Colorado State University

Recharge/Self-Funded Accounts
Presented by Valerie Monahan and Heidi Barclay
Campus Services
Recharge Accounts (21)

- Recharge accounts are cost reimbursement and/or internal billing entities
- Payments are made via Internal Orders
- Charge internal (CSU) customers and operate on a break even basis
Self Funded Accounts (22)

- Self funded accounts are referred to as Educational Business Activities
- Self funded accounts charge external customers
- Activity earns enough revenue to cover the cost of operations to break even, ideally.
- Main goal is to achieve a positive fund balance
Initial considerations

- A new activity must fit within the three-fold mission of CSU: Instruction, Research, and Public Service
- Prior to submission for new activity, assess viability; there must be reasonable assurance that the activity will generate adequate revenues to cover the operational costs over its lifetime
- Accounts must have:
  - Minimum projected revenues of $5,000-annually
  - Be ongoing
  - Have multiple customers (22 accounts)
  - Match revenues with expenses
Each new activity should have a business plan that communicates operational and financial plans to others. The five basic sections to include are:

1. Narrative of the Activity
   - Description
   - Market Analysis

2. Financial Analysis
   - Internal vs. External revenues
   - Billing and A/R
   - Equipment used
   - Inventory
   - Tax Issues
   - Other considerations
Business Plan cont’d

- Each new activity should have a business plan that communicates operational and financial plans to others. The five basic sections to include are:
  3. Multiyear Projections
  4. Billing rate calculation
  5. Account request
Narrative of the Activity

- Describes the activity
- Addresses the current market environment both within and outside of CSU
- Discusses key financial issues relevant to operating at break-even
- If activity is not fully self-supporting, explain why the activity is important to the University and who will subsidize the operation.
Description of Activity

- The following should be addressed relative to internal billing (cost distribution) and self funded activities:
  - Services or goods to be offered
  - Facilities building location and equipment to be used and billed out
  - General description of the customer base
  - How activity relates to the mission of CSU
  - Who oversees the operation
  - Assumptions and related factors that impact financial projections (example- economy, competition etc.)
Market Analysis

- A comprehensive review of the targeted market should assess whether the demand for the services or goods warrants establishment of a new activity

- The following should be addressed:
  - How services or goods meet the market need
  - Any intellectual property (i.e. patent or licenses related to the activity)
  - Description of the customer base and how those customers may respond to changes in the market
  - Describe any outside competition and compare CSU’s projected billing rates with competitor's billing rates
  - Why the activity would not violate the Unfair Competition Statute
Financial Analysis

- Must identify all subsidies, revenue sources and expenses required to deliver goods or services
- Revenues and Expenses must be itemized
- Expenses must include the direct labor and operating costs required to produce the goods or services
  - Note: For Self Funded Accounts (22), University Overhead charge should be added
Internal vs. External Revenue

- If the activity provides goods or services for both internal and external customers, one of the following methods must be used to record revenues and expenses:
  - Operate out of a Recharge Center (21) account and bill an Educational Business Activities (22) account
  - Account for the Recharge Center (21) account and the Educational Business Activities (22) account independently of the other
  - Operate out of a single account where either external revenues in the Recharge Center (21) account or internal revenues in the Educational Business Activities (22) account are less than $5,000 per fiscal year
Billing and Accounts Receivables

- Use of University Accounts Receivables Operations (ARO) - a statement reflecting such should be included in the Business Plan
- Use in-house system – include an explanation of the system used to maintain records of billings and how often receivables will be entered through KFS
Equipment

If the proposed activity will charge for the use of related equipment, the following descriptive information must be provided in the financial analysis:

- Name and model of equipment
- How the equipment will be purchased
- Cost of the equipment and sources
- Cost of maintenance contracts
- Cost of personnel to run equipment
- Physical location of the equipment-building and room
Inventory

• If the proposed activity includes goods or materials, an inventory may be needed

• Inventory valued above $100,000 at any time during the fiscal year must be recorded

• The following should be included in the proposed inventory information:
  • Perpetual or physical count method
  • Method used to value inventory
  • Frequency that inventory will be physically counted
Potential Tax Issues (Self Funded Only-22)

- **Unrelated Business Income Tax (UBIT)**
  - The Federal Government requires that tax-exempt organizations pay tax on income derived from “unrelated business activity”

- **Sales Tax**
  - Sales tax must be collected on services or goods sold to external customers when applicable by law and deposited into University sales tax accounts
  - If sales tax is not applicable, an explanation as to why must be included
Additional Considerations

- **Hazardous Materials**
  - An activity that will use or produce radioactive or other hazardous materials will need to be reviewed by Environmental Health Services to ensure that the proper handling and disposal will be maintained.

- **Record Retention**
  - The location where the activity’s records will be kept must be included in the business plan.
  - University retention period is seven years, including journal entries and supporting documentation.
A three-year projection period is used to review and predict the account’s intermediate (foreseeable) future.

First year accounts must be based upon sound estimates of production volumes and operating expenses.

Revenues can either be totaled as one or split between service or product categories.

Categorized expenses.

Second and third year projections should be based on anticipated increases/decreases in revenues or expenses.
Billing Rate Calculation

- Amount charged to a customer for a unit of service and/or good
- Computed and documented annually
- Calculated to ensure cost recovery
Account Request

All 21/22 accounts will need to submit an account request via KFS AFTER the Business plan, financial analysis, projections and budget forms have been reviewed by Cost Accounting.
Equipment Depreciation

- Depreciation is based on the acquisition cost of the equipment
- For Recharge Center (21) accounts, non-federal portions of equipment deprecation can be included as a cost
- Depreciation should be eliminated from the billing rate calculation at the point the equipment is fully depreciated.
Working Capital/Operating Reserve

- Purpose of the Reserve
- Recharge Center (21) funds can maintain a Working Capital or Operating Reserve of 60 days for immediate short-term expenses
- Working Capital should be tracked and adjustments made to the billing rate(s) if reserves greater than 60 days have accumulated
University Overhead

- Accounts that provide goods or services to external customers (22’s) are assessed an overhead charge on the account’s expenses

- Some expenses are exempt from the University Overhead (see manual)
Budget Form

- To establish a new Recharge Center (21 account) or Educational Business Activity (22 account) a first year budget must be submitted with the Business Plan.

- New budgets need to be submitted each February (22’s) and mid April (21’s) for the upcoming fiscal year and submitted to Campus Services.

- Changes in activity need to be considered when preparing the new budget.
Budget forms include the following sections:

- Revenues
- Expenses
- Cash Balance
- Fund Balance
Annual Responsibilities

- **Budgets**
  - Budgets for the current fiscal year should be reviewed and if necessary, revised

- **Billing Rate Calculations**
  - Changes in billing rates for review and approval prior to implementation need to be submitted to Campus Services
  - It is the account manager’s responsibility to retain schedules of current and past billing rate calculations
Links

http://busfin.colostate.edu/forms.aspx

Educational Business Activities 22 Fund Budget Request-FY10

Recharge Center 21 Fund Budget Request- FY10
Questions?

- Valerie Monahan, Manager - Campus Services, Cost Accounting (970) 491-3001
- Heidi Barclay, Campus Services, (970) 491-4148