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Overview

Morningstar Office's Portfolio Management System gives you the ability to calculate fees and create a Billing Summary for clients. Using the billing feature, you can specify your fee settings and tiers, automatically calculate fee amounts, and create client-facing billing summaries.

You can also generate a custodian fee file to upload fee information to your custodian to deduct fees from your clients' accounts. If you import data from your custodian, the fee transactions will be included once they are executed.

This guide outlines the different management fee options available to you, and walks you through the process of billing at the client, account and group levels.

What can I bill for in Morningstar Office?

The table below describes the types of items you can account for in Morningstar Office:

Billable Item	Description
Management fees	Management fees are those collected for the management of clients' assets or the performance of a service. Management fees can be flat, asset based or performance based, and they can be generated by using the management fee settings or manually entered by users.
Billable services	Billable services might include the following: ► initial consultation and account setup, and ► regular review of clients' financial needs.
Service charges	Service charges might include the following: ► account maintenance charges such as a minimum balance charge and/or finance charge, and ► per item charges for requests of additional documents.
Adjustments	Adjustments are changes made to billable items or billing statement totals after the statement for such an item was already generated.
Payments	Payments are advances the client makes toward billing fees. Payments are applied to older balances first.

How do I set up Morningstar Office to calculate my fees?

The four basic steps to setting up Morningstar Office to calculate your fees are:

1. Create management fee settings
2. Assign management fee settings to clients, groups or accounts
3. Apply fee methodologies to clients or groups, and
4. Assign fee allocations to clients, groups or accounts.

The table below briefly explains each of these steps:

This process…	Is designed to…
Create management fee settings	Help you determine whether you will bill a flat dollar amount for a service, a tiered rate based on a client's assets, or a value based on a performance metric.
Assign management fee settings to clients, groups or accounts	Apply the fees settings you have created. Once a fee is created, it must still be applied to a client, group or account.
Apply fee methodologies	Determine how each client or group will be billed. Will you aggregate all accounts for a client or group? Or will you bill each account separately?
Assign fee allocations to clients or accounts	Determine which accounts have fees deducted from their balance. If you charge a tiered fee to a client, will all accounts for that client be charged equally? Should one account be set to pay the fees for another?

Creating Management Fee Settings

Overview

The first step in setting up billing is creating management fee settings. Management fee settings provide a set of fee breakpoints and rates to be assigned to clients, groups or accounts.

This section explains the following concepts:

- ► What types of management fee settings you can create
- ► How many management fee settings each user can create in Morningstar Office
- ► Where management fee settings are created in Morningstar Office, and
- ► How to create each type of management fee.

What type of management fee settings can I create?

The table below outlines the four types of management fees you can create in Morningstar Office, and how they are used in billing clients:

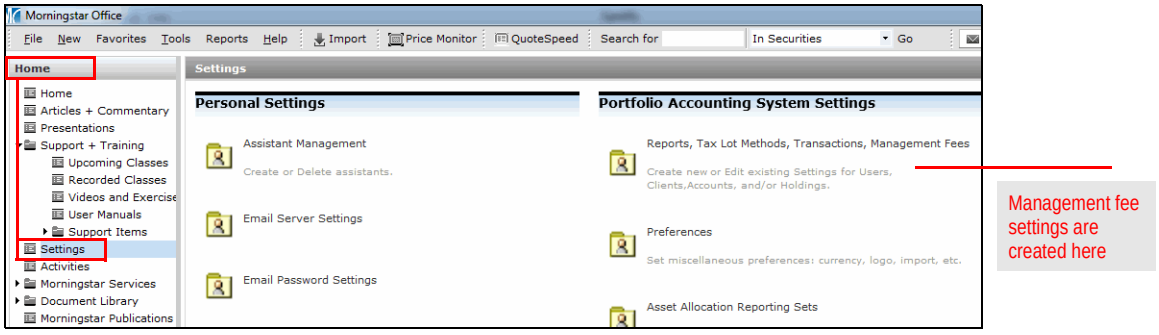
With this fee type...	You can charge...
Flat Fee	A set dollar amount for a client or an account
Tiered Fee	A unique percentage rate, based on account values
Security-Based Tiered Fee	A unique percentage rate, based on the security type
Performance-Based Fee	A set percentage of all portfolio gains during a billing period

How many management fee settings can I create?

You can create as many management fee settings as you like, and apply different settings to the clients, groups or accounts in your practice.

Where do I go to create management fee settings?

Management fee settings are created and saved in the Settings page from the Home tab (**Home**…**Settings**…**Reports**, **Tax Lot Methods, Transactions, Management Fees**).

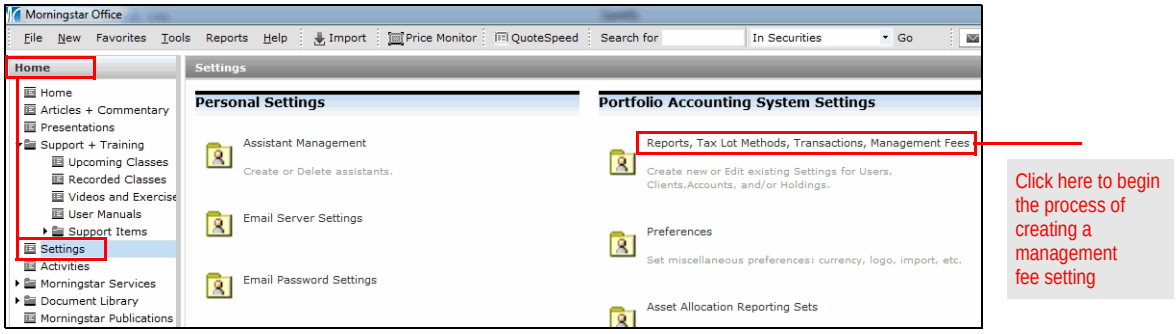


How do I create a flat management fee setting?

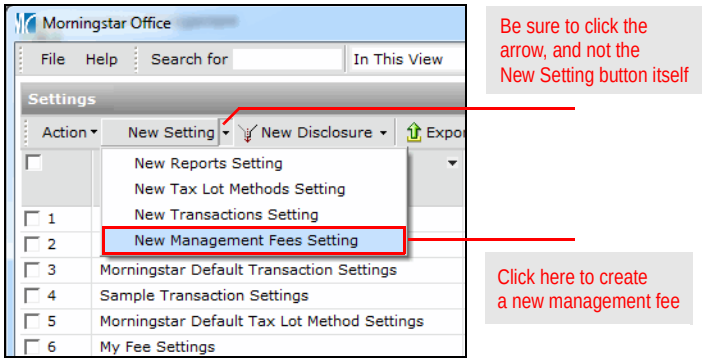
Flat fees allow you to charge a set dollar amount for an account or service. No matter what the account's value, account type (taxable, non-taxable, etc.) or the types of securities in the account, this fee does not vary. You cannot create tiers of flat fees, but you can create multiple flat fee settings.

To create a flat fee, do the following:

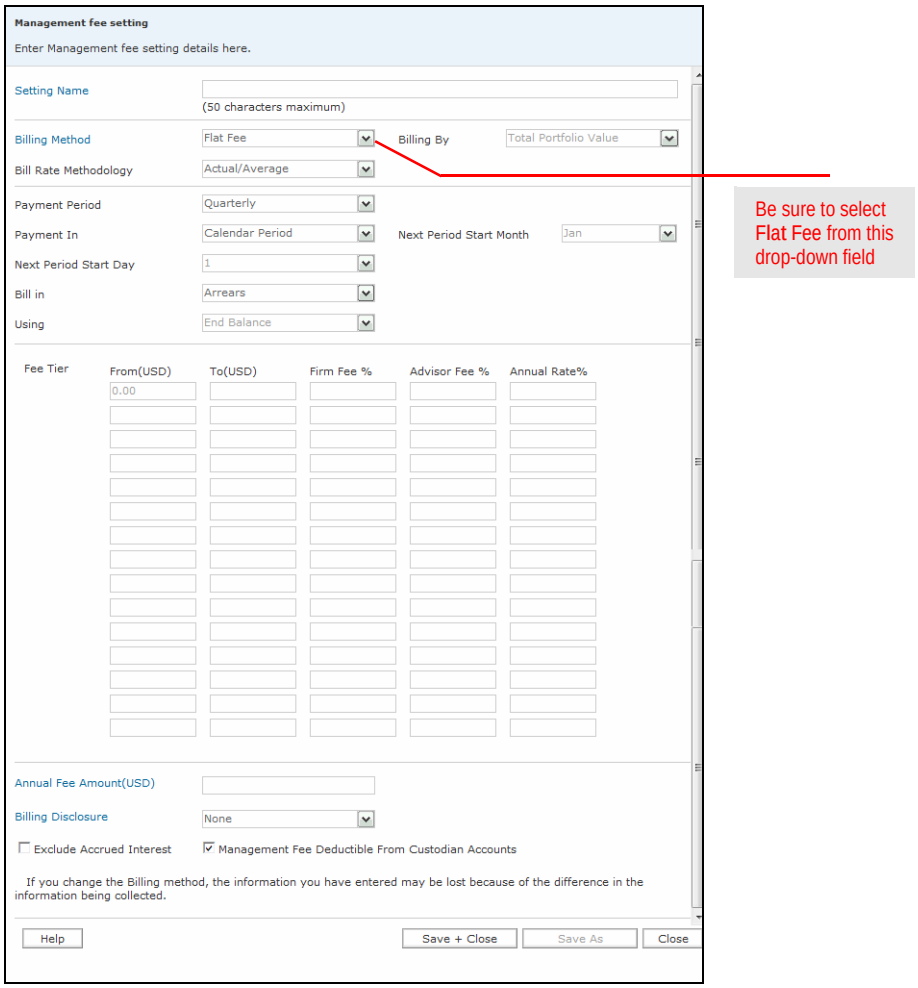
1. Go to the **Home** tab.
2. Click the **Settings** page.
3. Under the Portfolio Accounting System Settings area, click **Reports, Tax Lot Methods, Transactions, Management Fees**. The Settings dialog box opens.



4. On the icon bar above the spreadsheet area, click the **arrow** to the right of the **New Setting** button and select **New Management Fees Setting**. The Management fee setting dialog box opens.



5. Use the table below for instructions on how to fill out the fields in this dialog box.
6. When finished, click **Save + Close**.



Field Name	Instructions
Setting Name	Enter a **name** for the management fee setting. This does not appear on any report; it is only for your reference. Most advisors choose a descriptive name. For example, "Basic Flat Fee."
Billing Method	Select **Flat Fee**.
Bill Rate Methodology	Select either **Actual/Average** or **Actual/Actual**. With Actual/Average, the annual fee is multiplied by (1/4) to calculate a quarterly fee, (1/12) for a monthly fee, etc. (The frequency of payment is selected in the Payment Period field.) With Actual/Actual, the annual fee is multiplied by X divided by 365 (where X is the actual number of days in the billing period) to calculate the fee. For example, with a quarterly fee, in the second calendar quarter (i.e., April, May and June) a flat fee of $1,000 would be multiplied by (91/365).
Billing By	You can bill by either an account's **Total Portfolio Value**, or **Security Type**. If you select Security Type, you need to add Billing Categories. (The interface changes to provide this option.)

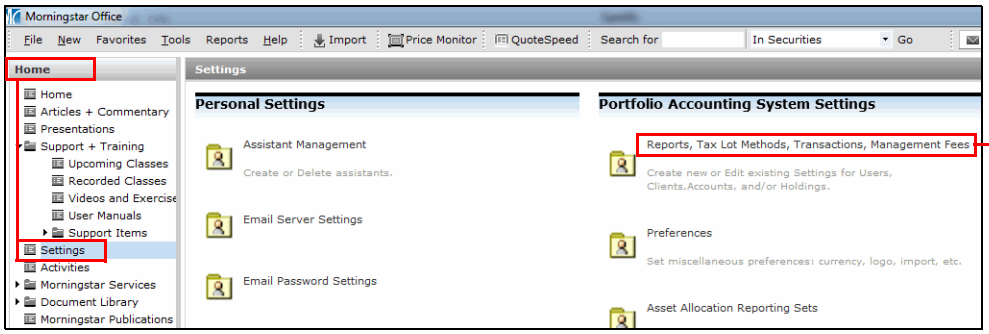
Field Name	Instructions
Payment Period	This field determines each billing time period. The options are **Quarterly**, **Monthly**, **Semi-annual**, **Annual** or **Custom Period**. If Custom Period is selected, the client can be billed in either 2- or 4-month periods.
Payment In	Select **Calendar Period** or **Rolling Period**. With Calendar Period, accounts are billed according to conventional calendar periods. For instance, if billing in advance, clients are billed on the last day of one time period (e.g., month, quarter) for the next time period. If billing in arrears, clients are billed on the last day of the current billing period. With the Rolling Period option, accounts are charged on a date of your choosing. The start and end dates follow your custom schedule. For example, you can stagger your quarterly billing by scheduling a portion of your business in January (for January-March, April-June, July-September and October-December), then create another management fee setting for the next portion in February (for February-April, May-July, August-October and November-January), and a third management fee setting for the final portion in March (for March-May, June-August, September-November and December-February).
Next Period Start Month (Rolling Period only)	This field is used only when the Payment In field is set to Rolling Period. It determines the month when the next period in the cycle begins. For example, if the next billing period begins on February 15, select **Feb**.
Next Period Start Day (Rolling Period only)	This field is used only when the Payment In field is set to Rolling Period. It determines the day when the next period in the cycle begins. For example, if the next billing period begins on February 15, select **15**.
Bill In	Choose either **Advance** (to bill on the last day of one time period for the next time period), or **Arrears** (to bill on the last day of one time period for the same time period).
Using	This field cannot be used with a flat management fee setting. For flat management fee settings, the balance of an account as of market close on the ending date for a period is used for billing.
Fee Tier	Fee tiers are not used for flat fees; you can ignore this area.
Annual Fee Amount(USD)	Enter the **dollar amount** for the annual fee.
Billing Disclosure	If desired, select a custom disclosure to appear on the Billing Summary. You must have already created and saved a billing disclosure before you can select it here. See "Creating a Billing Disclosure" on page 19.
Exclude Accrued Interest	Check this box to exclude accrued interest from bonds in the billable balance of your accounts.
Management Fee Deductible from Custodian Accounts	This check box determines the content of your Billing Summary. If the box is checked, the Billing Summary will show that the client owes nothing because fees are deducted automatically from their accounts at your custodian. If the box is unchecked, the Billing Summary will show a balance due. ☞ Note: If fees are not deducted automatically from the client's custodian account, but you also do not want clients to remit payment upon receipt of the Billing Summary, you can use the Billing Disclosure field to include a line on the Billing Summary to the effect of, "Send no payment at this time."

How do I create a tiered fee?

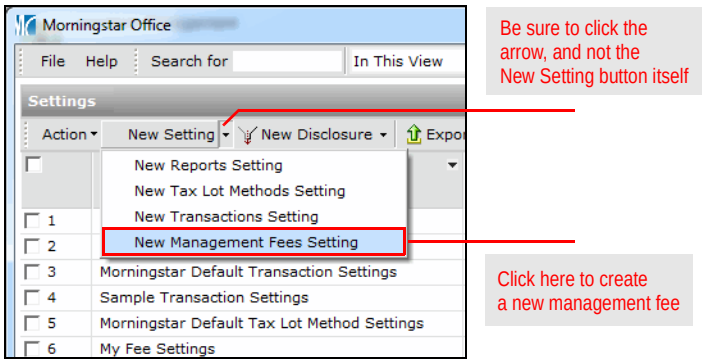
Tiered fees allow you to charge a unique percentage-based fee for differently sized accounts. With just one fee setting, you can change the amount charged based on the size of an account.

To create a tiered fee, do the following:

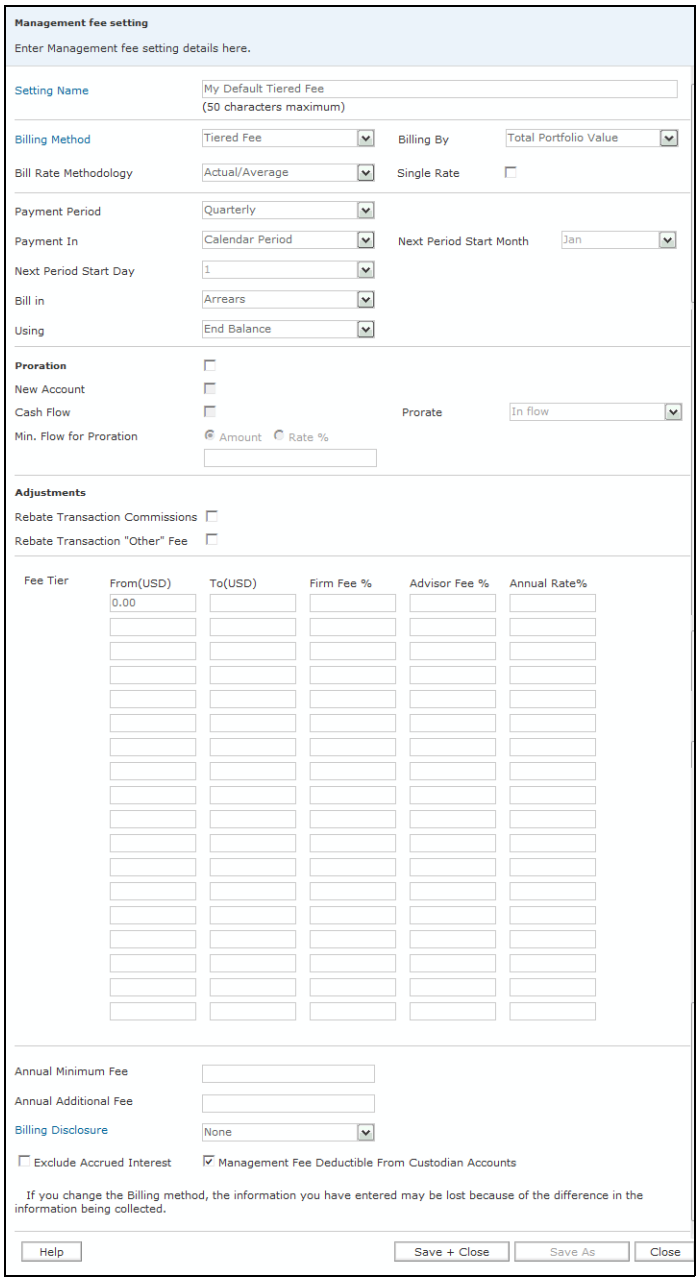
1. Go to the **Home** tab.
2. Click the **Settings** page.
3. Under the Portfolio Accounting System Settings area, click **Reports, Tax Lot Methods, Transactions, Management Fees**. The Settings dialog box opens.



4. On the icon bar above the spreadsheet area, click the **arrow** to the right of the **New Setting** button and select **New Management Fees Setting**. The Management fee setting dialog box opens.



5. Use the table below to fill out the fields in this dialog box.
6. When finished, click **Save + Close**.



Field Name	Instructions
Setting Name	Enter a **name** for the management fee setting. This does not appear on any report; it is only for internal use. Most advisors choose a descriptive name. For example, "Standard Tiered Fee."
Billing Method	**Tiered Fee** should be chosen by default.

Field Name	Instructions
Bill Rate Methodology	Select either **Actual/Average** or **Actual/Actual**. With Actual/Average, the annual fee is multiplied by (1/4) to calculate a quarterly fee, (1/12) for a monthly fee, etc. (The frequency of payment is selected in the Payment Period field.) With Actual/Actual, the annual fee is multiplied by X divided by 365 (where X is the actual number of days in the billing period) to calculate the fee. For example, with a quarterly fee, in the second calendar quarter (i.e., April, May and June) a flat fee of $1,000 would be multiplied by (91/365).
Billing By	You can bill by either an account's **Total Portfolio Value**, or **Security Type**. If you select Security Type, you will need to add Billing Categories. (The interface will change to provide this option.)
Single Rate	If this box is checked, a single billing rate is applied based on the entire market value of an account. If the box is left unchecked, each account's value is divided into tiers, with each tier billed at a progressive rate. For example, if you have the following three tiers: ► $0 to $250,000 ► $250,000 to $500,000, and ► $500,000 to $999,999,999 and an account has a value of $1,500,000, you can charge a single rate for the entire amount (if the box is checked), or (if the box is unchecked) charge a rate for the first $250,000, another rate for the amount between $250,000-500,000, and yet a third rate for the final $1,000,000.
Payment Period	This field determines the billing time period. The options are **Quarterly**, **Monthly**, **Semi-annual**, **Annual** or **Custom Period**. If Custom Period is selected, the client can be billed in either 2- or 4-month periods.
Payment In	Select **Calendar Period** or **Rolling Period**. With Calendar Period, accounts are billed according to conventional calendar periods. For instance, if billing in advance, clients are billed on the last day of one time period (e.g., month, quarter) for the next time period. If billing in arrears, clients are billed on the last day of the current billing period. With the Rolling Period option, accounts are charged on a date of your choosing. The start and end dates follow your custom schedule. For example, you can stagger your quarterly billing by scheduling a portion of your business in January (for January-March, April-June, July-September and October-December), then create another management fee setting for the next portion in February (for February-April, May-July, August-October and November-January), and a third management fee setting for the final portion in March (for March-May, June-August, September-November and December-February).

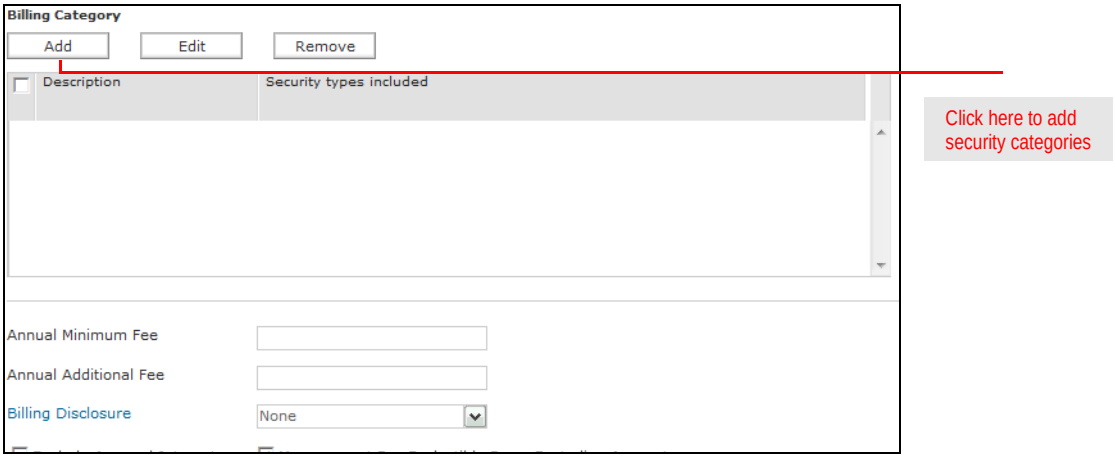
Field Name	Instructions
Next Period Start Month (Rolling Period only)	This field is used only when the Payment In field is set to Rolling Period. It determines the month when the next period in the cycle begins. For example, if the next billing period begins on February 15, select **Feb**.
Next Period Start Day (Rolling Period only)	This field is used only when the Payment In field is set to Rolling Period. It determines the day when the next period in the cycle begins. For example, if the next billing period begins on February 15, select **15**.
Bill In	Choose either **Advance** (to bill on the last day of one time period for the next time period), or **Arrears** (to bill on the last day of one time period for the same time period).
Using	Select either **End Balance** (as of the last day of the billing period), **Daily Average Balance** (over the entire billing period) or **Month End Average Balance** (for each month in the billing period).
Proration	Check this box to enable the following proration options: ► New Account ► Cash Flow ► Minimum Amount Flow, and ► Prorate. You can prorate the amount charged for either new accounts entered in the middle of a billing period, or for money flowing in and out of accounts during a billing period. While prorating is optional, it is always recommended. Otherwise, you could find yourself overcharging (if billing in arrears) or undercharging (if billing in advance). You could account for these differences by making manual adjustments, but this creates a lot of additional work which can be avoided by prorating. For more information on how proration works, see "Appendix 2: Prorating for Accounts—Billing in Arrears vs. Advance" on page 83.
New Account	When this box is checked: ► If you are billing in arrears, clients will be discounted for the days during the last quarter when their accounts were not yet open. ► If you are billing in advance, clients will be additionally charged for the days that their accounts were open during the past quarter.
Cash Flow	When this box is checked, clients are discounted for the days when their accounts had a lower balance, and charged more for the days during which their accounts had a higher balance.
Min. Flow for Proration	Select either **Amount** or **Rate %** required to trigger the proration, then enter that value in the field below the option buttons.
Prorate	This field is used only when the Cash Flow box is checked. You can select either **In flow** or **All flow** to choose to prorate for inflows only, or to prorate for both inflows and outflows of cash.

Field Name	Instructions
Rebate Transaction Commissions	When this box is checked, any commissions you have earned over the quarter are subtracted (this data is drawn from the transaction history).
Rebate Transaction "Other" Fees	When this box is checked, any transaction fees or other expenses that the client paid to other parties (not the advisor) are subtracted.
Fee Tier	In the Fee Tier fields, you need to enter values in the **To(USD)** column for each tier. The From(USD) column will update automatically with the value in the To(USD) field from the previous row. (If the amount to be billed is the same value as the To value in one line and the From value in the next, the client will be billed at the lower rate.) After entering a value in the From field, you need to enter either a **Firm Fee %**, **Advisor Fee %**, or both, depending on how your firm's fees are structured. The value of these two fields is totaled in the Annual Rate % field. The Firm Fee is the annual percentage paid to your firm, brokerage house, etc. The Advisor Fee is the annual percentage paid to you.
Annual Minimum Fee	Enter a **dollar amount** here to ensure that a certain annual minimum fee is charged to an account. Keep in mind that this fee is calculated for each billing period, and not simply at the end of the year. For instance, if you bill quarterly and enter an annual minimum fee of $1,200, the system will ensure your client is billed for at least $300 each quarter. If you bill monthly, the system will ensure your client is billed for at least $100 each month.
Annual Additional Fee	If you need to charge an additional flat fee along with the tiered fee, enter that amount here.
Billing Disclosure	If desired, select a custom disclosure to appear on the Billing Summary. You must have already created and saved a billing disclosure before you can select it here. See "Creating a Billing Disclosure" on page 19.
Exclude Accrued Interest	Check this box to exclude accrued interest from bonds in the billable balance of your accounts.
Management Fee Deductible from Custodian Accounts	This check box determines the content of your Billing Summary. If the box is checked, the Billing Summary will show that the client owes nothing because fees are deducted automatically from their accounts at your custodian. If the box is unchecked, the Billing Summary will show a balance due. ☞ Note: If fees are not deducted automatically from the client's custodian account, but you also do not want clients to remit payment upon receipt of the Billing Summary, you can use the Billing Disclosure field to include a line on the Billing Summary to the effect of, "Send no payment at this time."

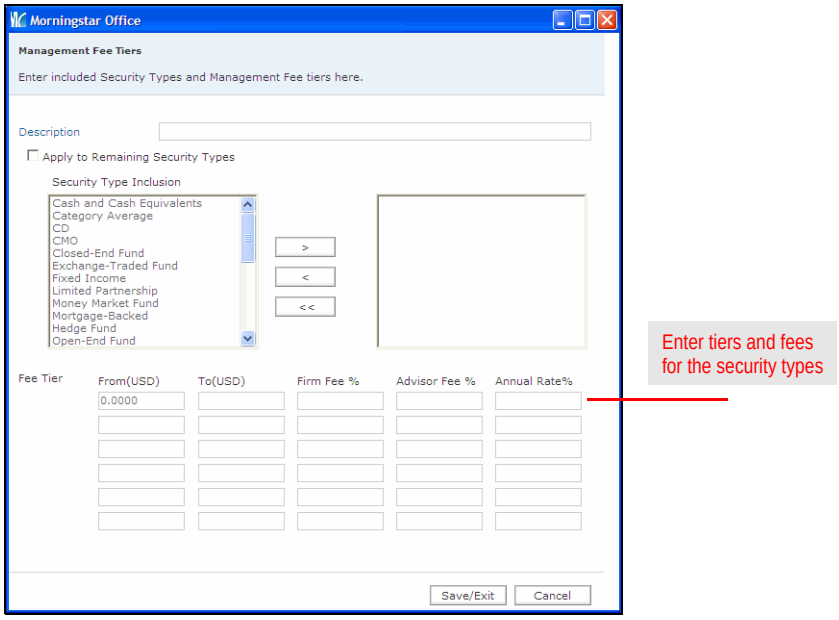
How do I create a security-based tiered fee?

Security-based tiered fees allow you to create different sets of fee tiers for different security types (i.e., stocks ETFs, etc.). Fee tiers are assigned based on the amount of each security type held, and not on the overall size of the account. To create a security-based tiered fee, do the following:

1. Follow steps 1-4 on page 7.
2. In the **Billing Method** field, be sure **Tiered** is selected.
3. In the **Billing By** field, select **Security Type**.
4. In the **Billing Category** area, click **Add** to create a security category. The Management Fee Tiers dialog box opens.



5. Enter a **Description** for the category.



6. Select the security type(s) to be included for this fee tier by clicking on **items** in the Security Type Inclusion area and then clicking **>** to add them to the final list
7. When your list is complete, enter **Fee Tier breakpoints** and **fee amounts** for the item(s).
8. Click **Save/Exit**.
9. Repeat steps 4-8 until you have accounted for all security types.

   ☞ Note: To include all remaining securities in a billing category, check the **Apply to remaining security types** box. Securities types not included in a tier will not be billed.

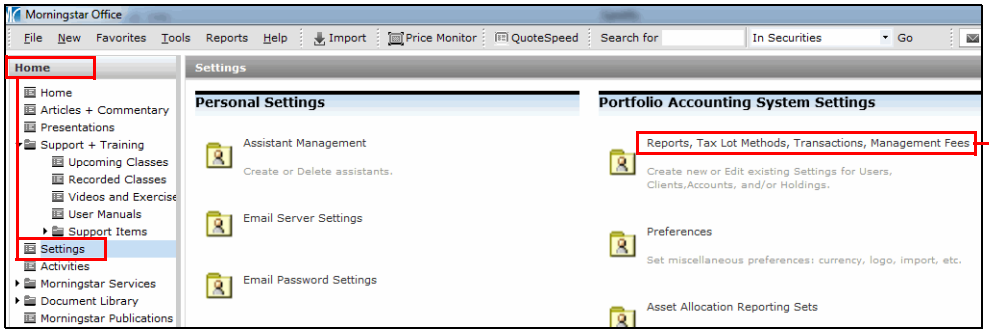
10. When you are finished, click **Save + Close** on the Management Fees dialog box.

How do I create a performance-based management fee?

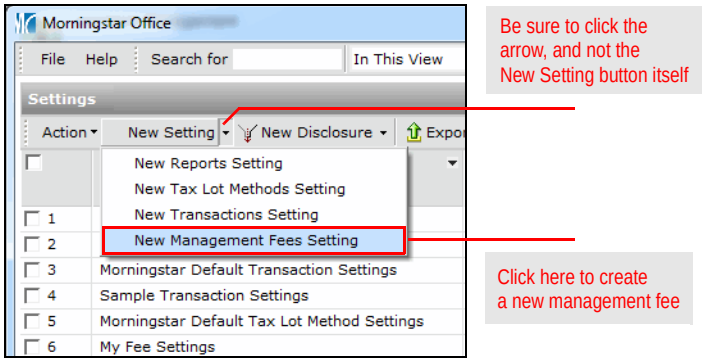
Performance-based management fees allow you to charge a set percentage of all portfolio gains for the period. You can also determine whether the client should be billed on the absolute gain, or on the difference between the gain and a value you benchmark against.

To create a performance-based management fee, do the following:

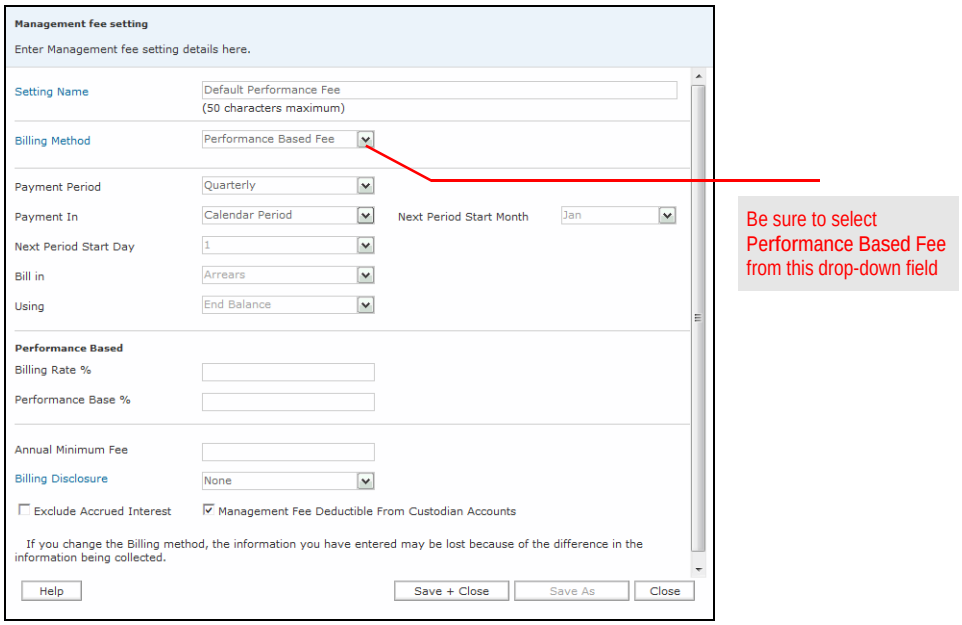
1. Go to the **Home** tab.
2. Click the **Settings** page.
3. Under the Portfolio Accounting System Settings area, click **Reports, Tax Lot Methods, Transactions, Management Fees**. The Settings dialog box opens.



4. On the icon bar above the spreadsheet area, click the **arrow** to the right of the **New Setting** button and select **New Management Fees Setting**. The Management fee setting dialog box opens.



5. Use the table below to fill out the fields in this dialog box.
6. When finished, click **Save + Close**.



Field Name	Instructions
Setting Name	Enter a **name** for the management fee setting. This does not appear on any report; it is only for your reference. Most advisors choose a descriptive name. For example, "Basic Performance-Based Fee."
Billing Method	Select **Performance Based Fee.**
Payment Period	This field determines the billing time period. The options are **Quarterly**, **Monthly**, **Semi-annual**, **Annual** or **Custom Period**. If Custom Period is selected, the client can be billed in either 2- or 4-month periods.
Payment In	Select **Calendar Period** or **Rolling Period**. With Calendar Period, accounts are billed on the last day of the month/quarter, according to conventional calendar periods. With the Rolling Period option, accounts are charged on a date of your choosing. The start and end dates follow your custom schedule. For example, you can stagger your quarterly billing by scheduling a portion of your business in January (for January-March, April-June, July-September and October-December), then create another management fee setting for the next portion in February (for February-April, May-July, August-October and November-January), and a third management fee setting for the final portion in March (for March-May, June-August, September-November and December-February).

Field Name	Instructions
Next Period Start Month (Rolling Period only)	This field is used only when the Payment In field is set to Rolling Period. It determines the month when the next period in the cycle begins. For example, if the next billing period begins on February 15, select **Feb**.
Next Period Start Day (Rolling Period only)	This field is used only when the Payment In field is set to Rolling Period. It determines the day when the next period in the cycle begins. For example, if the next billing period begins on February 15, select **15**.
Bill In	When using a performance-based fee, you will always bill in arrears. This field defaults to that value, and cannot be changed.
Using	When using a performance-based fee, you will always use the ending balance for a time period. This field defaults to End Balance, and cannot be changed.
Billing Rate %	The percentage of a portfolio's total investment gain (expressed as total dollar value) that constitutes the management fee for a period. For example, if a client's account gains 10% in a period and that 10% gain results in a $2,000 gain, your Billing Rate would be a percentage of this $2,000. Only gains can result in fees; losses would result in a $0 fee. The formula used to calculate a portfolio's total investment gain during a period is: $$TotalInvestmentGain = A - (B + C)$$ Where: ► A = Ending Portfolio Market Value ► B = Beginning Portfolio Market Value, and ► C = Net Cash Flow

Field Name	Instructions
Performance Base %	This is an optional performance threshold that limits the management fee calculated. The performance-based fee charged will reflect only the investment gain amount above the performance base. For example, if you enter the number 2 here, then an account will be billed only for the gains it makes in excess of that percentage amount. The formula used to calculate the performance-based management fee is: $$A + B - C = D$$ $$D \times (1 + E) = F$$ $$G \times (H - F) = PerformanceBasedFee$$ Where: ► A = Beginning Market Value ► B = Additions ► C = Withdrawals ► E = Performance Base % ► G =Billing Rate % ► H = Ending Market Value Here's an example using this formula: A client's portfolio has a market value at the beginning of the period of $100,000. They make no additions or withdrawals during the period, so D = $100,000. The performance base % is 2%, so F = $102,000. ($100,000 X (1+0.02)) The billing rate % is 5%, and the ending market value is $105,000. Therefore, the performance-based fee is $150. (0.05 X ($105,000 - $102,000))
Annual Minimum Fee	Enter a **dollar amount** here to ensure that a certain annual minimum fee is charged to an account. Keep in mind that this fee is calculated for each billing period, and not simply at the end of the year. For instance, if you bill quarterly and enter an annual minimum fee of $1,200, the system will ensure your client is billed for at least $300 each quarter. If you bill monthly, the system will ensure your client is billed for at least $100 each month.
Billing Disclosure	If desired, select a custom disclosure to appear on the Billing Summary. You must have already created and saved a billing disclosure before you can select it here. See "Creating a Billing Disclosure" on page 19.
Exclude Accrued Interest	Check this box to exclude accrued interest from bonds in the billable balance of your accounts.

Field Name	Instructions
Management Fee Deductible from Custodian Account	This check box determines the content of your Billing Summary. If the box is checked, the Billing Summary will show that the client owes nothing because fees are deducted automatically from their accounts at your custodian. If the box is unchecked, the Billing Summary will show a balance due. ☞ Note: If fees are not deducted automatically from the client's custodian account, but you also do not want clients to remit payment upon receipt of the Billing Summary, you can use the Billing Disclosure field to include a line on the Billing Summary to the effect of, "Send no payment at this time."

Creating a Billing Disclosure

Overview

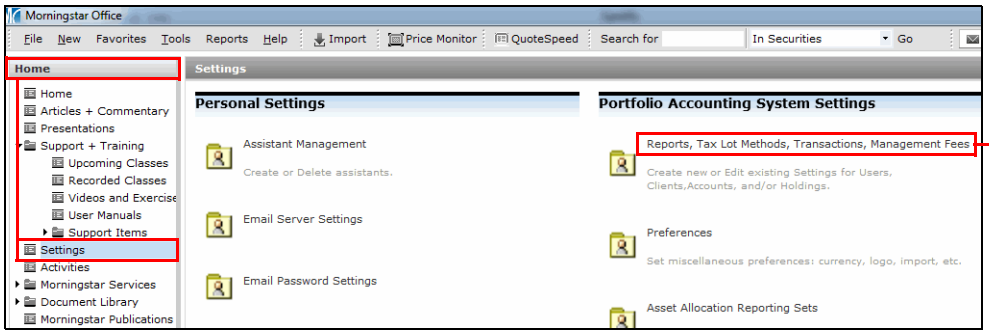
This section explains how to create a billing disclosure notice, which appears only on the Billing Summary report. Note the following important points about this process:

- Once created, a billing disclosure must then be associated with a management fee setting in order to appear on the Billing Summary report.
- When that management fee setting is assigned to a client or account, the disclosure will automatically appear on the Billing Summary report.
- Each management fee setting can have only one billing disclosure statement associated with it.
- One billing disclosure statement, though, can be associated to multiple management fee settings.

How do I create and apply a billing disclosure?

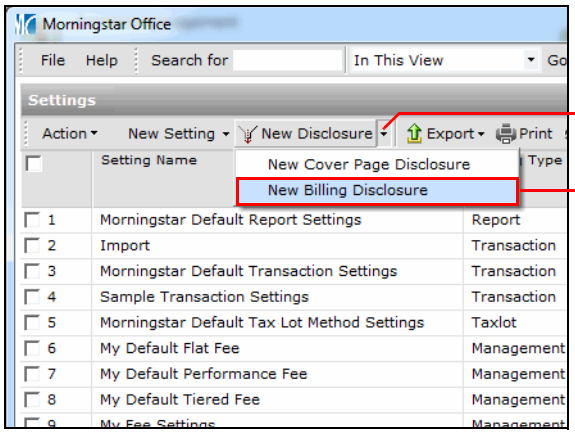
To create a billing disclosure statement and apply it to a management fee setting, do the following:

1. Go to the **Home** tab.
2. Click the **Settings** page.
3. Under the Portfolio Accounting System Settings area, click **Reports, Tax Lot Methods, Transactions, Management Fees**. The Settings dialog box opens.



Click here to begin the process of creating a billing disclosure

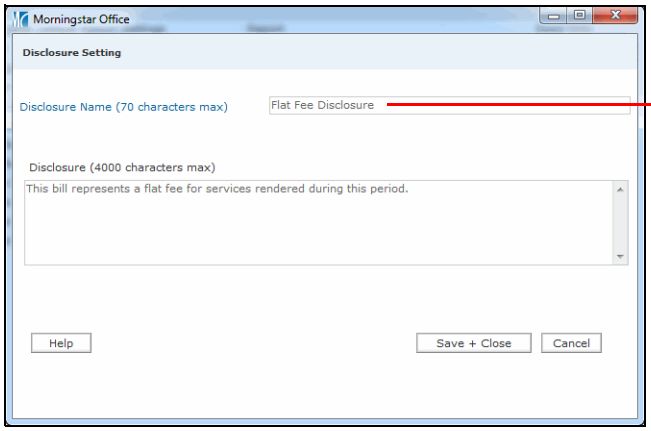
4. On the icon bar above the spreadsheet area, click the **arrow** to the right of the **New Disclosure** button and select **New Billing Disclosure**. The Disclosure Setting dialog box opens.



Be sure to click the arrow, and not the New Disclosure button itself

Select this option to create a new billing disclosure

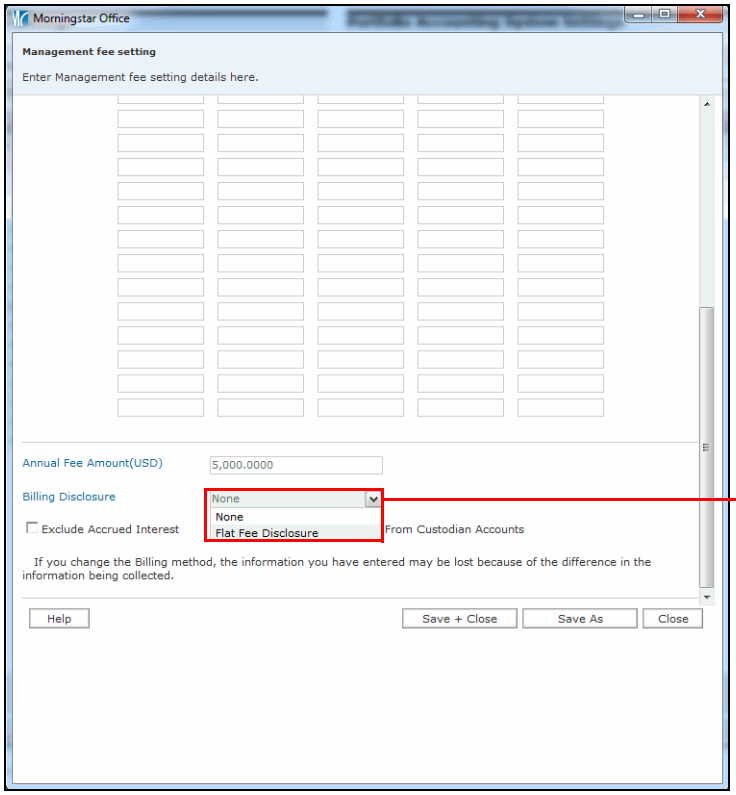
5. In the **Disclosure Name** field, enter a **name** for the billing disclosure. This name will not appear on the Billing Summary report. Be sure to remember this name, because you will need to select it later when you associate the disclosure with a management fee setting.



Type a name for the disclosure here

6. In the **Disclosure** area, enter the **text** that will appear on the Billing Summary report.
7. When finished, click **Save + Close** to save the disclosure.
8. Click **OK** when the confirmation message appears.

9. You can now assign this disclosure to a management fee setting. The Settings dialog box should still be open. Double-click the **management fee setting** to which you want to associate this disclosure. The Management fee setting dialog box opens.
10. Scroll down to the **Billing Disclosure** drop-down field, and select the name of the **disclosure** you want to use with this management fee setting.
11. Click **Save + Close**.
12. Click **OK** when the confirmation message appears.



Applying Management Fees, Fee Methodologies and Fee Allocations

Overview

After you have created your management fee settings, but before you can generate billing reports for your clients, you must assign a management fee and a fee methodology to each client, group or account, and you may want to consider how the fees will be deducted from specific accounts.

In other words, you may have created a series of flat fees, tiered fees, etc., but you have not applied these settings to clients or accounts, neither have you determined whether to bill at the client aggregate or individual account level, nor have you determined which accounts are responsible for paying these fees.

These parameters are determined in the Settings Assignments window. This window provides three spreadsheets, displaying the portfolio accounting settings that you have applied to clients, accounts and groups.

In this section, you will learn the following:

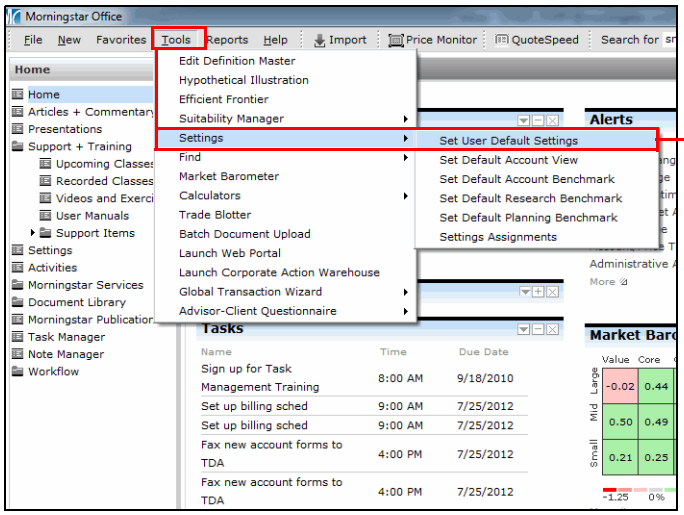
- how to set a default management fee setting for your practice
- what the different fee methodology types are in Morningstar Office
- how to apply fee methodologies to clients and accounts
- what the different fee allocation options are in Morningstar Office, and
- how to apply a fee allocation to a client.

How do I set a default management fee for my practice?

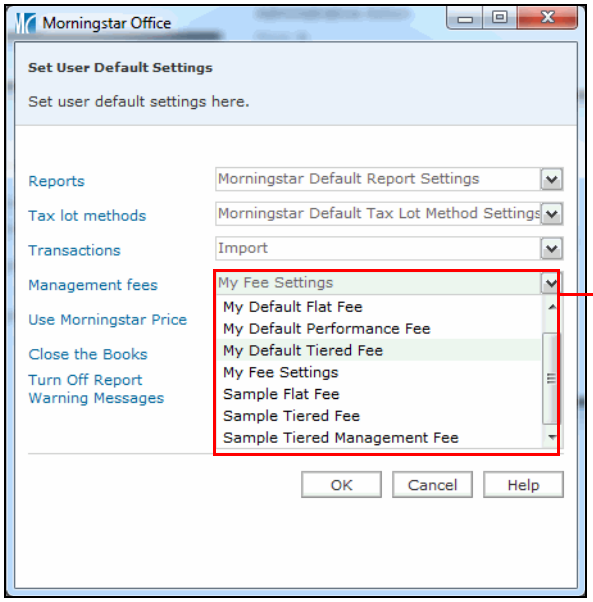
Once you have created your management fee settings, you might decide that one in particular will be used more often than others. Rather than constantly needing to make this selection each time you add a new client, you can set it to be the user default for all clients.

To set a default management fee setting, do the following:

1. From the menu bar at the top of the Morningstar Office window, select **Tools**…**Settings**…**Set User Default Settings**. The Set User Default Settings dialog box opens.



2. From the **Management fees** drop-down field, select the **fee setting** you want to use as the default each time a new client is added to Morningstar Office.



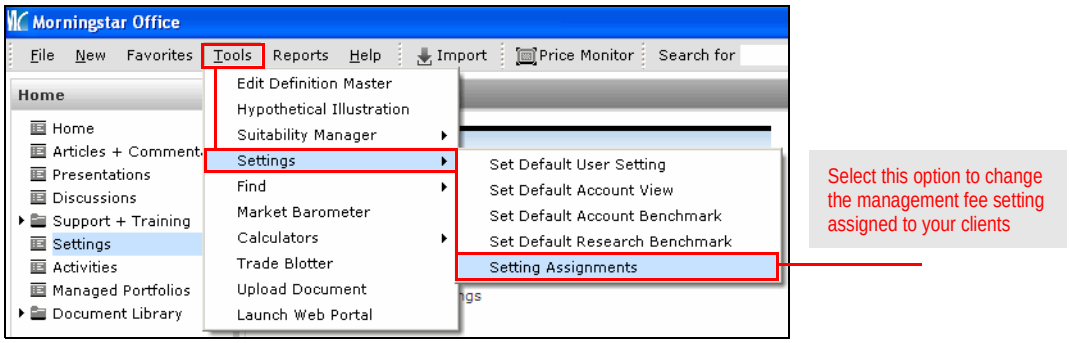
3. Click **OK**.
4. Click **OK** when the confirmation message appears.

How do I change the management fee setting for a client?

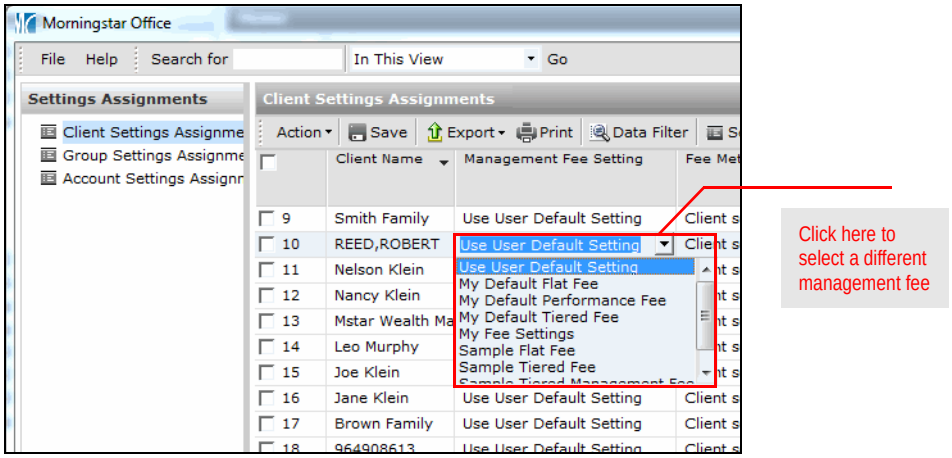
If you do not want to use the default fee setting for a client, do the following:

> ☞ Note: If you plan to bill by account, rather than at the client level, you can skip to "How do I set individual account fees?" on page 29.

1. From the menu bar at the top of the Morningstar Office window, select **Tools...Settings...Settings Assignments**. The Settings Assignments window opens.



2. On the **Client Settings Assignment** page, scroll right until you see the Management Fee Setting column.
3. Click in the **Management Fee Setting** column to select the **management fee** you want to use with the client.



4. At the top of the window, click **Save**.

What fee methodology types are used in Morningstar Office?

Fee methodologies determine the way in which the value of clients' accounts are calculated when determining the fees for a period. The table below describes the three fee methodology types in Morningstar Office.

Fee Methodology	Description
Client Setting/ Aggregate Balance	This methodology aggregates all of a client's accounts into a single portfolio, and applies a single management fee to the aggregate.
Individual Account Setting/Balance	This methodology applies the management fee calculation to each account individually.
Individual Account Setting/Blended	This methodology applies separate management fee settings to different accounts, but charge each account based on the size of the entire aggregate.

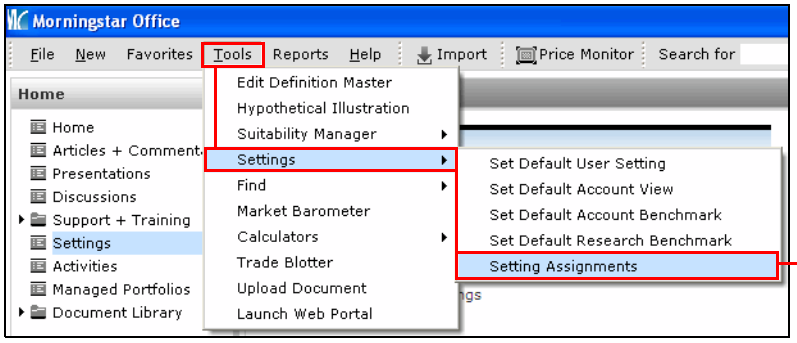
For each client, you must decide which one of the three fee methodologies you are going to use and then assign that fee methodology to each client. For an example of each methodology, see "Appendix 1: Billing Scenarios" on page 80.

How do I set the fee methodology for each client?

The Fee Methodology field for each client defaults to Client setting/Aggregate Balance. You can elect to use one of the other two methods if you prefer.

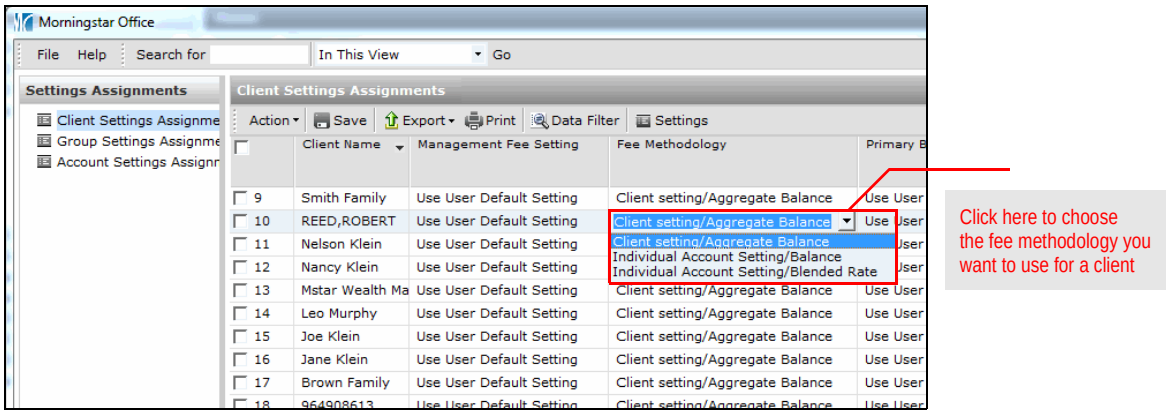
To assign a different fee methodology for your clients, do the following:

1. From the menu bar at the top of the Morningstar Office window, select **Tools...Settings...Settings Assignments**. The Settings Assignments page opens.



2. Go to the **Client Settings Assignments** page.
3. Scroll right until you see the Fee Methodology column.

4. For each client, click inside the **Fee Methodology** field to choose the **fee methodology** you want to use.



5. At the top of the window, click **Save**.
6. When the confirmation message appears, click **OK**.

How do I set the fee methodology for multiple clients at once?

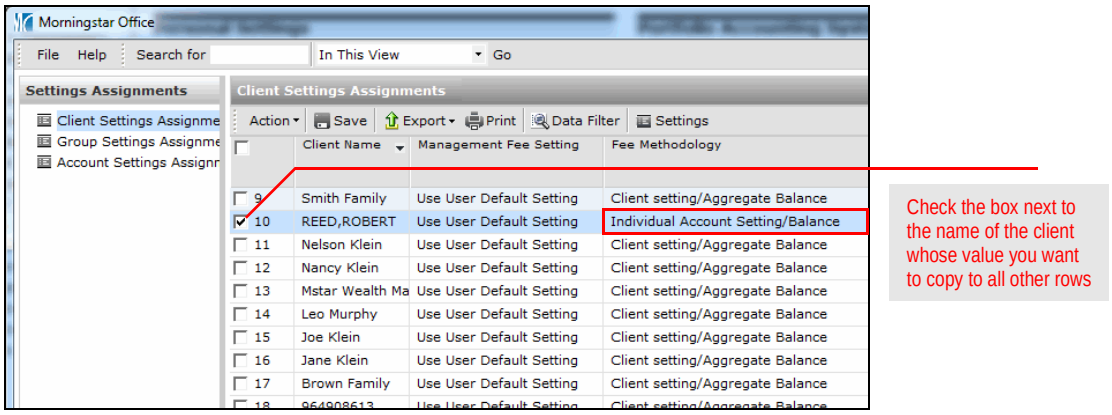
Rather than set the fee methodology for one client at a time, you can set this value for multiple clients at once. This can be done one of two ways:

- apply the same setting to all clients, or
- apply the same setting to only selected clients.

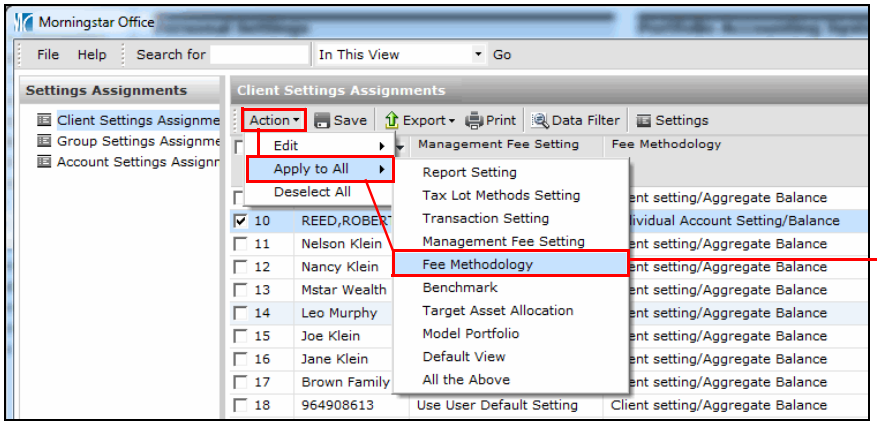
Each procedure is described below.

To apply the same fee methodology to all clients, do the following:

1. Follow the steps from "How do I change the management fee setting for a client?" on page 24 to update the record whose fee methodology value you want to apply to all clients.
2. Check the **box** to the left of the row number to select the row whose Fee Methodology value you want to copy to all other clients.



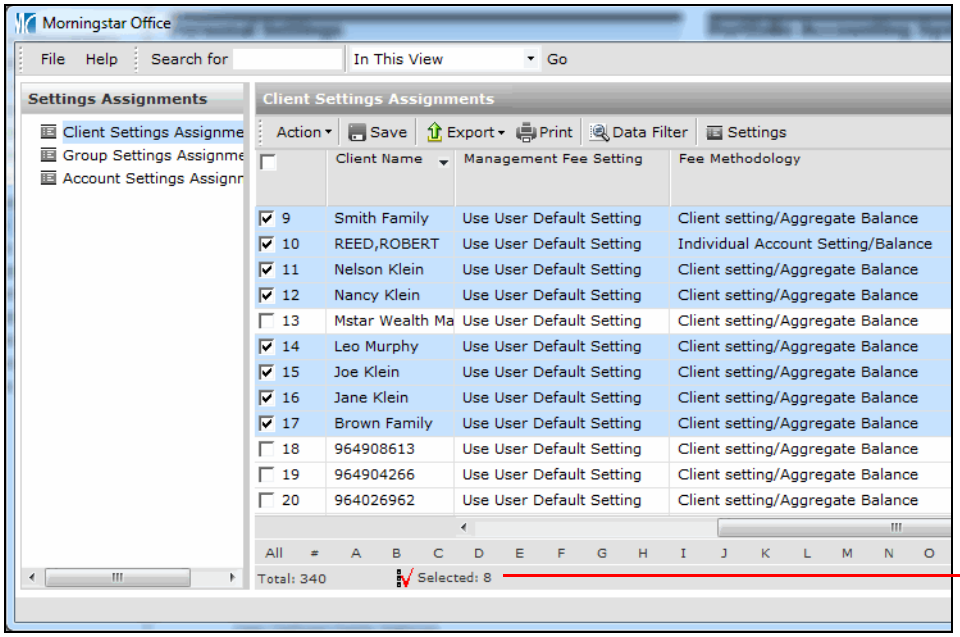
3. From the **Action** menu above the spreadsheet view, select **Apply to All**…**Fee Methodology**. The value in that column for the selected row is copied to all other rows.



4. Click **Save**.
5. When the confirmation message appears, click **OK**.

If you want to apply the same fee methodology to only a few clients, do the following:

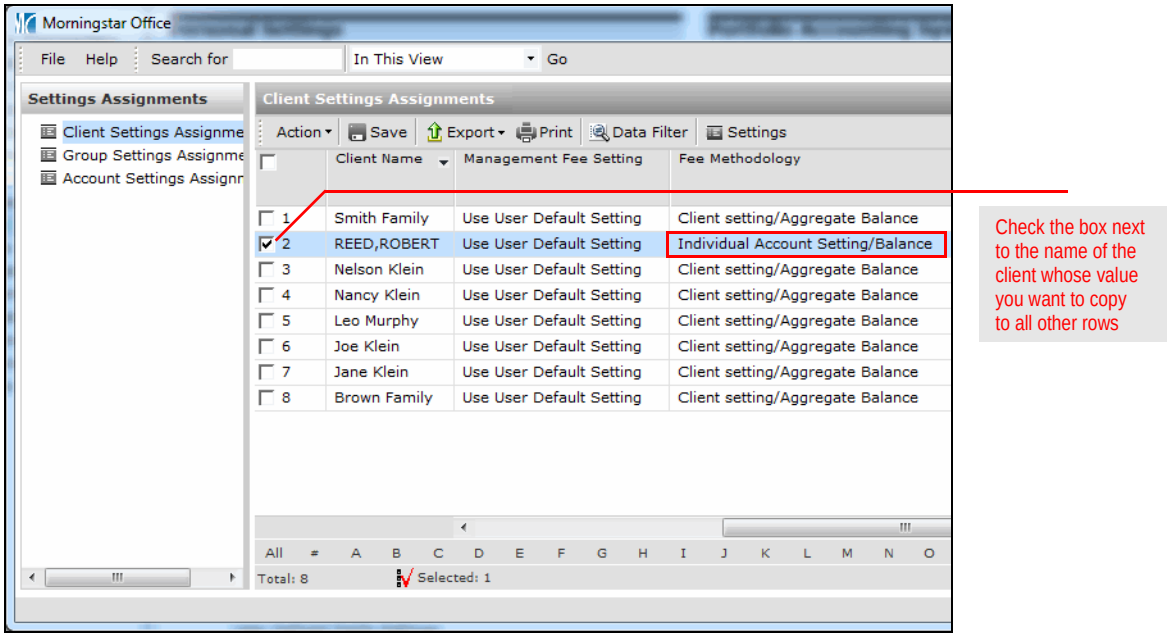
1. Follow the steps from "How do I change the management fee setting for a client?" on page 24 to update the record whose Fee Methodology value you want to apply to other clients.
2. Check the **box** to the left of the row number for all rows to which you want to apply the new value, including the row you just updated from step 1.



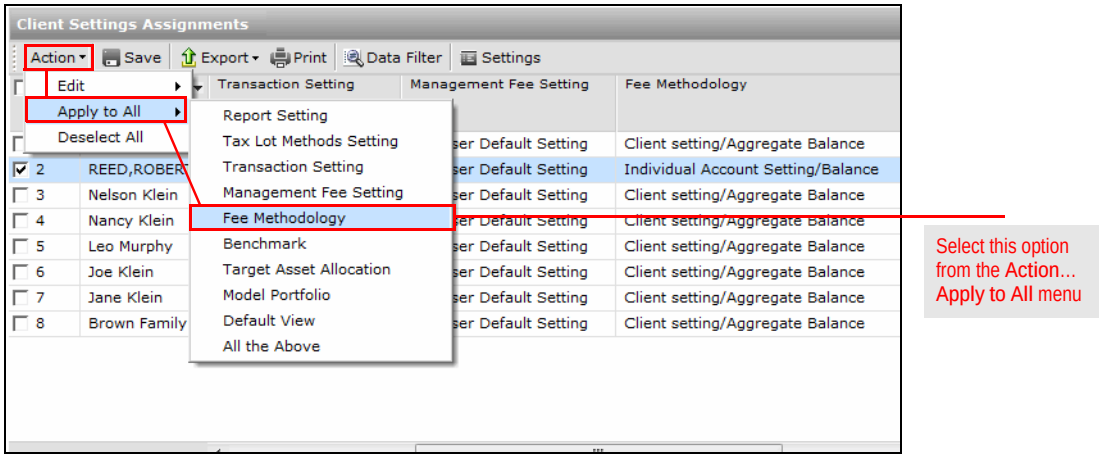
3. At the bottom of the window, click the **Selected** icon. Only the items whose box you checked will remain on the screen.

4. Uncheck the **box** for all rows, except the row whose value you want to copy to all other clients still showing.

   ☞ The fastest way to do this is to check the Select All box in the column header above the row numbers, then uncheck it to clear all rows, then check the box for just the row you want to use as the baseline for all others.



5. From the **Action** menu above the spreadsheet view, select **Apply to All**…**Fee Methodology**. The value is copied to all other rows for that column.

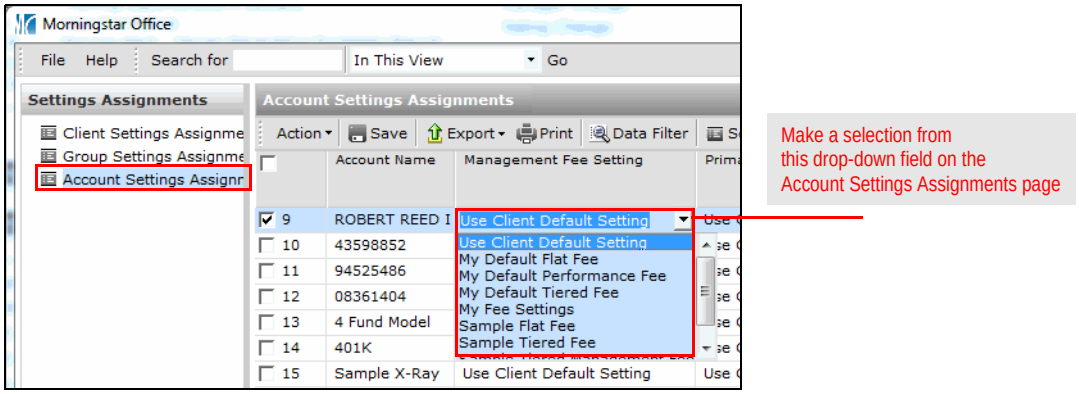


6. Click **Save**.
7. When the confirmation message appears, click **OK**.
8. To see all clients again, click **Client Settings Assignments** (the title bar) above the spreadsheet view.

How do I set individual account fees?

If you use one of the two Individual Account fee methodologies, you will need to apply management fee settings at the account level. Do the following:

1. If the Settings Assignments window is not open, from the menu bar at the top of the Morningstar Office window, select **Tools...Settings...Settings Assignments**. The Settings Assignments window opens.
2. Go to the **Account Settings Assignments** page.
3. Scroll right until you locate the Management Fee Setting column.
4. From the drop-down field in each row, select the **management fee setting** you wish to apply to each account.



5. Click **Save**.
6. When the confirmation message appears, click **OK**.

How do I set client-level fee allocations?

Unless you decide to exclude an account from billing, all accounts for clients will be assessed management fees. However, you can customize how fees are actually withdrawn from your clients' accounts. When you generate a file to send fees to your custodian, the fee allocation you have decided on determines the amount deducted from each account.

> ☞ Note: Deciding to allocate fees among a client's accounts is optional; you do not need to employ this technique.

For example, assume a client owns the following accounts:

- IRA
- Brokerage 1, and
- Brokerage 2.

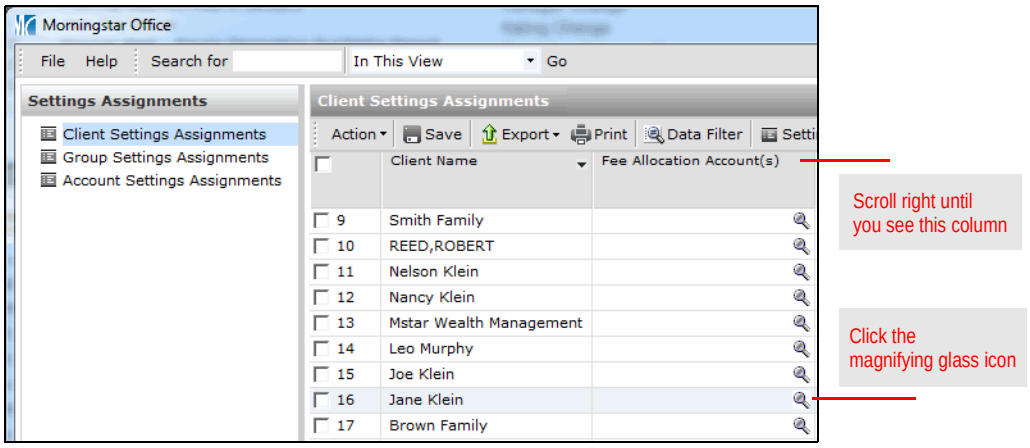
You charge fees for all accounts, but you do not want fees to actually be deducted from the IRA account (when these transactions are imported from your custodian). Instead, you can allocate the fees for the IRA account to be withdrawn equally from the two brokerage accounts. Likewise, you could stipulate an allocation such as:

- IRA = 5% allocation
- Brokerage 1 = 80% allocation, and
- Brokerage 2 = 15% allocation.

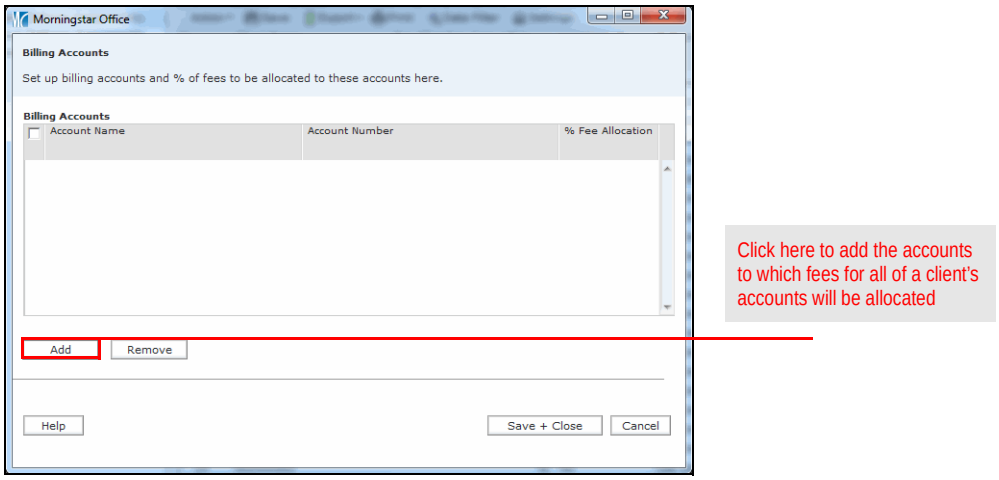
> ☞ Note: The instructions below show you how to set up a fee allocation structure at the client level. When allocating at the client level, you can disburse fees only among the accounts owned by a client. If you need to allocate fees from one client's account to another client's account(s), you can do this by applying the step 2 below from the Group Settings Assignments page. Note that the accounts in question must already belong to a group.

To allocate portions of the total amount due from a client across accounts, do the following:

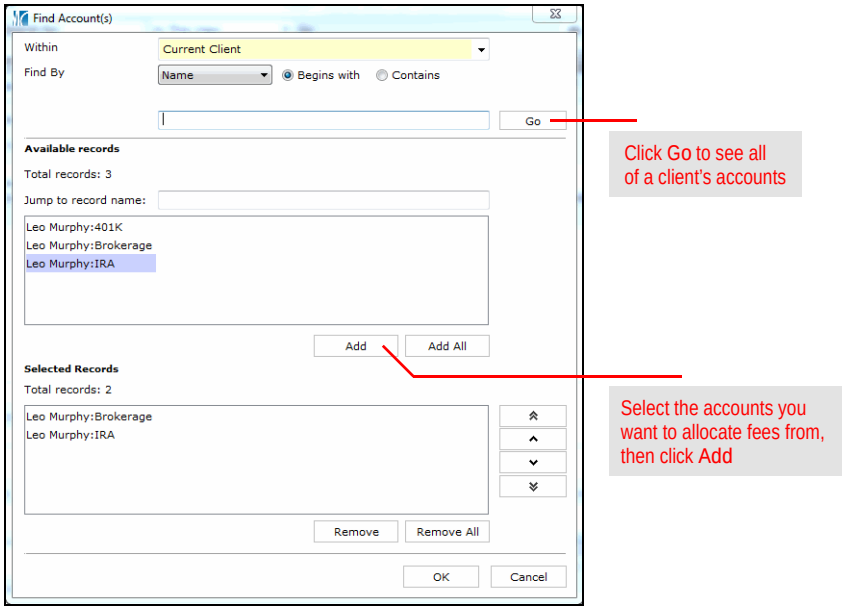
1. If the Settings Assignments window is not open, from the menu bar at the top of the Morningstar Office window, select **Tools...Settings...Settings Assignments**. The Settings Assignments window opens.
2. Go to the **Client Settings Assignments** page, and scroll right until you see the Fee Allocation Account(s) column.
3. Click the **magnifying glass** icon in that column. The Billing Accounts dialog box opens.



4. On the Billing Accounts dialog box, click **Add**. The Find Account(s) dialog box opens.

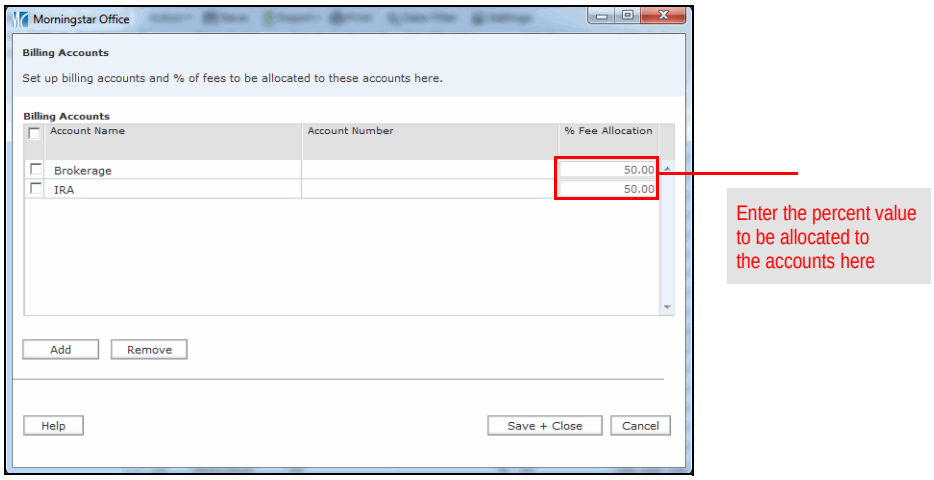


5. On the Find Accounts dialog box, click **Go**.
6. The list of all accounts belonging to the client will appear. Click on the **accounts** from which you plan to withdraw fees, then click **Add**. They will appear under Selected Records.



7. When the list is complete, click **OK**.

8. On the next screen, type the **percentage** of the total amount due that is to be charged to each account into the % Fee Allocation field.



9. When you're finished, click **Save + Close**.
10. From the toolbar at the top of the screen, click **Save**.
11. When the confirmation message appears, click **OK**.

How do I set account-level fee allocations?

In addition to determining fee allocations for a client, you can also create one-to-one relationships between accounts. That is, you can set it so all of the fees for account A are always charged to account B.

> ☞ Note: For account-level fee allocation, the designated account always pays 100% of the fees for an account; no other percentage allocation can be set.

This process involves two steps:

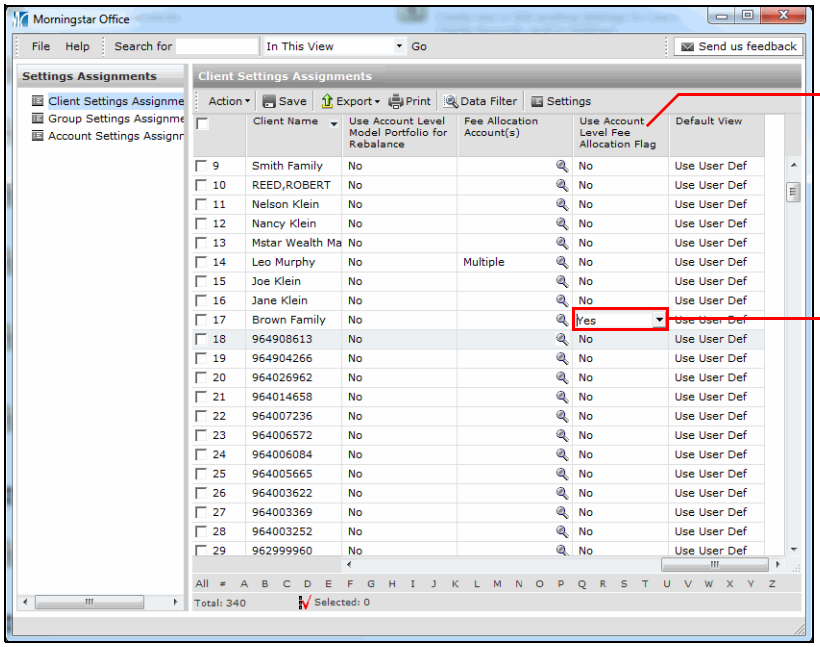
1. First, you must update the client record to allow for this setting.
2. Next, you must allocate the fees from one client account to another.

For example, you might have a client with two brokerage accounts. One belongs to the parents, the other to their child. You can set it so the fees for the child's account are always deducted from the parent's account.

To set account-level fee allocations, do the following:

> ☞ Note: The instructions below show you how to allocate fees between two accounts for one client. In this case, you can allocate fees only from one account owned by a client to another account owned by the same client. If you need to allocate fees from one client's account to another client's account(s), you can do this by applying the step 2 below from the Group Settings Assignments page. Note that the accounts in question must already belong to a group.

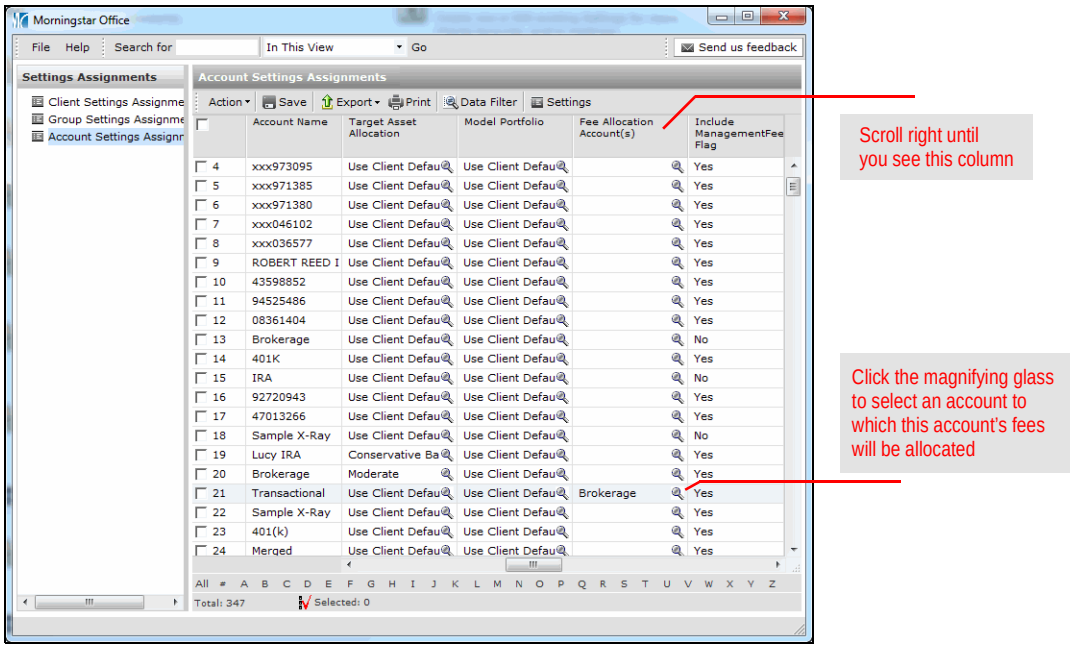
1. If the Settings Assignments window is not open, from the menu bar at the top of the Morningstar Office window, select **Tools...Settings...Settings Assignments**. The Settings Assignments window opens.
2. Go to the **Client Settings Assignments** page, and scroll right until you see the Use Account Level Fee Allocation Flag column.
3. From the drop-down field, select **Yes**.



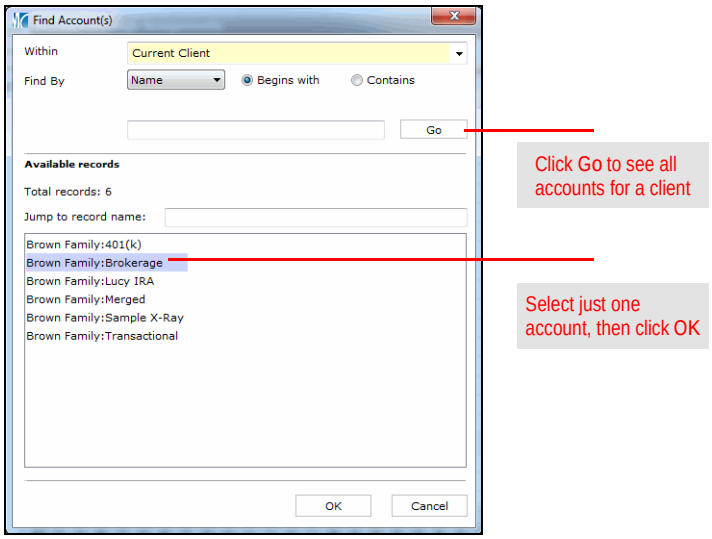
4. Click **Save**.
5. When the confirmation message appears, click **OK**.
6. In the left-hand navigation pane, go to the **Account Settings Assignments** page.

7. Within the Account Settings Assignments page, scroll right until you see the Fee Allocation Account column.
8. For the account whose fees you want to assign to a different account, click the **magnifying glass** icon in the Fee Allocation Account column. The Find Accounts dialog box opens.

   ☞ Note: To make it easier to track the account you want to update, check the box to the left of its name, so the row is highlighted.



9. On the Find Accounts dialog box, click **Go**. The list of the client's accounts will appear.
10. Click on the **account** from which the fees should be withdrawn, then click **OK**.



11. From the toolbar at the top of the screen, click **Save**.
12. When the confirmation message appears, click **OK**.

Excluding Securities or Accounts from Billing

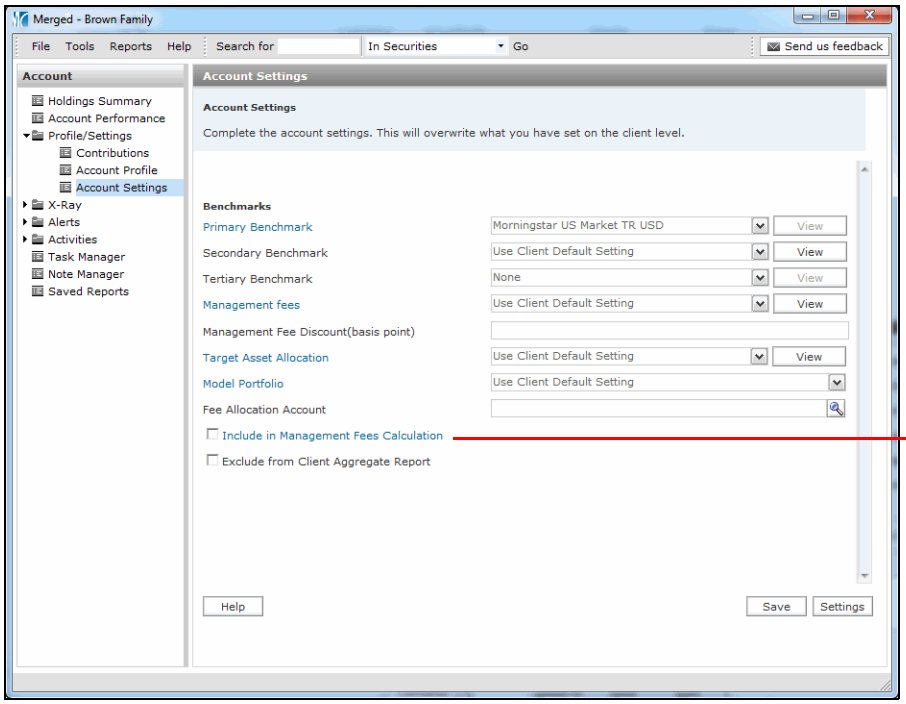
Overview

This section explains how to exclude securities or accounts from billing. For securities, you can elect to either exclude them from all accounts, or just certain transactional accounts. Also, note that accounts that have been excluded from billing can still be shown on the Billing Summary report.

How do I exclude an account from billing?

If you do not want an account to be considered when calculating fees, do the following:

1. Go to the **Portfolio Management** tab.
2. From the **Accounts** page, double-click the account you want to exclude from billing. The Account window opens
3. In the left-hand navigation pane of the Account window, click **Profile/ Settings…Account Settings**.
4. Uncheck the **Include in Management Fees Calculation** box.



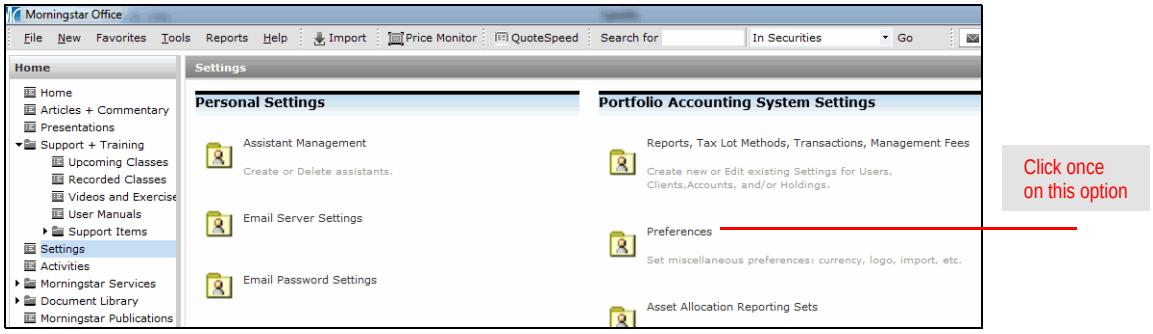
To exclude an account from billing, be sure this box is unchecked

5. Click **Save**. The account will now be excluded from the client's billable balance.

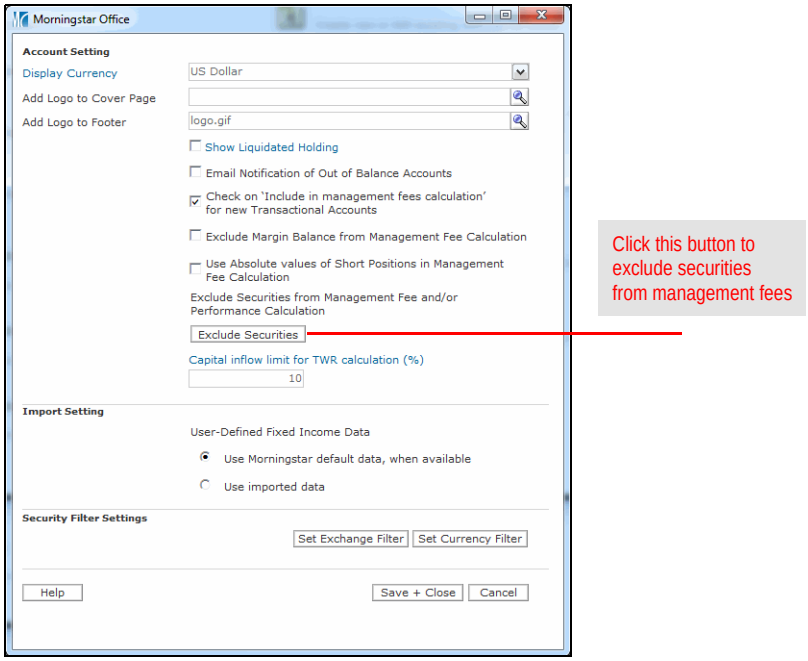
How do I exclude a security from billing for all accounts?

To exclude a specific security (such as Cash, or a particular stock) from billing for all of your accounts, do the following:

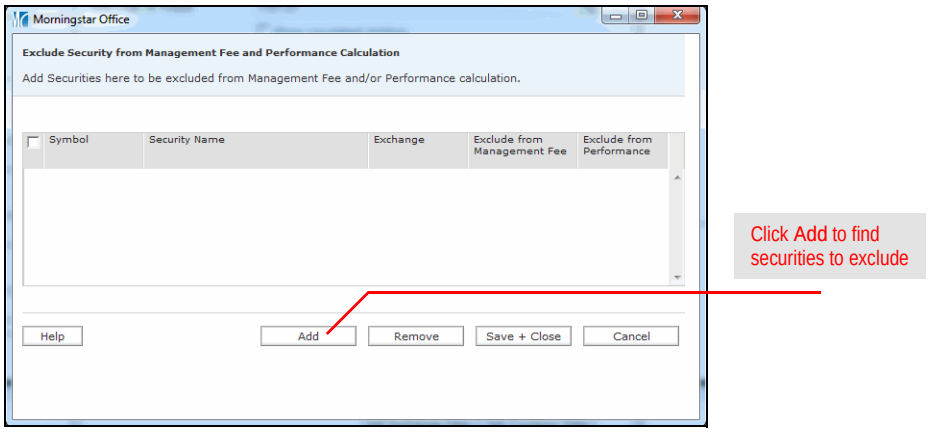
1. From the **Home** tab, go to the **Settings** page.
2. On the Settings page, click the **Preferences** option. The Preferences dialog box opens.



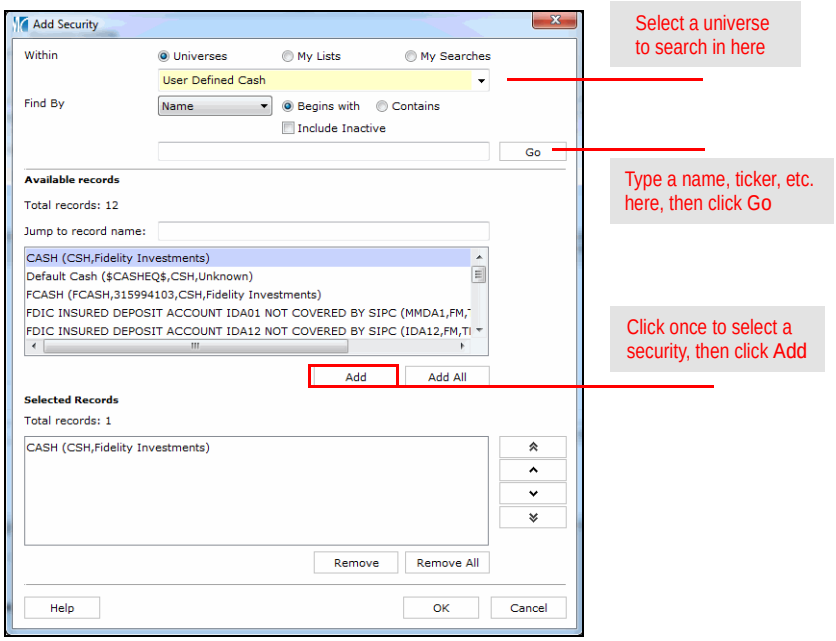
3. Under the Account Setting section, click the **Exclude Securities** button. The Exclude Securities from Management Fee and Performance Calculation dialog box opens.



4. On the Exclude Securities from Management Fee and Performance Calculation dialog box, click **Add**. The Add Security dialog box opens.



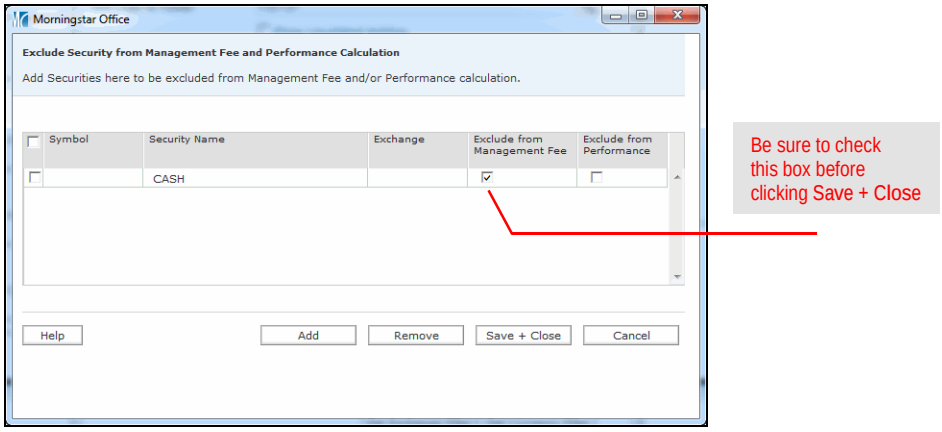
5. On the Add Security dialog box, select a search universe, or a saved list or search. (It defaults to the Open End Funds universe.)
6. In the **Find By** drop-down field, decide whether you will search by name, ticker or other criterion.
7. Enter a **name** (or ticker, etc.), then click **Go** to run the search.
8. In the Available records area, click the security you want, then click **Add**.



9. Repeat steps 5-9 until the list displayed in the Selected Records area contains all securities you wish to exclude from management fee calculations.
10. Click **OK** on the Add Security dialog box. You are returned to the Exclude Securities from Management Fee and Performance Calculation dialog box. Your selected securities are listed here.

11. Check the **Exclude from Management fee** box next for each security.

    ☞ If you also want to exclude a security's performance from portfolio performance calculations, you can check the **Exclude from Performance** box.

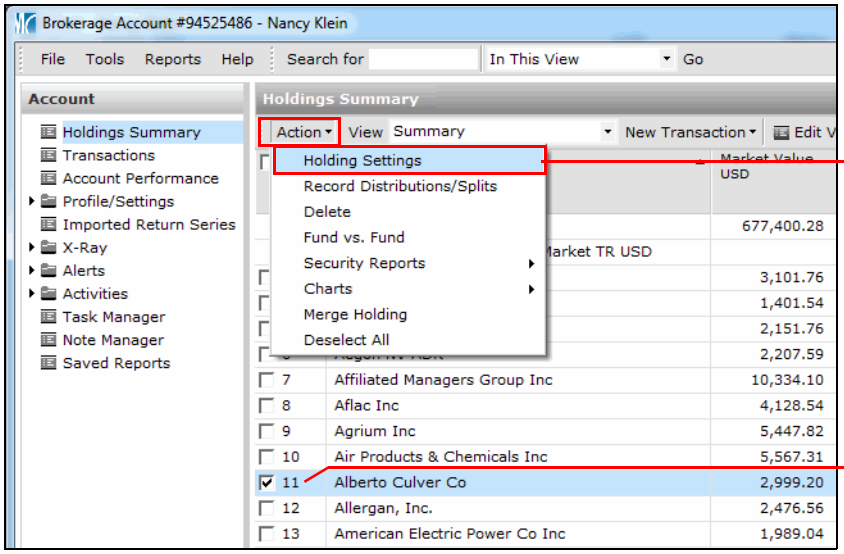


12. Click **Save + Close**.
13. Click **Save + Close** on the Preferences dialog box.
14. When the confirmation message appears, click **OK**.

How do I exclude a security from billing for a single account?

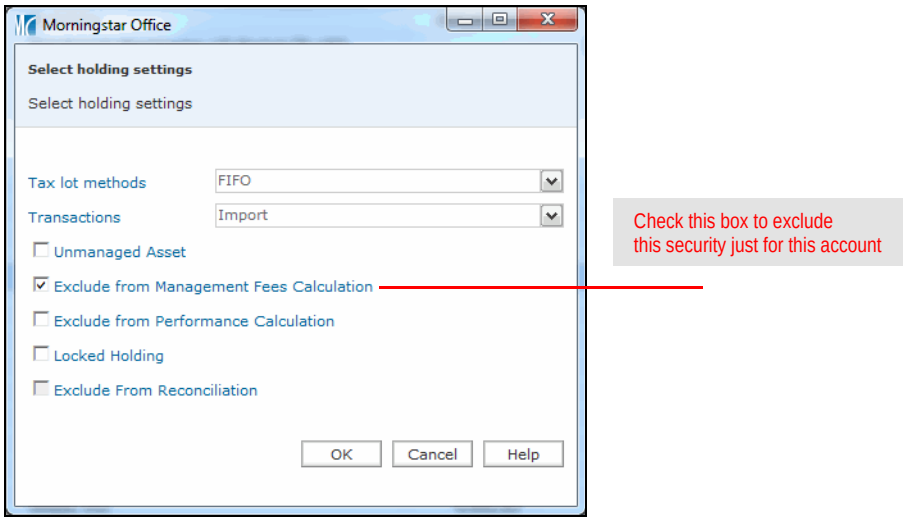
You can exclude securities from transaction accounts only; you cannot exclude securities from quick accounts with this procedure. To exclude securities from quick accounts, you will have to use the procedure detailed on page 36. To exclude a security from billing for a single account, do the following:

1. Open a client's account. You can do this either from the Client Management or Portfolio Management tab.
2. On the **Holdings Summary** page, check the **box** next to a security to select it.
3. From the **Action** menu, select **Holding Settings**. The Select Holding Settings dialog box opens.



4. In the Holding Settings window that opens, check the **Exclude from Management Fee Calculation** box.

   ☞ If you also want to exclude the security's performance from portfolio performance calculations, you can check the **Exclude from Performance Calculation** box.



5. Click **OK**.
6. When the confirmation message appears, click **OK**.

Generating and Applying Billing Fees

Overview

This section explains how to generate billing fee data for your practice, and how to apply one-time charges, discounts or adjustments for a bill. Generating fee data is optional, but it can be useful to see what amounts are being billed during a certain time period. This also gives you an opportunity to troubleshoot any issues before generating the Billing Summary report or fee data file(s) for your clients.

One-time charges, discounts and adjustments you create manually help account for exceptions, special charges and rebates you might need to account for when managing and billing your accounts.

☞ Note: If a client's existing Billing Summary does not seem correct, you can delete it and re-run it.

What kind of billing items can I create in Morningstar Office?

In addition to billing fee data based on the management fees, fee methodology and fee allocation settings you have created and applied, you can create several billing items for charges, credits and adjustments in Morningstar Office.

The table below explains these options.

This billing item…	Allows you to enter…	For more information, see page…
Payment	the amount a client has pre-paid. This amount is subtracted from a client's bill when you generate fee data.	45
Billable Services	a description of the service performed, the number of hours worked and the hourly rate. This charge is added to a client's bill when you generate fee data.	47
Service Charge	a flat service charge with a description. This charge is added to a client's bill when you generate fee data.	50
Adjustment	either an additional charge or a credit to a client's account, along with a description. The amount entered is either added or subtracted from a client's bill when you generate fee data., depending on the adjustment type.	52
Management Fees	enter a percent- or amount-based management fee as of a certain date. You can also apply a discount to this fee. (Think of this as a way to manually enter a management fee for a client, rather than using the system settings.) This amount is added to a client's bill when you generate fee data.	54

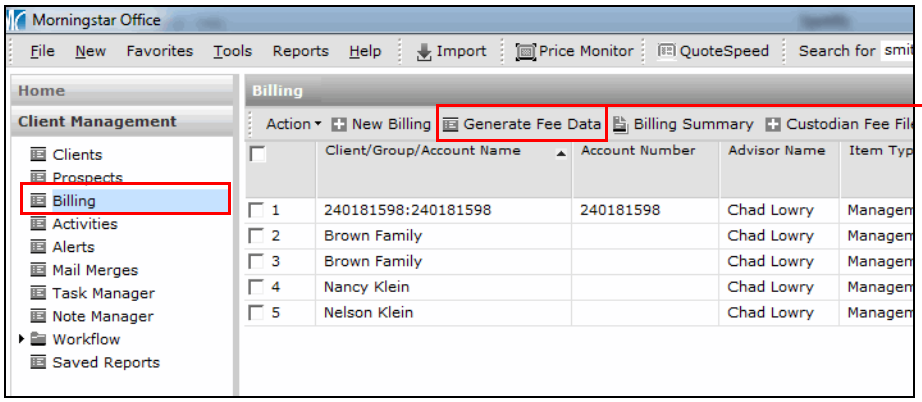
When do I need to use the Generate Fee Data icon?

The Generate Fee Data icon allows you to see the amounts you will be billing for clients, accounts or groups. In addition to seeing this information on the Billing page (from either the Client Management or Portfolio Management tabs), you can export it to Excel, or use it for certain management-level reports (see page 78 for more information on reports evaluating billing in your practice).

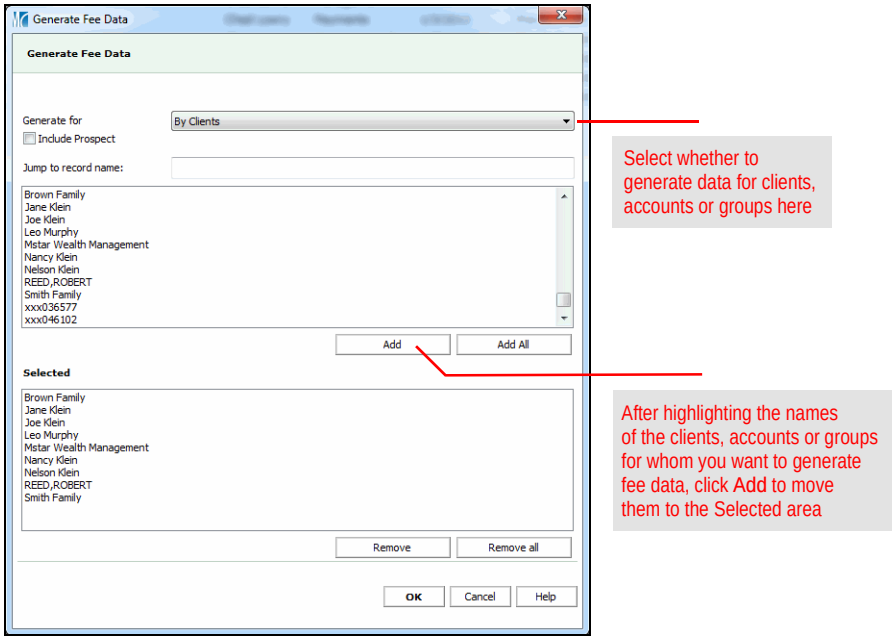
When you generate the Billing Summary report or custodian fee file, the fee data is generated automatically, so you do not need to use the Generate Fee Data icon for these reasons. However, if you want to analyze fee data for your practice, then you will need to first generate the fee data.

To generate fee data for your practice, do the following:

1. From the **Client Management** or **Portfolio Management** tab, select the **Billing** page.
2. From the Billing page toolbar, click **Generate Fee Data**. The Generate Fee Data dialog box opens.



3. From the **Generate for** drop-down field, select whether to generate fee data for clients, accounts or groups.
4. In the results area, select the **name(s)** of the clients, accounts or groups for whom you want to generate fee data.

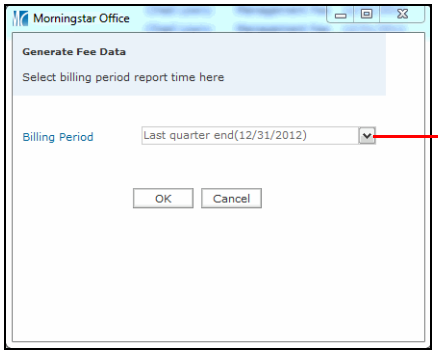


5. Click **OK**. A new Generate Fee Data dialog box opens.

6. Make sure the correct **Billing Period** is selected.
7. If you bill in advance, make a selection from the **Fee Type** drop-down field. Select **Regular** for standard billing. Select **New Account** if you have an account that is new within the latest billing period. For more information on billing new accounts in advance, see page 90.

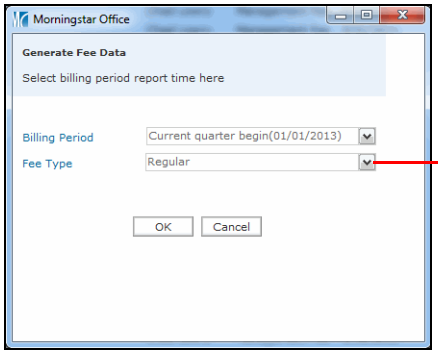
   ☞ Note: If you select New Account from the Fee Type field, the Billing Balance Date field appears. The following table describes the three options here:

Option	Description
Billing Inception Date	This option uses the value in the Billing Start Date field from the Account Profile page of the account.
Beginning of the 1st Full Month	This option uses the balance as of the first day of the next month after the Billing Start Date field from the Account Profile page of the account.
Custom Date	Enter a custom date here as of when the management fee calculation should be run.



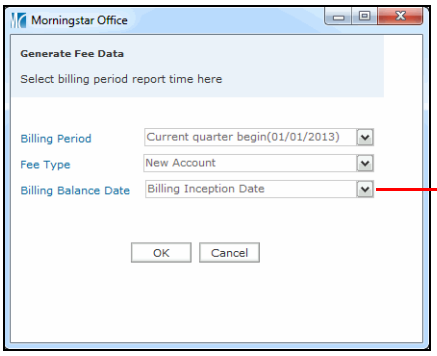
Billing in Arrears

Make sure the correct billing period is selected



Billing in Advance

Choose whether this billing data is for regular accounts, or new accounts

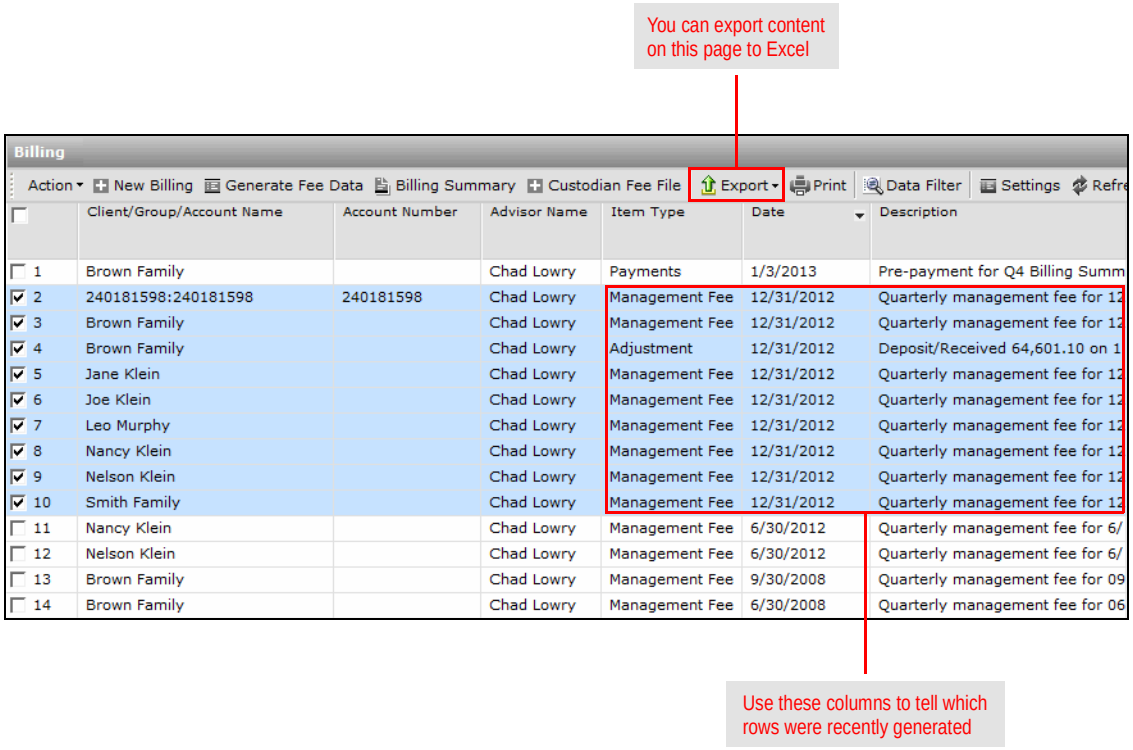


Billing in Advance for New Accounts

For new accounts, you can select the Billing Inception Date you entered on the account's Profile page

8. Click **OK**. Depending on the number of clients, accounts or groups you are generating fee data for, it could take a couple of minutes to finish generating the data.
9. A message could appear, asking if you want to see the warning message. To see information about missing prices, click **OK**. Otherwise, click **Cancel**.

10. The fee data now appears on the Billing page. Scroll right to see the Amount column, which is what your clients will see on the Billing Summary report. You can also use the **Data Filter** icon on the toolbar to help reduce the number of rows showing on the page.



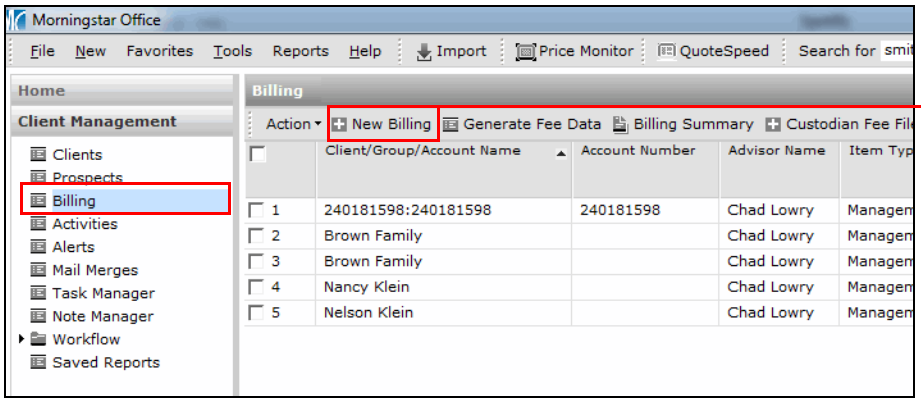
☞ Note: Once you no longer need to see the fee data for a particular period, you can select the rows on the Billing page and use the **Action** menu to delete them.

How do I apply a one-time payment to a client, account or group?

If a client remits a payment before it is due, you can enter this as a new billing item. This will be discounted from the Billing Summary generated during the period in which the payment is applied.

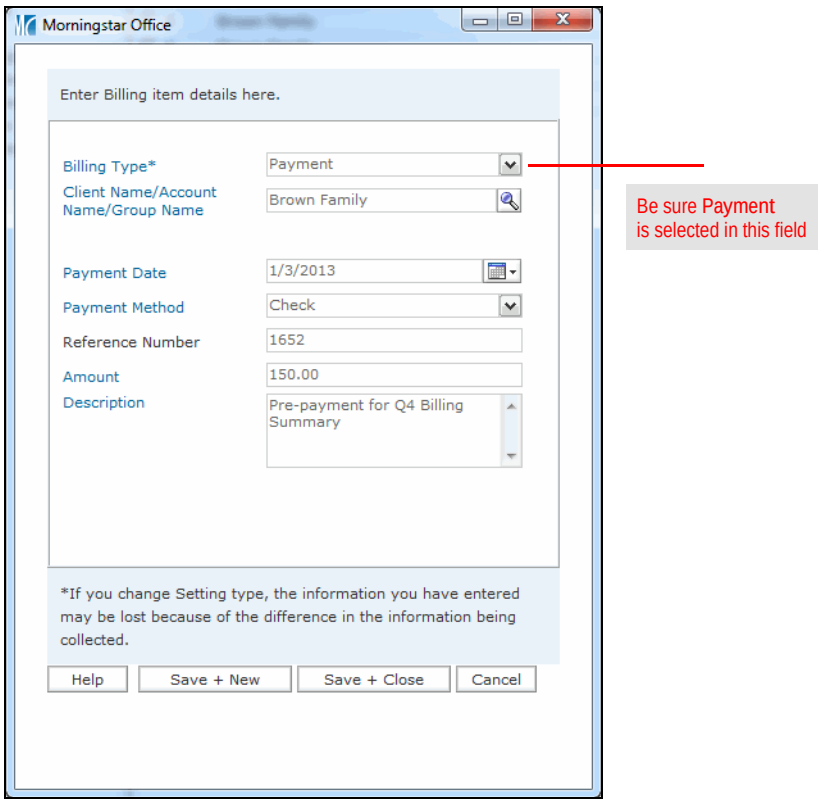
To apply a discount for a pre-payment made by a client, account or group to a Billing Summary (and the custodian fee file), do the following:

1. From the Client Management or Portfolio Management tab, select the **Billing** page.
2. From the Billings screen toolbar, click **New Billing**. The Billing dialog box opens.



3. From the **Billing Type** drop-down field, be sure **Payment** is selected.

4. Use the following table for instructions on how to fill out the fields in this dialog box.



Field Name	Instructions
Client Name/Account Name/Group Name	Select the name of the client, account or group to whom this payment credit will be applied. Only one item can be selected here.
Payment Date	The date you received the payment from the client.
Payment Method	Select the means by which the payment was received from the client.
Reference Number	You can enter a reference number here for the transaction, such as a confirmation number for a credit card payment, or a check number.
Amount	The dollar amount of the payment. This amount will be discounted from the client's bill during the period identified in the Payment Date field.
Description	Enter a note that will serve as a reminder as to why this item was created.

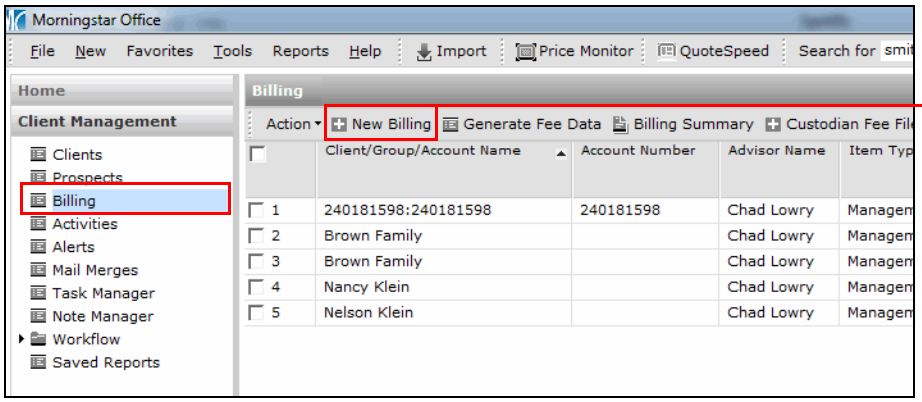
5. Click **Save + Close**. The payment adjustment will be subtracted on any Billing Summary report or fee data files generated for the period covered.

How do I apply a one-time billable service to a client, account or group?

A billable service charge allows you to track the number of hours worked for a client, and enter an hourly rate charged for this service. You can also apply a discount (by either percentage or dollar amount) to these charges.

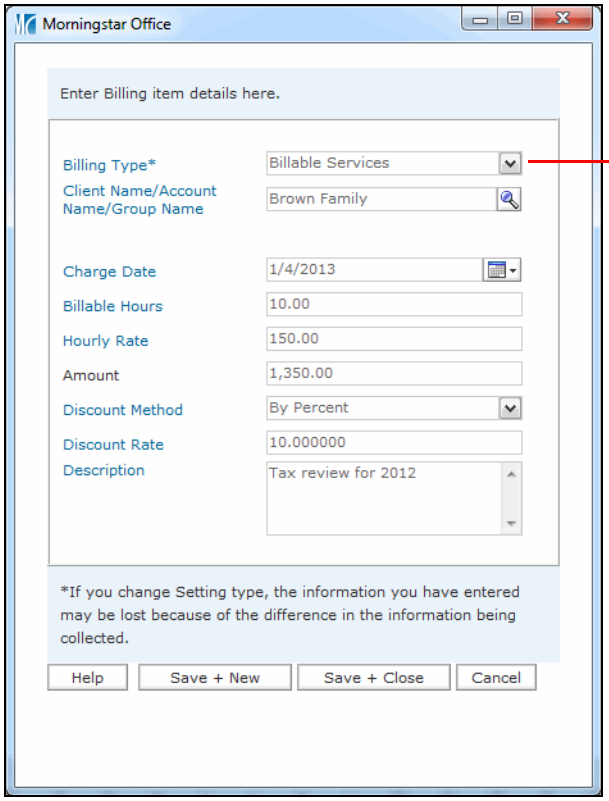
To apply a one-time billable service for client, account or group to a Billing Summary (and the custodian fee file), do the following:

1. From the **Client Management** or **Portfolio Management** tab, select the **Billing** page.
2. From the Billing page toolbar, click **New Billing**. The Billing dialog box opens.



3. From the **Billing Type** drop-down field, be sure **Billable Services** is selected.

4. Use the following table for instructions on how to fill out the fields in this dialog box.



Be sure Billable Service is selected in this field

Field Name	Instructions
Client Name/Account Name/Group Name	Select the name of the client, account or group to whom this charge will be applied. Only one item can be selected here.
Charge Date	The date the charge was incurred. If the charge was incurred over multiple days and spanned more than one billing period, you will need to create separate billing items to ensure the charge appears on the correct Billing Summary.
Billable Hours	The number of hours worked toward completion of the service.
Hourly Rate	The amount charged per hour for the service.
Amount	The amount of the charge, as calculated (Billable Hours X Hourly Rate) by the system. This field cannot be modified. This amount will be added to the client's bill during the period identified in the Charge Date field.
Discount Method	An optional field, you can use this field to apply either a dollar amount or percentage discount to the Amount field.

Field Name	Instructions
Discount Amount/Discount Rate	This field appears based on the selection you make in the Discount Method field. Enter a number here for the discount to the billable service.
Description	Enter a note that will serve as a reminder as to why this item was created.

5. Click **Save + Close**. The billable service charge will be added to any Billing Summary report or fee data files generated for the period covered.

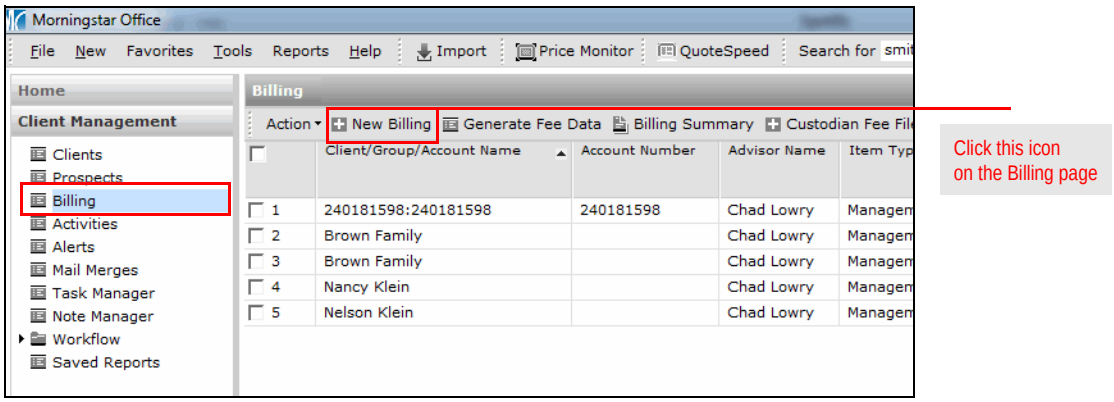
How do I apply a one-time service charge to a client, account or group?

A service charge is similar to a billable service, except no means exists to track the number of hours worked, or the rate being charged. You also cannot apply a discount to a service charge.

> ☞ Note: Service charges include account maintenance charges such as a minimum balance charge and/or finance charge, per item charges for request of additional documents, etc.

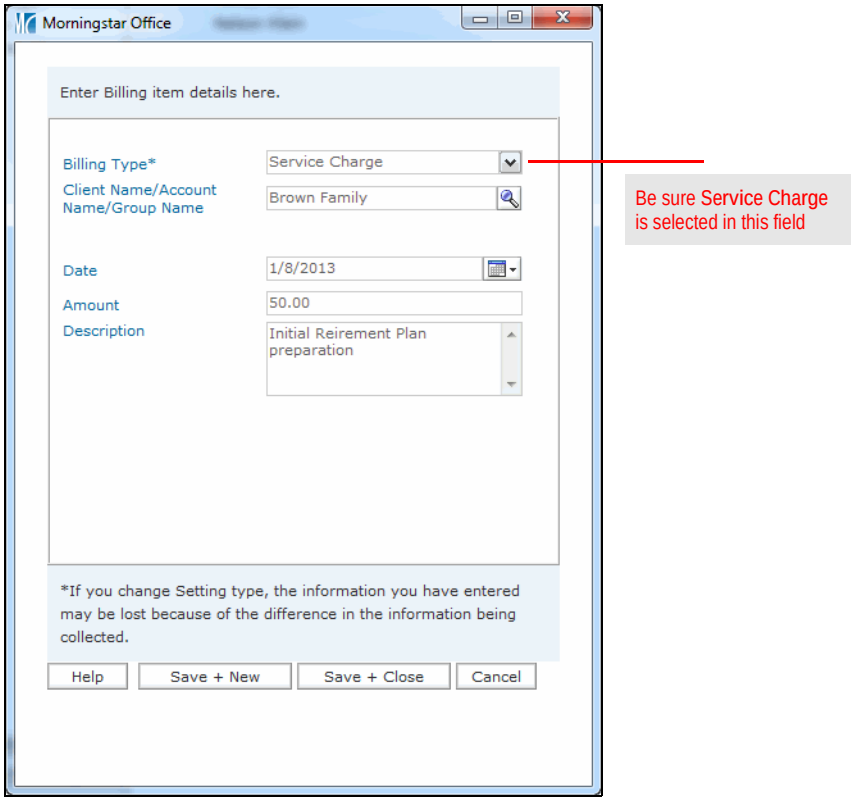
To apply a service charge to a client, account or group to a Billing Summary (and the custodian fee file), do the following:

1. From the **Client Management** or **Portfolio Management** tab, select the **Billing** page.
2. From the Billing page toolbar, click **New Billing**. The Billing dialog box opens.



3. From the **Billing Type** drop-down field, be sure **Service Charge** is selected.

4. Use the following table for instructions on how to fill out the fields in this dialog box.



Field Name	Instructions
Client Name/Account Name/Group Name	Select the name of the client, account or group to whom this service charge will be applied. Only one item can be selected here.
Date	The date the service charge was incurred.
Amount	The dollar amount of the service charge.
Description	Enter a note that will serve as a reminder as to why this item was created.

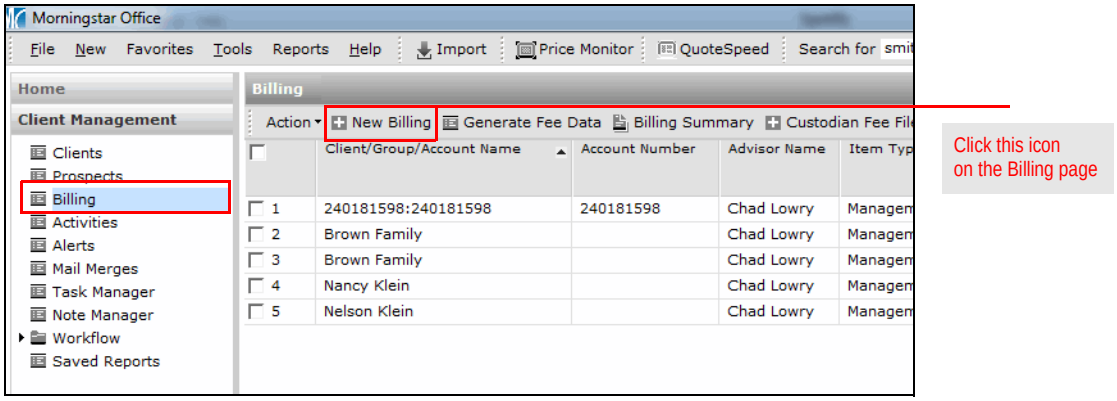
5. Click **Save + Close**. The service charge will be added to any Billing Summary report or fee data files generated for the period covered.

How do I apply a one-time adjustment to a client, account or group?

Adjustments allow you to apply either a discount or a charge to a client's past management fees. Perhaps a client sent in a check for too much money, or you forgot to charge for a certain service you performed. You can use an adjustment to account for such scenarios.

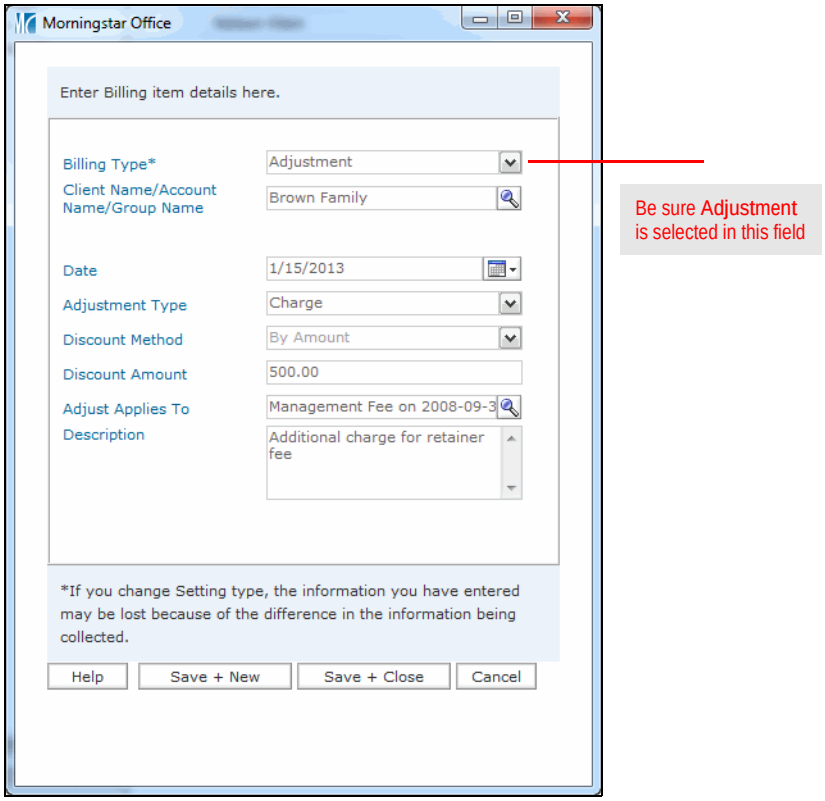
To apply an adjustment to the management fees for a client, account or group, do the following:

1. From the **Client Management** or **Portfolio Management** tab, select the **Billing** page.
2. From the Billing page toolbar, click **New Billing**. The Billing dialog box opens.



3. From the **Billing Type** drop-down field, be sure **Adjustment** is selected.

4. Use the following table for instructions on how to fill out the fields in this dialog box.



Field Name	Instructions
Client Name/Account Name/Group Name	Select the name of the client, account or group to whom this adjustment will be applied. Only one item can be selected here.
Date	The date you are recording the adjustment.
Adjustment Type	This field can be set to either **Charge** or **Credit**.
Discount Method	If you are creating a charge, this field defaults to **By Amount**, and cannot be changed. If you are entering a credit, you can select either **None**, **By Amount** or **By Percent** from this field.
Discount Amount	Enter the value for the discount here.
Adjust Applies To	Click the **magnifying glass** icon to select the **management fee** you generated in the past to which this adjustment will apply.
Description	Enter a note that will serve as a reminder as to why this item was created.

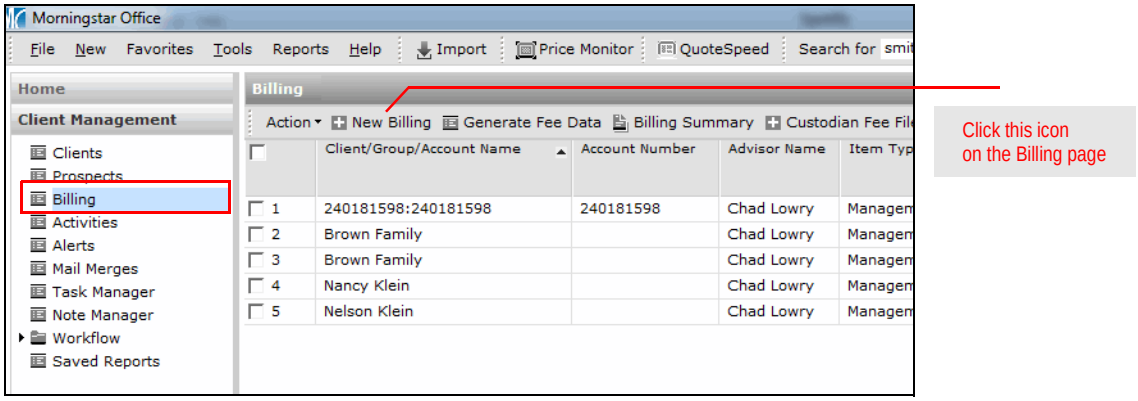
5. Click **Save + Close**. The adjustment will be added to any Billing Summary report or fee data files generated for the period covered.

How do I apply a one-time management fee to a client, account or group?

Management fees are normally generated based on the settings you created elsewhere in Morningstar Office. However, if you have not applied (or have excluded) management fees for a certain client, account or group, you can use this method to calculate fees for a Billing Summary.

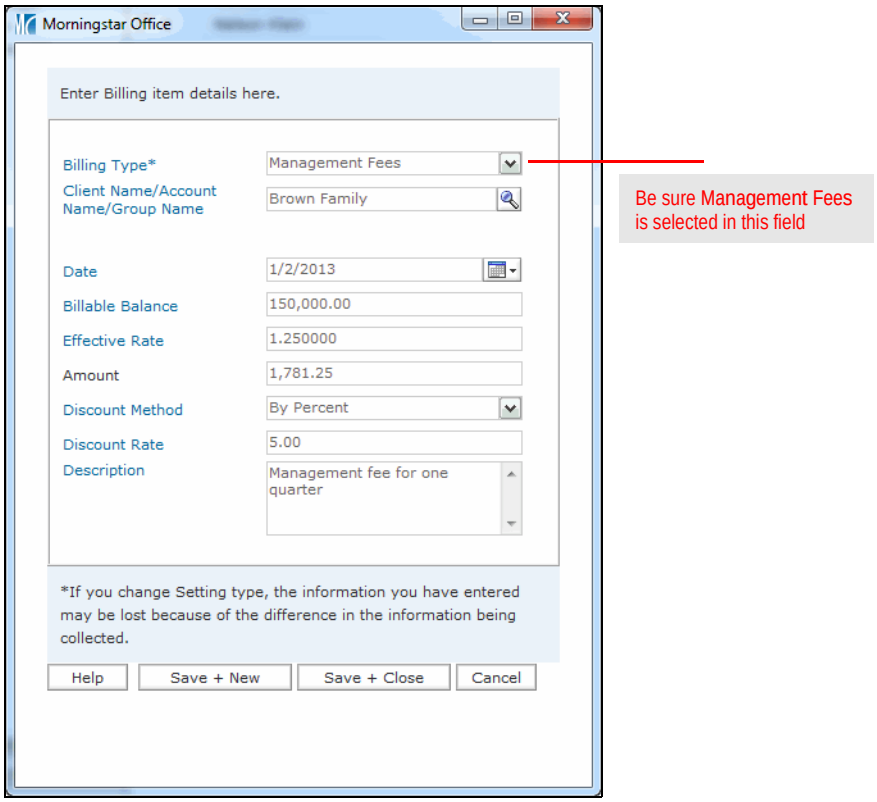
To apply a one-time management fee to a client, account or group to a Billing Summary (and the custodian fee file), do the following:

1. From the **Client Management** or **Portfolio Management** tab, select the **Billing** page.
2. From the Billing page toolbar, click **New Billing**. The Billing dialog box opens.



3. From the **Billing Type** drop-down field, be sure **Management Fees** is selected.

4. Use the following table for instructions on how to fill out the fields in this dialog box.



Field Name	Instructions
Client Name/Account Name/Group Name	Select the name of the client, account or group to whom this management fee will be applied. Only one item can be selected here.
Date	Enter the as-of date for which the management fee is being calculated.
Billable Balance	Enter the value of the client's portfolio (or the value of the account or the portfolio for a group) to be billed.
Effective Rate	Enter the rate you are charging for managing the billable balance.
Amount	The amount of the charge, as calculated (Billable Balance X Effective Rate) by the system. This field cannot be modified. This amount will be added to the client's bill during the period identified in the Date field.
Discount Method	An optional field, you can use this field to apply either a dollar amount or percentage discount to the Amount field.
Discount Amount/Discount Rate	Enter a number here for a discount to the management fee.
Description	Enter a note that will serve as a reminder as to why this item was created.

5. Click **Save + Close**. The payment adjustment will be added to any Billing Summary report or fee data files generated for the period covered.

How do I apply ongoing discounts for clients or accounts?

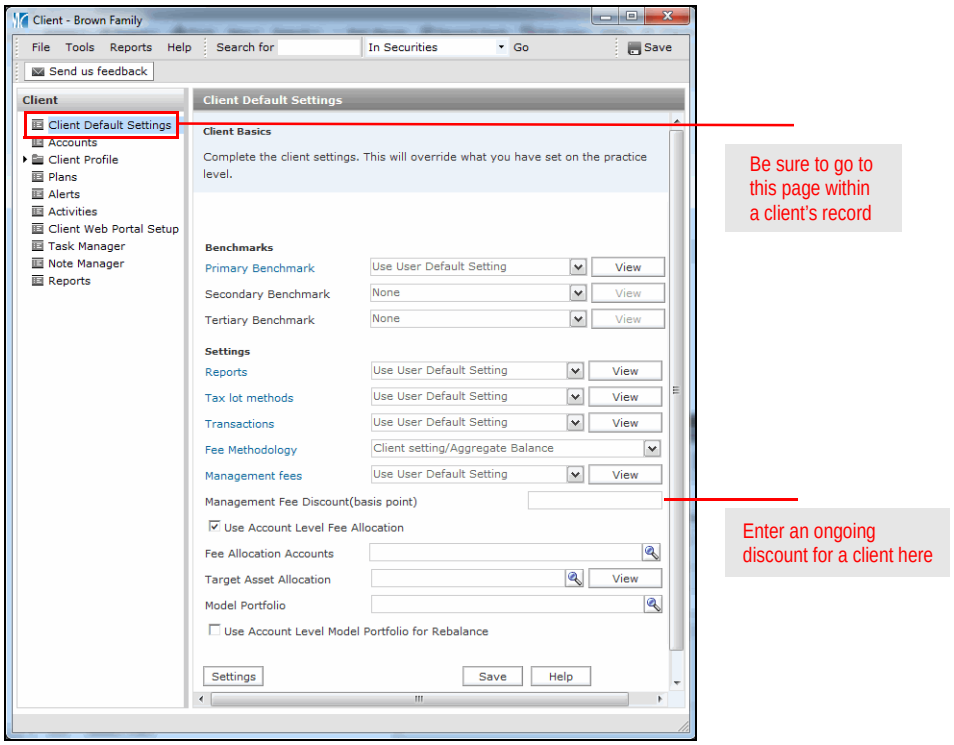
The billing items created via the New Billing icon cover one-time events for a client, account or group. You can, however, maintain an ongoing discount for a client or an account. For example, if you charge a 1% annual fee and enter a discount of 25 basis points for certain clients or accounts, those clients or accounts will be charged just 0.75% annually.

Note the following important points about this feature:

- The client's fee methodology determines whether you can apply an ongoing discount at either the client or account level, or both.
- If the fee methodology for a client is set to Client setting/Aggregate Balance, then the ongoing discount can be set at either the client or account level. It is possible to enter a discount in both places, so be careful when using this setting.
- If the fee methodology for a client is set to either Individual Account Setting/ Balance or Individual Account Setting/Blended Rate, then the ongoing discount can be applied only at the account level.

To apply an ongoing management fee discount to a client, do the following:

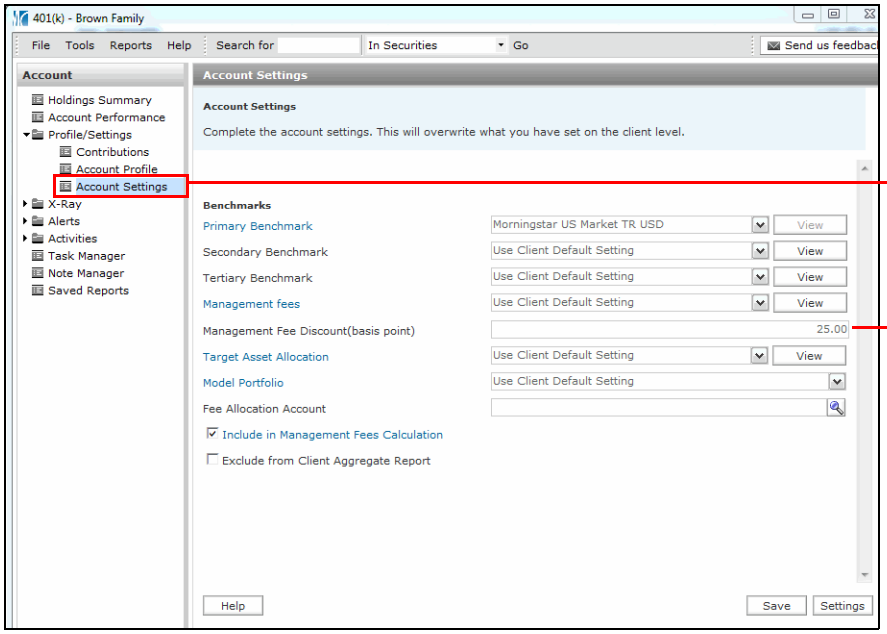
1. Go to the **Client Management** tab.
2. Double-click a **client's record** to open it. The Client window opens.
3. From the left-hand navigation pane, click the **Client Default Settings** page.
4. In the field labeled **Management Fee Discount(basis point)**, enter the number of **basis points** to deduct from the management fee for the account. For example, to offer a discount of 0.25%, enter the number 25.



5. Click **Save**. You can now close the Client window.

To apply an ongoing management fee discount to a given account, do the following:

1. Go to the **Portfolio Management** tab.
2. Double-click on an **account** to open it. The Account window opens.
3. From the left-hand navigation pane, click **Profile/Settings…Account Settings**.
4. In the field labeled **Management Fee Discount(basis point)**, enter the number of **basis points** to deduct from the management fee for the account. For example, to offer a discount of 0.25%, enter the number 25.



Be sure to go to this page within an account's record

Enter an ongoing discount for an account here

5. Click **Save**. You can now close the Account window.

Creating the Billing Summary Report

Overview

The Billing Summary report in Morningstar Office shows (for a particular time period) what fees a client is being billed for, which accounts those fees have been allocated to, and what amount is owed.

You can generate a Billing Summary for an individual client, group or account from the Billing page on the Client Management or Portfolio Management tabs, or generate multiple billing summaries at once using batch reporting from the Reports tab.

☞ Note: If a client's existing Billing Summary does not seem correct, you can delete it and re-run it.

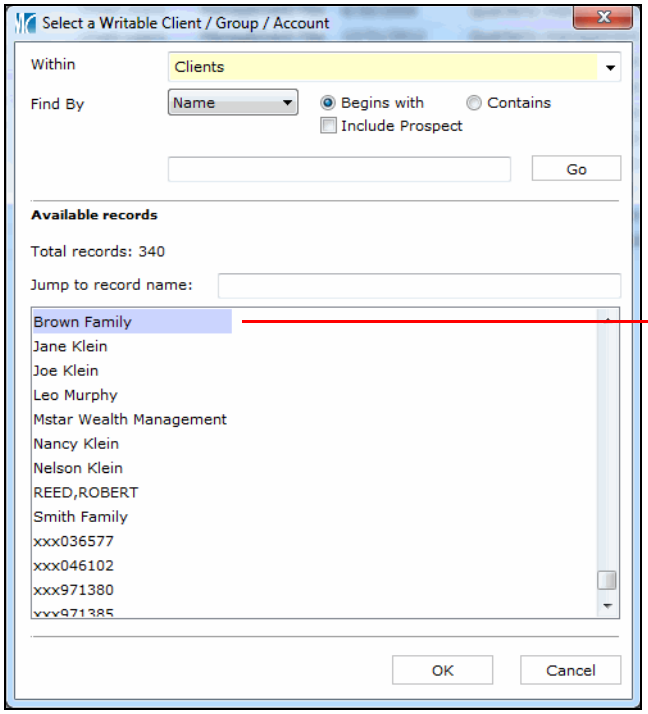
How do I generate a Billing Summary for one client?

To generate a single Billing Summary for a client, group, or account, do the following:

1. Go to either the **Client Management** or **Portfolio Management** tab.
2. From the left-hand navigation pane, select the **Billing** page.
3. On the toolbar, click the **Billing Summary** icon. The Select a Writable Client/Group/Account dialog box opens.
4. From the **Within** drop-down field, select a **search universe** (Clients, Groups, Accounts).
5. Click **Go** to see all results.

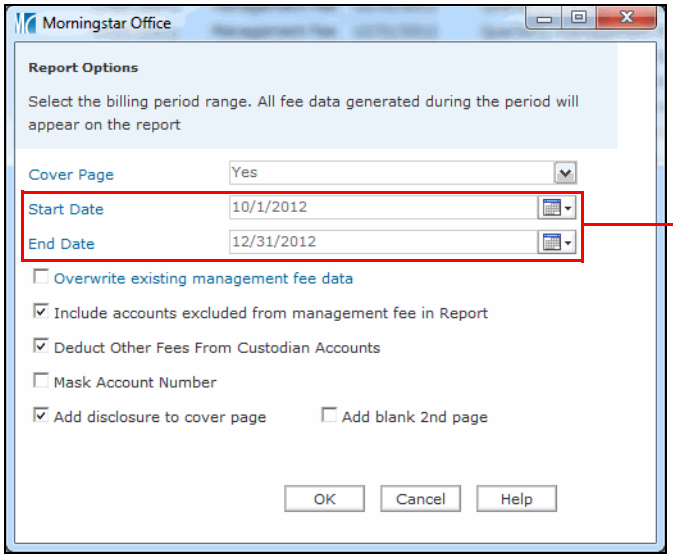
   ☞ Note: To narrow the list of results, type a name in the find field before clicking Go.

6. Click on the **client**, **group** or **account** you wish to bill, then click **OK**. The Report Options dialog box opens.



Be sure to select the name of the client, account or group here before clicking OK

7. Use the table below for instructions on how to fill out the fields in this dialog box.



Field Name	Instructions
Cover Page	You can include a cover page with the Billing Summary. If you have included your logo in Morningstar Office's settings (from Home…Settings…Preferences), this will also appear on the cover page.
Start Date	Select a **Start Date** and **End Date** for the information which should appear on the Billing Summary. This date range will include all fee data generated during that time period.
End Date	
Overwrite existing management fee data	If you are re-generating this Billing Summary after making changes to management fee settings, check the **Overwrite existing management fee data** box to update the Billing Summary.
Include accounts excluded from management fee in Report	Check the **Include accounts excluded from management fee in Report** box to show accounts on the Billing Summary that are not being billed as having a management fee of $0. (Otherwise, unbilled accounts do not appear at all). Note that this feature will work only if you are billing at the client level using Client Setting/Aggregate Balance or if you are billing at the group level using Group Setting/Aggregate Balance and have selected **No** for the Include Management Fee option on the Account Settings Assignments page (See "How do I exclude an account from billing?" on page 33.)

Field Name	Instructions
Deduct Other Fees From Custodian Accounts	If you have generated additional fees (using the New Billing icon) and you intend to deduct those fees from the custodian account, check the **Deduct Other Fees From Custodian Accounts** box. The fees will be allocated across the client's account according to the allocation settings that you have applied for the client. The total amount due from the client will appear as $0.00. ☞ Note: If you are billing an individual account, this feature will not work.
Mask Account Number	Check this box to hide the client's account numbers on the Billing Summary.
Add disclosure to cover page	This field refers not to the Billing Disclosure you may have created and associated to a Management Fee Setting, but rather to the standard Disclosure message you may have created for all reports. The former is included automatically, but the latter will show only if you include the cover page and check this box.
Add blank 2nd page	To include a blank second page, check the A**dd blank 2nd page** box.

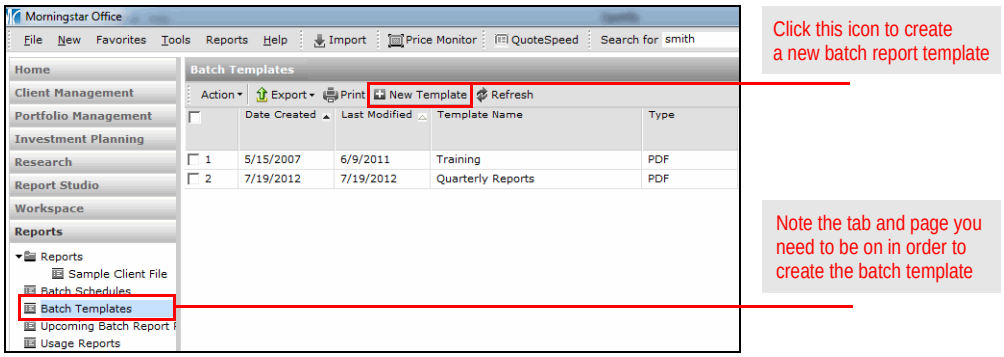
8. Click **OK** to generate the Billing Summary. Once the report generates, you can print it, save it locally (to your hard drive), or save it to Morningstar Office.

How do I generate the Billing Summary for multiple clients?

To generate multiple billing summaries at once, even for your entire practice, you can set up a batch report. A batch report requires you to set up a template that includes the reports that will be included in the batch, and then a schedule for when the reports will be generated, and for whom.

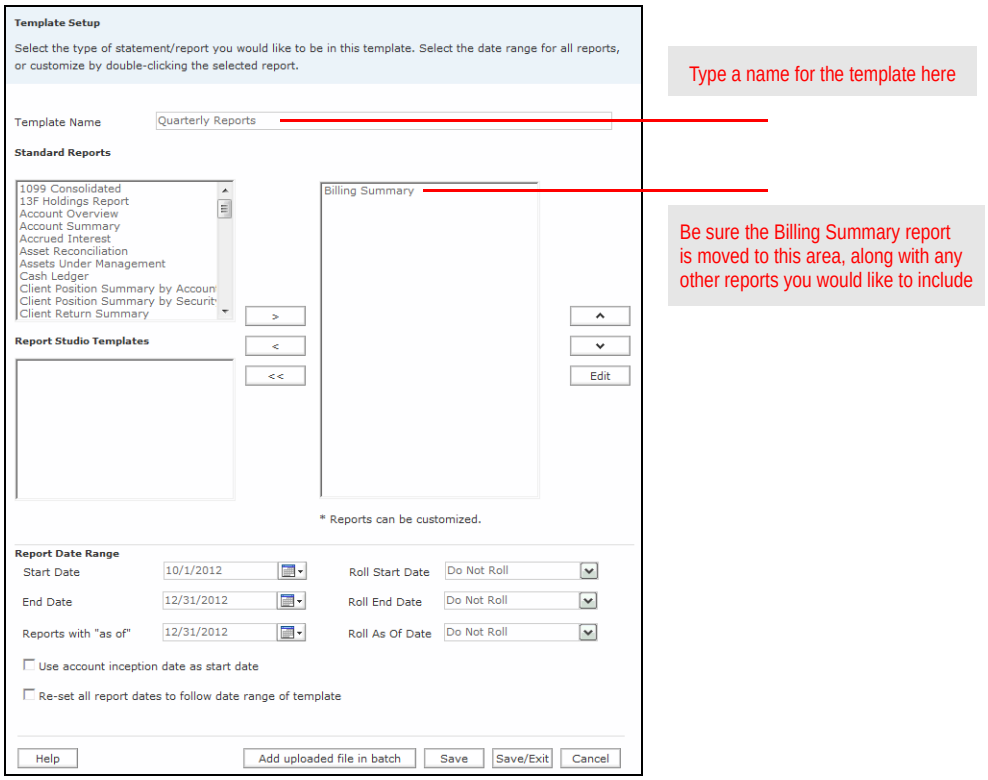
To create a batch template, do the following:

1. Go to the **Reports** tab, then select the **Batch Templates** page.
2. On the toolbar, click **New Template**. The Template Setup window opens.



3. In the **Template Name** field, enter a **name** for the template.
4. In the Standard Reports area, double-click **Billing Summary** to include it in the batch.

> ☞ Note: You can also double-click the names of other reports you want to include in the batch.To change the order of the reports, click the name of a report in the right box and use the up and down arrows to change its position. To remove a report from the batch, click the name of a report, then click the left arrow. Once a report is included in the box to the right, you can double click on the report to customize it.



5. In the Report Date Range area, select a **Start Date** and **End Date** for the report(s).

   ☞ Note: In the **Reports with "as of"** field, enter a **date** if you've included reports in the template that run on one particular day (e.g., Portfolio Snapshot, Portfolio X-Ray).

6. If you want the report template to roll with the calendar, select **Use Schedule Frequency** from the **Roll Start Date**, **Roll End Date** and **Roll As Of Date** fields. For example, if reports are run quarterly, the report dates will automatically change (e.g., to 4/1/20yy—6/30/20yy for reports with start and end dates, and to 6/30/20yy for reports with an as-of date). If you are running this batch just once and do not need this feature, select **Do Not Roll** from these fields. If your Billing Summary uses different dates from the other reports, you can double-click on the Billing Summary and customize the dates in the dialog box.

   ☞ Note: Other ways exist to manipulate the Roll dates as well. For example, if you would like the report dates to always be Year To Date, you can set the Start Date as 01/01/20YY, and leave the Roll Start Date field as Do Not Roll. Be sure to change the Roll End Date field to Use Schedule Frequency.

7. Click **Save/Exit**.

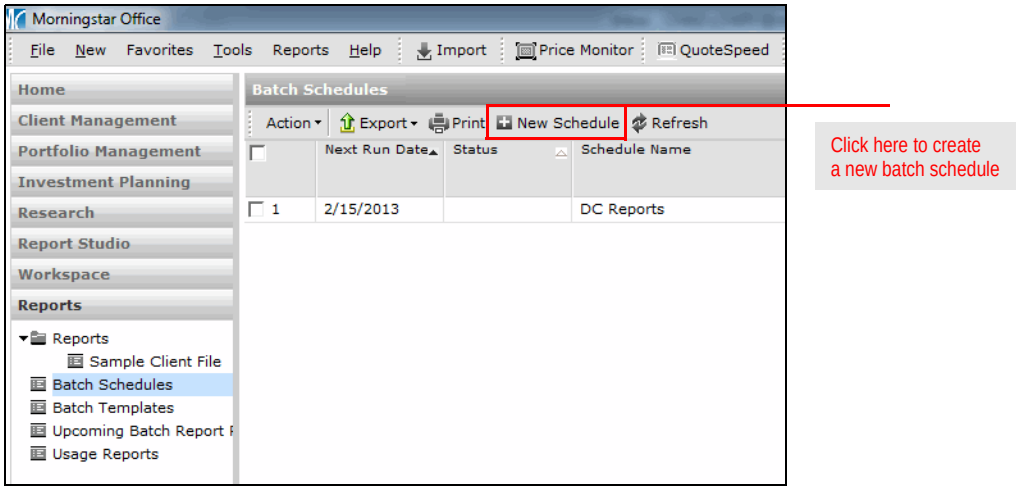
How do I create a batch schedule?

Once the batch template is complete, you must set up a batch schedule. The batch schedule determines what day the reports should be produced on, how often, and for which clients.

☞ Note: A distinction exists between the dates you selected for the batch template, and the date for the schedule. The dates for the template cover the content of the report. The date for the schedule covers when the batch is produced. For example, a template might cover data for an account from 1/1/20yy-3/31/20yy, but the schedule could call for this report to be produced on 4/5/20yy.

To create a batch schedule, do the following:

1. From the **Reports** tab, select the **Batch Schedules** page.
2. On the toolbar, click the **New Schedule** icon. The Report Generation Schedule window opens.



How do I use the Schedule tab on the Report Generation Schedule window?

When using the Report Generation Schedule window, the first tab you encounter is the Schedule tab. Here, you need to select the following factors:

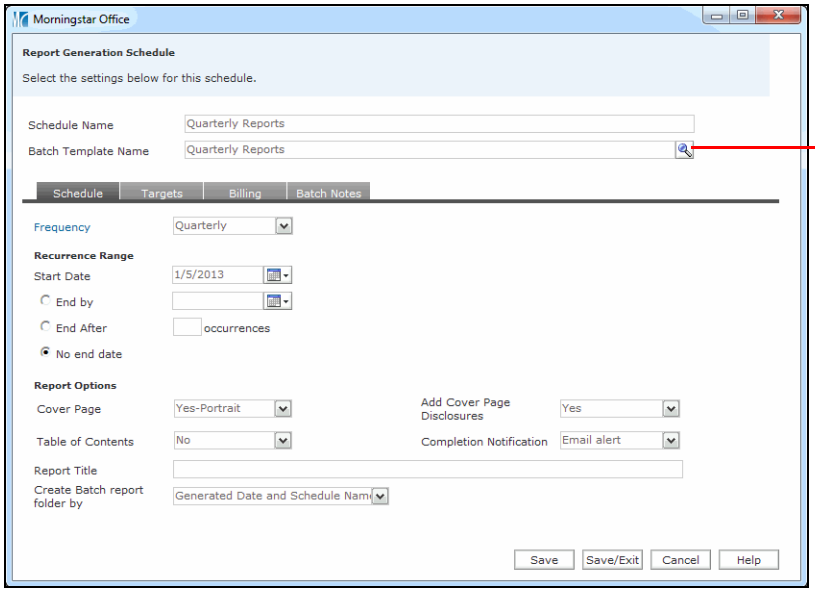
- which batch template to generate
- the frequency with which the batch should run
- when the batch should run
- whether to use a cover page and table of contents for the reports in the batch
- what title to put on the cover page, and more.

To use the Schedule tab, do the following:

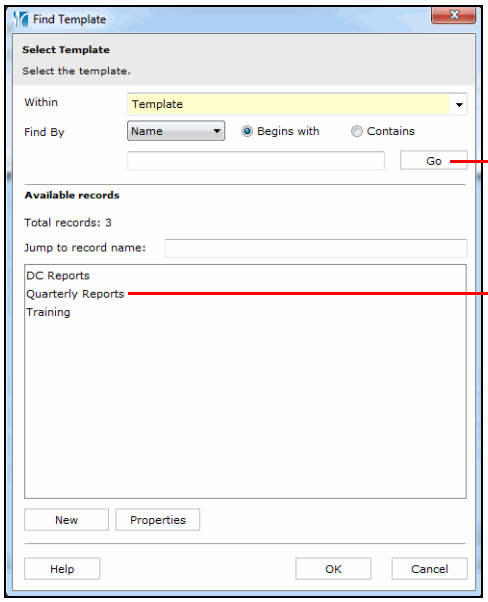
1. In the **Schedule Name** field, enter a **name** for the schedule.

   ☞ Note: Later, you will look for this name on both the Upcoming Batch Report Review page, and the Reports page on the Reports tab.

2. In the Batch Template Name field, click the **magnifying glass** icon. The Find Template window opens.



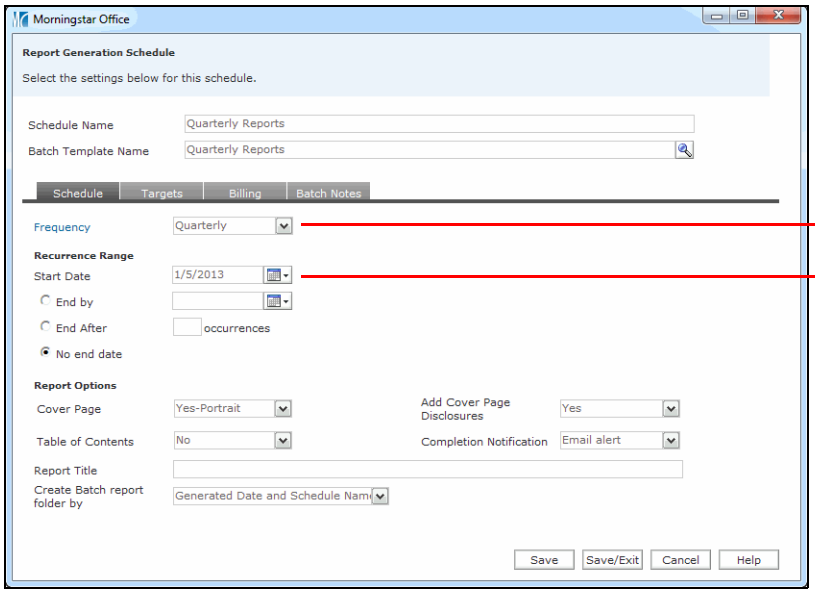
3. Click **Go**. The Available Records list is populated.
4. Click the **name** of the template you want to run and click **OK**. You are returned to the Report Generation Schedule window.



To see all batch templates available, click Go

Select the name of a template, then click OK

5. Click the **Frequency** drop-down field and select **Daily**, **Weekly**, **Monthly**, **Quarterly**, **Semi-annually**, or **Annually**. This will determine how often the batch reports are generated.
6. In the Start Date field, click the **calendar** icon and select the **date** on which you would like to generate the reports. Your reports will be generated the night of this date and be ready to print, email, or post to the Client Web Portal the next morning. For quarterly reports, you should select the fifth business day of the following month. For example, for Q1 reports, you should select 4/5/20yy. This will allow enough time for all transactions to close at your custodian, and be imported and reconciled in Office.



Be sure to select the Frequency from this field

For performance reports, schedule the batch to run five days after the following month, to ensure all trades have cleared and posted to client accounts

7. For end dates, you have three options:

► Click the **End by** option button and click the **calendar** icon and select an **end date** when these batch reports will stop running,

► Click the **End After** option button and enter a **number** of occurrences after which reports will no longer generate, or

► Click the **No end date** option button if you want the reports to continue generating at the frequency you establish.

8. To include a cover page, click the **Cover Page** drop-down field and select either **Yes-Portrait** or **Yes-Landscape**.
9. To include disclosures, click the **Add Cover Page Disclosures** drop-down field and select **Yes**.

   ☞ Note: These are report disclosures, not billing disclosures. In order to include report disclosures, you must first create the disclosures, assign them to a report setting, and assign that report setting to your clients. Billing disclosures are included automatically, but appear only on the Billing Summary.

10. You can include a **Table of Contents** by clicking that drop-down field and selecting **Yes**.
11. The **Completion Notification** field defaults to Email alert, which means when the batch has completed, an email is sent to the email address you use to login to Morningstar Office. If you do not want to receive this email, select **None** from this field.
12. In the **Report Title** field, enter a **name** for the entire group of batch reports (optional).
13. The **Create Batch report folder by** field allows you to save the reports that are generated by the batch to a folder (on the Reports tab) with either the name of the batch schedule, the date the reports were generated, or both the date and name. This selection will make it easier to identify the reports in this batch.
14. Click **Save**.
15. When the confirmation message appears, click **OK**.

How do I use the Targets tab in the Report Generation Schedule window?

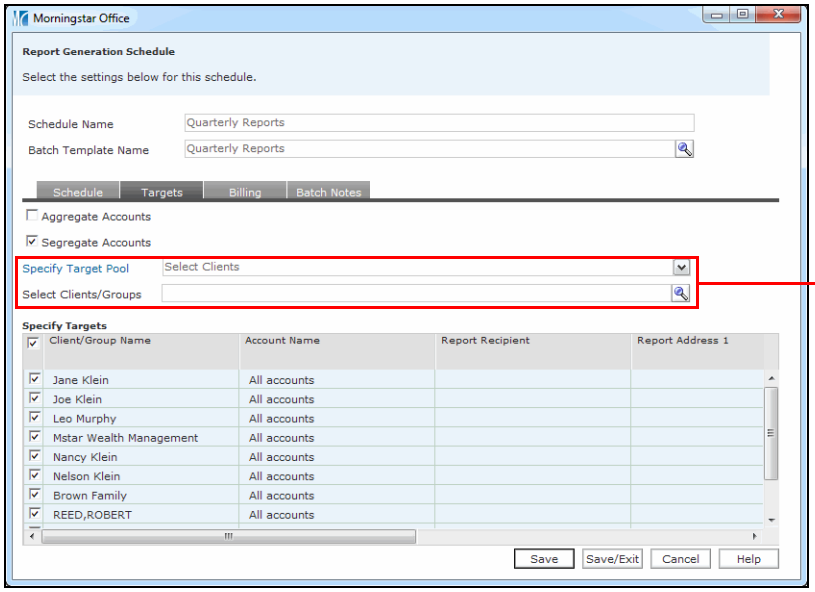
The Targets tab allows you to decide which clients are included in a batch schedule. You can also decide whether to aggregate or segregate a client's accounts (or both aggregate and segregate accounts).

After you complete the fields on the Schedule tab, do the following:

1. Click the **Targets** tab.
2. If you wish to aggregate a client's accounts together, check the box for **Aggregate Accounts**.
3. If you wish to segregate a client's accounts, check the box for **Segregate Accounts**.

   ☞ Note: You can both aggregate and segregate accounts for batch reports. If neither box is checked, each report will run at its default level; i.e., the client level or account level.

4. By default, the Specify Target Pool field is set to Entire Practice (All Clients). To select specific groups, composites, clients or accounts for whom you want to run the batch reports, click the **Specify Target Pool** drop-down field and make a selection.

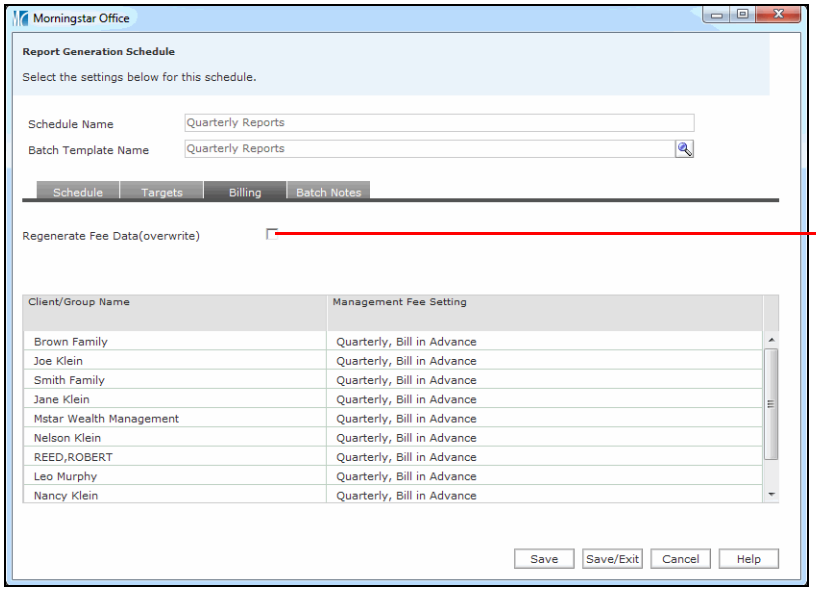


5. If you chose specific clients, accounts, etc. in step 4, in the Select Clients/Groups field, click the **magnifying glass** icon to select the **clients**, **accounts**, **groups** or **composites** you want.
6. Click **Save**.
7. When the confirmation message appears, click **OK**.

How do I use the Billing tab in the Report Generation Schedule window?

The **Billing** tab in the Report Generation Schedule window is optional; you do not have to visit this tab unless you want to overwrite existing fee data. You should need to overwrite existing fee data only if you have already generated a Billing Summary for the selected clients (even if it was just one of them) in the existing period, and subsequently made changes to the management fees applied to them.

You should also review the clients included here, and confirm the Management Fee Setting is correct. If it is not, you cannot change anything from this tab. You will have to either revisit the Targets tab to change the clients who are included, or return to the Settings Assignments window (via the Tools menu at the top of the Office window) to change the Management Fee Setting.



How do I use the Batch Notes tab in the Report Generation Schedule window?

The Batch Notes tab is also optional, but you can use this to remind you of which reports are being run in a batch, who the targets are, and what the frequency is for the schedule. The note you enter here is available only in this window; it is not surfaced elsewhere in Morningstar Office.

To make an entry on the Batch Notes tab, do the following:

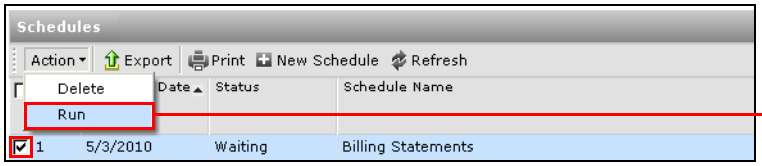
1. Click **Add Rows**. A new row appears.
2. Type a **Name** for the note.
3. In the **Description** field, type a note to remind yourself as to why this batch schedule was created.
4. Click **Save**. The Create Date and Last Modified Date fields automatically populate.

How do I set a batch report to run immediately?

On the Batch Schedules page, the Next Run Date column is the date when the reports will run, and automatically be generated.

To instead generate the reports immediately, do the following:

1. On the **Reports** tab, go to the **Batch Schedules** page.
2. Check the **box** to the left of the row number of the batch you want to run.
3. From the **Action** menu, select **Run**. When your batch is finished processing, you can retrieve your batch reports from the **Reports** page on the **Reports** tab.



Creating Custodian Fee Files

Overview

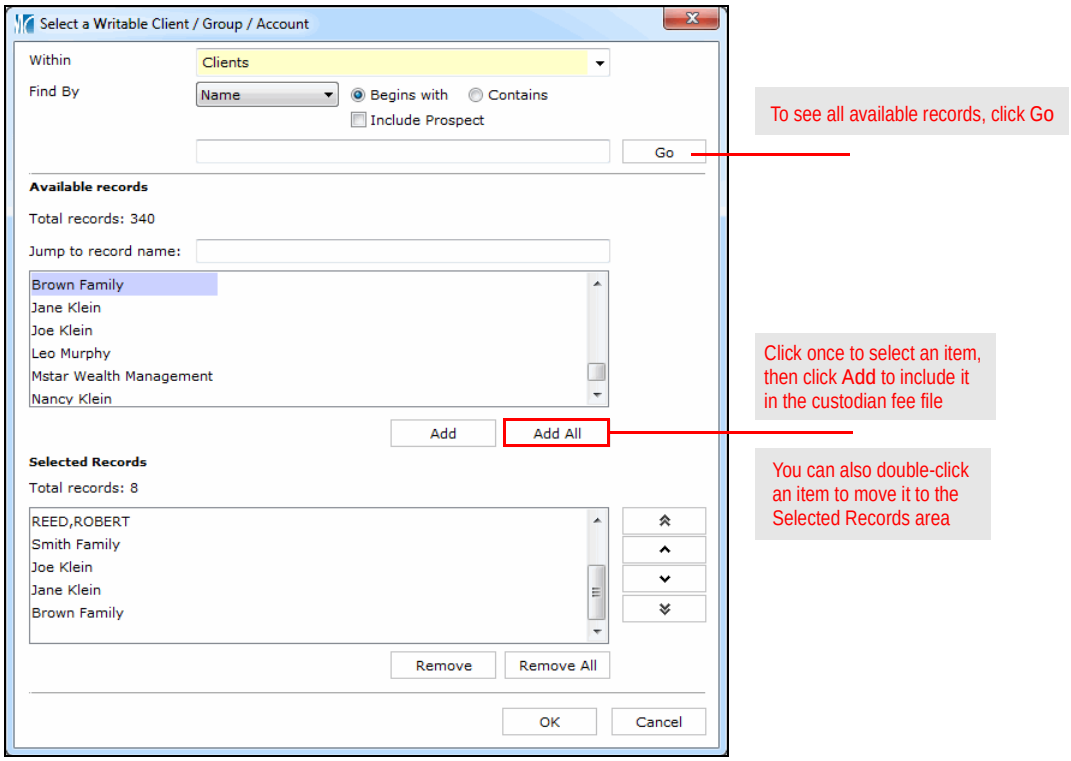
This section explains how custodian fee files work with billing in Morningstar Office. Custodian fee files are text-delimited, CSV files that can be uploaded to your custodian to deduct management fees from your clients' accounts.

Creating Billing Summary reports or custodian fee files in Morningstar Office does not automatically bill your clients, nor does it create management fee transactions. In order to actually deduct fees from your clients' accounts, you will need to upload the custodian fee file to your custodian. Once this is complete, the fees will be deducted from your client records at your custodian. After the fees are deducted by your custodian(s), the next time you import data into Morningstar Office, these transactions will then be reflected in your client accounts as management fee transactions.

How do I generate a custodian fee file?

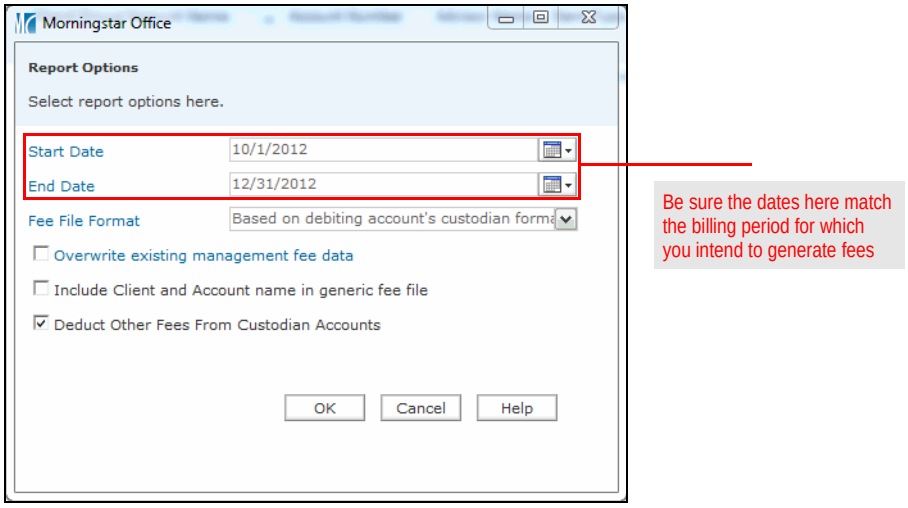
To generate a custodian fee file, do the following:

1. Go to either the **Client Management** or **Portfolio Management** tab.
2. From the left-hand navigation pane, select the **Billing** page.
3. On the toolbar, click the **Custodian Fee File** icon. The Select a Writable Client/Group/Account dialog box opens.
4. From the **Within** drop-down field, choose whether to look for **Clients**, **Groups** or **Accounts** to be included the custodian fee file.
5. To see all available options based on your selection from the Within field, click **Go**.
6. Use the **Add** button to move the clients/groups/accounts you want to generate fee data for to the Selected Records area.



7. Click **OK**. The Report Options dialog box opens.

8. Select the **Start Date** and **End Date** for the billing period.
9. Click the **Fee File Format** drop-down field. The following table explains the options available here:



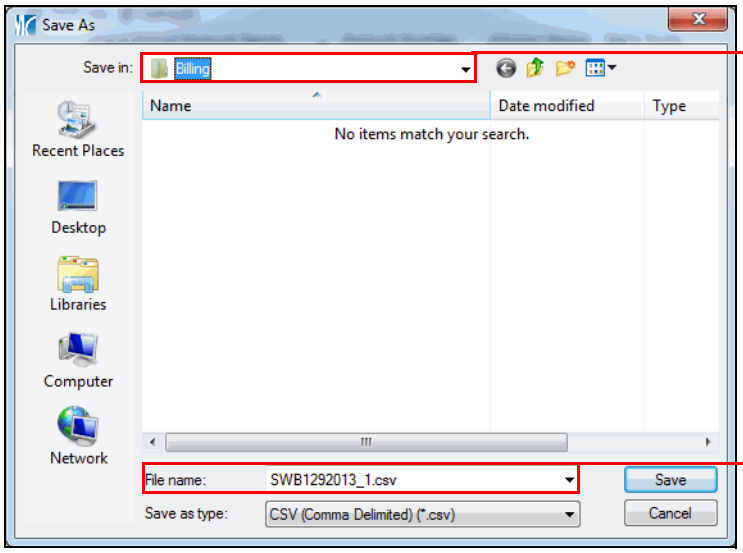
Option	Description
Based on debiting account's custodian format	Choose this option if you bill using multiple custodians (among Fidelity, Schwab and TDA) and you would like the program to generate multiple files, one for each of your custodians containing the clients/groups/ accounts billed at that custodian.
Fidelity	Choose this option if Fidelity is your only custodian. The resulting file will match Fidelity's specifications.
Schwab	Choose this option if Schwab is your only custodian. The resulting file will match Schwab's specifications.
TDA	Choose this option if TDA is your only custodian. The resulting file will match TDA's specifications.
LPL	Choose this option if LPL is your only custodian. The resulting file will match LPL's specification.
Generic Format*	This option generates a .csv file containing the account number and the total amount to be charged.
Generate Fee Instructions	This is not a custodian fee file, but rather a file for your own reference. This option generates a .csv file with the following columns: ► Account Name ► Account Number ► Total Fee Charged ► Firm Fee, and ► Advisor Fee. This file allows you to see the breakdown between firm fees and advisor fees, if you made that distinction in your management fees.

☞ *Note: If you also check the **Include Client and Account name in generic fee file** box, columns containing the client name and account name will also be included. This format is easy to manipulate into a fee file that can be uploaded to any custodian.

10. Check the **Overwrite existing management fee data** box to create a new set of billing data.
11. Check the **Deduct Other Fees From Custodian Accounts** box if you want to apply any discounts or adjustments you have specified.
12. Click **OK**. The Save As dialog box opens.

    ☞ Note: If the cash balance for an account is less than the fee amount, a warning message will appear. This is for your information only and will not prevent the accounts from being included in the fee file.

13. The default save location on a (Windows™ 7 or later computer) when this window opens is: C:\Program Files (x86)\Morningstar\Office\WWWRoot\Temp\Billing. You can specify a different **name** and **location** for this file, but be sure to take note of the location, as you will need it for sending the file to your custodian.



14. Click **Save**.
15. Click **OK** when the confirmation message appears.

    ☞ Note: For some custodians, the fee file format will call for more than one file to be saved. In these cases, step 13-15 will be repeated.

How do I upload a custodian fee file to my custodian?

For help uploading the generated custodian fee file and deducting the fees from your clients' accounts, please contact your custodian's support department.

Billing for a Group

Overview

This section explains how to generate fees and create a Billing Summary for a group. While this process is largely the same as that for creating fees and a Billing Summary for a client or account, a couple of settings require particular attention.

How do I assign management fee methodologies and management fee settings for a group?

Groups can be billed using the same three fee methodologies available for clients:

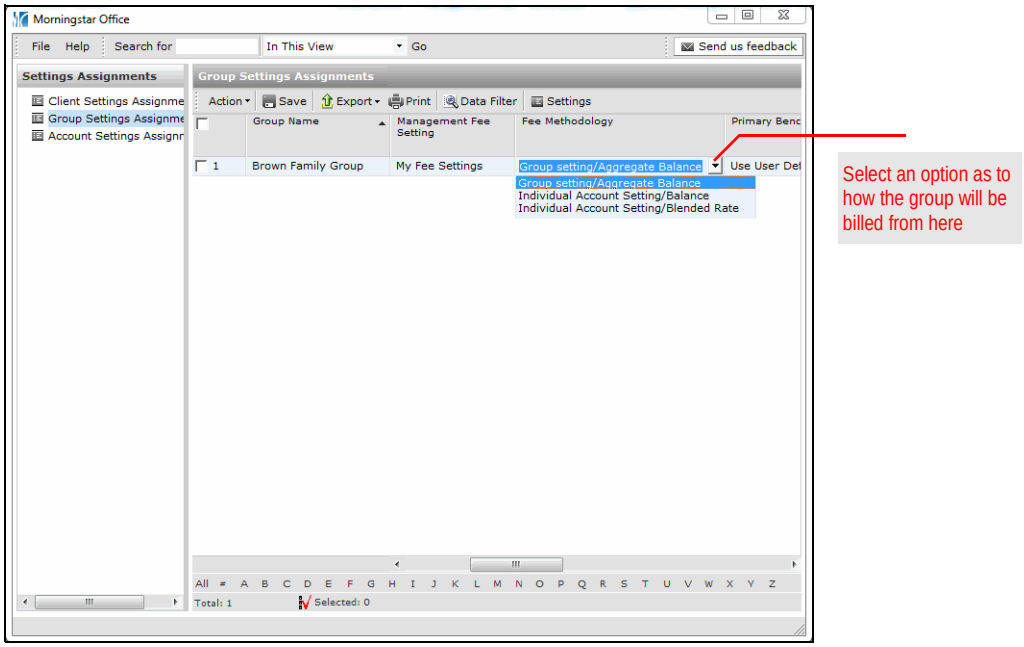
- Group setting/Aggregate Balance
- Individual Account Setting Balance, and
- Individual Account Setting/Blended.

> ☞ Note: Before billing at the group level, check that billing at the client or account level does not meet your needs. For example, billing for a household can be done at the client level if all members of the household are part of the same client record.

If you are using a tiered performance fee, the amount charged to each group is determined by aggregating the values for all accounts in the group.

1. From the menu bar at the top of the Office window, select **Tools…Settings... Settings Assignments**.
2. In the left-hand navigation, click **Group Settings Assignments**.
3. Scroll right to the Fee Methodology column, and select a **fee methodology** for each group.

> ☞ Note: To review how fee methodologies work, please see Selecting Fee Methodologies on page 10.



4. If the Fee Methodology is Group setting/Aggregate Balance, (meaning the balances of each underlying account in the group are aggregated), use the **Management Fee Setting** column on this page to select the appropriate **management fee** for each group.

5. If the Fee Methodology is one of the two individual account settings, go to the **Account Settings Assignments** page (in the left-hand navigation pane).
6. Find the accounts for the group that are billed at the individual account or blended account level.
7. Scroll right to the **Management Fee Setting** column.
8. Click inside the field to select the **management fee** that this account will use.
9. Once you have assigned your fees for all of your groups, click **Save**.

How do I assign a fee allocation to a group?

Unless you decide to exclude a group-related account from billing, all accounts for groups will be assessed management fees. However, you can customize how fees are actually withdrawn from a group's accounts. When you generate a file to send fees to your custodian, the fee allocation you have decided on determines the amount deducted from each account.

For example, assume a group includes the following five accounts:

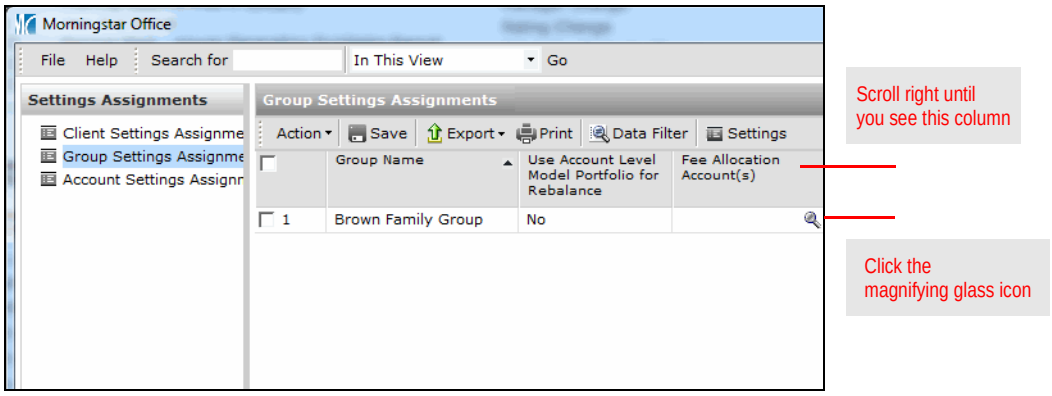
- Brokerage 1
- Brokerage 2
- Brokerage 3
- Brokerage 4, and
- Brokerage 5.

The fees for the group can be set so that Brokerage accounts 1-4 pay all of the fees for the group. The Brokerage 5 account will have fees calculated for it, but fees will not be deducted from it.

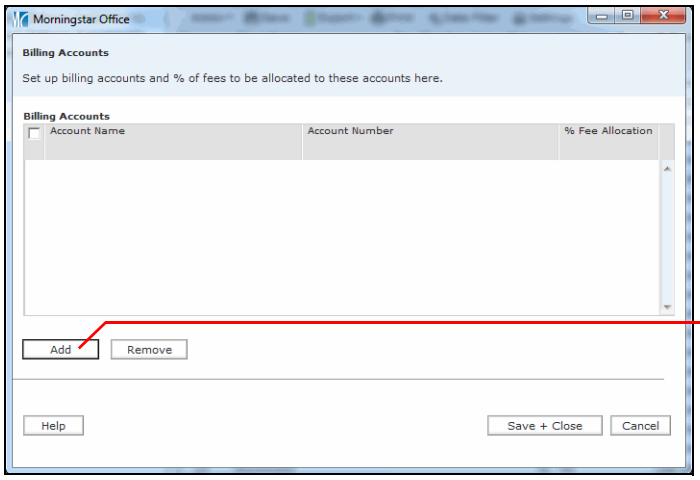
When fee allocation is done at the group level, you can allocate fees from either the group's own account(s), or any other account in your practice.

To allocate portions of the total amount due from a group across accounts by percentage, do the following:

1. If the Settings Assignments window is not open, from the menu bar at the top of the Morningstar Office window, select **Tools...Settings...Settings Assignments**. The Settings Assignments window opens.
2. Go to the **Group Settings Assignments** page, and scroll right until you see the Fee Allocation Account(s) column.
3. Click the **magnifying glass** icon in that column. The Billing Accounts dialog box opens.

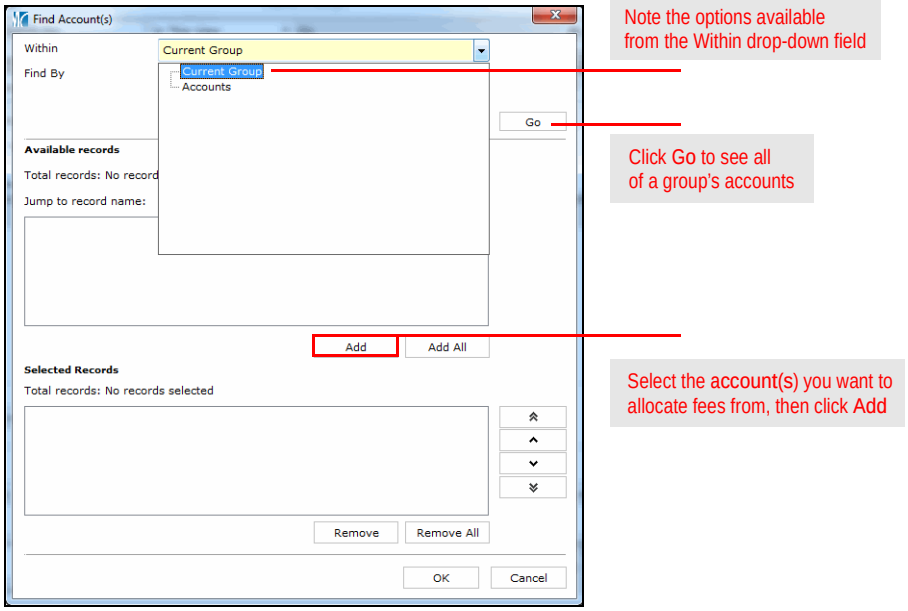


4. On the Billing Accounts dialog box, click **Add**. The Find Account(s) dialog box opens.



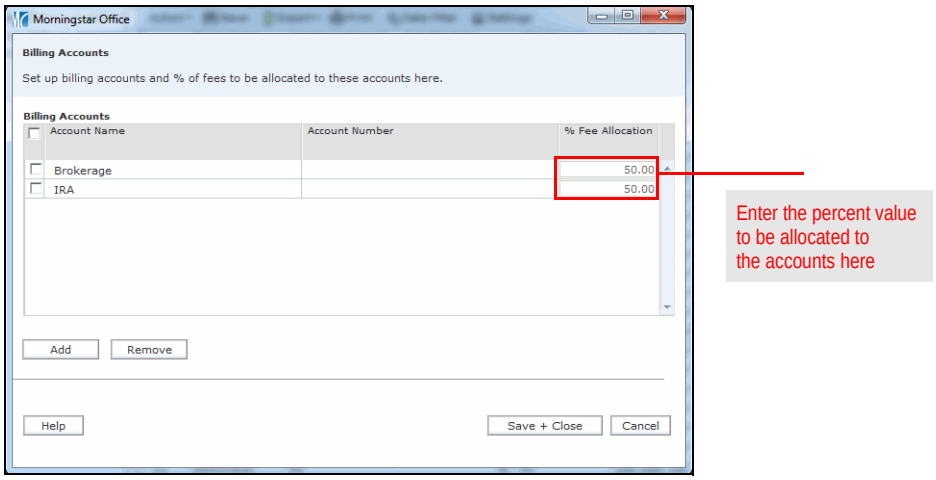
5. On the Find Accounts dialog box, the Within field defaults to Current Group, which means you can search for accounts within the group you are working with to allocate fees. To see accounts for the current group, click **Go**.

   ☞ Note: To allocate fees for this group to an account outside the group, change the **Within** drop-down field to **Accounts** before clicking **Go**.



6. The list of all accounts belonging to the group will appear. Click on the **accounts** from which you plan to withdraw fees and then click **Add**. They will appear under Selected Records.
7. When the list is complete, click **OK**.

8. On the next screen, type the **percentage** of the total amount due that is to be charged to each account into the % Fee Allocation field.



9. When you're finished, click **Save + Close**.

How do I allocate one account in a group to pay all of the fees for another account in the group?

In addition to determining fee allocations for a group, you can also create one-to-one relationships between accounts. That is, you can set it so all of the fees for account A are always charged to account B.

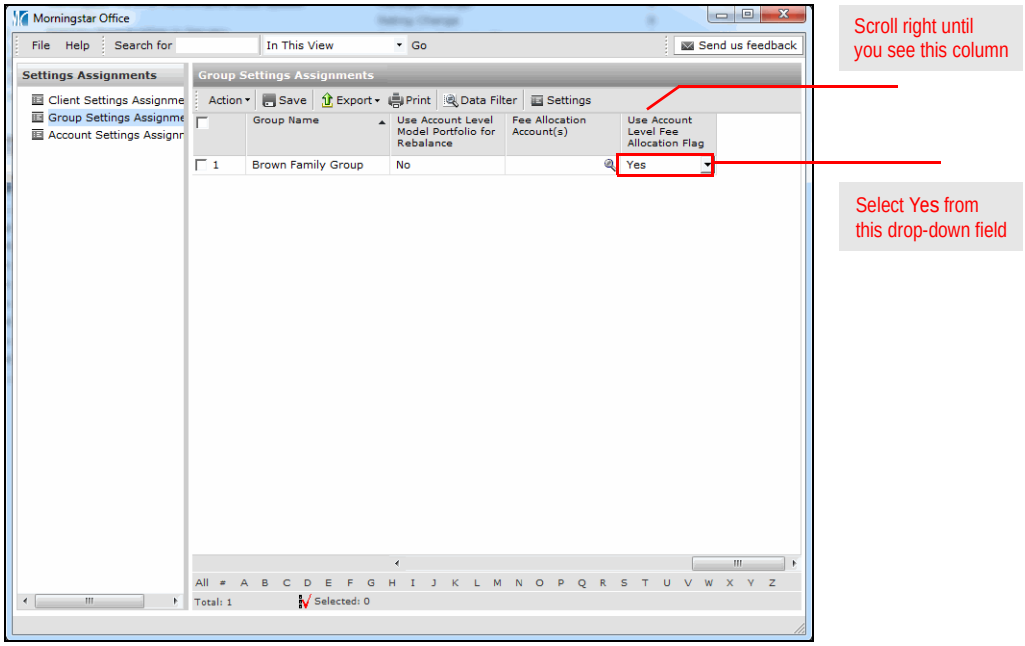
> ☞ Note: For account-level fee allocation, the designated account always pays 100% of the fees for an account; no other percentage allocation can be set.

This process involves two steps:

1. First, you must update the group record to allow for this setting.
2. Next, you must allocate the fees from one group account to another.

To set account-level fee allocations, do the following:

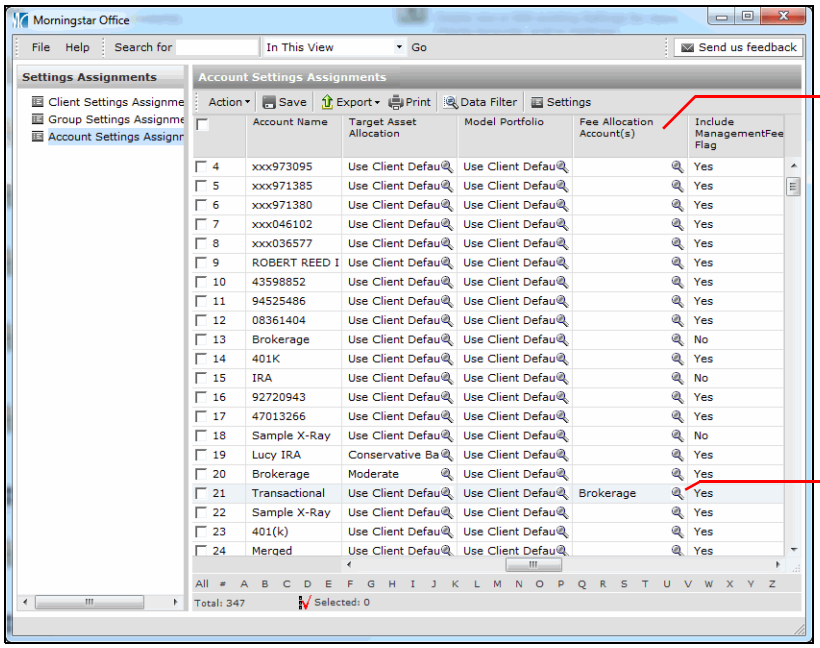
1. If the Settings Assignments window is not open, from the menu bar at the top of the Morningstar Office window, select **Tools...Settings...Settings Assignments**. The Settings Assignments window opens.
2. Go to the **Group Settings Assignments** page, and scroll right until you see the Use Account Level Fee Allocation Flag column.
3. From the drop-down field, select **Yes**.



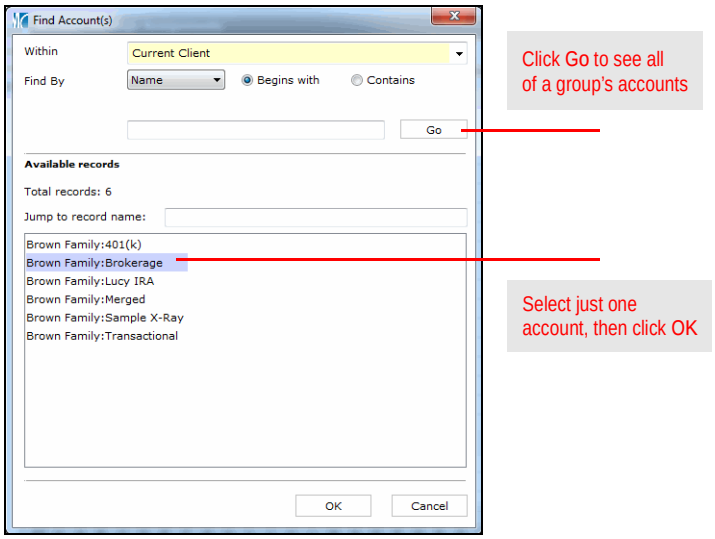
4. Click **Save**.
5. When the confirmation message appears, click **OK**.
6. In the left-hand navigation pane, go to the **Account Settings Assignments** page.

7. Within the Account Settings Assignments page, scroll right until you see the Fee Allocation Account column.
8. For the account whose fees you want to assign to a different account, click the **magnifying glass** icon in the Fee Allocation Account column. The Find Accounts dialog box opens.

   ☞ Note: To make it easier to track the account you want to update, check the box to the left of its name, so the row is highlighted.



9. On the Find Accounts dialog box, click **Go**. The list of the client's accounts will appear.
10. Click on the **account** from which the fees should be withdrawn, then click **OK**.



11. From the toolbar at the top of the screen, click **Save**.
12. When the confirmation message appears, click **OK**.

Global Billing Reports for Your Practice

Overview

This section describes several management-level reports you can generate related to billing in your practice. These reports will help you monitor how much is being billed at your practice, and what types of fees are being generated.

What Global Billing Reports are available?

The table below describes the reports available from the **Reports** menu (at the top of the Morningstar Office window). They can be used to double-check your current settings, and to confirm fee calculations before sending your fee files to your custodian. Some reports appear as PDFs, others as Excel spreadsheets.

☞ Note: Before generating most of these reports, you must first generate fee data for the clients, accounts or groups you are analyzing, since the data for these reports is taken from what appears on the Billing page on either the Client Management or Portfolio Management tabs. See page 41 for more information on how to generate fee data.

Report Name	How do I generate this report from the Reports menu?	What does this report show?
Global Billing Summary (PDF)	Management Reports ► Global Billing Summary ►	This report lists all fees calculated per account, within a given date range. Data on the report come from the Billing page, it is not calculated at the time the report is run. It includes additional charges and rebates you created.
Global Management Fees Report (PDF)	Management Reports ► Management Fees ►	This report lists all fees calculated per account, within a given date range Data on the report come from the Billing page, it is not calculated at the time the report is run. It does NOT include additional charges/rebates you created using the New Billing icon.
Billing Setting and Validation Report (Excel)	Billing Management ► Billing Setting Validation Report ►	This report lists current billing settings for each account, including the following: ► fee methodology ► management fee setting ► allocation account ► billing disclosure, and more.
Billing Information and Fee Calculation Report (Excel)	Billing Management ► Billing Information & Fee Calculation Report ►	This report lists all fees calculated per account within a given date range vs. available cash for each account. Data on the report is taken from the Billing page; it is not calculated at the time the report is run. It does NOT include additional charges/rebates you created using the New Billing icon.

Report Name	How do I generate this report from the Reports menu?	What does this report show?
Management Fee Position Exclusion Report (Excel)	Billing Management ► Management Fee Position Exclusion Report ►	This report lists all positions being excluded from management fee calculations as of a certain date. You do not need to generate fee data before producing this report.
Insufficient Cash Accounts Report (Excel)	Billing Management ► Insufficient Cash Accounts Report ►	This report lists all accounts where the calculated fee is greater than the current cash/money market position for a client. Fee data is taken from the Billings page; it is not calculated at the time the report is run.
Accounts With No Management Fee Schedule (Excel)	Billing Management ► Accounts With No Management Fee Schedule ►	This report lists all accounts with no management fee setting currently applied to them. You do not need to generate fee data before producing this report.

Appendix 1: Billing Scenarios

Overview

This appendix provides examples of how management fees are calculated using the three different fee methodologies available in Morningstar Office:

- Client setting/Aggregate Balance
- Individual Account Setting/Balance, and
- Individual Account Setting/Blended Rate.

For all of the scenarios, we will use an example client with two accounts:

- a Retirement account with $100,000 and
- a Brokerage account with $300,000.

We will also use the following three Management Fee Settings (using a tiered fee):

Management Fee A		Management Fee B		Management Fee C	
0 - $100,000	1.00%	0 - $100,000	2.00%	0 - $100,000	1.50%
$100,000 - $250,000	0.50%	$100,000 - $250,000	1.00%	$100,000 - $250,000	0.75%
$250,000 - 999,999	0.25%	$250,000 - 999,999	0.50%	$250,000 - 999,999	0.375%

Scenario 1: How is the fee calculated for the Client setting/Aggregate Balance methodology?

You can aggregate a client's accounts and apply one management fee to the total holdings. Remember, in this scenario, the client has a total of $400,000 across two accounts.

If you decide to calculate fees at the client level, then it is simply a matter of choosing which management fee to apply to the aggregate value:

Fee A Applied to Aggregate	Fee B Applied to Aggregate	Fee C Applied to Aggregate
$100,000 x 1% = $1,000	$100,000 x 2% = $2,000	$100,000 x 1.5% = $1,500
$150,000 X 0.5% = $750	$150,000 X 1% = $1,500	$150,000 X 0.75% = $1,125
$150,000 X 0.25% = $375	$150,000 X 0.5% = $750	$150,000 X 0.375% = $562.50
Total Fees = $2,125	**Total Fees = $4,250**	**Total Fees = $3,187.50**

Scenario 2: How is the fee calculated for the Individual Account Setting/Balance methodology?

You can apply various management fee settings to the accounts for one client. With the Individual Account Setting/Balance fee methodology, each account's fee is calculated separately, then added together to determine the total amount a client is billed.

An example is shown in the following table:

Fee A Applied to the Retirement account			**Fee B Applied to the Brokerage account**	
$100,000 x 1% =	$1,000		$100,000 x 2% =	$2,000
			$150,000 x 1% =	$1,500
			$50,000 x 0.50% =	$250
Retirement account fee =	$1,000	+	Brokerage account fee =	$3,750
				Total Fees = $4,750

Scenario 3: How is the fee calculated for the Individual Account Setting/Blended Rate methodology?

As in Scenario 2, each account has its own management fee setting assigned to it: the Retirement account is assigned Fee A, while the Brokerage account is assigned Fee B; this is set at the account level. In Scenario 3, though, a blended rate is calculated for multiple accounts. With a blended rate, the fee for an account is based on that account's contribution to the client's aggregate total.

In other words, the accounts are first blended together in order to calculate an initial fee, then billed separately based on their proportion to this value.

The process is as follows:

1. Aggregate the value of the client's accounts. In this case, it is $400,000.
2. Determine the fees for each account based on the aggregate value and the management fee setting assigned to each account. (Fee A for the Retirement account, Fee B for the Brokerage account.)
3. Determine the weighting of each account compared to the aggregate value all accounts.
4. Multiply the value of each weighting by the fees owed from each corresponding account (from step 2).
5. Sum the newly weighted fee values for the total fees owed by the client.

With this method, the client takes advantage of aggregating, and the advisor is fairly compensated based on the size of the accounts. An example follows below.

Step 1 from the process above gives the aggregated balance as $400,000.

In Step 2, this value is then entered into both fee tiers (Fee A, as applied to the Retirement account and Fee B, as applied to the Brokerage account):

Fee A Applied to Aggregate Value		**Fee B Applied to Aggregate Value**	
$100,000 x 1% =	$1,000	$100,000 x 2% =	$2,000
$150,000 X 0.5% =	$750	$150,000 X 1% =	$1,500
$150,000 X 0.25% =	$375	$150,000 X 0.5% =	$750
Total for Fee A =	**$2,125**	**Total for Fee B =**	**$3,750**

Instead of simply adding these two fees together, though, we move onto Step 3 from the process with the following calculation:

$$\frac{A}{B} = C$$

Where:

- A = Value of assets in an account
- B = Aggregate Value of accounts
- C = Weight of an account towards the corresponding aggregate client fee

In the case of the Retirement account, this is calculated as:

$$\frac{100000}{400000} = 0.25$$

Therefore, the Retirement account is responsible for 25% of Fee A.

For the Brokerage account, the weighting for Step 3 is calculated as:

$$\frac{300000}{400000} = 0.75$$

So the Brokerage account is responsible for 75% of Fee B.

Step 4 from the process above is calculated as:

$$C \times D = E$$

Where:

- C = Weight of an account towards the corresponding aggregate client fee (from Step 3)
- D = Management fee owed by an account (taken from Step 2)
- E = Weighted fee for an account

In this case, for the Retirement account, the weighted fee is calculated as:

$$0.25 \times 2125 = 531.25$$

And the weighted fee for the Brokerage account is calculated as:

$$0.75 \times 3750 = 2812.50$$

Therefore, the sum for Step 5 in the process above is:

$$531.25 + 2812.50 = 3343.75$$

Appendix 2: Prorating for Accounts—Billing in Arrears vs. Advance

Overview

This appendix provides an example of how proration for new accounts is calculated in Morningstar Office, and shows the differences between billing in arrears versus billing in advance.

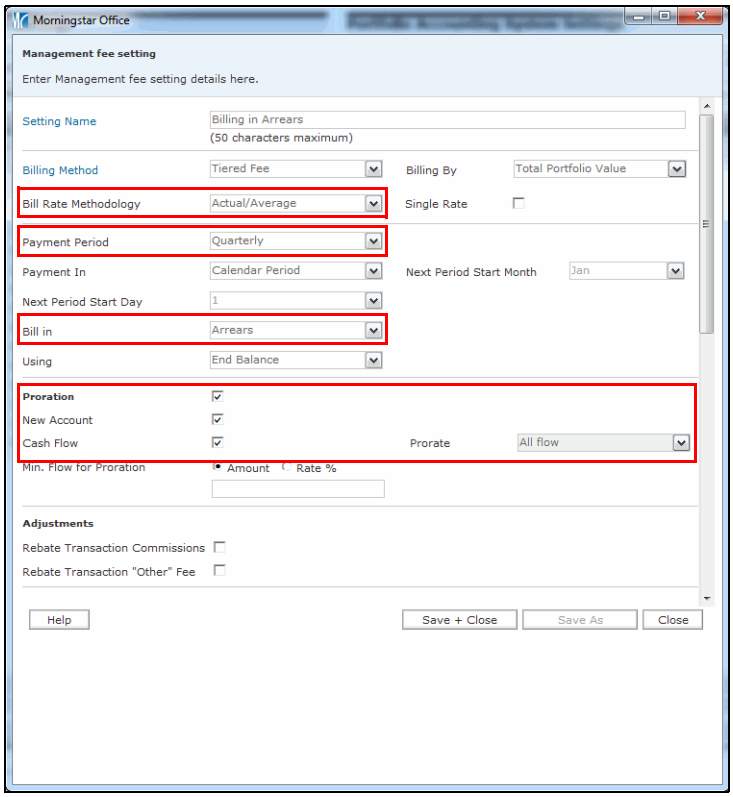
Consider the following sample account whose entire value comes from three transactions:

- A deposit of $100,000 of cash on 2/1/20yy
- A deposit of $100,000 of cash on 2/7/20yy, and
- A withdrawal of $50,000 of cash on 2/14/20yy.

How does proration work when a quarter is billed in arrears?

In the scenario below, note the following points about the management fee setting being used for this account:

- the management fee setting is set to bill quarterly at a 1% annual fee (0.25% per quarter)
- the Bill Rate Methodology for the management fee setting is set to Actual/Average
- the Bill In field for the management fee setting is set to Arrears, and
- the management fee setting is set for Proration for Cash Flows, and on All Flows.



Take note of the values in the highlighted areas

When the Billing Summary is generated for this client, the system will first calculate the fee due based on the ending value amount ($150,000), then subtract and credit back all adjustments as related to proration.

Remember our three transactions:

- A deposit of $100,000 of cash on 2/1/20yy
- A deposit of $100,000 of cash on 2/7/20yy, and
- A withdrawal of $50,000 of cash on 2/14/20yy.

In this case, the following day adjustment periods are considered when making these calculations:

- 1/1-2/1 for the discrepancy between the start of the quarter and the initial deposit
- 1/1-2/7 for the second deposit, and
- 1/1-2/14 for the withdrawal.

The calculation is for each day adjustment period is:

$$\frac{A}{B} = C$$

Where:

- A = Number of days elapsed in the quarter prior to transaction
- B = Number of days in the quarter
- C = Day Adjustment Ratio

> ☞ Note: In this case, the Bill Rate Methodology is Actual/Average, so the number of days in the (first) quarter is 91. If the Bill Rate Methodologyy had been Actual/Actual, the number of days in the quarter would also have been 91 (31+29+31), since 2012 was a leap year.

In this case, the day adjustment ratio for the first deposit on 2/1 is:

$$\frac{31}{91} = 0.340659$$

The value for the day adjustment ratio for the second deposit is:

$$\frac{37}{91} = 0.406593$$

The value for the day adjustment ratio for the withdrawal is:

$$\frac{44}{91} = 0.483516$$

Next, the following formula is used:

$$(C \times D) \times E = F$$

Where:

- C = Day Adjustment Ratio
- D = Quarterly Rate (from the management fee setting)
- E = Value of Transaction
- F = Adjustment/Credit

In this case, the credit due for the first deposit is calculated as:

$$(0.340659 \times 0.0025) \times 100000 = 85.16$$

The credit due for the second deposit is calculated as:

$$(0.406593 \times 0.0025) \times 100000 = 101.65$$

The charge for the withdrawal is calculated as:

$$(0.483516 \times 0.0025) \times 50000 = 60.44$$

To calculate the total fees due, sum all of the credits and charges:

$$-85.16 - 101.65 + 60.44 = -126.37$$

Finally, subtract this total from the non-adjusted quarterly fee…

$$150000 \times 0.0025 = 375$$

…to reach the fees due for this quarter.

$$375 - 126.37 = 248.63$$

Billing Details

Management Fees	Billable Balance	Period Effective Rate (%)	Billing Date	Amount
Quarterly management fee for 3/31/2012 (Brokerage)	150,000.00	0.250	3/31/2012	375.00

From	to	Annual Rate (%)	Amount
0.00	150,000.00	1.00	375.00
		Management Fee	375.00

Adjustment	Adjustment Type	Date	Adjustment Amount
Deposit/Received 100,000.00 on 2/1/2012 in Brokerage. Day adjustment factor is 31/91	Credit	03/31/2012	85.16
Deposit/Received 100,000.00 on 2/7/2012 in Brokerage. Day adjustment factor is 37/91	Credit	03/31/2012	101.65
Withdrawal/Disposed 50,000.00 on 2/14/2012 in Brokerage. Day adjustment factor is 44/91	Charge	03/31/2012	60.44

Account Name	Account Owner	Account Number	Market Value	Billable Balance	Amount
Quarterly management fee for 3/31/2012					
Brokerage	McCown, Jeff		150,000.00	150,000.00	248.63
Total Amount					**248.63**

Note these adjustments on the Billing Summary

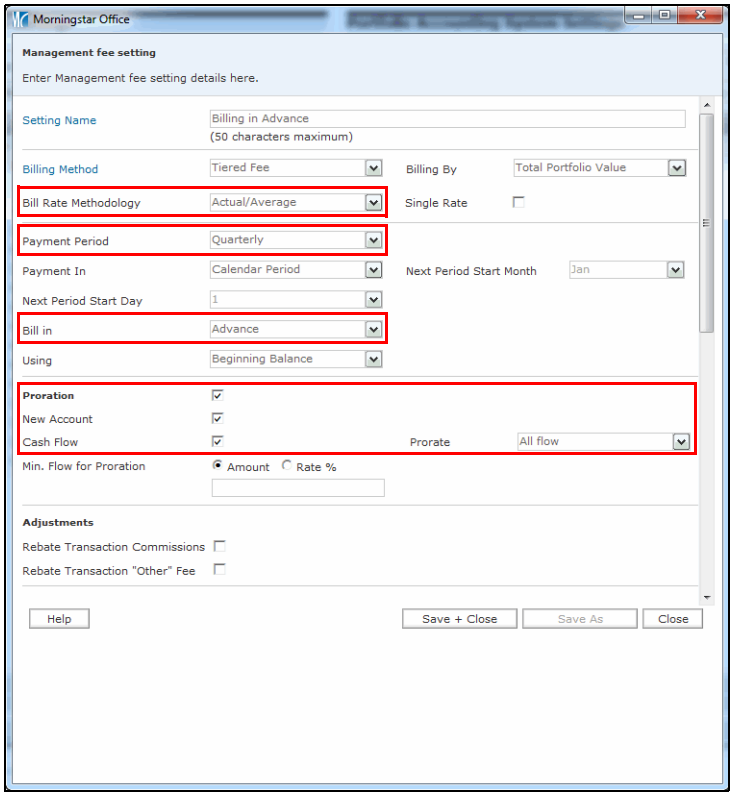
How does proration work when a quarter is billed in advance?

This section explains how proration works for an account that's billed in advance with mid-period deposits and a withdrawal prior to the first full billing quarter.

☞ Note: To see how to immediately bill a new account in advance, see "Appendix 3: Immediately Billing New Clients in Advance" on page 90.

In the scenario below, note the following points about the management fee setting being used for this account:

- the management fee setting is set to bill quarterly at a 1% annual fee (0.25% per quarter)
- the Bill Rate Methodology for the management fee setting is set to Actual/Average
- the Bill In field for the management fee setting is set to Advance, and
- the management fee setting is set for Proration for Cash Flows, and on All Flows.



Take note of the values in the highlighted areas

When the Billing Summary is generated for this client at the start of the second quarter, the system will first calculate the fee due based on the beginning value amount ($150,000), then subtract and credit back all adjustments as related to proration.

Remember our three transactions:

- A deposit of $100,000 of cash on 2/1/20yy
- A deposit of $100,000 of cash on 2/7/20yy, and
- A withdrawal of $50,000 of cash on 2/14/20yy.

In this case, the following day adjustment periods are considered when making these calculations:

- 4/1-2/1 for the discrepancy between the start of the quarter and the initial deposit
- 4/1-2/7 for the second deposit, and
- 4/1-2/14 for the withdrawal.

The calculation is for each day adjustment period is:

$$\frac{A}{B} = C$$

Where:

- A = Number of days passed since the transaction, to the start of the current quarter
- B = Number of days in the quarter
- C = Day Adjustment Ratio

> ☞ Note: In this case, the Bill Rate Methodology is Actual/Average, so the number of days in the (second) quarter is 91. If the Bill Rate Methodology had been Actual/Actual, the number of days in the quarter would also have been 91 (30+31+30).

In this case, the day adjustment ratio for the first deposit on 2/1 is:

$$\frac{60}{91} = 0.659340$$

> ☞ Note: Remember, 2012 was a leap year and had 29 days, hence the adjustment of 60 days (29+31).

The value for the day adjustment ratio for the second deposit is:

$$\frac{54}{91} = 0.593406$$

The value for the day adjustment ratio for the withdrawal is:

$$\frac{47}{91} = 0.516483$$

Next, the following formula is used:

$$(C \times D) \times E = F$$

Where:

- C = Day Adjustment Ratio
- D = Quarterly Rate (from the management fee setting)
- E = Value of Transaction
- F = Adjustment/Credit

In this case, the charge for the first deposit is calculated as:

$$(0.659340 \times 0.0025) \times 100000 = 164.84$$

The charge for the second deposit is calculated as:

$$(0.593406 \times 0.0025) \times 100000 = 148.35$$

The credit due for the withdrawal is calculated as:

$$(0.516483 \times 0.0025) \times 50000 = 64.56$$

To calculate the total fees due, sum all of the charges and credits:

$$164.84 + 148.35 + (-64.56) = 248.63$$

Finally, add this total to the non-adjusted quarterly fee already due in advance…

$$150000 \times 0.0025 = 375$$

…to reach the fees due for this quarter.

$$375 + 248.63 = 623.63$$

Billing Details

Management Fees	Billable Balance	Period Effective Rate (%)	Billing Date	Amount
Quarterly management fee for 4/1/2012 (Brokerage)	150,000.00	0.250	4/1/2012	375.00

From	to	Annual Rate (%)	Amount
0.00	150,000.00	1.00	375.00
		Management Fee	375.00

Adjustment	Adjustment Type	Date	Adjustment Amount
Deposit/Received 100,000.00 on 2/1/2012 in Brokerage. Day adjustment factor is 60/91	Charge	04/01/2012	164.84
Deposit/Received 100,000.00 on 2/7/2012 in Brokerage. Day adjustment factor is 54/91	Charge	04/01/2012	148.35
Withdrawal/Disposed 50,000.00 on 2/14/2012 in Brokerage. Day adjustment factor is 47/91	Credit	04/01/2012	64.56

Account Name	Account Owner	Account Number	Market Value	Billable Balance	Amount
Quarterly management fee for 4/1/2012 Brokerage	McCown, Jeff		150,000.00	150,000.00	623.63
Total Amount					**623.63**

Note these adjustments on the Billing Summary

Appendix 3: Immediately Billing New Clients in Advance

Overview

Billing calculations in Morningstar Office are normally run on a monthly or quarterly schedule. New accounts are not automatically billed as soon as they appear in the system, but rather at the end (or start) of a billing cycle, depending on whether you bill in arrears or advance. If you use proration as part of your management fee setting, these mid-cycle entries are accounted for either at the end of the current billing period (in the case of billing in arrears), or at the beginning of the next billing cycle (when billing in advance).

However, if you bill in advance and do not prorate, it is possible to generate a Billing Summary right away for a new client who just joined your practice.

This section explains the following procedures you need to conduct in order to do this:

- create a management fee setting for new clients
- assign the "new client" management fee setting to the client(s) in question
- change the Billing Start Date for the account(s)
- generate the Billing Summary report, and
- change the management fee setting for the new client(s) to one you will use for ongoing billing.

How do I create the management fee setting for a new client?

For new clients who join your practice in the middle of a billing period and will be billed in advance, you'll need to create a special management fee setting specifically for them. See "Creating Management Fee Settings" on page 3 on how to create different types of management fee settings.

The following guidelines apply to creating a management fee setting for new clients:

- The **Bill In** field should be **Advance**, not Arrears
- For a tiered fee, the **Using** field should be **Beginning Balance**
- For a tiered fee, the Proration box should be unchecked.

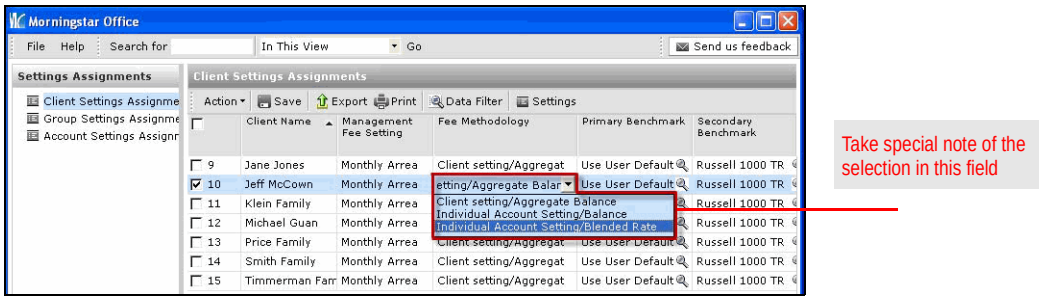
How do I assign the management fee setting for a new client?

The management fee setting you've created for new clients can be applied the same as other management fee settings. Just be sure you apply the correct management fee setting to the right client(s). See "How do I change the management fee setting for a client?" on page 24 for detailed instructions.

On the Client Settings Assignments page, assign one of the "Individual Account" fee methodologies to your client.

> ☞ Note: Since each account for a client can have its own Billing Start Date, new account billing calculations should be run at the individual account level, and not the client aggregate level.

- ► If you will be billing multiple accounts at the client aggregate level, select "Individual Account Setting/Blended rate."
- ► If you will be billing each of the client's accounts separately, select "Individual Account Setting/Balance."



How do I change the Billing Start Date?

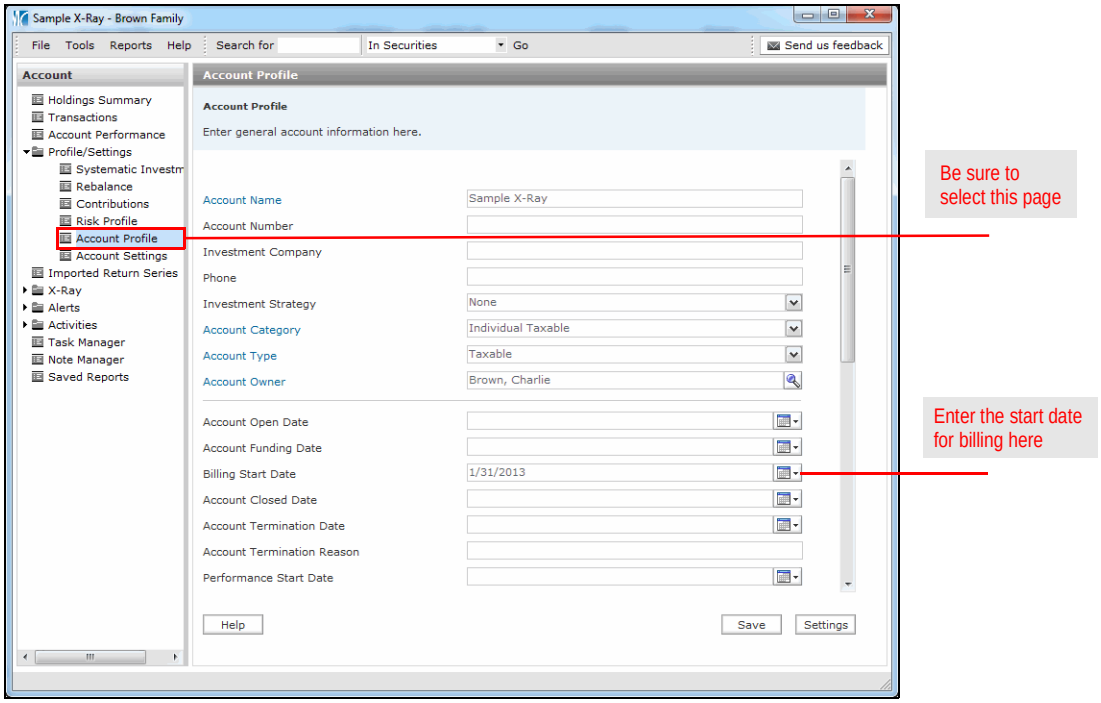
To properly bill in advance immediately, you need to set the new client's Billing Start Date to the date as of when the client should be billed. This date should be no earlier than the day after the earliest transaction on record for the account. For example, if a client's first deposit is on February 1, the Billing Start Date field should be no earlier than February 2.

> ☞ Note: This procedure applies only to transaction accounts; it does not work with quick accounts.

Do the following:

1. Go to the **Client Management** tab.
2. Select the **Clients** page.
3. Double-click on the new **client**. The Client window opens.
4. Double-click one of the new **accounts**.The account window opens.
5. In the left-hand navigation pane of the account window, click **Profile/ Settings...Account Profile**.
6. On the Account Profile page, in the **Billing Start Date** field, type the **date** as of which you want to bill the client. Remember, this should be no earlier than the day after the first transaction on record.

> ☞ Note: If you are unsure as to what date the earliest recorded transaction is for an account, go to the **Transactions** page to view the transaction record.



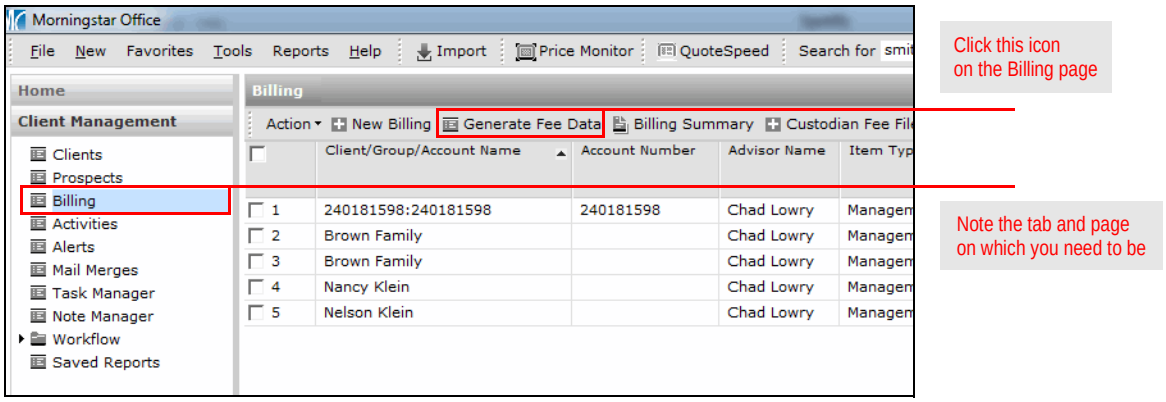
7. Click **Save**.
8. Repeat steps 4-7 for any other accounts belonging to this client. You will also have to repeat this procedure for other new clients.

How do I generate fee data for new clients?

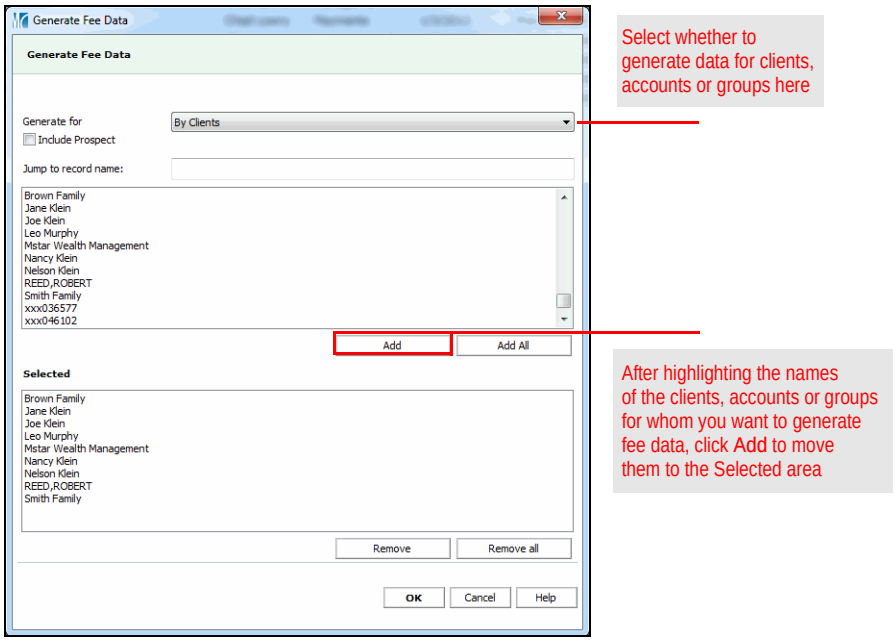
Generating fee data for new accounts allows you to both ensure the correct fee is being billed, and create the Billing Information and Fee Calculation report (from the Reports…Billing Management menu at the top of the Morningstar Office window). This report allows you to see the fees that will be billed for the clients you select. If you notice missing or incorrect data here, you can troubleshoot these items before spending time generating a Billing Summary report that you would otherwise have to redo.

To generate fee data for your practice, do the following:

1. From the **Client Management** or **Portfolio Management** tab, select the **Billing** page.
2. From the Billing page toolbar, click **Generate Fee Data**. The Generate Fee Data dialog box opens.

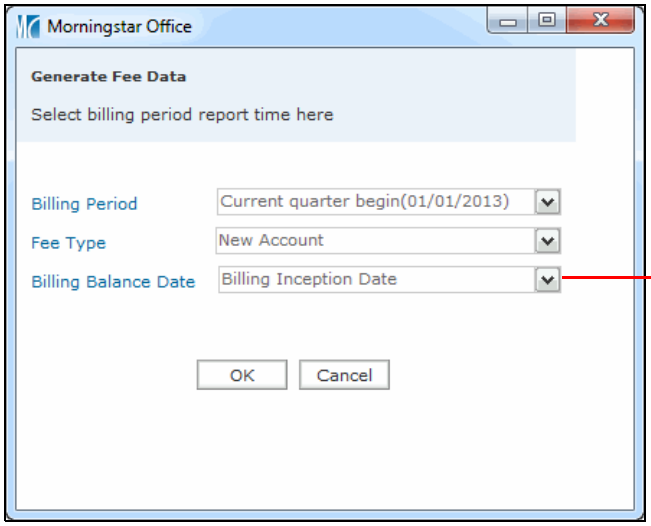


3. From the **Generate for** drop-down field, select **Accounts**.
4. In the results area, select the **name** of the client and account for which you want to generate fee data.



5. Click **OK**. A new Generate Fee Data dialog box opens.

6. Make sure the correct **Billing Period** is selected.
7. From the **Fee Type** drop-down field. Select **New Account**.
8. Select an option from the **Billing Balance Date** drop-down field. The table below describes the three options here:



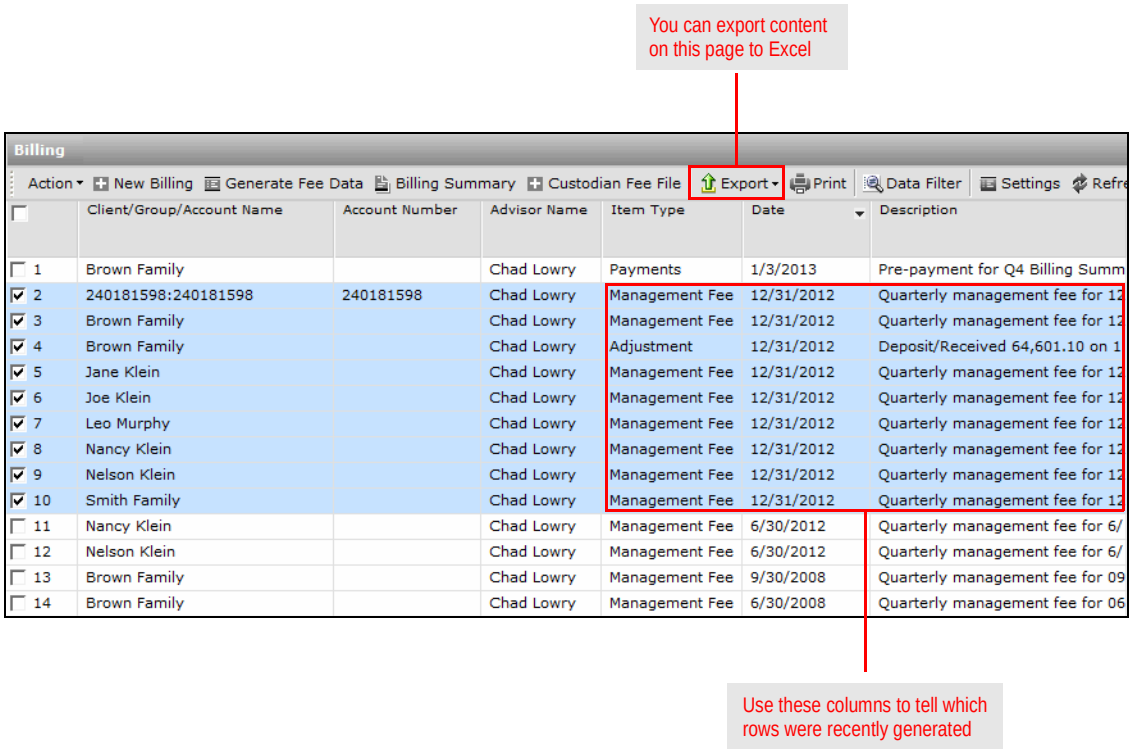
Billing in Advance for New Accounts

For new accounts, you can select the Billing Inception Date you entered on the account's Profile page

Option	Description
Billing Inception Date	This option uses the value in the Billing Start Date field from the Account Profile page of the account.
Beginning of the 1st Full Month	This option uses the balance as of the first day of the next month after the Billing Start Date field from the Account Profile page of the account.
Custom Date	Enter a custom date here as of when the management fee calculation should be run.

9. Click **OK**. Depending on the number of clients, accounts or groups you are generating fee data for, it could take a couple of minutes to finish generating the data.
10. A message could appear, asking if you want to see the warning message. To see information about missing prices, click **OK**. Otherwise, click **Cancel**.

11. The fee data now appears on the Billing page. Scroll right to see the Amount column, which is what your clients will see on the Billing Summary report. You can also use the **Data Filter** icon on the toolbar to help reduce the number of rows showing on the page.



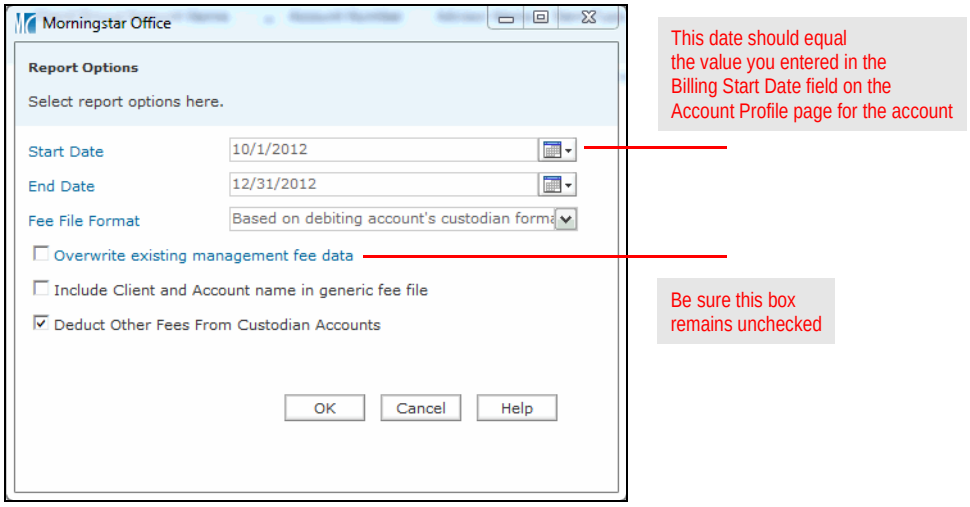
☞ Note: Once you no longer need to see the fee data for a particular period, you can select the rows on the Billing page and use the **Action** menu to delete them.

How do I generate a Billing Summary for a new client?

To generate a Billing Summary for a new client you are billing in advance, see "How do I generate a Billing Summary for one client?" on page 58.

Note the following important points:

- In the Report Options dialog box, the **Start Date** should be the same Billing Start Date you entered on the Account Profile page of the account. The **End Date** should be the last day of the current quarter or billing period. You could use the start date of the actual billing period (e.g., 1/1, 4/1, etc., if billing on calendar quarters), but this could result in fees for other, existing accounts which you have already billed for appearing on the Billing Summary.
- Do not check the **Overwrite existing management fee data** box.



Appendix 3: Troubleshooting/Frequently Asked Questions

Overview

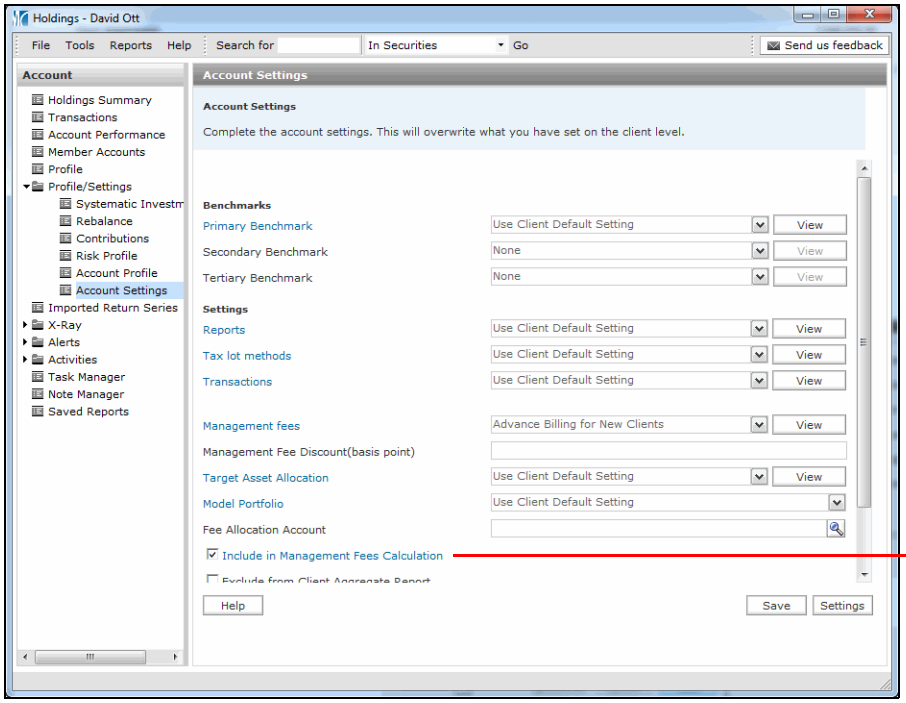
This section provides helpful tips on troubleshooting billing problems, and addresses several frequently asked questions.

What do I do if the Billing Summary shows the fees for an account as $0?

If the Billing Summary shows the fees as $0 for an account, be sure the account has been included in the management fees calculation.

Do the following:

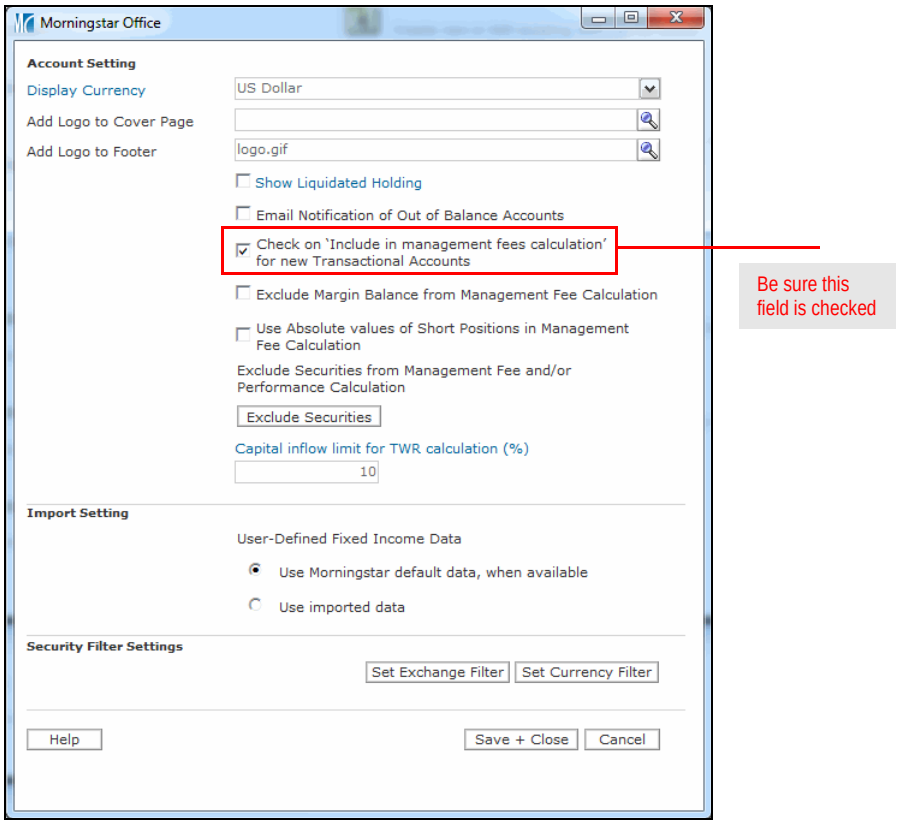
1. Go to the **Portfolio Management** tab. Be sure you are on the **Accounts** page.
2. **Right-click** the **account** in question and select **Edit Account Settings**. The Account window opens to the Account Settings page.
3. If the **Include in Management Fees Calculation** box is not checked, be sure to check it.



4. Click **Save**. You can now regenerate the fee data or Billing Summary for this account.

To ensure all transactional accounts are included in the management fees calculation by default, do the following:

1. Go to the **Home** tab.
2. Select the **Settings** page.
3. Click once on **Preferences**. The Preferences dialog box opens.
4. Be sure the **Check on 'Include in management fees calculation' for new Transactional Accounts** field is checked.



5. Click **Save + Close**. Each time you create a new transactional account, it will now be included in the management fees calculation.

What do I do if the fees on the Billing Summary seem too high?

If the fees on the Billing Summary look too high, consider the following:

- ► Is the Management Fee Setting you are using set to bill in advance or arrears?
- ► Is the correct Management Fee Setting being used? If you are billing at the Client Aggregate level, check the Client Settings Assignments page on the Settings Assignments window; see page 24. If you are billing at the individual account level, check the Account Settings Assignments page on the Settings Assignment window; see page 33.
- ► Are the fees for another account being allocated to the account(s) for which the Billing Summary was generated? See page 33.
- ► Is the Proration box checked for the management fee setting? Are you prorating for All Flows, or just Inflows?
- ► Have you forgotten to exclude certain accounts or securities from billing? See page 35 for more information.

What do I do if the fees on the Billing Summary seem too low?

If the fees on the Billing Summary look too low, consider the following:

- ► Is the Management Fee Setting you are using set to bill in advance or arrears?
- ► Did you overwrite existing fee data when generating the Billing Summary report?
- ► Have certain accounts or securities been excluded from billing? See page 35 for more information.
- ► Has an ongoing discount been applied to a client?
- ► Is the correct Management Fee Setting being used? If you are billing at the Client Aggregate level, check the Client Settings Assignments page on the Settings Assignments window; see page 24. If you are billing at the individual account level, check the Account Settings Assignments page on the Settings Assignment window; see page 33.
- ► Are the fees for an account being allocated to another account?
- ► Is the Proration box checked for the management fee setting? Are you prorating for All Flows, or just Inflows?

How do I immediately bill a new client in advance?

See "Appendix 3: Immediately Billing New Clients in Advance" on page 90 for detailed instructions on how to handle this scenario.

Why doesn't my billing disclosure appear on the Billing Summary?

Check the Management Fee Setting window for the management fee setting in question. Is the correct disclosure selected in the Billing Disclosure drop-down field?