21 & 22 Account Overview

Presented by Campus Services

Overview

- Definitions
- Account Request Process
- Review of 21 and 22 Accounts
- Business Plan
- Billing Rates
- Three Year Projection
- Budgets
- Checklists

Definitions

- Recharge Center (21): for business activities related only to internal customers (CSU)
  - Revenue in these accounts should be coded to internal revenue object codes (48xx-49xx)
  - Should never be in deficit, and any surplus should not exceed 2 months working capital (or two months of average operating expenses + inventory)
    - 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.
- General Operations (22): for business activities that are external to CSU
  - Revenue in these accounts should be coded to external revenue object codes (43xx-44xx)
  - 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.

Account Request Process

- Step 1: The department should first assess the viability of the activity
  - Revenue generated should cover the operating costs
  - Anticipated Revenue should be $5,000 or greater
- Step 2: Business Plan, Competition Study, Billing Rates, Three-year Projection and a Budget with appropriate signatures needs to be sent to Campus Services for approval (CS will route the document after their review to the other approvers)
  - RECHAR (21): Approved by Campus Services, Sponsored Programs and the Controller
  - GENOP (22): Approved by Campus Services, the Controller, and the Tax Manager
- Step 3: Once approved, Campus Services will send an email to the requestor
- Step 4: Department will initiate an account request and attach the Business Plan, Billing Rates, Three-Year Projection, Budget and approval email to the Kuali document.

Review of 21 and 22 Accounts

- Monthly Campus Services reviews the balance in the 21 and 22 accounts
  - Ensure not in deficit
  - Ensure 21 account does not have surplus greater than 2 months working capital
  - No activity in 12 months
  - If it is in deficit, large surplus (if 21), or no activity Campus Services will contact the Fiscal Officer for an explanation on it, or request Billing Rates be adjusted
  - If account deficit is substantial or recurring – revised business plan and re-approval may be required

Review of 21 and 22 Accounts

- 21 Accounts that Bill 53 Accounts (Sponsored Accounts)
  - Reviewed at least every 5 years by Campus Services, the Controller, and Sponsored Programs
  - Invoices reviewed and compared to business plan and billing rates
  - Depending on severity of findings one of the below are possible:
    - Conduct another review within the next two fiscal years
    - During 2nd review, if finding is not resolved:
      - Meeting is scheduled with Department, BFS, and Sponsored Programs to discuss solutions to resolve issue.
      - If recommendations made, account reviewed following year
      - If corrections are not made, further action will be considered (closing of account)
    - To avoid a finding keep business plan and billing rates up to date with Campus Services

Business Plan

- Offers a means of communicating plans to others and provides the basis for cost recovery
- Becomes operating tool to help manage the business and make it successful
- Guide for how well business is meeting original objectives and identifies any variances caused by changes in business activity
- Business Plan should include these general categories:
  - General Description
  - Market Analysis/Competition
  - Revenue and Expense Analysis
  - Additional Considerations
  - Billing Rate Calculation
  - Three Year Projection

Business Plan: General Description

- Briefly describes business activity by answering the following questions:
  - What is the service/product?
  - Who will use it (internal or external customers)?
  - What other products do you plan to develop?
  - How does this activity relate to the mission of the university, college, or department?
  - Who will oversee the operation (include position title)?
  - 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.
  - If this account is in deficit, what account would cover the shortfall?

Business Plan: Market Analysis

- Includes comprehensive review of the target market
- Assess the product/service demand which would warrant a new account
- Billing to customers must cover expenses incurred
- 22 accounts are charged 22.5% G&A so this should be included
- 22 Accounts also must follow the Colorado Statute on competition with private enterprises (C.R.S 24-113-104):
  - 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.
- 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.

Business Plan: Market Analysis

- Analyze your market by answering the following questions:
  - What is the current client base?
  - How do you reach clients?
    - Advertising, Referrals, Other (Explain)
  - For internal clients, what is the approximate number of accounts to be served? Will it serve 53 accounts?
  - How does your product/service meet the market need?
  - Could changes in your product/service better meet the market needs?
  - Who is your competition? How do your charges compare with the competition (support should be included)?
  - Is this cost prohibitive (does it exceed revenue)?
    - If yes, you may want to reevaluate continuing the activity
    - 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
    - Explain any current subsidizing agreements that this account has and identify the accounts providing funding
  - Are there any patent or license issues related to the activity?
  - If this account is in deficit, what account would subsidize it? (21 accounts cannot subsidize a 22 account)

Business Plan: Revenue & Expense Analysis

- Revenue: Internal, External or other state agency customers
- Expenses: direct labor and operating expenses required to produce goods or services
- Revenue and Expenses itemized on the Budget Request form

Business Plan: Revenue & Expense Analysis

The following questions help develop the 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.
- 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 Kuali Financial System? How often (i.e. monthly or quarterly)? At a minimum book your receivables on a quarterly basis.

Business Plan: Revenue & Expense Analysis

- Does this activity use equipment?
  - If yes, was the equipment purchased from this account? (No split funded 21 account assets)
  - 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?

Business Plan: Additional Considerations

- 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 annually and adjust for any changes
- Fiscal Officer is responsible for retaining schedules of current and past billing rate calculations
- Should include more than a list of numbers. Show 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 $24.51 an hour. So in the billing rate calculation we would show the salary and how we got to the hourly rate.

Billing Rates

- Direct Costs – expenses that can be identified and charged directly to the job
  - Time of employees, equipment, and/or materials used directly on the job
- All expenses included in the billing rates need to be included as either direct or indirect costs
- KFS can be utilized to help calculate an updated billing rate as it will show the activity the account has had

Billing Rate Format

- Below is the format, and the next slide shows the component descriptions

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

Billing Rate Format

- 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.

Billing Rates

- Total Cost to be Billed – the total of the direct 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 – total of the total cost to be billed, university G&A overhead and profit margin

Three Year Projection

- Projection gives fiscal officer an opportunity to review and predict the account's status in the future
- Information based on a sound estimate of production volumes and operating expenses
- After first year is completed actual data can be used to assist with the on-going projections
- Projections normally summarized by revenue and expense categories
- 2nd or 3rd year projections should be based on anticipated increases/decreases in revenues and expenses

Budgets

- 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
- 21 accounts should not have a receivable as this would imply external sales which would be on a 22 account
- If purchasing Promotional Items or Advertising/Publicity on the 21 account there needs to be good support as 21 accounts only have internal sales they should not need to promote its product or services
- Revenue is compensation received for products (43xx-44xx external revenue and 48xx and 49xx internal revenue)
- Expenses are costs, including salaries, associated with the products or services provided by the activity
  - Business Authorized Function (object code 6649) is <u>not allowed</u> on 21 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 TWARBUS access for billing through the University accounts receivable system?

___ Does your fiscal officer or accounting tech have Kuali access for processing deposits to the University's cashier's office?

___ If a 22 account, will your department being accepting credit cards? If so, contact Banking Services to get the credit card terminal set up (if needed).

Questions?

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