

CVEA OVERHEAD 101

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Alaska Electric Utility Accounting & Finance Workshop

TOPICS TO REVIEW

- Why to review with employees
- What is overhead
- CVEA overheads
 - ❖ Employee costs
 - ❖ Transportation
 - ❖ Stores
 - ❖ Misc. for work orders



WHY ARE WE DOING THIS REVIEW?

- \$117 cut out
- \$421 to install
 - ❖ ~260% higher, why?
 - ❖ How do we explain that to the member?
 - ❖ Do we understand this?
 - ❖ Are we reasonable?
 - ❖ What do other cooperatives do?



WHAT IS OVERHEAD?

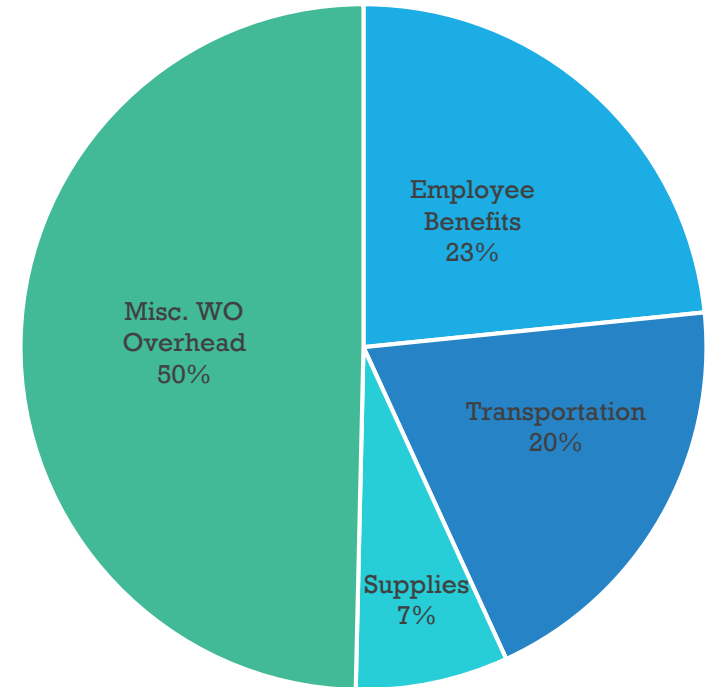
- Overhead, also known as indirect expenses, is the cost of running a business. Without these expenditures, a company would not be able to function, but they do not contribute directly to the generation of profits.
- In a simple distinction between indirect and direct expenses, the desk an employee sits at is considered an indirect expense, while the materials for the product the employee makes at the desk are a direct expense. Without the desk, the employee cannot work, but the desk does not produce profits, while the materials the employee works with to create a product do.



CVEA OVERHEADS (4)

- Applied to most costs
 1. Employee benefits ~65%
 2. Transportation ~55%
 - ✓ Certain accounts are identified; follows labor
- Applied to where material inventory is charged
 3. Supplies (material handling) 20%
- Applied to all work orders 138%
 4. Misc. overhead (107.9)

Work Order Sample
(has all overheads)



- Employee Benefits
- Transportation
- Supplies
- Misc. WO Overhead



EMPLOYEE BENEFITS

- The average benefits for CVEA = ~65%
 - ❖ Each employee group is different
 - ✓ Employee makes \$50,000 / year
 - Gets \$20,000 in benefits = 40%
 - ✓ Employee makes \$25,000
 - Gets \$20,000 in benefits = 80%



TRANSPORTATION OVERHEAD

- Ideally – each employee would enter vehicle number with hours on their timesheet
- Old method: hard to budget & predict
- New method starting in 2018



TRANSPORTATION OVERHEAD

(PRIOR TO 2018)

- Fleet costs estimated in 2018 = \$840,000 (\$70,000 / month)
 - ❖ Labor, depreciation, oil changes, gas, filters, insurance, etc.
- Each month the amount charged to vehicles is cleared out and spread based on where labor was charged
 - ❖ Distribution labor accounts 27% labor → 27% of transportation
 - ❖ Power production 30% labor → 30% of transportation
 - ✓ Not accurate and can easily be skewed.....
- Transportation is estimated ~55% but changes yearly (work orders)



TRANSPORTATION OVERHEAD (CURRENT 2018)

- Fleet costs estimated in 2018 = \$840,000 (\$70,000 / month)
 - ❖ Labor, depreciation, oil changes, gas, filters, insurance, etc.

	Percentage	Debit	Credit
CWIP - Overhead	35%	\$20,071.79	
SG - Power Generation	25%	\$14,336.99	
T-Line Maintenance	5%	\$ 2,867.40	
Operations	15%	\$ 8,602.19	
Operations - Source	15%	\$ 8,602.19	
Meter Reading	1%	\$ 573.48	
Administrative	3%	\$ 1,720.44	
Member Services	1%	\$ 573.48	
Vehicle Clearing			\$ 57,347.96

- Each month the amount charged to vehicles is cleared out and spread based on a percentage by account
 - ❖ Benefits of predictable expense
 - ❖ Will need to evaluate annually
 - ❖ Update budget to reflect this



SUPPLIES OVERHEAD - 163

- Material handling charge 20% (has been charged FOREVER)
- This is all the small parts and pieces that are NOT inventoried
 - ❖ Nuts, bolts, etc.
 - ❖ Copper crimpits
 - ❖ Meter rings
- In a larger utility a warehouseman will be charged here
- Ideally all costs charged here are recovered through the material charge



History on Account 163.00

	2013	2014	2015	2016	2017
Consumable / Material Purchases	\$ 22,726	\$ 35,252	\$ 22,286	\$ 43,059	\$ 31,735
Payroll / Benefits / NECA	\$ 51,186	\$ 82,673	\$ 44,689	\$ 82,201	\$ 108,112
TOTAL Expenses	\$ 73,912	\$ 117,926	\$ 66,975	\$ 125,259	\$ 139,848
Materials charged out	\$ 285,526	\$ 88,187	\$ 119,653	\$ 173,286	\$ 289,820
Actual % should have been charged	26%	134%	56%	72%	48%
Amount Cleared thru 20%	\$ 57,105	\$ 17,637	\$ 23,931	\$ 34,657	\$ 57,964
Other Adjustments	\$ (12,578)	\$ 2,672	\$ 21,766	\$ 42,797	\$ (42,365)
Amount Cleared at Year End	\$ 29,386	\$ 97,616	\$ 21,278	\$ 47,805	\$ 124,248

After reviewing, it is determined to increase the Supplies overhead rate to 25% for 2018.



MISC OVERHEAD – ACCOUNT 107.9

	2016	2017	Variance	Comments
Labor	203,246	339,765	136,518	Increased time charged to 107.9
Benefits	153,618	262,809	109,191	Increased time charged to 107.9
Vehicles	102,358	132,750	30,393	Labor drives transportation
Glennallen Housing	1,591	1,197	(395)	
Glennallen Lineshack	4,063	19,297	15,235	
Glennallen Office	10,632	7,890	(2,742)	
Valdez Apartment	1,601	1,372	(229)	
Valdez Line Office	14,131	12,720	(1,411)	
Valdez District Office	14,131	21,941	7,810	
Office Equipment	329	392	63	
Office Supplies	1,342	1,550	209	
Telephone	6,847	6,698	(149)	
Recording Fees	1,991	5,118	3,127	
WO Transfer	-	89,642	89,642	
Meals & Lodging	482	-	(482)	
Work Order Inspection	8,421	9,000	579	
FSR Training / Relocation	1,732	-	(1,732)	
Pre-employment testing	100	-	(100)	
Contract Labor	119,505	186	(119,319)	Staking Engineering Support
Consulting	-	-	-	
Clear 163 materials / supplies	-	-	-	
	646,118	912,328	266,210	

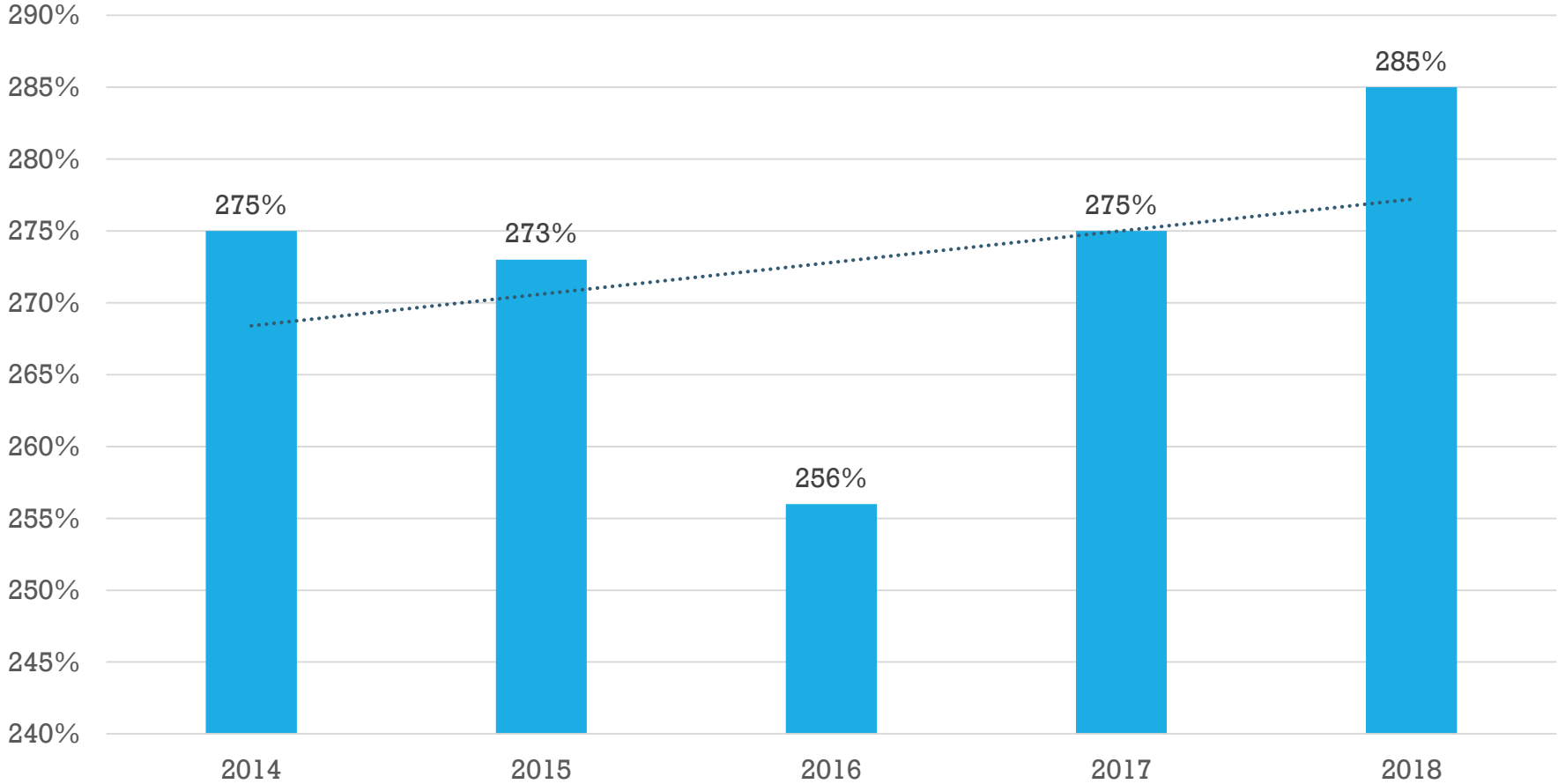


OVERHEAD RATE ANALYSIS FOR 2018

	OH Costs	Direct Payroll	Total OH %	Rate Charged	Notes on Rate Charged
2007	213,737.76	136,388.73	157%	134%	Prior year averages
2008	286,135.38	128,145.68	223%	157%	Based on prior year actual
2009	265,153.28	192,397.80	138%	223%	Based on prior year actual
2010	308,624.46	166,778.19	185%	159%	Based on 4 yr average (2006-2009 actual)
2011	284,727.11	331,123.51	86%	159%	Based on 4 yr average (2006-2009 actual)
2012	340,299.88	299,450.07	114%	140%	Based on 6 yr average (2006-2011 actual)
2013	346,508.13	371,851.96	93%	134%	Based on 7 yr average (2006-2012 actual)
2014	384,789.22	293,588.29	131%	123%	Based on 5 yr average (2009-2013 actual)
2015	378,371.33	281,766.08	134%	122%	Based on 5 yr average (2010-2014 actual)
2016	649,152.98	281,453.05	231%	112%	Based on 5 yr average (2011-2015 actual)
2017	912,327.66	339,764.78	269%	138%	Based on 5 yr average (2012-2016 actual)
10 Yr Average	415,608.94	268,631.94	155%		
5 Yr Average			172%		



RECAP OF TOTAL OVERHEAD FOR 2018



CONCLUSION...

- Continue to review annually
- Educate employees
- We are all slightly different and it is okay 😊

