

**Financial Policy & Procedure Instructions Manual**  
**FPI H-3 Departmental Self-Funded Activities**  
**Last Updated 8/13/04**

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**I. SELF-FUNDED ACTIVITIES**  
**A. Overview**

These policies and procedures provide guidelines for establishing, costing, pricing, and administering departmental self-funded activities that regularly sell goods and services. These policies and procedures have been established to provide consistent operational practices among the various self-funded units and to ensure compliance with federal government regulations for university activities that charge sponsored programs under federal government contracts and grants. In addition, they are designed to ensure that activities are accounted for in accordance with Generally Accepted Accounting Principles and federal Cost Accounting Standards.

Self-funded activities are distinguished from other university activities in that revenues are expected to support costs incurred. Only in very unusual circumstances will these activities require a subsidy. Departmental self-funded activities are those that departments are actively engaged in and do not include Student Housing, Student Center, Student Recreation Center, Student Health Center, Athletics, or the Division of Educational Outreach. With the advent of the Tax Payer's Bill of Rights (TABOR), some departmental self-funded activities may qualify as an Enterprise. Departmental self-funded activities are recorded in the Recharge Center (2-1) Fund, Educational Business Activities (General Operations) (2-2) Fund, the Enterprise (2-9) Fund, or the Auxiliaries (6-2) Fund.

Most self-funded activities at CSU involve services, although some activities produce a product or goods. For simplicity sake, this FPI generally will use

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"service" although the policies and procedures are the same for goods or services.

Managers of departmental self-funded activities are expected to comply with the University's policies and procedures. Failure on the part of account managers to comply may result in the termination of the activity. Individual departments are responsible for any disallowance, fine, or penalty for failure to comply with these policies and procedures. Departments and colleges must thoroughly review and analyze proposed activities prior to submitting requests to the central administration. Departments and colleges are required to assume financial responsibility for failed activities.

The University's financial policies and procedures for departmental self-funded activities are described in the following pages. These are not intended to answer all questions regarding the operation of these activities. A Self-Funded User's Guide and the Self-Funded Accounting Office are available to address the more detailed aspects of operating a university self-funded activity.

**B. Definitions**

The following definitions address terminology used throughout this Financial Procedure Instruction:

**Applicable Credits:** Transactions that offset or reduce costs, such as purchase discounts, rebates, allowances, refunds, etc.

**Billing Rate:** The amount charged to a user for a unit (of product or service). Billing rates are usually computed by dividing the total annual costs of service by the total number of billing units expected to be provided to users of the service for the year. Examples of billing rate computations are included in the Self-Funded User's Guide.

**Billing Unit:** The unit of service provided by self-funded activity. Examples of billing units include hours of service, animal care days, tests performed, machine time used, etc.

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

**Depreciation:** Depreciation is the systematic allocation of the cost of a capital asset over the period the asset is expected to be used.

**Direct Operating Costs:** All costs that can be specifically identified with a service provided by a self-funded activity. These costs include salaries, wages, and fringe benefits of University faculty and staff directly involved in providing the service, travel expenses, materials and supplies, purchased services, equipment rental or depreciation, interest associated with equipment acquisitions, etc.

**Equipment:** An item of tangible property (excluding building and land) having a useful life exceeding one year and an acquisition cost of \$5,000 or more. Purchases under this amount are considered consumable supplies.

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**Institutional Indirect Costs:** The costs of administrative and supporting functions of the University. Institutional indirect costs consist of administration and general expenses, such as executive management, payroll, accounting and personnel administration, operations and maintenance expenses such as utilities, building maintenance and custodial services, building depreciation, administrative and supporting services provided by academic departments, libraries, and special administrative services provided to sponsored projects.

**Self-Funded Accounting Office:** The Self-Funded Accounting Office within Business and Financial Services has been designated oversight responsibility for Recharge Centers, Educational Business Activities (General Operation) Funds, and departmental Enterprise activities.

**Self-Funded Activity Overhead:** All costs that can be specifically identified to a self-funded activity, but not with a unit of service provided by the activity, such as the salary and fringe benefits of the manager.

**Self-Funded Committee:** The committee was established to answer questions and resolve issues of different University Self-Funded accounts as a team. They are available to the departments of the University for consideration of new account requests and questions. The committee reviews accounts to ensure compliance with Unfair Competition rules, Unrelated Business Income Tax rules, TABOR Laws and other Federal guidelines and accounting principles. The committee also reviews and makes on going policy decisions and problem resolutions for Recharge Center (2-1) and General Operations (2-2) accounts. The committee is made up of representatives from Business and Financial Services, Budgets and Institutional Analysis, Division of Educational Outreach, Conference Services, and Sponsored Programs.

**Surplus:** The amount that the revenue generated by a service exceeds the costs of providing the service during a fiscal year.

**TABOR:** The Tax Payer Bill of Rights (TABOR) is an amendment to the State Constitution that restricts the amount of revenue that can be earned by the State. Revenue growth is limited to inflation and population growth.

**Unallowable Costs:** Costs that cannot be charged directly or indirectly to federally sponsored programs. These costs are specified in OMB Circular A-21 and the FPI D-1. Common examples of unallowable costs include alcoholic beverages, bad debts, charitable contributions, entertainment, fines and penalties, goods and services for personal use, and interest (except interest related to the purchase or construction of buildings and equipment). In addition to the costs listed above, contingency reserves are not permitted in recharge center accounts.

**II. RECHARGE CENTERS**

**A. Purpose**

The following defines University policies for the financial management of Recharge Centers (2-1 Funds).

**B. Definitions**

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Recharge Centers: The Recharge Center (2-1) Fund provides support of university mission-related activities for internal University customers. Billings from Recharge Centers distribute accumulated costs to other University accounts. Payments are normally made in the form of an Intramural Order (IMO) or billing journal entry. Revenues are recorded in subcode range 0800-0899.

**C. General Policies**

1. **University Mission:** All recharge center activities must either support or relate to the University's instruction, research or public service mission.
2. **Multiple Customers:** Unless otherwise approved, recharge center activities must provide goods or services to multiple customers. If only one customer is served, costs should be charged directly to the benefiting activity.
3. **Minimum Activity Size:** Activities must be of sufficient size to warrant a separate University account. Activities of less than \$5,000 will not normally be considered for inclusion as a recharge center activity. Activities may be combined to meet the \$5,000 threshold. Exceptions must be approved by Self-Funded Accounting.
4. **Internal Revenues:** Recharge Center activities are normally restricted to revenues generated from within the University using an Intramural Order (IMO) or a billing journal entry. Activities generating both internal and external revenues will usually operate from both a Recharge Center and an Educational Business Activities (General Operations) Fund account, as discussed later in Section IV.
5. **Budgets and Business Plans:** Each account manager is required to submit an annual budget. Budgets should be based on a sound estimate of projected revenues and expenditures. Estimates should be based on historical data and expected changes having an impact on the account activity (e.g., increased customer base). Each account holder is responsible for input into the University's budget system (ABYSS). Business plans are required for all recharge center activities. For new activities, a business plan should be included with the application. For existing activities, a business plan should be submitted and updated as conditions dictate. The business plan should address key financial issues to demonstrate that the activity can be operated at break-even status. The plan should be based on careful analysis of the activity's potential to generate revenues and to manage expenditures within those revenues and include an assessment of continued marketability of the activity. In addition to identifying expenses required to deliver the goods and services, the business plan should include anticipated equipment and inventory purchases. Activities unable to operate at a break-even status must identify sources of subsidized funding. More Information about budgets and business plans can be found in the Self-Funded Users Guide.
6. **Billing Rates:** Billing rates should be computed and documented annually. They should be submitted to the Self-Funded Accounting Office with the annual budget. The rates should be based on a reasonable estimate of the direct operating costs of providing the services for the year and the projected number of units for the year. They should logically

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represent the type of service provided and be reviewed at least every six months. Adjustments should be made when necessary.

7. **Multiple Services:** If a recharge center provides different types of services to users, separate billing rates must be established for each service that represents a significant activity. Managers must approximate costs, revenues, surpluses, and deficits for each service. The surplus or deficit related to each service should be carried forward as an adjustment to the billing rate for that service in the following year or the next succeeding year. The surplus from one service may be used to offset the deficit from another service only if the mix of users and level of services provided to each group of users is approximately the same.
8. **Cost Allocations:** When separate billing rates are used for different services provided by a recharge center, the costs related to each service must be separately identified through a cost allocation process. Cost allocations will also be needed if a cost partially relates to the operation of a recharge center and partially to other accounts of a department. Depending on the specific circumstances involved, there may be two categories of cost that need to be allocated: (a) costs that are directly related to providing the services, such as the salaries of staff performing multiple services, and (b) self-funded activity overhead. When cost allocations are necessary, they should be made on an equitable basis that reflects the relative benefits each activity receives from the cost. For example, if an individual provides multiple services, an equitable distribution of his or her salary among the services can usually be accomplished by using the proportional amount of time the individual spends on each service. Other cost allocation techniques may be used for self-funded activity overhead, such as the proportional amount of direct costs associated with each service, space utilized, etc.
9. **Rate Equality:** All users should be charged for the services they receive and be charged at the same rates. If some users are not charged for the services or are charged at reduced rates, the full amount of revenue related to their use of the services must be imputed in computing the center's annual surplus or deficit. This is necessary to avoid having some users pay higher rates to make up for the reduced rates charged to other users. This requirement does not apply to alternative pricing structures related to the timeliness or quality of services. Pricing structures based on time-of-day, volume discounts, turn-around time, etc., are acceptable, provided that they have a sound management basis and do not result in recovering more than the costs of providing the services.
10. **Break- Even Requirement:** Billing rates should be designed to recover the direct operating costs of self-funded activities plus related self-funded activity overhead on an annual basis. No costs other than the costs incurred in providing the services should be included in the billing rates. The costs should exclude unallowable costs and be net of applicable credits.
11. **Performance Monitoring:** Actual costs and revenues appearing in the monthly FRS reports should be reviewed each month-end and at the end of the fiscal year. Deficits or surpluses should be carried forward as an adjustment to the billing rates of the following year or the next succeeding year.

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12. **Subsidized Activities:** In some instances, the University, college or department may elect to subsidize the operations of a Recharge Center, either by charging billing rates that are intended to be lower than costs or by not making adjustments to future rates for a center's deficits. Recharge Center deficits caused by intentional subsidies cannot be carried forward as adjustments to future billing rates. Since subsidies can result in a loss of funds to the University, they should be provided only when there is a sound programmatic reason. Subsidies involving Recharge Centers must be approved by the Self-Funded Committee. When subsidies are contemplated, a memo should be submitted to Self-Funded Accounting indicating the funding source and the amount of the transfer. Transfers may be in the form of a loan or a contribution. Contributions are one-time, permanent subsidies with no payback anticipated.
13. **Customer Billings:** Customers must be billed on a timely basis. Under normal conditions, billings should be processed monthly. Customer billings may be processed with an IMO or billing journal entry.
14. **Accurate Assignment of Costs:** Costs charged to recharge centers must be reasonable and necessary to the operation of the activity. Costs must be accurately assigned to benefiting activities.
15. **Unallowable Costs:** Since Recharge Centers provide considerable support to sponsored activities, costs considered to be unallowable by the federal government should not be charged to 2-1 Fund activities. A complete list of unallowable costs is included in FPI D-1.
16. **Large Purchases:** Any unfounded purchase of \$50,000 or more in a Recharge Center activity requires the approval of the Executive Budget Committee.
17. **Equipment Acquisitions:** All equipment acquisitions require the completion of an Equipment Acquisition Request form (EAR). An EAR must be approved by Self-Funded Accounting before submitting the purchase requisition to Purchasing. Any acquisition of equipment must be charged entirely to the Recharge Center account making the purchase, however funds may be borrowed from a 2-2 Fund or 6-4 Fund account. Equipment purchases cannot be split between the 2-1 Fund and 5-3 Fund. All equipment disposals require the completion of an Equipment Accountability Change Request (EACR) form. See FPI F-1. (If you would like the "Equipment Acquisition Request" form in Microsoft Excel format, or if you would like the "Equipment Accountability Change Request" form in Microsoft Excel format, go to <http://www.colostate.edu/Depts/BusFin/fm.html>.)
18. **Equipment Depreciation:** Depreciation cost is based on the acquisition cost of the equipment, not replacement cost. Annual depreciation cost rather than expenditures for equipment purchases should be used to establish service center billing rates. Including equipment depreciation in the billing rates will generate funds to recover the cost of the equipment and charge customers their proportional share of the cost of the equipment.

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Equipment will be depreciated over its useful life. The standard useful life guidelines are listed below. These useful lives are consistent with those used in the University's indirect cost proposal and rate agreement. Exceptions must be approved by Self-Funded Accounting.

- Office Equipment – 6 years
- Scientific Equipment – 6 years
- Computer Equipment – 5 years
- Recreation Equipment – 6 years
- Machinery and Vehicles – 12 years

19. **Fabricated Equipment:** If the department will construct a piece of equipment on a one-time basis, the costs will be recorded in a Work-in-Process account (8-9 Fund). An 8-9 Fund account is appropriate when more than one purchase document is required to acquire parts before the piece of equipment can be constructed and operated. See FPI F-3.
20. **Inventory Management:** If a Recharge Center sells products and has a significant amount of stock on hand, inventory records must be maintained. If the value of the inventory is expected to exceed \$35,000 at any point in the year, a formal accounting of the inventory must be maintained. A physical inventory must be taken at least annually and reconciled to the inventory records. Inventory valuations may be based on any generally recognized inventory method (e.g., first-in first-out, last-in, first out, average cost, etc.). Activities with consumable inventories must utilize appropriate inventory management practices. At a minimum, this should include the use of appropriate valuation methods and safeguarding practices. Detailed instruction may be found in FPI F-2.
21. **Corrective Action Plans to Resolve Deficit Balances:** Accounts with fund balance deficits in 2-1 Fund accounts are not allowed. There will be some allowances for accounts with seasonal fluctuations, such as crop accounts. Departments and colleges are responsible to resolve deficit balances within their area. College business officers should monitor accounts with cash deficits in an effort to anticipate problem accounts. Quarterly, Self-Funded Accounting will contact the department financial person for an explanation to resolve deficit fund balances. For accounts that continue to be problematic, Self-Funded Accounting will work with the financial person, the account owner, and the department head to implement resolution plans. If no progress is made, the department head and college dean's office will be contacted for further resolution. If the department or college has available funds in other accounts, Self-Funded Accounting may make an accounting entry to subsidize the 2-1 Fund account and clear the deficit. This will only be done as a final solution after all other avenues have been explored and all parties will be notified prior to making the entry. If at any time during this problem resolution process, Self-Funded Accounting deems it necessary to freeze the account they may do so until a satisfactory plan is in place. Corrective action plans should include the anticipated time frame to resolve the deficit, potential funding support, and any revisions to the billing rate calculation. Possible corrective actions include:
- Increasing the billing rate to cover the deficit.
  - Scale back the operating costs (personnel, supplies, etc.) to reflect current customer base.

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- Funding or loan from other accounts within the department or college.
- Ending the activity and closing the account. The department or college will need to identify an account(s) to fund the remaining deficit.

22. **Cash Balances:** The Federal Office of Management and Budgets (OMB) Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments" allows charges by a recharge center activity to include a reasonable level of working capital reserve. This guidance provides principles for determining costs applicable to federal programs, which are operated by state and local governments. Although these do not specifically apply to educational institutions subject to OMB Circular A-21, Circular A-87 does provide guidance on operating, accounting and reporting for the activities of governmental internal service centers. These are similar to the operations of university recharge centers and are recognized by federal auditors in audits of universities. It is, therefore, the policy of the University to allow a maximum 60-day cash reserve for Recharge Centers. The 60-day cash reserve should be based on cash needed to support operating expenses (not undepreciated equipment). This means the fund balance may be the annual expenses (less accumulated depreciation) multiplied by 2/12, plus the amount of inventory in the account.

Departments and colleges will need to fund all equipment purchases and start up costs. Departments and colleges will need to fund any deficit cash in 2-1 Fund accounts without overcharging federal projects and other indirect cost areas such as departmental 1-3 Fund accounts. A plant fund may be set up by the department or college to have cash available to loan to the 2-1 Fund activities to cover the equipment. Departments may want to obtain lease/purchase agreements for new equipment. Interest from external parties is an allowable cost in recharge centers. An exception to charge for working capital needs will be made for 2-1 Fund activities that bill only commercial sponsors. Self-Funded Accounting may allow some accounts to operate at a deficit cash balance for inventories, but for these exceptions the inventory will be evaluated to determine that it is at the appropriate level. A cash reserve is not intended to provide a contingency for unexpected expenses.

23. **Transfer of Funds Out of Service Centers:** It is normally not appropriate to transfer funds out of a recharge center account to other University funds or accounts. If a transfer involves funds that have accumulated in a recharge center account because of prior or current year surpluses, an adjustment to user charges to compensate for the surpluses may be necessary. All transfers must be specifically approved by the Self-Funded Accounting Office.
24. **Record Keeping and Retention:** Separate records and accounts should be maintained to document the actual direct operating costs of providing the service, revenues, units of service provided, billings, collections, and the annual surplus or deficit. Activities that make specific charges for the use of equipment (hours times rate) should utilize usage logs to verify use for future audits. Care should be taken to retain records that support federally sponsored projects for the length of the project plus the

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required audit period (three years) following the end of the sponsored agreement. Records should be retained in accordance with FPI J-7.

25. **Contracting:** Detailed information about processing contracts is discussed in FPI B-2. A list of individuals authorized to sign contracts is provided in Section 8 of the CSU Purchasing Manual - <http://www.purchasing.colostate.edu/pdf/pm08.pdf>. Unauthorized signers may be held personally liable for the terms of the contract. Questions concerning contracts should be directed to the University's Contract Manager in the Vice President for Administrative Services Office.

**III. EDUCATIONAL BUSINESS ACTIVITIES (GENERAL OPERATIONS) AND ENTERPRISE FUNDS**

**A. Purpose**

The following defines University policies for the financial management of Educational Business Activities (General Operations) (2-2) Fund and Enterprise Fund (2-9) Fund accounts.

**B. Definitions**

**Educational Business Activities (General Operations):** The Educational Business Activities (General Operations) (2-2) Fund provides mission-related goods and services to customers outside the University. Payments are normally made in the form of cash, checks, or credit cards. Sales to faculty, staff, and students are considered outside sales and are included in Educational Business Activities (General Operations) fund activities.

**Enterprises:** The Enterprise (2-9) Fund operates similar to the Educational Business Activities (General Operations) (2-2) Fund except that these activities have been designated as an Enterprise under the TABOR Amendment to the Constitution. Enterprise activities are expected to be totally self-supporting and will be assessed the University's enterprise G&A overhead rate. Like the Educational Business Activities (General Operations) (2-2) Fund, these activities serve customers outside the University.

**C. General Policies**

**1. Educational Business Activities (General Operations) Funds**

- a. **University Mission:** All Educational Business Activities (General Operations) Fund activities must either support or relate to the University's instruction, research, or public service mission.
- b. **Multiple Customers:** Unless otherwise approved, Educational Business Activities (General Operations) Fund activities must provide goods or services to multiple customers. If only one customer is served, the Sponsored Program (5-3) Fund may be more appropriate.
- c. **Minimum Activity Size:** Activities must be of sufficient size to warrant a separate University account. Activities of less than \$5,000 will not normally be considered for inclusion as an

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Educational Business Activities (General Operations) account. Activities may be combined to meet the \$5,000 threshold. Exceptions must be approved by Self-Funded Accounting.

- d. **External Revenues:** Educational Business Activities (General Operations) Fund activities are normally restricted to revenues generated from sources (customers) outside the University (including students, faculty, and staff). Customers may pay for these services with cash, check, or credit cards, as opposed to an University IMO. Activities generating both external and internal revenues will usually operate from both an Educational Business Activities (General Operations) Fund and a Recharge Center, as discussed later in Section IV.
- e. **Budgets and Business Plans:** Each account manager is required to submit an annual budget, which is based on careful analysis of the activity's potential to generate revenues and to manage expenditures within those revenues. Budgets should be based on a sound estimate of projected revenues and expenditures. Estimates should be based on historical data and expected changes having an impact on the account activity (e.g., increased customer base). Each account holder is responsible for input into the University's budget system (ABYSS). A Budget Change Request (BCR) should be submitted to Self-Funded Accounting when revenues are expected to increase or decrease by 25% or \$100,000, whichever is greater. Business plans are required for all Educational Business Activities (General Operations) activities. For new activities, a business plan should be included with the application. For existing activities, a business plan should be submitted and updated as conditions dictate. The business plan should address key financial issues to demonstrate that the activity can be operated at least at a break-even status. The plan should include an assessment of continued marketability of the activity. In addition to identifying expenses required to deliver the goods and services, the business plan should include anticipated equipment and inventory purchases. Activities unable to operate at a break-even status must identify sources of subsidized funding. More information about budgets and business plans can be found in the Self-Funded Users Guide.
- f. **Billing Rates:** Billing rates should be computed and documented annually. They should be submitted to the Self-Funded Accounting Office with the annual budget. The rates should be based on a reasonable estimate of the direct operating costs of providing the services for the year and the projected number of units for the year. They should logically represent the type of service provided and be reviewed at least every six months. Adjustments should be made when necessary.
- g. **Profit Potential:** Billing rates should be designed to recover the full costs of providing the services including self-funded activity overhead and institution indirect cost on an annual basis. Billing rates may recover amounts in excess of cost where market conditions permit.

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- h. **Performance Monitoring:** Actual costs and revenues identified in the monthly FRS reports should be reviewed each month end and at the end of the fiscal year.
- i. **Subsidized Activities:** In some instances, the University, college, or department may elect to subsidize an Educational Business Activities (General Operations) Fund activity, either by charging billing rates that are intended to be lower than costs or by not making adjustments to future rates for a center's deficits. Since subsidies can result in a loss of funds to the University, they should be provided only when there is a sound programmatic reason. Subsidies also may raise concerns related to unfair competition. The Self-Funded Committee must approve subsidies in Educational Business Activities (General Operations) Fund accounts. When subsidies are contemplated, a memo should be submitted to Self-Funded Accounting indicating the funding source and the amount of the transfer. Transfers may be in the form of a loan or a contribution. Contributions are one-time, permanent subsidies with no payback anticipated.
- j. **Customer Billings:** Customers should be encouraged to pay for services at the time of sale, using cash, check, or credit card. The Sales-Services Invoice is used to record and process charge sales. All credit sales must be billed on a timely basis. Under normal conditions, billings should be processed monthly. All bills are due when received. Billed revenues must be accrued at year-end to ensure that they are recorded in the same period in which related costs are incurred. Two subcode ranges are available for recording customer billings:

  - Other External Revenues (0600-0699) to record normal N external revenues
  - State Agency External Revenues (0700-0769) to record revenues received from other State of Colorado agencies. State of Colorado agencies external revenues are exempt from the requirements of TABOR and, therefore, must be separately recorded. (See FPI A-8 for State Agency List.)
- k. **Accounts Receivables Processing:** Self-funded managers are responsible for processing receivables in accordance with state requirements. The state requires that an account receivable be recorded quarterly for all sales that do not result in the immediate collection of cash. If customers are billed for goods or services provided, an entry to record an account receivable is required. The state allows a maximum of 90 days to collect outstanding billings. After 60 days, accounts must be referred to the University's Special Assets Office in Business and Financial Services. Special Assets has 30 days to collect the account before it must be referred to the State Collection Agency. More information regarding accounts receivables is provided in the Self-Funded User's Guide and specific assistance may be obtained from the Self-Funded Accounting Office.

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The University provides central accounts receivables processing to relieve account managers of both the burden of processing receivable journal entries and tracking past due accounts. By using the University Service-Sales invoice, departments are able to process their receivables centrally. This service reduces the cost of individual uncollectible accounts and results in the immediate recording of revenue in the billing account. For a small fee, uncollectible accounts will be covered centrally. Departments that process their own receivables are responsible for the total amount that cannot be collected. FPI G-4 contains additional information concerning accounts receivable.

- i. **Accurate Assignment of Costs:** Costs charged to Educational Business Activities (General Operations) Funds must be reasonable and necessary to the operation of the activity. Costs must be accurately assigned to benefiting activities.
- m. **Unallowable Costs:** Costs that cannot be charged directly or indirectly to federally sponsored programs must be specifically identified by subcode or account. A complete list of unallowable costs is included in FPI D-1.
- n. **Equipment Purchases:** When sufficient cash is available, prior approval for the purchase of equipment is not required for Educational Business Activities (General Operation) purchases. All equipment disposals require the completion of an Equipment Accountability Change Request (EACR) form - <http://www.colostate.edu/Depts/BusFin/fm.html>. See FPI F-1.
- o. **Equipment Fabrication:** If the department on a one-time-basis constructs a piece of equipment, the costs will be recorded in a Work-in-Process account (8-9 Fund). An 8-9 Fund account is appropriate when more than one purchase document is required to acquire parts before the piece of equipment can be constructed and operated. See FPI F-3.
- q. **Inventory Management:** If an Educational Business Activities (General Operations) Fund sells products and has a significant amount of stock on hand, inventory records must be maintained. If the value of the inventory is expected to exceed \$35,000 at any point in the year, a formal accounting of the inventory must be maintained. A physical inventory must be taken at least annually and reconciled to the inventory records. Inventory valuations may be based on any generally recognized inventory method (e.g., first-in first-out, last-in, first out, average cost, etc.). Activities with consumable inventories must utilize appropriate inventory management practices. At a minimum this should include the use of appropriate valuation methods and safeguarding practices. Detailed instruction may be found in FPI F-2.
- r. **Corrective Action Plans to Resolve Deficit Balances:** Departments and colleges are responsible to resolve deficit balances within their area. College business officers should monitor accounts with cash deficits in an effort to anticipate

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problem accounts. To resolve deficit balances, Self-Funded Accounting will work with the financial person for an explanation. For accounts that continue to be problematic, Self-Funded Accounting will work with the financial person, the account owner, and the department head to implement resolution plans. If no progress is made, the department head and college dean's office will be contacted for further resolution. If the department or college has available funds in other accounts, Self-Funded Accounting may make an accounting entry to subsidize the 2-2 Fund account and clear the deficit. This will be done as a final solution after all other avenues have been explored and all parties will be notified prior to making the entry. If at any time during this problem resolution process Self-Funded Accounting deems it necessary to freeze the account, they may do so until a satisfactory plan is in place. Corrective action plans should include the anticipated time-frame to resolve the deficit, potential funding support, and any revisions to the billing rate calculation. Possible corrective actions include:

- Increasing the billing rate to cover the deficit.
  - Scale back the operating costs (personnel, supplies, etc.) to reflect current customer base.
  - Funding or loan from other accounts within the department or college.
  - Ending the activity and closing the account. The department or college will need to identify an account(s) to fund the remaining deficit.
- s. **Cash Balances:** Educational Business Activities (General Operations) Fund accounts are expected to provide for their cash needs. Cash balances should be sufficient to cover operating costs, inventory and equipment purchases. Cash balances in excess of what is required to support the activity are permitted in Educational Business Activities (General Operations) Fund accounts.
- t. **Record Retention:** Records should be maintained to document the actual direct operating costs of providing the service, revenues, units of service provided, billings, collections, and the annual surplus or deficit. Records should be retained in accordance with FPI J-7.
- u. **Contracting:** Accounts with contracts for the performance of research services may be more appropriately classified in the 5-3 Fund (65xxx account range). Detailed information about processing contracts is discussed in FPI B-2. A list of individuals authorized to sign contracts is provided in Section 8 of the CSU Purchasing Manual - <http://www.purchasing.colostate.edu/pdf/pm08.pdf>. Unauthorized signers may be held personally liable for the terms of the contract. Questions concerning contracts should be directed to the University's Contract Manager in the Vice President for Administrative Services Office.

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**2. Enterprise Activities:** Enterprise activities are subject to all of the policies listed above for Educational Business Activities (General Operations) Funds plus additional requirements listed below:

- a. **Subsidy Restriction:** Enterprise activities are expected to be totally self-supporting. Constitutional requirements limit state or local funding (subsidies) to less than ten percent of total revenues. The institutional indirect cost rate applied to Educational Business Activities (General Operations) Funds is less than the calculated rate. Enterprise activities are, therefore, assessed at a higher rate that eliminates the subsidized portion of the Educational Business Activities (General Operations) Fund rate. To qualify as an Enterprise, there must not be significant (less than 10%) departmental and college level subsidies of these activities.

Enterprise activities are exempt from the requirements of the Tax Payer's Bill of Rights (TABOR). Factors that distinguish Enterprise activities from other departmental self-funded activities are:

- a. Revenues generated by the activity must be sufficient to cover at least 90% of related costs.
  - b. Costs include all related salaries, operating costs, and University Enterprise institutional indirect cost.
  - c. Clerical and administrative effort provided in support of the activity by the department must be charged to the activity. The University Enterprise G&A does not include these departmental administrative costs.
- b. **External Approval Requirements:** In addition to the internal approval process described later in this FPI, Enterprise activities must be approved by the Board of Governors, State Audit Office and the Legislature.

**IV. OPERATIONS WITH BOTH INTERNAL AND EXTERNAL SALES**

**A. Purpose**

To describe the requirements for activities that sell goods or services to both internal and external customers.

**B. General Policies**

Distinguishing Between Internal and External Revenue: Due to a ceiling imposed by TABOR (Tax Payers Bill of Rights) on revenues, it is important that activities generating both external and internal revenue record both sources of revenue separately. Three methods of separating the revenue have been identified. Please consult with the Self-Funded Accounting Office before selecting a method or changing methods.

1. **Operating Out of a Recharge Center:** The cleanest and perhaps easiest method of segregating internal revenue from external revenue is to operate the activity out of a Recharge Center (2-1) account. All salaries and operating costs associated with the activity are recorded in one account. A corresponding Educational Business Activities (General Operations) (2-2) account is then billed for sales to external customers (those paying by check, credit card, or cash). Billings from the 2-1 account to the 2-2 account are at actual cost using the normal 2-1 account billing rate. The University's institutional indirect cost and any

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associated profit are added prior to billing the external customer in the 2-2 Fund account.

2. **Operating Out of Dual Accounts:** This method requires the splitting of salaries and operating costs between a Recharge Center (2-1) account and a Educational Business Activities (General Operations) (2-2) account based on the proportional sales that are internal versus external. It also requires the calculation of two separate billing rates; one for internal customers (based on actual cost) and one for external customers (based on actual expenditures plus University's institution indirect cost and any potential profit). Internal customers are billed directly from the 2-1 account and external customers are billed from the 2-2 account.
3. **Year-End Adjustment:** Activities with limited internal or external sales may operate totally out of one account. Self-Funded Accounting will record an adjustment at year-end. Either a Recharge Center (2-1) account or Educational Business Activities (General Operations) (2-2) account may be selected as the operating fund depending on the source from which the majority of revenue is generated. This method is only appropriate if external revenues (06xx subcodes) are less than \$5,000 in a Recharge Center account or internal revenues (08xx subcodes) are less than \$5,000 in an Educational Business Activities (General Operations) account. Please consult Self-Funded Accounting for special approval if this exceptional revenue is greater than \$5,000.

**V. THE APPLICATION PROCESS**

**A. Purpose**

To define the required process for obtaining authorization to operate a Recharge Center, Educational Business Activities (General Operations) Fund, or Enterprise activity.

**B. General Policies**

1. **Assessing the Viability of the Activity:** The University has limited resources and there must be reasonable assurance that departmental self-funded activities will be successful and generate the necessary revenues required to cover operating costs. For that reason these new activities need complete support from the responsible department and college. Departments and colleges will be expected to cover losses from failed operations.
2. **Approval Process:** Requests for new accounts require the preparation and submission of an account request form, a budget, a business plan and billing rate calculation. See appropriate sections of this FPI for details. The account request form may be downloaded from the B&FS homepage - <http://www.colostate.edu/Depts/BusFin/>. New accounts will also need Unfair Competition, Unrelated Business Income Tax, and possibly Environmental Health Services approval depending on the nature of the activity (see Additional Reviews Section). Each new activity requires approval based on the fund group.
  - a. **Recharge Centers (2-1) and Educational Business Activities (General Operations) (2-2):** Funding for start-up costs must be provided and agreed to prior to commencing the activity. This includes funds for required equipment and inventory plus funds to



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outlines the University's tax policy and provides additional information about the Unrelated Business Income Tax.

**c. Colorado Unfair Competition Statute:** New Educational Business Activities (General Operations) (2-2) and Enterprise (2-9) account applications will also be reviewed by Self-Funded Accounting to ensure that proposed activities do not violate the Colorado statute that deals with unfair competition. Colorado Revised Statute Title 24, Article 113 regulates competition by State agencies, including institutions of higher education, with private enterprise (business). FPI C-2 outlines the University's policy on educational business activities and the state statute dealing with unfair competition with private enterprise.