Guidelines for Earnings Operations

The Ohio State University
Office of Resource Planning
Updated Through February 25, 2011

Earnings Operations at The Ohio State University

Note to Users:

The Office of University Resource Planning has fiscal oversight responsibility for university earnings operations. Two major sources of information detail university policies for earnings operations:

- Guidelines for Earnings Operations (Updated through February 25, 2011)
- Earnings Operations at OSU (Financial Training Program) – Register online at http://www.oit.osu.edu/hrfin/training.html.

About these Guidelines:

This is the seventh revision to the Guidelines for Earnings Operations and replaces all previous versions. This guide details current university policy regarding earnings operations. Specific questions should be directed to the Office of Resource Planning at 292-9447 or via e-mail to pelley.4@osu.edu.

GUIDELINES FOR EARNINGS OPERATIONS

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THE OHIO STATE UNIVERSITY
GUIDELINES FOR EARNINGS OPERATIONS

Earnings operation policies and practices must reflect government regulatory costing principles such as those contained in 2 CFR Part 220, Office of Management and Budget (OMB) Circular no. A-21, "Cost Principles for Educational Institutions," commonly referred to as "A-21."

Therefore, guidelines have been established to provide consistent operational practices among the various earnings operations, and to ensure compliance with both government regulations and internal university accounting policies.

I. DEFINITION OF AN EARNINGS OPERATION

Earnings operations are self-supporting university entities which derive their revenue from the sale of goods and/or services.

Earnings operations are divided into four categories:

- Auxiliaries – Auxiliaries are totally self-supporting entities whose customers are students, faculty, staff or the general public. Their services are considered ancillary to the institution.
- Service Units – Service units sell needed services or goods to other university departments. Telephone services provided by the Office of Telecommunications and Networking and office supplies sold at Stores are examples of the goods and services provided to university customers.
- Departmental Earnings – Departmental earnings operations earn revenues by providing goods or services that are related to the primary purpose of an academic or administrative department.
- Conferences – When a university department organizes a conference that charges registration fees, the expenses and revenue related to the conference are tracked separately from the department's other activities in a conference fund.

The term "recharge center" is sometimes used to describe service units or departmental earnings operations that sell substantial amounts of goods or services to customers that are funded by sponsored grants and contracts. It should be noted that this definition actually includes the **majority** of the university's service units and departmental earnings operations.

For all earnings categories, earnings activity means:

A. Earning revenue from the sale of goods and services, and

B. Incurring the expenses necessary to earn the revenue.

Both revenue and the associated expense must be recorded in the same **fund**. In the University's Financial System, this must be a departmental earnings (110000-115999), conference (116000-119999), university services (140000-149999), auxiliaries (160000-169010) or hospitals (H10000-H99999, H20000) fund. **OTHER FUNDS MUST NOT BE USED.**

Earnings funds are assessed university overhead on revenue. This monthly expense (account 66901) reimburses the university for costs of centrally provided services such as accounting, police services, snow removal, etc. The overhead rate is calculated annually and applied to an earnings operation's gross margin (total revenue minus approved cost of sales—See Section XV).

Earning Funds should not be confused with **NON-EARNINGS ACTIVITY** such as cost distribution, contracts, or development funds. (See Section XVII.)

II. CRITERIA FOR ESTABLISHING AN EARNINGS OPERATION

Earnings operations should provide incentives for the most efficient use of scarce resources and exist only for the following reasons:

- To support the primary mission and goals of the institution: instruction and research. Examples are the Optometry Clinic, Dental Clinic, and Veterinary Medicine Clinics.

- To provide a needed service to the university community for which general funds are inappropriate. Service units fall into this category.

- To provide services of a highly specialized nature. Examples include the Supercomputer Center and University Laboratory Animal Resources.

If the operation under consideration does not meet one of theses criteria, an earnings fund cannot be established.

III. REQUIREMENTS OF AN EARNINGS OPERATION

A. Earnings operations must be fully costed. ALL EXPENSES associated with the activity must be captured in the earnings fund.

B. Earnings operations can receive support from the department's general funds, or from other unrestricted funds. All support must be reflected <u>within</u> the earnings fund as an increase in revenue. For operations that have continuing support, the revenue is recorded in account 45009 "General Funds Support," with the offset going to the expense account 64436 within the General Funds.

C. Earnings operations must have start-up funding. Using deficit funding to begin an earnings unit is not appropriate. Sufficient funds must be provided by the department to cover the initial costs until the operation can be self-supporting.

D. In most cases, an earnings operation must provide goods or services either to customers outside its own college or support unit or to sponsored projects within it. If the customers are within the same unit, cost distribution should be utilized, and the establishment of an earnings operation/fund is not necessary.

E. Individuals managing earnings operations must have an understanding of university budgeting and accounting procedures. Attendance at the Financial Training workshop, Earnings Operations At OSU, is strongly encouraged. Registration is online at http://www.oit.osu.edu/hrfin/training.html.

IV. OPENING AN EARNINGS FUND

If you decide that an earnings operation is needed, you must submit 1) all five tabs of the earnings fund request template available on the Resource Planning website (except conference funds only need to submit the Operating Plan and Fees and Charges tabs), and 2) a new chartfield value request form (available from the Office of the Controller website).

Unlike requests for other types of funds, this request should be submitted to Debra Pelley in Resource Planning at pelley.4@osu.edu. Only after receiving the approval of Resource Planning will the earnings fund be set up and ready to begin operations.

All requests must be approved by the college or support unit's senior fiscal officer. Requests to open a new earnings fund should be submitted to Resource Planning **at least two months before** the proposed start date.

V. FINANCIAL OVERSIGHT RESPONSIBILITY

Financial Oversight Responsibility

The Office of Resource Planning and the Office of the Controller have financial oversight responsibility for earnings operations. Earnings operations are subject to university regulations and policies; proposed annual operating budgets and rate requests must be submitted for review and approval during the normal budget process cycle, as well as when a new earnings operation is being set up.

Accounting

A separate operating fund that adequately tracks revenue and expense must be maintained for each earnings operation. It is also recommended that each earnings operation that is recovering the cost of capital equipment (via depreciation expense) should request a companion "Equipment and Improvement Reserve" fund. All revenue directly related to the recovery of depreciation expense should be transferred to the reserve fund and held for the eventual replacement of the capital asset(s). This reserve should not be confused with, nor used for, an operating reserve (see operating surpluses below). Specific accounting requirements are:

1) Funds may not be used for purposes not directly related to primary earnings activity.

2) Goods purchased by earnings operations should be recorded as "inventory" if they are not sold or consumed during the fiscal year of purchase.

3) Equipment purchases with a useful life less than or equal to one year or an acquisition cost of less than $5,000 should be expensed in the year of

acquisition as an operating expense, like supplies and services. All equipment purchases with a useful life greater than one year and an acquisition cost greater than or equal to $5,000 must be capitalized[1] and added to the Capital Equipment Inventory (PeopleSoft Asset Management System PS-AM).

4) All assets included in the Capital Equipment Inventory (PS-AM) are depreciated centrally by the Controller's Office. Individuals managing earnings operations must contact the Controller's Office to obtain the appropriate depreciation schedules for all capital equipment owned and/or used by the earnings operation. Depreciation is currently calculated using the straight line method, with half-year convention. For depreciation purposes, all capital equipment is assigned to one of following classes:

Computers (SL-HY)[2] and other electronic equipment: 5 years useful life

Scientific Equipment (SL-HY): 7 years useful life

Vehicles (SL-HY): 10 years useful life

All Other Equipment (SL-HY): 15 years useful life

For an item that is completely depreciated, an earnings operation may no longer recover depreciation to be applied to its replacement, but it may still recover related costs (maintenance, etc.).

VI. CUSTOMER TYPE/OPERATING SURPLUS/FEES & CHARGES

A review of issues and current policies concerning customer type, operating surpluses, and fees follows.

Customer Type:

Earnings operations can have one or more of the following customer types:

Faculty/Students/Staff
University Departments
Sponsored Grants and Contracts
General Public
Private Corporations

Every earnings operation is responsible for indicating which of these categories their primary customers fall into. This can be done initially by checking the appropriate boxes on the Fees and Charges spreadsheet that is submitted when setting up a new earnings operation, and then annually when using this spreadsheet or the PeopleSoft panels to submit fees.

[1] Expenditures for fixed assets that benefit several accounting periods are capital expenditures and the cost must be "capitalized". Qualifying purchases must be made from an acceptable non-operating fund, and expensed (depreciated) in accordance with A-21.
[2] "SL" is Straight Line Depreciation. "HY" is Half Year Convention.

It is very important to note that **policies regarding fees and operating surpluses flow directly from the type(s) of customers served.**

Operating Surpluses

Operating surpluses are permitted only under certain circumstances: when the primary customer is the general public, a private corporation, university employees or students acting as the general public and there is reasonable marketplace competition or, in the case of conference offerings, when it is stated on the registration form. Most auxiliary funds are permitted to accumulate surpluses.

Operating surpluses are not allowed when the primary customers are funded by sponsored grants and contracts or departmental budgets, or when a "monopoly" exists. These operations must be "revenue neutral" – that is, fees are set to cover the cost of the services or goods provided but not to generate a large surplus. Cash balances should not exceed sixty (60) days working capital, excluding depreciation. Any operating surplus that does occur may not be transferred to another fund to subsidize other activities. Rather, If any of these earnings operations have operating cash balances at the end of the fiscal year that exceed 17% of their net operating expenditures, they must adjust their fees for the following year, factoring in the net over-recovery to ensure that charges reflect true cost recovery. This requirement will go into effect after an earnings fund has been operating for its first complete fiscal year.

Fees/Rates/Charges

Fees or rates or charges are the amounts charged for goods and/or services. Calculated fees must satisfy these basic requirements:

A. They must cover all of the costs, including personnel costs, incurred to provide the service. If the calculated rate is higher than the operation wants to charge, the department may choose to support the operation, thereby lowering the rate, and cost-sharing the difference.

B. If the actual costs are unknown, rates must be calculated on historical or projected costs. In no case may calculated rates include the "Unallowable Costs" detailed in Attachment A.

C. Rates must not intentionally undercut the prices charged by businesses in the private sector.

There are two methods that can be used **in the appropriate situations** to calculate rates. They are:

A. Marketplace

In a limited number of situations, rates may be based on marketplace rates, which reflect the "going" rate charged in the general community. Rates set on this basis are usually appropriate only when the customers are external to the university. The rates should be reviewed with Resource Planning before being implemented.

B. Full-Cost Recovery

Full-cost recovery is determined for the earnings operation as a whole, rather than separately for each service or good provided. However, it is not appropriate to intentionally set one rate artificially high to compensate for other rates that are set artificially low. The rate for each product should be determined by estimating the total cost of providing that product and dividing by the number of units expected to be provided.

Full-Cost Recovery Fee Calculations

Fees must be developed based on actual costs. Rates that are calculated correctly under this method should simply be a function of 1) volume of sales of goods or services and 2) costs incurred in providing the goods or services. In determining fees based on full-cost recovery, the following policies must be followed:

1) Marketplace rates are not appropriate for customers using sponsored grants and contracts or general funds budgets; in these cases, fees must be developed based on projected allowable costs.

2) For various reasons, a department may wish to have its earnings operation charge its users less than fully costed rates, and may choose to support operations with general funds or other unrestricted funds.

   In these circumstances, a fully costed rate should first be calculated, and a cost sharing percentage can then be applied to this rate to obtain the desired supported rate to be used. Cost share rates must be consistently charged to all customers that are internal to the university. External users should be charged the fully costed rate. Any exceptions will be reviewed on a case-by-case basis.

3) Throughout the fiscal year, all earnings operation expenses must be charged to the earnings fund. Starting at the end of their first complete fiscal year, earnings operations must then analyze net year-end fund balances and adjust their fees in the following year to eliminate surpluses or deficits.

4) Rate calculations cannot include the acquisition cost of capital expenditures. The purchase of qualifying equipment should be made from an Equipment & Improvement Reserve Fund (84XXXX) or subsidized by an acceptable unrestricted fund, and capitalized in accordance with University policy.

5) Expenses for leased equipment may be used in fee calculations.

6) The interest portion of debt-service payments for capital equipment purchases or construction projects may be included in fee calculations, but not the principal amortization portion.

7) Unallowable costs must not be included in fee calculations (for example- alcoholic beverages, gifts, and entertainment). Attachment A is a complete list of Unallowable Costs.

An example of fees calculated for full cost recovery appears in Attachment B.

Rates Submission/Approval

All rates for all earnings operations must be submitted to Resource Planning either in PeopleSoft or on a spreadsheet in an approved format for publication. If fees are submitted in PeopleSoft, they are considered to be in effect until they are changed or inactivated; fees submitted on a spreadsheet only remain in effect for that specific fiscal year and must be re-submitted annually, even if they do not change. A list of all current rates is maintained on the Resource Planning website.

<u>Please note that the initial fee approval process when setting up a new earnings operation may take as long as several weeks in some cases</u>.

Every earnings operation should review all of its rates annually during the earnings budget process, regardless of whether or not re-submission is required, and any appropriate changes should be made during this process.

Rates/fees that are set by a recognized university committee (e.g., Senate Athletic Council or Student Health Services Insurance Committee) are included in the requirement for rate submission, even though Resource Planning simply publishes them, rather than putting them through an approval process.

In all cases, a university earnings operation should notify its primary customer(s) when a rate/fee increase is being established or requested.

Any fee changes or new fees for existing earnings operations that are approved after the annual earnings budget process (i.e., after approximately September 1) but before January 1 will have an effective date of January 1. Those fees that must be adjusted after their submission in the budget process due to excessive cash balances at the end of the fiscal year will go into effect upon the approval by Resource Planning of their adjustments, even if this occurs after the end of the budget process. No requests for fee changes or new fees for existing earnings operations will be accepted between January 1 and the start of the earnings budget process for the following fiscal year, and those that are approved during the budget process will have effective dates that are no earlier than July 1.

VII. FORMAT FOR SUBMITTING FEES/CHARGES FOR PUBLICATION

There are two options available for submitting rates/fees during the annual earnings budget process:

1. Use the On-Line procedure available through PeopleSoft.

2. Use an Excel worksheet submitted with the following identified in the header: College/Support Unit Name, Earnings Operation Name, Fund Number, and Primary Customer Types. A separate worksheet must be submitted for each earnings fund, but worksheets for each earnings fund in the same org may be submitted in the same workbook. The fees and charges spreadsheet template on the Resource Planning website may be used, but is not required. The following example shows the needed information in an acceptable format:

FY 2011 Fees and Charges		
College/Support Unit Name: University Libraries Earnings Operation Name: Library Income/Exp Fund: 110049	**Primary Customer Types:** Faculty/staff, univ. depts., students, general public	
	FY 2011	
Description	Amount	Basis
Cataloging - level 1	$7.00	record
Cataloging - level 1A	$12.00	record
Cataloging - level 2	$17.00	record
Cataloging - level 3	$27.00	record
Technical service - level1	$7.30	hour
Technical service - level 2	$28.20	hour
Technical service - level 3	$46.30	hour
Lost books	$140.00	book
Fines	$10.00	day
InterLibrary Loan	$20.00	article
OhioLink Books – late fees	$0.50	day

Please note that the rate consists of two components: the amount, and the basis. “Basis” can be understood as the unit 1) by which the individual product is provided and 2) per which the customer is billed. It is important for both components of the rate to be reported. In some unusual situations, it may not be obvious what the basis should be called; if no other name seems to fit, it is always permissible to use “each” as the basis.

VIII. RATE REVIEW

Rates and budgets of all earnings operations with annual revenues over $500,000 will be subject to detailed review annually during the earnings budget process. Rates of all other earnings operations may receive a detailed review every three years. The review process is detailed in Attachment D.

Earnings operation managers are expected to evaluate their activity each month for the following:

1) To determine accuracy of billings and expenses charged (including that the proper, approved rates were used to charge);

2) To remove any unallowable costs charged to a departmental earnings or university service fund, and

3) To assess the effect of each month's activity on the budget and projected year-end position.

IX. DOCUMENTATION

Each earnings unit will be responsible for maintaining proper documentation regarding the determination of its fees. *All documentation must be available in the department during internal and external audits of earnings units.*

Proper documentation includes work papers presenting the full costs of the operation, projected volume of goods and services to be sold and the calculation(s) used in fee determination. The Annual Operating and Cash Flow Statement should be on file for each operation, as well as current reports from the University's Financials System showing budgets and expenditures.

Fees based on a marketplace analysis must have proper documentation including a survey of fees for similar goods and services charged in the surrounding community.

A listing of customer types must be on file indicating to whom the operation sells goods and services. Customers include sponsored grants and contracts, faculty, staff, students, university departments, corporations, and the general public.

X. BUDGETS

Budget materials for the annual earnings budget process become available on the Resource Planning web page located at www.rpia.ohio-state.edu during late March or early April for the coming fiscal year. Information provided includes specific instructions, description of changes to the process, and a list of university planning assumptions.

In general:

- There are two options available for submitting budget materials: the Earnings Budget on-line panels available in PeopleSoft or spreadsheet templates available on the Resource Planning web page.

- With the exception of conference funds, every earnings operation must submit a Release of Approved Budget form (RAB) and a fee schedule. Other specific material required varies depending upon the type and size of the earnings operation, and is detailed in the earnings budget section of the Resource Planning website.

- Budgeted deficits are permissible only if sufficient cash is available.

- Budgets must be realistic, i.e., incorporate actual experience. Departments are responsible annually for comparing budgets to actual. Earnings operations which consistently under/over-estimate revenue/expenditures may be asked to revise their budgets in accordance with actual experience.

- It is recommended that operations with minimal revenue and expense, based on past experience, should be discontinued. Minimal revenue is defined as $5000 or less.

Questions about the budget process should be directed to your fiscal officer or Resource Planning.

XI. EARNINGS SPACE

It is the responsibility of the earnings operation to provide the Office of Physical Planning & Real Estate's (PPARE) designated space planner representative with a complete list of room numbers for all space used for earnings activity. The PPARE space planner representative will then update the University's space inventory.[3] After the correct space designation is made, the earnings operation must keep its space data current by reporting any space changes to its designated PPARE space planning representative.

A list of PPARE space planning representatives appears in Attachment C.

XII. ACCOUNTS RECEIVABLE

It is the responsibility of each earnings operation to accurately reflect accounts receivable in the University's Financials System. University policy requires that:

- All receivables must be promptly recorded in the financial accounting system.
- Receivables more than 120 days old must be referred to Accounts Receivable Collection.

Receivables may be referred to Accounts Receivable Collections before they are 120 days old if you suspect they may be uncollectible.

Returned checks are processed by Accounts Receivable Collections.

If your earnings operation maintains receivables, we recommend attending the Financial Training Workshop, "Accounts Receivable & Accounts Receivable Collection Services".

XIII. TAX ISSUES

Unrelated Business Income Tax (UBIT):

Earnings operations that have income derived from an activity that is unrelated to the university's exempt functions (instruction and research) may have a tax liability on the activity's net income. All questions regarding UBIT and whether a specific activity is subject to UBIT should be directed to the University's Tax Manager in the Controller's Office.

[3] Rooms occupied by an earnings operation will be marked with a "Y" in the "EARN_OP" field.

State and Local Sales Tax:

Earnings operations at the university must collect sales tax when goods or services subject to the sales tax are sold to non-university entities located in Ohio. Sales tax is not required to be collected on goods shipped to non-university entities located outside Ohio. Sales tax must be collected regardless of the "profitability" of the operation. Any sales tax collected from customers must be properly recorded as a liability in the University's Human Resource and Financial System and the proper reports sent to the Office of Financial Services. All questions regarding state and local sales tax should be directed to the University's Tax Manager in the Controller's Office.

The sale of goods or services to non-university entities at locations outside Ohio (for example, at conferences or trade shows held in another state) may be subject to that state's sales and use tax laws. Please consult the University Tax Manager in the Controller's Office before engaging in such activity.

Excise Tax:

Earnings operations at the university may also be responsible for collecting the federal excise tax when goods or services subject to the federal excise tax are sold to non-university entities. Common examples are the sale of telecommunication services and the sale of aviation fuel and gasoline (Don Scott Airport) to non-university entities. All questions regarding the federal excise tax should be directed to the University Tax Manager in the Controller's Office.

XIV. EXTERNAL BANK ACCOUNTS

Earnings operations may not establish external bank accounts (checking or savings). The University Treasurer is the only person authorized by the Board of Trustees to establish bank accounts.

XV. COST OF SALES

Overhead charges for all funds with approved cost of sales expense will be calculated on gross margin, which is net revenue minus approved cost-of-sales. The university definition of cost of sales is:

> Merchandise and services purchased externally for the purpose of resale and direct passthrough

To receive approved cost of sales consideration, the cost of sales request (available on the Resource Planning web page located at www.rpia.ohio-state.edu) must be completed and submitted for approval to Resource Planning.

Examples of merchandise purchased for resale include: supplies by University Stores; gas for resale by Transportation and the Airport; and food by Campus Dining Services and other food operations. An example of a pass-through service is the purchase of cable signals by Telecommunications and Networking for resale to the University community.

Approved cost of sales does not include: any cost incidental to, or in support of, providing a service; inventory of products published or grown on campus; university personnel expense; or indirect costs. Examples of costs that do not qualify include: supplies purchased by Stores for their own use; Telecommunications and Networking's own phone charges; gas used by Transportation's own vehicles; and grain or animals grown or raised on campus.

Expenses that qualify as approved cost of sales for use in calculating gross margin must be recorded in the approved cost of sales accounts (60611-60899).

XVI. PROCEDURES FOR INACTIVATING AN EARNINGS FUND

Before a fund can be inactivated, all outstanding commitments (purchase orders) must be closed. If the purchase order has never been expensed, it needs to be cancelled in its entirety. If created by a delegated buyer in your area, request that they cancel the purchase order line by line. For purchase orders created by a central Purchasing buyer, submit a requisition requesting that the purchase order be cancelled.

The following procedures should then be followed:

1) Earnings Accounts with No Cash Balance:

a) Send an email to chartfield-request@osu.edu requesting that the fund be inactivated.

b) Upon receipt of the request, the fund will be given an inactive date, effective the first day of the following period. This will prevent any further financial activity from being posted to the fund.

c) If the fund has financial activity during the current fiscal year, the GLU007OS-90 report will continue to print until:

- the expenses have been transferred to another fund, or
- the year-to-date revenues and expenses roll into equity at year end

d) The fund will not be deleted. It will remain on the fund tree for historical reporting needs.

2) Earnings Funds with Cash Balances:

Any cash balance (positive or negative) in the general ledger must be transferred to another Fund. Enter a Fund transfer journal within the General Ledger. The screens can be found by using the following path: Budgets, GFSA/PBA/Fund Transfer, Process GFSA/PBA/Fund Transfer. The entry will workflow to Resource Planning for further analysis. The analyst will either approve or deny the journal. Only after Resource Planning reviews and approves the entry will it post to the GL.

3) Other Notes:

You can request that a fund be inactivated at any time if you wish to stop financial activity in the fund. If you do this, please notify any areas - such as Payroll, Telecommunications and Networking, or Campus Mail - which are entering monthly charges against the fund and give them another fund number to charge. To determine what Source systems currently use the value, the "Chartfield Inactivation - Current Usage – GLU731OS" report can be run. This can be accessed through eReports.

Budget balances do not carry forward from year to year in earnings funds, as they are based only on estimates. Therefore, removing budget balances is not necessary in order to close a fund.

XVII. NON-EARNINGS ACTIVITY

Earnings operations should not be confused with the following activities:

A. Cost Distributions

An earnings operation should not be confused with a cost distribution in which one area of a college or support unit distributes the costs of its centrally provided services to its own departments. A good example of cost distribution is centrally provided copy charges.

Often a college will provide copy services as a central service and "bill" its departments. This type of operation has sometimes been misconstrued to be an earnings operation, but it is more appropriately defined as a cost distribution. Centralized services within a college or support unit for its departments should not be classified as earnings. These "costs" or expenses should be distributed in a journal entry.

B. Certain Charges to Sponsored Grants and Contracts

Earnings operations often have been appropriately established to charge sponsored grants and contracts. Institutionally we have the responsibility to substantiate and verify to federal auditors that charges to grants are legitimate, i.e., the rates capture the costs. These rates often include expenditures such as salaries, benefits, supplies, etc. It is appropriate in this situation to have an earnings operation with approved rates to charge the grant.

There are other situations, however, where the costs are discrete and verifiable in the university financial accounting system. Phone expenditures, for example, are transferred directly to the grant via a journal entry by the Office of Sponsored Programs.

C. Contracts

"A CONTRACT is a written agreement representing the voluntary transfer of money or property by a sponsor in exchange for the specifically enumerated performance of service, often including property rights to and provisions of work products derived from this performance, and always including some formal financial and/or technical reporting by the recipient as to the actual use of the money or property provided. The agreement is enforceable by law, and performance is usually to be accomplished under time and fund-use constraints, with the transfer of support revocable for cause."[4]

D. Development

"A GIFT or DONATION is a voluntary and irrevocable transfer of money or property (e.g., equipment, personnel time and skill, etc.) made by a donor without any expectation of or receipt of direct economic benefit or any other tangible compensation (i.e., goods or services) from the donee that is commensurate with the worth of the donation."[5] The gift may be restricted or unrestricted by the donor.

A development gift is different from both contracts and earnings because there is no expectation of receipt of goods or services resulting from the transfer of money.

[4&5] Memorandum of Understanding between the Office of Research and University Development, "Private Sector Solicitation, Award, Accounting and Reporting Practices for The Ohio State University," 1986

ATTACHMENT A

UNALLOWABLE EXPENDITURES

In order to comply with federal regulations, when calculating fees for goods or services sold and charged to federal grants, there are a series of expenditures, which are considered unallowable. <u>These expenditures must not be included in the fee for goods or services that are sold to a sponsored grant or contract .</u>

The following expenditures are considered unallowable:

<u>Advertising and public relations costs</u>: Costs of advertising and public relations designed solely to promote the institution such as costs of convocations or other events related to instruction or other institutional activities including: costs of displays, demonstrations, and exhibits, costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and costs of promotional items and memorabilia, including models, gifts, and souvenirs. The only allowable advertising and public relations costs are costs specifically required by the sponsored agreement.

<u>Alcoholic beverages</u>

<u>Alumni activities</u>: Costs incurred for, or in support of, alumni or development activities.

<u>Institution-furnished automobiles</u>: That portion of the cost of institution-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable regardless of whether the cost is reported as taxable income to the employees.

<u>Donations and Contributions</u>: Donations or contributions made by the institution, regardless of the recipient.

<u>Entertainment costs</u>: Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as shows or sports events, meals, lodging, rentals, transportation, and gratuities). This would include flowers and gifts for faculty and staff.

<u>Executive lobbying costs</u>: Costs incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the executive branch of the Federal government to give consideration or to act regarding a sponsored agreement or a regulatory matter are unallowable.

<u>Fines and penalties</u>: Costs resulting from violations of, or failure of the institution to comply with, Federal, State, local or foreign laws and regulations, except when incurred as a result of compliance with specific provisions of the sponsored agreement, or instructions in writing from the authorized official of the sponsoring agency authorizing in advance such payments.

<u>Goods or services for personal use</u>: Cost of goods or services for personal use of the institution’s employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

Housing and personal living expenses: Costs of housing (e.g. depreciation, maintenance, utilities, furnishings, rent, etc.), housing allowances and personal living expenses for/of the institution's officers are unallowable regardless of whether the cost is reported as taxable income to the employees.

Insurance against defects: Costs of insurance with respect to any costs incurred to correct defects in the institution's materials or workmanship.

Fund Raising and Investment Management costs: Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to enhance income from investments are unallowable.

Memberships and professional activity costs: Costs of membership in any civic or community organization, country club, social club, or dining club. An example would be faculty club dues.

Student activity costs: costs incurred for intramural activities, student publications, student clubs, and other student activities, unless specifically provided for in the sponsored agreement.

Trustees: Travel and subsistence costs of trustees, regardless of the purpose of the trip, are unallowable.

ATTACHMENT B

1. Example of an earnings operation with fees set for full cost recovery

Glassware Earnings Operation

Expenses

Personnel and benefits	1 employee x $20/hr.x10hrs/wk x40 wks/yr	$8,000
Glassware purchased	500 Level A, 100 Level B	$2,150
Equipment depreciation	(get from Controller's Office)	$915
Supplies		$1,500
Overhead/SIS Assessment	6.4% x (13,276-2,150)	$712

Projected Costs to be Recovered **$13,277**

Revenue

Product or Service	Projected Quantity Sold	Rate Amount	Rate Basis	Projected Revenue
Glassware Level A	500	$3.10	piece	$1,550
Glassware Level B	100	$6.00	piece	$600
Special Autoclave Load	561	$9.85	load	$5,526
Special Wash	200	$28.00	load	$5,600

Projected Revenue **$13,276**

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2. Example of an earnings operation with fees set for full cost recovery ---- <u>with</u> support from General Funds

Glassware Earnings Operation

Expenses

Personnel and benefits	1 employee x $20/hr.x10hrs/wk x40 wks/yr	$8,000
Glassware purchased	500 Level A, 100 Level B	$2,150
Equipment depreciation	(get from Controller's Office)	$915
Supplies		$1,500
Overhead/SIS Assessment	6.4% x (11,710-2,150)	$612

Projected Costs to be Recovered **$13,177**

Revenue

Product or Service	Projected Quantity Sold	Rate Amount	Rate Basis	Projected Revenue
Glassware Level A	500	$2.75	piece	$1,375
Glassware Level B	100	$5.32	piece	$532
Special Autoclave Load	561	$8.74	load	$4,903
Special Wash	200	$24.84	load	$4,900
Projected Revenue from Fees				**$11,710**
Support from GF				$1,500

Total Projected Revenue **$13,210**

ATTACHMENT C

Physical Planning & Real Estate

Designated Space Planner Representative for Major University Units - Feb, 2011

PPARE Space Planner Rep	e-mail (@osu.edu)	phone
AB - Amber Buening	buening.18	292-9649
BB - Beth Brooks	brooks.252	247-7033
JK - Jason Kaplan	kaplan.104	292-9402

Space Unit	Contact
02 - Arts	JK
03 - Biological Sciences	JK
05 - Humanities	JK
06 - Math & Physical Sci	JK
07 - Social & Behav Sci	JK
08 - Agr Tech Inst	BB
09 - Extended Campuses	AB
10 - Fisher Col of Business	BB
11 - Food, Agric & Env Sci	BB
12 - Educ & Human Ecology	BB
14 - Engineering	BB
17 - Nursing	AB
18 - Pharmacy	AB
19 - Social Work	BB
21 - Dentistry	AB
23 - Moritz Col of Law	BB
25 - Medicine	AB
PH - Public Health	AB
27 - Optometry	AB
29 - Veterinary Med	AB

Space Unit	Contact
30 - Graduate School	AB
31 - Alumni Assoc	AB
33 - Government Affairs	AB
34 - Univ Communications	AB
35 - Board of Trustees	AB
36 - Ofc of The President	AB
37 - Legal Affairs	AB
40 - Office of Research	AB
41 - Agricultural Admin	BB
42 - Academic Affairs	JK
43 - Exec Dean, Arts & Sci	JK
45 - Student Life	AB
46 - Health Sciences	AB
49 - Univ Development	AB
50 - Business & Finance	AB
54 - Athletics	JK
55 - OSU Extension	BB
56 - OARDC	BB
58 - Admin & Planning	AB
59 - Univ Outreach	AB
60 - Health Systems (Hosp)	AB

ATTACHMENT D

Procedures for Earnings Operation Balance Review

Earnings Operation Balance Review will be completed every year after 1st close.

Earnings Funds with revenues of $500,000 or more will be reviewed annually

Those with revenues more than $100,000 but less than $500,000 will be reviewed every third year.

Conference funds will not be reviewed.

Funds with mostly external customers or that Resource Planning determines probably will never have a substantial amount of business funded through sponsored grants or contracts will not be reviewed, <u>except</u> for space coding. This group includes most of the auxiliaries.

Check operating cash balances in earnings funds at the end of the year, as well as any transfers out of cash that have occurred over the year. If the sum of the operating balance and any cash that was transferred out exceeds 17% of net operating expenditures for the year, documentation of the reason for the transfers must be provided.

If after subtracting any transfers out that occurred for appropriate reasons (e.g., depreciation costs transferred to an equipment and improvement reserve fund) from this number, it still exceeds 17% of net operating expenditures, fees must be adjusted for the following fiscal year, factoring in the net over- recovery.

The adjusted fees are based on cost studies that calculate the projected costs that must be recovered through the new, adjusted fees. These studies should be similar to the cost studies that are made prior to setting up a new earnings operation. All adjusted fee calculations must be submitted to the Office of Resource Planning by September 1. If the earnings fund charges discounted rates, both the fully costed and the discounted rates must be submitted. The adjusted fees will go into effect as soon as they are approved.

The first time that any earnings operation undergoes a scheduled review, it must provide the Office of Physical Planning & Real Estate's (PPARE) designated space planner representative with a complete list of room numbers for all space used for earnings activity. The PPARE space planner representative will then update the University's space inventory. After the correct space designation is made, the earnings operation must keep its space data current by reporting any space changes to its designated PPARE space planning representative. In addition, a complete list of room numbers for all earnings activity space must be provided to the Office of Resource Planning upon all subsequent reviews.