get their hourly rate to charge we would divide it by 2,080 hours. That gives us \$24.04 an hour. So in the billing rate calculation we would show the salary and how we got to the hourly rate as simple as stated in this example.

A department may choose to update billing rates annually using percentage increases (ex. billing rates are increasing by 3%). This approach should only be used when an increase is minor (0%-3%). Justification will be required on how the percentage was calculated and should consider the below criteria:

- Salary changes
- Expected/proposed fringe benefit rate changes
- Market analysis and how it will impact growth
- Other factors that may impact expenses

Identification and recording of all applicable expenses incurred by the activity are the responsibility of the fiscal officer. For billing rate calculation purposes, expenses are categorized as either direct costs or indirect costs. Direct costs are those expenses that can be identified and charged directly to the job, such as, the time of employees plus employee fringe, equipment, and/or materials used directly on the job. Indirect costs are those expenses that cannot be identified with a specific job, and therefore, are prorated to all jobs. All utilized expenses, which are charged for this activity, need to be included either as direct or indirect costs.

KFS can be used to calculate updated billing rates. KFS allows a user to look at the account on a summary, object code, or transaction level detail. This should be included to support the rate. If this is a new account request with no history, details of the numbers that make up the billing rates are required as support.

A. General Billing Rate Calculation and Explanation

The following general format is recommended for determining that amount billed to customers. Descriptions of each component follow the format example.

Direct Labor (hours x rate x fringe)	\$xx
Materials (quantity x unit cost)	\$xx
Other Direct Costs (i.e. postage)	<u>\$xx</u>
Total Direct Costs	\$xx
Indirect Costs	<u>\$xx</u>
Total Cost to be billed	<u>\$xx</u>

Component Descriptions:

Direct Labor – Labor costs for workers directly involved in the production of products or performance of services. Cost of applicable fringe benefit rates is included. The 2 workers involved have a salary of \$xx and \$xx, and this was divided by 2080 hours (total hours of full-time employee) to get their hourly rate. This was then multiplied by hours worked.

Direct Material – Raw materials that can be specifically identified with this product or service. Materials are charged at actual cost. Costs of materials may be treated as indirect costs when the value is small in relation to overall account operation. If this is a lump sum of materials then another document should also be attached showing the materials that make up the amount, their unit cost and their quantity. It should agree to the materials number.

Other Direct Costs – Other expenses that can be specifically identified with this product or service. When unique expenses (i.e. travel) can be identified to a specific unit, project or customer, the expense should be added after the billing rate has been applied. Remember to attach support for these expenses so they can be easily tied out.

Total Direct Costs – The total of expenses that can be specifically identified with this product or service.

Indirect Costs – Costs that cannot be identified with a specific product or service. These costs are prorated to all jobs. Examples are clerical costs, inventory operations, inventory adjustments and supervisory time. Applicable fringe benefit charges are included. Remember to attach support to calculations, if necessary, for these expenses so they can be easily tied out.

All costs charged to the 22 account that are not direct costs are indirect costs. This is one of the reasons a 22 account cannot charge a 53 account.

The costs of using equipment or other assets may be either direct or indirect depending on the degree of identification to products or service.

Calculate the indirect cost rate based on either percent of total direct cost or as a percent of direct labor cost. The method used should be applied consistently.

Total anticipated indirect cost for the year is divided by the anticipated total direct cost or the anticipated total direct labor cost to arrive at the indirect cost rate.

Total Cost to be Billed – The total of the direct costs and indirect costs.

University G&A Overhead – Total costs of the items subject to university indirect costs. This is only applicable to 22 accounts.

Total Costs for Non-University Clients – The total of the total cost to be billed, university G&A overhead and profit margin.

Three Year Projection

Using a three year time period gives the fiscal officer an opportunity to review and predict the account's status in the future. When completing a three year projection for the first time, information is based on a sound estimate of production volumes and operating expenses. After the first year is completed (or close to completion), actual data can be used to assist with the on-going projections. Updated projections do not need to be sent to Campus Services. They only need to review and approve updates to the business plan and/or billing rates.

Projections are normally summarized by revenue and expense categories. Revenues can either be totaled as is or split between product categories. Expenses are usually categorized as Salaries, Materials, Travel (if applicable), Supplies, Other Operating, and University G&A Overhead. These categories are similar to those used when entering budget information during the budget construction process.

The second and third year projections should be based on anticipated increases/decreases in revenues or expenses (i.e. employee raises). It may be necessary to calculate a new billing rate depending on the expected changes.

Budgets

Budget amounts are calculated by reviewing expected activities for the upcoming year. Prior year activities provide a guideline for current year budgets. Budgeted numbers are adjusted to reflect any changes in the activity such as additional staff.

The budget form is divided into categories that coincide with the KFS Object Type Code Classifications. Various object codes are rolled into one object code for budget recording purposes. When completing the budget form, refer to activity billing rate calculation and the prior year KFS activity. 21 Accounts should not have a receivable on the account as that would imply external sales which should be in a 22 account. If purchasing Promotional Items or Advertising/Publicity on the 21 account there needs to be good support behind this. As 21 accounts only have internal sales there should be no need to promote its product or services.

Revenue is the compensation received for the products or services provided. For external revenue received via cash, check, credit cards, or accounts receivable billings use object codes 43xx-44xx. For internal revenue received via internal order, internal billing, and distribution of income and expense documents use object codes 48xx-49xx.

Expenses are the costs, including salaries, associated with the products or services provided by the activity. Business Authorized Functions (object code 6649) are not allowed on 21 accounts.

21 and 22 Accounts Checklist

- Assess the viability of the activity.
- Does the activity fit with the mission?
- Is the activity a 21 (internal) or 22 (external) account?
- Write business plan.
- Create billing rate calculations.
- Create Three Year Projection.
- Complete budget request form.
- Any concerns related to competition with private enterprise?
- Where is the activity currently taking place?
- If activity involves purchasing equipment, what account will fund the purchase?
- Does your department have TWARDUS access for billing through the University accounts receivable system?
- Does your fiscal officer or accounting tech have Quali access for processing deposits to the University's cashier's office?
- If a 22 account, will your department accept credit cards? If so, contact Banking Services to get the credit card terminal set up (if needed).

Example Business Plan

Testing Laboratory

A. General Description:

The Testing Laboratory (Lab) was established to provide testing services for various internal and external users. The Lab concentrates on providing services to external customers. However, internal customers may use the services as needed. If the revenue from internal customers exceeds \$5,000 annually a 21 (RECHAR) account will be created for this activity. Internal revenue will not be charged to 53 accounts.

The Lab supports the mission of the University by providing an on-campus facility that specializes in and is an integral part of the research occurring on campus. Nearly every science and engineering department on campus uses the facilities of the Lab. In addition, graduate students are allowed to perform sample testing in the Lab, after proper training, in order to complete their degrees. In conclusion, the Lab not only provides testing services but also plays a major role in teaching, research and outreach programs for the people of Colorado.

The Lab's manager is a testing expert and oversees the daily operations and supervises all assistants. The manager reports to the head of Research Operations.

Several assumptions are made about the economy and related factors that may impact the Lab's operation:

- The need for specialized testing will be ongoing
- Efficiency, based on location, will continue to draw users as the closest lab to also offer these services is based in Colorado Springs

B. Market Analysis:

The current client base is primarily external. New clients are obtained by referrals from other clients. The markets needs are met by providing testing at a reasonable costs to the client, but still at a competitive rate to the lab in Colorado Springs. Consultations are also provided to review the test results with the client to help in their decision making process. Changes in the services provided could better meet the market's needs. The changes would include an upgraded computerized testing program to speed up service to clients. In addition, networking the Lab could also save time.

Competition includes other laboratories in the geographic region with the closest being in Colorado Springs. The majority of our charges are similar, if not, higher than private labs because of the smaller number of samples received; this causes the cost to be higher per sample. For pricing from the private labs please visit their website at www.privatelabpricingexample.com.

We plan to have the revenues slightly exceed the expenses. However, if there is a deficit in this account, there is a subsidizing agreement with account XXXXXXXX.

As the Lab costs increase, fees will be adjusted to cover the additional expenses. Similar fee increases have been reflected in the private sector.

C. Revenue and Expense Analysis:

Historically, revenues and expenses have been evenly distributed over the fiscal year. Slight increases in activity are anticipated in the summer months. However, the impact is minimal. External demand will cause revenues to exceed the \$5,000 University limitation of revenue necessary to open a recharge 22 account. External customers will be billed through the University Commercial Accounts Receivable system on a monthly basis and recorded in this account.

Equipment was originally purchased in the 13 E&G account, but will be moved to this account and the 13 account will be reimbursed the costs of the equipment.

Supplies are purchased as needed and expensed. We do not anticipate having inventory in this account.

D. Additional Considerations:

The Lab produces hazardous waste. Environmental Health Services was consulted when the Lab was established and has continued to review our activity.

Billing records are retained at the Lab for a three-year period. The Lab bills federal activities. Records of federal billings are retained in accordance with the policies regarding sponsored agreements.

There are circumstances where unique costs may extend over several billing rates time periods.

Financial 3-Year Projections for Testing Lab Example

	Year 1	Year 2	Year 3
Revenues (Billings)	393,438.00	413,110.00	433,765.00
Expenses (Costs):			
Salaries, Wages	262,700.00	277,149.00	292,392.00
Supplies, Services	18,500.00	19,000.00	19,500.00
Inventory	-	-	-
Indirect Costs (Other Operating)	93,000.00	94,000.00	95,000.00
Total Costs	374,200.00	390,149.00	406,892.00
Fund Balance as of June 30th	19,238.00	42,199.00	69,072.00
Inventory Purchases	-	-	-
Equipment Purchases	-	-	-
Working Capital Needs	62,366.67	65,024.83	67,815.33

Billing Rate for Testing Lab Example

Direct Costs:

Salaries and fringe (per unit)	9.50
Testing Materials (per unit)	0.70
Paper	0.30
Postage	2.00
Total direct costs per unit	12.50
Estimated number of tests per year	8,000.00
Total direct costs (direct cost per unit x estimated number)	100,000.00

Indirect Costs (22 account):	Monthly	Annually
Telephone	255.00	3,060.00
Assistants salary & Fringe	1,000.00	12,000.00
Supplies	50.00	600.00
Total indirect costs (22 account)	1,305.00	15,660.00
Estimated number of tests per year		8,000.00

Indirect costs (22 account) as a percent of direct cost (\$15,660/100,000)	15.7%
Total direct costs per unit	12.50
Total indirect costs per unit 22 accounts (direct costs x indirect cost %)	1.96
Total cost per unit	14.46
University G&A (22.5% x total costs)	<u>3.25</u>
Total cost including G&A	17.71
Profit Margin of 5% (consistent with private labs)	<u>0.89</u>
Billing Rate	<u><u>18.60</u></u>

Billing Rate Calculation notes:

- The hourly rate of salary and fringe is \$9.50 per hour. Each test requires one hour to perform.
- Testing materials are purchased in large lots, each lot will perform 8,000 tests at a cost of \$0.70 per test.
- Paper for the analytical reports is purchased at a cost of \$15 per 500 sheet ream. Each report is 10 pages long, making the cost per sheet \$0.03.
- The cost of postage averages \$2.00 per report.
- The number of test per year is based on historical information or a sound estimate.
- Telephone expense is taken from a KFS report which shows a monthly rate of \$255.
- Assistant salary is \$900 per month with a \$100 fringe per month. The assistant does the billing, mailing, ordering and compliance with the University's FPIs.
- The amount for other supplies is based off our best estimate for the supplies needed. An excel spreadsheet is attached showing the detail behind the number.