

**INTERNAL SALES ACTIVITIES**

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## INTERNAL SALES ACTIVITIES

### I. CHAPTER 13 – INTERNAL SALES ACTIVITIES

This chapter of *The Guide* articulates the University of Colorado Boulder’s policy for interdepartmental sales and services. The policy provides guidelines for establishing, costing, pricing, and administering sales between internal departments. An internal sale occurs when a campus department provides goods/services to itself or to other university departments, including departments on other campuses. Any unit that engages in this type of activity is known as an “Internal Sales Activity (ISA).” An ISA is established when management determines that certain goods or services are most effectively provided within the university, although the same goods or services may be available commercially. The purpose for creating an ISA is to control the cost of providing goods/services within the university. The costs of providing the goods/services are distributed through a charge schedule that is uniformly applied to all users. ISA policies and procedures have been established to provide consistent operational practices among the various ISAs and to ensure compliance with government regulations.

**Note:** A copy of this Internal Sales Activities chapter should be read and reviewed by all staff responsible for the management of an ISA.

### II. EXTERNAL REGULATIONS

ISA policies and practices must reflect government regulatory costing principles including:

- The Code of Federal Regulations (CFR) 220, also known as [OMB Circular A-21, Cost Principles for Educational Institutions](#)
- [OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments](#)
- Costing principles required by the Cost Accounting Standards Board.
- Note that the above OMB Circulars were combined with others as [Title 2 Grants and Agreements](#) of the Code of Federal Regulations, to become effective December 26, 2014.

As a major research university, cost accounting at CU Boulder must be consistent for all operations. Thus, the Campus Controller must approve any exceptions to ISA policy and practices.

### III. APPLICABILITY

The policy and procedures described in this chapter are applicable to all ISA units. ISA lists sorted by Department or by FOPPS are available on the CCO website:

<http://www.colorado.edu/controller/resources/internal-sales-activity>

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### IV. KEY FEATURES OF INTERNAL SALES ACTIVITIES

**Internal Sales Activity (ISA):** An ISA is a business line within a campus organizational unit that provides a specific type of good or service to university *departments* (rather than to individuals or the general public) and is supported by interdepartmental charges to the user department's operating FOPPS. The users typically determine the amount of goods/services they obtain. While such a good/service could be purchased from commercial sources, for reasons of convenience, cost, and/or control, the good/service is often provided more effectively through a CU Boulder ISA. The rates charged by an ISA are generally formulated to recover operating costs.

In addition, ISAs:

- Are established to provide goods/services to other university departments, sponsored programs, or activities.
- Operate as a discrete activity having control of revenues and expenses.
- Can be either ongoing or one-time activities.
- Charge all *internal* users equally for services at a rate calculated to recover their costs over a fixed period of time.
- May make sales to external entities.

ISAs range in size from departmental copy machine operations or faculty labs to the Telecommunication System and the Co-Generation Plant. ISAs do not include clearing FOPPS, in which actual expenses are distributed among benefiting units each month. For example, in Housing, purchases of certain food and supply items are initially charged to a centrally-administered FOPPS within the Housing Department. The expense is then allocated to other units within Housing. This is not an ISA activity. Neither is an ISA a one-time distribution of expense.

**Charging research grants:** CU Boulder conducts sponsored programs under federal government grants and contracts. When an ISA sells to a Fund 30 or 31 FOPPS, the transaction results in direct and indirect charges to federally sponsored grants and contracts. Therefore, ISA policies and practices must reflect government regulatory costing principles as contained in the Office of Management and Budget (OMB) [\*Circular A-21, Cost Principles for Educational Institutions\*](#). ISA operations must also adhere to the costing principles required by the Cost Accounting Standards Board. As a major research university, cost accounting at CU Boulder must be consistent for all operations. Thus, the Campus Controller must approve any exceptions to ISA policy and practices.

**Internal Controls:** ISAs are operated as essentially self-funded businesses within a campus unit. Their business activity consists of interdepartmental sales, and may also include inventory for resale and occasional cash or credit sales to the

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general public. ISAs must follow the appropriate internal controls for cash, inventory, and accounts receivable as prescribed in the respective chapters of *The Guide*.

**Exchange Transactions:** An ISA should only be established to provide a true exchange transaction, meaning the actual buying and selling of goods or services. Units should not use the IN or ID revenue account codes for non-exchange transactions such as cost allocations or revenue sharing, but rather should examine using budget or cash transfer journal entries to move funding. Contact your [Area Accountant](#) for additional guidance.

## V. ACCOUNTING, BUDGETING, AND COSTING

### A. Accounting

ISAs must be budgeted and accounted for separately from other departmental activities.

Normally, ISAs should operate out of funds 20, 28, or 29. There may be an occasional need to record internal revenues in the General Fund. Contact the [Campus Controller's office](#) to review situations where an internal sale may need to be recorded in a General Fund FOPPS.

ISAs should transfer profits from sales made to external customers to a Fund 78 FOPPS. These transfers should be done monthly or on some other reasonable time period, or annually at a minimum—[Cash Transfer How-To](#).

### B. Budgeting

ISAs must have FOPPS-Account combinations and budgets established in accordance with existing Planning, Budget and Analysis (PBA) and Campus Controller's Office (CCO) policy and procedure. Budgets must reflect the ISA's expected revenue, funding support, and expenses. Since the budget for an ISA FOPPS is normally prepared several months in advance of the beginning of the fiscal year, the new budget should be based on 1) historical costs using actuals, taking into consideration any surplus or deficit fund balance or 2) projected expenses, revenues, and surplus/deficit to the end of the current fiscal year.

### C. Costing

The ISA costing structure may contain **only** the allowable and allocable costs of operating the ISA. This includes all **direct costs** (salaries, wages, benefits, supplies, travel, utilities, etc.), and all **indirect costs**—general administrative recharges (GAR) and general infrastructure recharges (GIR). General Fund

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support may be provided as described in Section XI of this chapter. Only the salaries, wages and benefits of staff whose efforts support the ISA can be charged to the ISA. All proposed cost allocations must be reviewed with CCO before charging departmental general administrative salaries, wages, and benefits to an ISA. The costs of operating an ISA should not be commingled with the costs of other operations. For assistance with allowable costs and other related ISA rate topics, contact CCO:

1. All ISA topics including depreciation – [Customer Support Area Accountants](#).
2. Assistance with equipment inventory and the acquisition cost of buildings and capitalized improvements – [Debt and Asset Management](#).
3. Allowability of costs and the calculated cost of space – [Cost Accounting](#).

## VI. ESTABLISHING AN INTERNAL SALES ACTIVITY

Internal Sales Activities are categorized into risk levels based on the amount of their internal sales and the percentage of charging to research grants. This categorization, as well as the mix of an internal and external customer base, determines how the ISA is established and monitored.

Normally, Deans, Directors, or Department Chairs authorize the creation of an ISA. The creation of a large ISA may require authorization on the part of the respective Vice Chancellor, and/or the Chancellor, and/or the Regents. The benefits, including relative prices and quality, of the proposed ISA providing the goods/services must be weighed against the cost of obtaining similar goods/services from commercial or other university sources. In contemplating the creation of an ISA, departmental management must consider a variety of criteria. Start-up costs, such as purchasing initial equipment, supplies, or inventory should be funded by the administering department. If continuing operations result in a deficit fund balance, the department may need to consider subsidizing a portion of the activity.

### ***A. Needs Determination***

The department should determine whether a valid need for the ISA exists by evaluating the following:

1. Does a demand exist for the goods/services to be provided? This demand should be by more than one department/unit/activity.
2. Will a significant volume of internal sales, both in dollar amount and number of transactions, occur?
3. Will the goods/services be provided on a regular and continuing basis?

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4. If services are to be provided, will they be unique or specialized, as opposed to general administration or other CU Boulder support services already available?
5. Will the ISA be competing with an entity in the private sector?

### ***B. Compliance***

Before establishing an ISA, the department must determine that the **all** of the following criteria can be met:

1. All elements, and only the elements, of cost incurred in providing the goods/services will be recovered through the rate charged to customers.
2. Costs of other activities will not be charged to the ISA, except to the extent that the other activities are charging for goods/services provided.
3. Recovered amounts must be based on approved, predetermined rates, which are then applied to the actual quantities of goods/services provided.
4. The activity constitutes a true exchange transaction.

### ***C. Requesting a FOPPS***

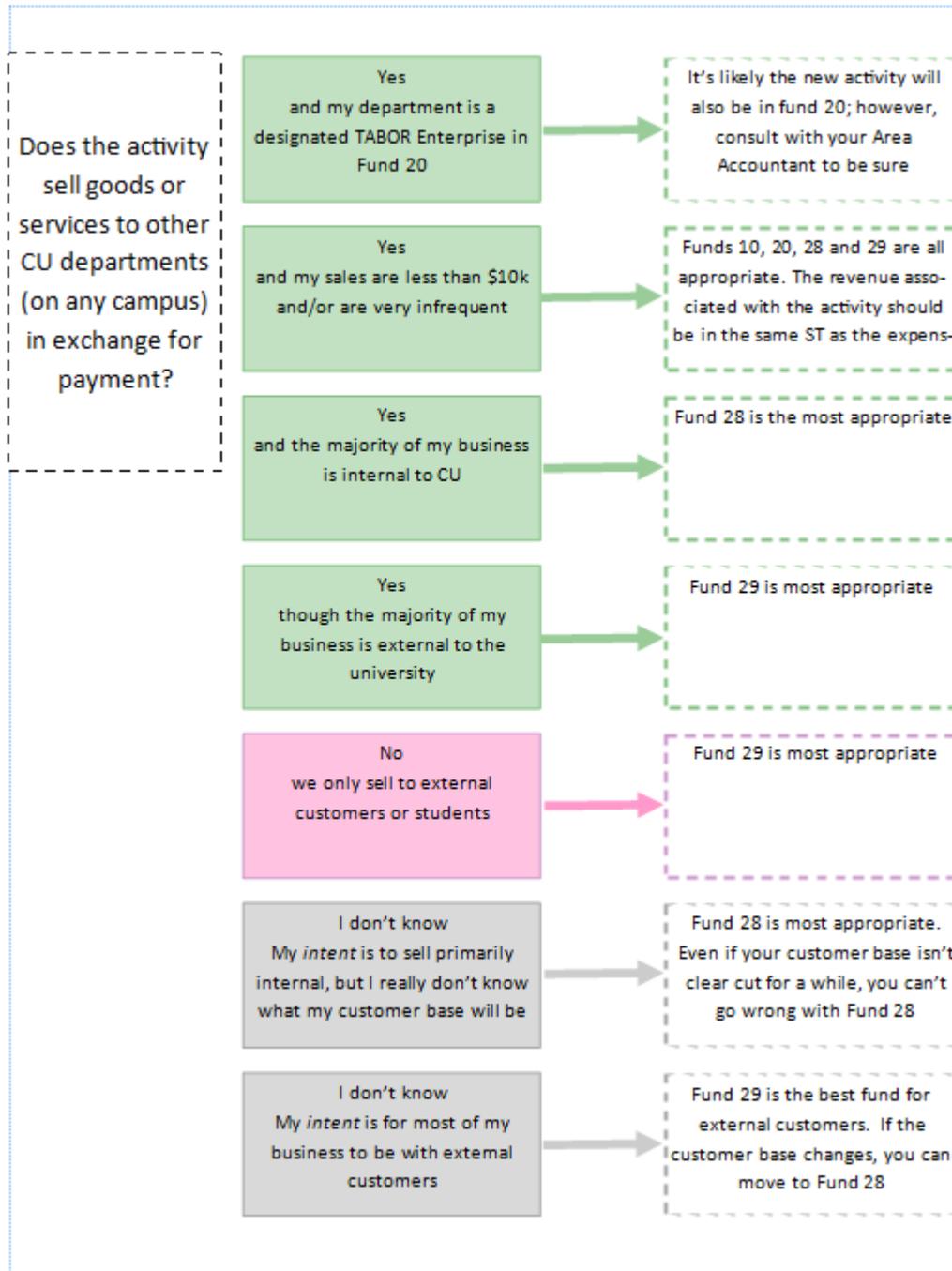
Any unit desiring to create an ISA should submit a request to CCO. The ChartField Request – SpeedType, Program, Subclass can be found in the Forms section on the [Office of the University Controller](#) website. When submitting the request, the unit should also be prepared to provide a submission packet including:

- An estimated amount of annual internal revenue;
- An estimated amount or percentage of charging to research grants;
- An explanation of what goods or services the ISA is providing;
- A completed Rate Sheet

Requests for these FOPPS should typically be in Fund 28 or Fund 29. Best practices recommend that ISA revenues and expenses not be combined or commingled with other activities, especially if the ISA is ancillary to the university's instructional mission.

For more information about the best Fund to use when establishing an ISA, see the decision tree below:

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**D. Risk Levels**

Based on the information provided by the unit, the ISA will be categorized into one of the following risk levels:

**Low:** any unit with less than \$10,000 annual internal revenue.

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**Medium:** any unit with between \$10,000 and \$100,000 annual internal revenue, OR any unit with between \$100,000 and \$500,000 annual internal revenue and no federal participation (charging to projects in funds 30/31).

**High:** any unit with annual internal revenue greater than \$100,000 and any federal participation (charging to projects in funds 30/31), OR any unit with greater than \$500,000 annual internal revenue.

The risk level will determine the level of annual review and oversight required.

# Internal Sales Risk Grid

	No Charging to Contracts and Grants	Charging to Contracts and Grants
Less than \$10K	<p><b>Risk: Low</b> No rate submission required</p>	<p><b>Risk: Low</b> No rate submission required</p>
\$10K-\$100K	<p><b>Risk: Medium</b> Rate determination required at least every two years</p>	<p><b>Risk: Medium</b> Rate determination required at least every two years</p>
\$100K-\$500K	<p><b>Risk: Medium</b> Rate determination required at least every two years</p>	<p><b>Risk: High</b> Rate determination and rate committee required annually</p>
Greater than \$500K	<p><b>Risk: High</b> Rate determination and rate committee required annually</p>	<p><b>Risk: High</b> Rate determination and rate committee required annually</p>

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### VII. BILLING RATES

All ISAs, regardless of size and risk level, should develop rates in accordance with all applicable rules and regulations, including principles outlined in A-21 and Generally Accepted Accounting Principles (GAAP).

ISAs in risk level Low are not required to submit rates for approval; however, they are still subject to the same principals and regulations as High and Medium categories and should be prepared to provide support for their billing rates upon request.

Risk level Medium ISAs must review and submit their rates at least biennially and include approval from the appropriate department personnel (such as the department chair or org fiscal manager).

ISAs in the High risk category must submit rates annually and include approvals from departmental management and a rate review committee. For more information, see the PBA [Rate Review Committee Specifications](#).

In addition, ISAs in risk levels Medium and High are required to publish a rate schedule. Publication of the rate schedule consists of any means of informing customers of the rates, such as online publication or posting at the point of sale. ISAs should operate on a break-even basis, so rates should be calculated to account for allowable reserves, and any prior-year surplus or deficit.

CCO and PBA will monitor ISAs on an annual basis.

The Finance System general ledger is the official system of record for the university, and must be the basis for all financial-related information used in developing ISA billing rates. Financial and statistical data used in developing billing rates should be based on a one-year period. This period normally should be the university's fiscal year July 1 through June 30. Units may develop their rates based on prior year actuals or current year estimates. The rate development methodology should be consistent from year to year. A change in methodology should be reviewed with your [Area Accountant](#) to help ensure continued compliance.

An example of a worksheet that can be used to calculate ISA billing rates, as well as a sample billing rate calculation, can be found in Section XIV of this chapter. A link to the ISA rate calculation sheet is on the CCO website under [Internal Sales Activity](#). This sheet is used to calculate the ISA billing rates and is also used to upload the budgets into the Finance System.

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### **A. Billing Rate Development Considerations**

All ISAs, no matter how small, must have billing rates for goods/services which:

- Can be substantiated with ISA **allowable** cost and usage (sales) calculations.
- Are established at levels sufficient to cover all **allowable** direct costs involved in the operation of the ISA, as well as indirect costs which are applied at a rate to be set each year.
- Are reviewed and updated on a regular basis, in accordance with the requirements for the applicable risk level.
- Are stated in measurable units of goods/services, e.g., hours of service, number of items, per analysis, etc.
- Are separately developed for distinctive types of goods/services when sales volume is significant and the cost of providing the goods/services is unique. Surpluses or deficits on a type of good/service cannot be shifted to another type of goods/services unless it can be demonstrated that the mix of users is not different between sales activities that gain and those that lose.
- Are not based on prorating or other indirect methods of cost allocations.
- Are not based on the rate structure of external businesses.
- Are non-discriminatory, meaning that all internal users must be charged the same rate(s) for the same level of goods or services purchased. Refer to Section IX.B of this chapter for alternative rate structures that are non-discriminatory. Volume discounts or other special pricing mechanisms must be equally available to all users who meet the criteria. External users may not be charged at a rate less than that charged to internal users. However, external users may be charged a higher rate. Students and Agency Fund FOPPS (Fund 80) are considered external users for purposes of charging for goods/services. The Campus Controller must approve any exception to this requirement.
- Are designed to recover not more or less than the aggregate **allowable** costs of providing the goods/services over a defined break-even period. The break-even period for most operations should be the fiscal year, although a longer break-even period may be established when necessary. For example, high “start-up” costs may exceed revenue during the first few years of operation. Carry-forward adjustments to future year billing rates may be necessary to achieve break-even in certain situations.
- Do not include the full cost of equipment, but do include the full, allowable depreciation charge on equipment, buildings, and improvements. Refer to Section VII.D of this chapter for more information.

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After taking into consideration all of the above rate-setting criteria, it is essential that billing rates be set in such a way as to make the ISA a “break-even” operation. ISAs will be considered as “break-even” if their month end fund balance, on average for the fiscal year or other reasonable time period, does not exceed 60 days of operating expenses. This 60-day limit has been established based on [OMB Circular A-87](#), section G.2.

Although a break-even position is desirable at the end of the fiscal year, it is not practical to expect ISAs to *exactly* break even. Since rate schedules are estimates of costs and utilization, ISAs may show a fund balance surplus or deficit at year-end. This estimated surplus or deficit must be incorporated into the next year’s billing rate calculation, and prices for the subsequent year must be adjusted accordingly. Carry forward balances will be reflected in the ISA’s auxiliary/self-funded FOPPS for the given fiscal year. In the subsequent fiscal year, price adjustments must be made in order to offset any “over” or “under” recovery. Although this approach satisfies the long-term break-even requirement, every effort must be made to develop pricing strategies that will minimize fund balance carry forward adjustments.

In order to ensure that federal contracts and grants receive the “most favorable rate” based on the true costs of operations, under no circumstances should an ISA deficit be funded by another ISA, nor should an ISA surplus be directed to other CU Boulder activities.

### **B. Unallowable Costs**

Since ISAs may, during the course of their regular operations, provide goods and services to sponsored projects supported by Federal funds, it is imperative that the ISA be aware of what costs are not permissible for inclusion in the billing rates for internal customers.

Section J of [A-21](#) identifies those costs that are allowable, as well as those that are prohibited, for charging to federal programs. Therefore, ISAs may not include the costs listed below in their internal customer billing rates. These costs must be funded by other resources (such as general fund budgets, gift funds, profits from external sales, or other non-ISA auxiliary/self-funded monies) provided by the ISA’s department or administrative unit. ISA managers are responsible for ensuring that the following unallowable charges are not included in the billing rates to internal customers. Note: Refer to [A-21 §J](#) for a complete and annotated list.

- **Advertising:** only advertising for recruitment of personnel and procurement of goods or services, e.g., position vacancies and request for bids is allowable. All other advertising is unallowable.

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- **Alcoholic Beverages**
- **Alumni Activities:** costs incurred for, or in support of, alumni activities and similar services.
- **Bad Debts**
- **Commencement and Convocation Costs**
- **Contingency Provisions:** contributions to a contingency reserve or any similar provisions made for events, the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening.
- **Defense and Prosecution of Criminal and Civil Proceedings, Claims Appeals and Patent Infringement**
- **Donations and Contributions**
- **Entertainment Costs** (typically official functions): costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities). Expenses for staff morale and performance appreciation activities per university policy are allowable.
- **Financial Aid**
- **Fines and Penalties**
- **Fund Raising**
- **Goods or Services for Personal Use**
- **Interest Costs:** with the following exception: Interest cost is allowed when paid to an external party (not the University Treasury) and associated with the following assets, provided that the total cost (including depreciation, operation and maintenance, interest, etc.) does not exceed the rental cost of comparable assets in the same locality.
  - Buildings acquired or completed on or after July 1, 1982.
  - Major reconstruction and remodeling of existing buildings completed on or after July 1, 1982.
  - Acquisition or fabrication of equipment completed on or after July 1, 1982, costing \$10,000 or more, *if agreed to by the government*.Contact CCO before incurring any equipment or facility interest costs. Interest cost paid to the university—such as that paid on cash deficits, on borrowings to fund equipment purchases, or on borrowings to fund facility purchase or remodeling—is unallowable.
- **Lobbying Costs** incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the executive branch of the federal government to give consideration or to act regarding a sponsored agreement or a regulatory matter. Improper influence means any influence

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that induces or tends to induce a government employee or office to give consideration or to act regarding a government-sponsored agreement or regulatory matter on any basis other than the merits of the matter.

- **Memberships, Subscriptions and Professional Activity Costs** in any civic or community organization, country club, social or dining club.
- **Promotional Items and Memorabilia** including models, gifts, and souvenirs.
- **Public Relations Costs:** includes community relations, and means those activities dedicated to maintaining the image of the university, or maintaining or promoting understanding and favorable relations with the community, public at large, or any segment of the public.
- **Rental Costs** under “less-than-arms-length” leases are allowable only up to the amount that would be allowed if the university owned the property. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other.
- **Student Activity Costs:** costs incurred for intramural activities, student publications, student clubs, and other student activities.
- **Transfers of Cash** to a renewal and replacement FOPPS in excess of that equal to the depreciation expense calculated on existing equipment and facilities.

### ***C. Operational Considerations in Billing Rates***

ISAs must:

- Charge all users of goods/services at the established, approved rates
- Not provide any subsidy to any user or class of users
- Maintain documentation supporting each charge. This must identify the customer, the date of the sale, the goods/services provided, and the rate charged for the goods/services
- Initiate billing transactions when goods/services are provided, but no later than for end-of-month Finance System close. ISAs may not initiate billing transactions in advance of providing the goods/services. Progress billings may be made for jobs in progress
- Charge the cost of goods/services directly to users, including sponsored projects (Funds 30/31) based on actual use of the goods/services
- Record IN revenue in account numbers 380100–389999 (if in Fund 28 or Fund 20 for Cogen and Telecom)
- Record ID revenue in account numbers 390000-399999 (if in fund 10, 29, or certain fund 20s)

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- Record external sales into the appropriate SSEA (250000-259999) or Miscellaneous Revenue (325000-333500) account codes (if in fund 20, 28, or 29)

**Note:** External sales include those sales made to students or Agency Fund FOPPS (Fund 80)

### ***D. Equipment and Depreciation Considerations in Billing Rates***

The acquisition cost of equipment used in providing the ISA's goods/services may not be included in the billing rate for recovery in the year of acquisition. Only a depreciation expense factor may be included in the billing rate calculation.

The determination of useful (i.e., depreciable) life of equipment is made in conjunction with [Debt and Asset Management](#), and is based on federal class-life tables or other reasonable method. Depreciable life should not be confused with "physical life." The latter term refers to the total length of time an item of equipment is physically retained and used. For example, due to technological developments or obsolescence, an item of equipment might have a depreciable life of five years. However, the item might actually be kept and used as "backup" for an additional two years beyond its depreciable life.

Occasionally a piece of equipment will be disposed of before the end of its useful life. When this occurs there is a portion of the acquisition cost related to the remaining years of useful life that has not been included in previous billing rate calculations. This is the un-depreciated cost of the asset. The un-depreciated cost, reduced by any payment (consideration) received on the disposal of the equipment, may be included in the next billing rate calculation. This allows for full recovery of the cost of the equipment. This does not apply to old equipment traded in on new equipment. In this situation, the un-depreciated value of the equipment traded in becomes a part of the acquisition cost of the new piece of equipment.

Depreciation is not booked as a departmental expense in the Finance System general ledger. However, a cash transfer to the renewal and replacement FOPPS provides the same effect on fund balance. The calculated annual depreciation expense (cash transfer) is then used in determining billing rates. A cash transfer equal to this amount must be made each year from the ISA auxiliary FOPPS to the ISA renewal and replacement FOPPS in Fund 78. All equipment must be purchased from the renewal and replacement FOPPS. No equipment (cost of \$5,000 or more) may be purchased from the auxiliary/self-funded FOPPS. Operating costs must be charged to the ISA auxiliary/self-funded FOPPS and must not be charged to the renewal and replacement FOPPS.

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ISA equipment depreciation is based on straight-line depreciation using a monthly convention in the year of purchase and in the year of disposal, and assumes no salvage value. The cost of the equipment—including applicable GAIR and excluding costs paid by federal sponsored projects—is divided by the useful life to determine each year’s depreciation expense. In the year of purchase, depreciation is proportional to the number of months left in that year, with the remainder charged in the final year of depreciation. The years in between are charged the full amount of annual depreciation.

For example, assume that a piece of equipment is bought on May 15, 2014 for \$6,000 and has an estimated useful life of five years ( $\$6,000/5=\$1,200$ ). The depreciation and transfer, as shown below, is \$200 during year 1, \$1,200 per year in years 2, 3, 4, 5 and \$1,000 in year 6.

Year #	FY	Amount	Notes
1	2014	\$ 200	2/12 of full year (May & June)
2	2015	\$1,200	
3	2016	\$1,200	
4	2017	\$1,200	
5	2018	\$1,200	
6	2019	\$1,000	10/12 of full year (remaining depreciation)

The depreciation accounting entry is a cash transfer between the ISA operations FOPPS and the corresponding renewal and replacement FOPPS.

To do a depreciation transfer:

**Debit** ISA auxiliary FOPPS → 997106 Vol Tsfr Out-ISA Depreciation  
**Credit** ISA Fund 78 FOPPS → 995106 Vol Tsfr In-ISA Depreciation

This entry should be done on an annual basis. If you do not know the full acquisition cost of the equipment when setting your billing rates for the year in which you buy the equipment and, as a result, an overage or a shortage results, the amount of this overage/shortage should be included in the rate setting for the next fiscal year. The depreciation charge and transfer ceases after the acquisition cost of the equipment has been fully depreciated.

A sample depreciation schedule can be found on the last page of this chapter.

Depreciation calculations can only include items of equipment that meet **all** of the following conditions:

1. The equipment items exist and are usable, used, and needed
2. The equipment items are identified separately from non-ISA equipment. Contact [Debt and Asset Management](#) to flag the equipment in the property accounting system for ISA equipment

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3. The equipment items have not outlived their depreciable life
4. Equipment items that have outlived their depreciable life are considered to be fully depreciated

Depreciation calculations must *exclude* any portion of acquisition costs borne or donated by federal fund sources. The projected cost of replacement equipment cannot be used in depreciation schedules.

Refer to section X of this chapter, *Inventory Acquisitions*, for information about an ISA that sells its equipment to another CU Boulder department.

### **E. Building and Capitalized Improvements Usage Factor**

A few large ISAs are responsible for providing their own building space and for maintaining improvements on those buildings. Billing rates for these service centers may include a capital usage factor for buildings and capitalized improvements. This factor is calculated based on straight-line depreciation with an estimated useful life of 40 years.

Depreciation calculations can include buildings and improvements that meet **all** of the following conditions:

1. The buildings and improvements exist and are usable, used, and needed
2. The buildings and improvements are used in part or whole by the ISA
3. The calculation excludes any portion of acquisition cost borne or donated by federal fund sources
4. The calculation is calculated on an annual rate of 2.5% of building and capitalized improvements
5. The calculation is limited to that portion of building space that is net assignable square feet, that benefits or relates to the ISA

If an ISA engages in facility improvements, it may have an impact on the F&A (ICR) rate. Therefore, ISA management should work with CCO to determine how best to recover the costs of space improvement. CCO can also help account for buildings that have an estimated useful life of less than 40 years.

## **VIII. CLOSING DOWN AN INTERNAL SALES ACTIVITY**

ISAs are intended to be going concerns. However, it may be necessary to close down an ISA, for reasons including equipment obsolescence, decreased demand for the good or service, or a management decision to absorb the costs into their regular operations. In order to close down an ISA, the following issues need to be addressed:

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- 1. Fund Balance:** In this context, fund balance includes the balance in the ISA auxiliary FOPP plus any balance in the ISA Fund 78 FOPP that has resulted from depreciation transfers. Because ISAs may charge no more than the cost of the goods or services it provides, and are intended to break even, they cannot be shut down if a surplus or deficit fund balance exists.

**Deficit Balances:** If the ISA has a deficit fund balance, the department must cover the deficit before the ISA can be shut down.

**Surplus Balances:** If the ISA has a surplus fund balance after all applicable profit transfers have been made, the balance should be refunded to the ISA's internal customers on a pro-rata basis. The refund should be allocated on the basis of charges to all internal customers in the last 12 months.

- 2. Equipment and other physical assets:**

- Tagged equipment – contact [Debt and Asset Management](#) to remove the ISA attribute from the property accounting system. The actual equipment should be repurposed by the department or disposed of properly through [Property Services](#).
- Non-capital assets – the unit should repurpose non-capital assets (such as supplies, desks and other furniture) if possible, or arrange for proper disposal through Property Services.
- Inventory – the unit should return excess inventory to the vendor if possible, or arrange for sale to a different department. If neither is an option, the inventory should be disposed of properly through Property Services

- 3. Space:** Space should revert back to the owner of the space (General Fund, RBS/RPS, or auxiliary department) for reassignment.

Once all of the above have been addressed, and the fund balance is \$0, the unit should submit a request to [CCO](#) to inactivate the speedtype. Contact your [Area Accountant](#) for assistance with this process.

## IX. SAMPLE RATE CALCULATIONS

### A. General Rate Calculation

In its simplest form, or for a single-product ISA, the ISA's rate is cost based. This means that users are allocated a share of costs based on their relative use of ISA products or services. A single, unitized cost rate (cost per unit of output) is used to recover the expense of providing a product or service. This

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rate is calculated by dividing the total budgeted cost for providing the goods/services by the total **projected level of activity** for the budget period:

$$\text{Rate} = \frac{\begin{array}{l} \text{Total budget expense} \\ \text{Plus prior year under-recovery, or} \\ \text{Minus prior year over-recovery} \\ \text{Minus any department subsidy} \end{array}}{\text{Total Projected Level of Activity for the Budget Period}}$$

Section XIV of this chapter contains an example of the annual billing rate calculation, including a sample depreciation schedule.

ISAs that sell inventory will use a slightly different calculation to determine an average markup over their cost of goods sold. The rate is determined by dividing its administrative or operating costs by its projected cost-of-goods sold. The rate is, therefore, a markup percentage on the cost-of-goods sold which should generate sufficient revenue to cover the cost-of-goods sold plus the administrative costs.

$$\text{Rate} = \frac{\begin{array}{l} \text{Total Budget Expense} \\ \text{Plus prior year under-recovery, or} \\ \text{Minus prior year over-recovery} \\ \text{Excluding cost of inventory} \end{array}}{\text{Total Projected Cost-of-Goods Sold}}$$

The billing price of the goods to be sold is then the cost increased by the rate calculated above.

An ISA offering multiple related goods/services may establish rates for a variety of services that, in aggregate, recover the total costs of the ISA. Again, it is of paramount importance that, in establishing its rates, an ISA does not discriminate against any internal group of users.

**B. Alternative Rate Structures**

Some ISAs may experience special circumstances that call for rates utilizing an approach different than the general rate calculation. Tailored rate structures or pricing mechanisms may be used as described below, so long as the resulting rates are non-discriminatory with respect to classes of users, e.g. federally sponsored programs.

**Time-of-Day**

ISAs that have wide fluctuation in usage during the day, or between Monday-Friday versus weekends and holidays, may establish a ‘time-of-day’ rate

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structure. Higher rates may be charged during hours of peak use, (“prime time”) to provide incentives to reduce the demand for services during peak times. This structure helps all users by improving performance during peak hours and encouraging the utilization of off-peak hours, thereby reducing the cost for additional equipment.

ISAs utilizing a “time-of-day” rate structure must show that all users have an opportunity to use the center during non-peak hours, and that no particular user—especially federally sponsored programs—is disadvantaged by the proposed rate structure. This type of rate structure is used most frequently in computer and communication ISAs.

### **Volume Discounting**

Sometimes economies of scale dictate that a large quantity of a product or service can be provided to a customer at a lower overall cost than the normal per unit rate. Such a volume discount is allowed as long as it is disclosed and justified in the ISA’s proposed budget and rates, **and** its effect is not discriminatory to a single type of customer, other than by amount of product or service provided.

## **X. INVENTORY ACQUISITIONS**

Inventory for resale by ISAs should be acquired in such a manner that costs are minimized. Since bulk purchasing can result in significant price reductions, the quantity to purchase should be carefully evaluated using historical sales activity. Quantities expected to be in inventory for an excessive amount of time should be evaluated using an economic order quantity model that takes into account the costs to acquire and to carry the inventory. Bulk purchases may be made when the evaluation indicates that they are cost effective.

Inventory being sold by an ISA to other university departments must be purchased by the ISA and charged into an inventory account (0400xx). When sold, an inventory account must be credited for the cost of the item(s) sold, and a cost-of-goods sold account must be debited for that same amount. (4502xx).

The Inventory Policy, which is covered Chapter 11 of [The Guide](#), provides detailed accounting information on inventory booking and resale.

## **XI. SUPPORT**

Upon occasion, an ISA may not be able to generate sufficient revenue to cover all of its costs and funding demands. When this occurs, the administering department

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must decide upon a corrective action. Examples of such actions include, but are not limited to:

- Reduce costs
- Increase rates
- Increase sales volume
- Provide additional departmental resources (subsidies)
- Terminate the activity
- Change service levels

## XII. RECORD KEEPING

ISAs must establish and maintain record keeping procedures and systems to capture all financial and statistical data necessary for internal control and for the development and maintenance of billing rates. Records of all sales provided to customers must also be maintained to document the goods/services sold and the pricing of each. Records of equipment acquisition and the calculated depreciation factor must be retained to support the billing rate calculation.

Each ISA must, at a minimum, have the following:

1. Documentation as to how the billing rate(s) was calculated
2. Records supporting the amount and basis of user billings (revenue)
3. Records of the amount charged to research grants
4. Documentation on the life of equipment and associated depreciation

Records retention is governed by state and university policy. The length of time records must be kept varies depending on the type of record. In general, financial records must be kept from 3-6 years. Refer to the [CCO Records Retention](#) website for additional information about retention and disposition of financial records.

## XIII. EQUIPMENT AND OPERATING CAPITAL FINANCING

Federal cost policy does *not* allow ISAs to include in their current rates a factor to build cash reserves to fund future costs such as contingencies, new equipment, unanticipated major repairs, or expansion of the ISA. In addition, ISAs cannot build into their current rates a component to fully fund the initial investment in retail inventory. Only the cost-of-goods sold is an allowable cost. These cash needs must be funded from other non-ISA funds. If that is not possible, the ISA should contact CCO. In rare instances, departmental loans for equipment purchases may be an optional form of support. Loans for the acquisition of

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equipment ideally should be repaid over a period of time that is not less than the life of the equipment being purchased. The annual depreciation charge included as a cost in determining the ISA rates will provide the revenue to repay the loan. It is important to note that the repayment of a loan is taken in lieu of depreciation. Once the loan is repaid, no additional depreciation may be recorded. For loans to fund unanticipated major repairs, ISA management and CCO should consider when the ISA's rates will reflect the repair cost in determining the period to repay the loan.

Contact the [CCO Area Accountants](#) for assistance in recording the loan and for guidance about the accounting entries for making the repayment.

### XIV. EXHIBITS

#### ***A. Billing Rate Calculation Worksheet***

The complete ISA rate workbook is in the CCO website, under Additional Links at the bottom of [this page](#).

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<i>InterDepartmental Sales and Services - Rate Calculation with Prior Year Detail</i>						
Fund _____		Org _____		Program _____		
Speedtype _____				ST Name _____		
		Calculation of Rates Effective for:				
		Calculated		Estimated Actuals		Actuals
		FY 14	FY 13	FY 12	FY 11	
		act code				
Revenue						
External Revenue						
Internal Revenue						
<b>Total Revenue</b>			-	-	-	-
Salary & Wages						
Regular Faculty		400000				
Research Faculty		400290				
Professional Exempt		402500				
Classified - regular, permanent		405000				
Professional Exempt, temp		402750				
Classified, temp		405150				
Student Faculty		402200				
Hourly		407500				
<b>Total Salary</b>			-	-	-	-
Benefits:	FY14					
Regular Faculty	28.0%	419400	-	-	-	-
Research Faculty	32.2%	418610	-	-	-	-
Professional Exempt	32.2%	422500	-	-	-	-
Classified - regular, permanent	32.2%	425000	-	-	-	-
Professional Exempt, temp	12.3%	422610	-	-	-	-
Classified, temp	12.3%	425110	-	-	-	-
Student Faculty	8.3%	422210	-	-	-	-
Hourly	1.2%	427500	-	-	-	-
<b>Total Benefits</b>			-	-	-	-
<b>Total Salary &amp; Benefits</b>			-	-	-	-
Supplies		460000				
Non-capital equipment		460000				
Capital lease payments - principal and interest only		460000				
Services		460000				
Maintenance & Repair		460000				
Printing & Copying		460000				
Travel		700000				
Other expenses (please specify, insert lines as necessary)						
<b>Total Operating Expenses</b>			-	-	-	-
<b>Total Direct Expenses</b>			-	-	-	-
GAR		960100	-	-	-	-
GIR		960200	-	-	-	-
<b>Total Expenses</b>			-	-	-	-
Depreciation Transfers		997106				
<b>Total Projected Costs</b>			-	-	-	-
Calculated Allowable 60-day Reserve			-	-	-	-
Fund Balance (Deficit) at Fiscal Year End						
Adjustment for unfunded unallowable expenses (PIE, advertising, etc.) (enter as +)						
<b>Total Recoverable Costs</b>			-	-	-	-
Departmental Subsidy		995100				
<b>Net Recoverable Costs/Expenses</b>			-	-	-	-
<b>Calculation of Rate</b>						
Estimated Units of Sale						
<b>Rates</b>						
<b>Internal Rate before Subsidy = Minimum External Rate</b>			-	-	-	-
<b>Calculated Internal Rate</b>			-	-	-	-
<b>Proposed Internal Rate for upcoming FY &amp; Actual Internal Rate charged for other years</b>						
<b>Distribution Base</b>			per service	per service	per copy	hourly

*Don't forget to share this rate sheet with all staff associated with charging fees and recording transactions.*

Have comments about the rates? Put them here.

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***B. Sample Depreciation Schedule***

**University of Colorado Boulder  
(Service Center Name) Depreciation Schedule  
For FY 2014 Billing Rates**

Description of Equipment in Use	Mo/Year Purchased	FY Purchased	Original Cost	Useful Life	Deprec Exp Ends	Allowable Deprec
Copy Machine	Dec-08	FY 2009	25,000	10	FY 2019	\$2,500
Printer	Oct-09	FY 2010	5,900	4	FY 2014	983
Microscope	Jan-12	FY 2012	6,000	5	FY 2017	1200
Computer	Sep-12	FY 2013	5,400	6	FY 2019	<u>900</u>
Allowable depreciation & replacement reserve transfer						<u><u>\$5,583</u></u>

University of Colorado Boulder  
(Service Center Name) Depreciation Schedule  
For FY 2013 Billing Rates

Description of Equipment in Use	Mo/Year Purchased	FY Purchased	Original Cost	Useful Life	Deprec Exp Ends	Allowable Deprec
Copy Machine	Dec-08	FY 2009	25,000	10	FY 2019	\$2,500
Printer	Oct-09	FY 2010	5,900	4	FY 2014	1,475
Microscope	Jan-12	FY 2012	6,000	5	FY 2017	1200
Computer	Sep-12	FY 2013	5,400	6	FY 2019	<u>750</u>
Allowable depreciation & replacement reserve transfer						<u><u>\$5,925</u></u>

Note: half year convention was the method used prior to FY11. In FY11, a monthly convention was adopted. At the time of the change, the PS Asset Mgmt system divided remaining deprecation by months of useful life remaining to arrive at a monthly amount. If you have questions about setting up a depreciation schedule, please contact your Area Accountant.

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### XV. DEFINITIONS

**A- 1:** Office of Management and Budget Circular [A-21](#), Cost Principals for Educational Institutions. This is the prevailing guidance behind Sponsored Projects and InterDepartmental Sales and Services. The circular sets forth principals for direct, indirect, allowable, and unallowable costs, as well as principals for determining the allowability of other costs.

**Acquisition Cost:** is the total value of resources expended and committed to bring equipment or buildings and improvements up to intended and useful condition. Total “capitalized costs” may include, but are not limited to, the cost of an item, freight, taxes, in-transit insurance, installation/modification costs, consultant services related to acquiring the item, construction costs, capitalized interest, and the current book value of university assets given in exchange. For donated capital assets, acquisition cost is its fair market value at the time of the donation (plus any acquisition related expenses such as freight and installation).

**Allowable Costs:** are costs that satisfy **all** of the following conditions:

1. **Are reasonable:** A reasonable cost reflects the action a prudent person would make under the circumstances in light of their stewardship responsibility to the university community, State of Colorado, Federal Government and the public. Major considerations involved in the determination of the reasonableness of a cost include:
  - a). Whether the cost is generally recognized as necessary.
  - b). The restraints or requirements imposed by such factors as arms-length bargaining and federal/state laws and regulations.
  - c). The extent to which the actions are consistent with established Boulder Campus, university, and/or Board of Regents policy.
2. **Are consistently applied** according to Boulder Campus cost accounting standards that have been documented for the federal disclosure statement [DS-2](#).
3. **Are properly allocable** to goods/services in accordance with relative benefits received or other equitable relationship. Costs allocable to a particular good/service cannot be shifted to other goods/services. A cost is allocable to a good/service if it is necessary to the provision of the goods/services and meets either of the following conditions:
  - d). The cost solely benefits the good/service.
  - e). The cost benefits the good/service and other goods/services or activities in proportions that can be reasonably approximated based on benefits derived, a traceable cause and effect relationship, or

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logic and reason where neither benefit nor cause and effect relationship is determinable.

4. **Are historically based** (with appropriate adjustments for applicable credits). **Note:** In the case of *current operating costs*, projected costs may be considered in lieu of historical costs to the extent they are based on objective evidence (for example, approved changes to next year's operating budget) and not on speculation.
5. **Are not specifically unallowable.** Refer to Section VIII.B in this chapter for a list of unallowable costs per federal regulations as articulated in Section J of A-21.

**Applicable Credits:** are receipts or negative expenditures that operate to offset or reduce costs. Examples of applicable credits include purchase discounts, rebates, or allowances (including "educational discounts" where the arrangement is not clearly and specifically identified as a gift by the vendor), recoveries or indemnities on losses, and adjustments for overpayments or erroneous charges. The Department of Health and Human Services considers interest earned on the investment of an ISA's operating fund cash to be an applicable credit. Therefore, ISAs will be credited (using an allocation mechanism) for investment earnings on their cash balances attributable to internal sales.

**At-Cost Basis:** Activities that charge internal customers are allowed to recover actual costs of goods or services, and no more. Essentially, cost is calculated by dividing the total recoverable costs of the activity by the number of units to be sold. Rate sheets have been developed to help establish "cost" for an individual unit of sale.

**Auxiliary Enterprise Units:** as used in the ISA policy, are departments or activities which were established primarily to provide goods/services to *individuals*, i.e. students, faculty, staff and/or the general public, but which also regularly provide goods/services to CU Boulder departments, sponsored programs or activities. For example, the Bookstore and the Department of Housing are auxiliary enterprise units (a full list is available [here](#)). These units are not considered ISAs.

**Break-Even Period:** is a reasonable time period in which cumulative allowable and allocable revenues for a good/service should equal cumulative expenses. This period of time is usually the fiscal year.

**Capitalized Costs:** see Acquisition Costs.

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**Depreciation:** Depreciation accounting is a system of allocating the acquisition cost of an asset (equipment, building, parking lot, etc.) over the estimated useful life of the asset, usually measured in years, but sometimes based on volume of usage. Each accounting period is charged with a proportionate depreciation expense for the estimated useful life of the asset, rather than charging the full cost of the asset as an expense in the year in which it was acquired. Please refer to Section VII.E of this chapter for information on ‘Equipment Considerations in Billing Rates’ that includes the depreciation requirements.

**Direct Costs:** Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other CU Boulder activity, or that can be assigned to such activities relatively easily with a high degree of accuracy. **Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.** Where CU Boulder treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances must be treated as direct costs of all CU Boulder activities. CU Boulder cost accounting standards are documented in the Federal Disclosure Statement [DS-2](#).

**Equipment:** is an article of non-expendable, tangible personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more. This includes donated equipment whose fair market value at the time of donation is \$5,000 or more, and equipment being constructed whose component parts may be less than \$5,000 each but whose total cost will be \$5,000 or more.

**Exchange Transaction:** A transaction in which there is an identifiable exchange of goods or services between the selling unit and the customer. The payment and the goods or services received are of essentially equal value.

**External Customer:** is any customer, other than one paying for the goods/services by charging a FOPPS-Account combination. Agency Fund FOPPS (Fund 80) are considered to be external customers.

**Facilities:** are the physical space occupied by the ISA, including utilities and routine maintenance such as custodial services.

**Facilities and Administrative (F&A) Costs:** F&A costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other CU Boulder activity. **Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.** Where CU Boulder treats a particular type of cost as an F&A cost of sponsored agreements, all costs incurred for the same purpose in like circumstances must be

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treated as F&A costs of all CU Boulder activities. CU Boulder cost accounting standards are documented for the Federal Disclosure Statement [DS-2](#).

**Internal Customer:** Someone within the university to whom a sale is made and is charged at cost for the sale. Internal customers are easily identifiable because they use speedtypes or CU procurement cards for payment. This includes other campuses, but specifically excludes students and payments made using a fund 80 speedtype.

**Operating Costs:** include but are not limited to:

- Salaries and wages,
- Employee benefits,
- Cost of materials and supplies,
- Travel,
- Transfer of cash for provision for renewal and replacement of equipment and facilities (depreciation), and
- A share of institutional administrative expense (general administrative recharges and general infrastructure recharges).

**Profit:** The amount in addition to cost that may be charged only to an external customer. Profits may be retained within the activity to offset unallowable costs, to reduce the cost to future customers, or transferred to fund 78 for other future use. It is recommended that profits be transferred to fund 78 unless they are being used to immediately satisfy the first two options.

**Rate Review Committee:** This committee is charged with rate reviews, standard setting, and compliance monitoring for the various activities that engage in internal sales. The committee is comprised of members of Planning, Budget, & Analysis (PBA) and Campus Controller's Office (CCO).

**Rate Sheet:** The methodology used to calculate the cost for an individual unit of sale. Several rate sheets have been developed by PBA/CCO, though departments may use their own versions when the recommended sheets do not adequately capture the cost data. Important elements to any rate sheet are total allowable costs, department subsidies, fund balance, total recoverable costs, and number of units to be sold.

**Risk Level:** The degree of risk assigned to an activity which identifies the level of oversight by Point Control. The risk level is determined by the amount of annual internal revenue, the annual amount of charging to grants and contracts, the long-term history of the activity, and compliance. Refer to Section VI.D of this chapter for more information.