



Applies to: Individuals involved in earnings operations and units housing earnings operations

**Responsible Office**

**Office of Business and Finance**

**POLICY**

Issued: 01/07/2021

**Earnings operations** may exist only to support teaching, research, and outreach and engagement; provide needed services to the university community for which general funds are inappropriate; or provide services of a highly specialized nature. The Office of Financial Planning & Analysis (Financial Planning & Analysis) and the Office of the Controller (Controller’s Office) have financial oversight responsibility for earnings operations.

**Purpose of the Policy**

To establish the legitimate purposes under which sales of goods and services for **fees** may be approved and to establish a mechanism to review such sales; to set parameters for establishing, maintaining, and closing earnings operations; to set parameters for establishing fees; and to support adherence to the Office of Management and Budget (OMB) [Uniform Guidance](#).

**Definitions**

| Term                    | Definition   |
|-------------------------|--|
| Cost of sales           | Expense of goods and services purchased for the purpose of resale and direct pass-through. Excludes: <ol style="list-style-type: none"> <li>1. Any cost incidental to or in support of providing a good or service,</li> <li>2. Inventory of products published or grown on campus,</li> <li>3. Cost of university personnel and associated benefits, and</li> <li>4. Ancillary and overhead costs of any kind.</li> </ol> |
| Earnings operation      | University entity that earns revenue from the sale of goods/services and is identified by a unique combination of Workday worktags: balancing unit, cost center, and fund (conferences, earnings auxiliary, earnings other, and recharge center funds).  |
| Exception               | Any violation of or noncompliance with a university policy issued by the Office of Business and Finance (Business and Finance).  |
| Fees                    | Amounts charged by earnings operations for goods and services. External fees are charged to entities external to the university, including employees and students acting as individuals. Internal fees are charged to university entities.   |
| Full cost recovery fees | Fees that reflect the projected costs to be incurred and projected sales volume.   |
| Marketplace fees        | Fees that reflect the amount charged in the applicable community.  |
| Overhead                | Mechanism for charging earnings operations a proportionate share of the university’s central facilities and administrative costs. Overhead is collected monthly based on net revenues calculated as gross revenues less any reversals and <b>cost of sales</b> . This charge reimburses the university for costs of centrally provided services (e.g., accounting, police, snow removal).                                  |
| Recharge center         | Service unit or department earnings operation whose primary customers are funded by sponsored grants or general funds.   |
| Senior fiscal officer   | Individual who is responsible and accountable for all fiscal operations of a unit.   |
| Unit                    | College or administrative unit.  |
| Unit leader             | Head of college or administrative unit (e.g., dean, senior vice president, president, provost).  |
| Waiver                  | Permission granted to a unit to operate differently than specified or required by a university policy issued by Business and Finance.  |

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### Policy Details

- I. Types of Earnings Operations
  - A. Types of earnings operations and their associated funds:
    1. Auxiliary operations – Self-supporting entities whose customers are students, faculty, staff, or the general public and whose services are considered ancillary to the institution. Auxiliary operations are recorded in the earnings auxiliary fund.
    2. Department earnings operations – Entities that sell goods/services related to the primary purpose of the department. If a department sells goods/services to customers funded by sponsored grants/contracts or general funds, operations are recorded in the earnings **recharge center** fund. All other operations are recorded in the earnings other fund.
    3. Service units – Entities that sell needed services or goods to other university entities (e.g., telephone services provided by the Office of the Chief Information Officer (OCIO), office supplies sold at Stores). All service unit operations are recorded in the earnings recharge center fund.
    4. Conferences – Events sponsored by entities that have defined start and end dates, are identified with activities or event tags, and have expenses and receive revenue. Conferences operations are recorded in the earnings conferences fund.
- II. Requirements for Establishing an Earnings Operation
  - A. The earnings operation must be self-supporting and must have start-up funding rather than deficit funding, except in accordance with Procedure VII.G.
  - B. The earnings operation must provide goods or services to customers outside its unit or to sponsored projects within its unit. If the customers are within the same unit, cost distribution is to be used rather than establishing an earnings operation.
  - C. A unit may not establish an earnings operation if doing so will create a conflict of interest with existing university contracts.
  - D. The earnings operation must be fully costed. All costs associated with earning the operation's revenue must be captured using the earnings fund, balancing unit, and Workday cost center where the revenue was recorded.

### PROCEDURE

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- I. The unit must identify the employee(s) responsible for ensuring that all responsibilities assigned to the earnings operation are fulfilled.
- II. Establishing an Earnings Operation
  - A. New earnings operations must be requested via Workday a minimum of two months before the proposed start date. The senior fiscal officer must approve the request prior to submission. The request includes completion of the questionnaire, checklist, and provision of supplemental financial information, available in Workday. See [Earnings Operations Requirements](#) for details.
  - B. Earnings operations will be approved jointly by the Controller's Office and Financial Planning & Analysis.
  - C. If a new worktag is required (e.g., cost center, fund, program), the Controller's Office or designee will issue a new worktag in accordance with the [Financial Foundation Data Model Management \(FFDMM\) policy](#).
- III. Closing an Earnings Operation
  - A. The unit must initiate the process for closing an earnings operation in Workday within 60 days of operating activity ceasing.
  - B. The fund, balancing unit, and cost center must have a zero cash balance, no encumbrances, and any balance sheet activity must be closed out.

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- C. The earnings operation must provide customers that might bill the earnings operation with alternative worktags to use in case there are any residual payments to make.
  - D. The unit must submit the intention to close an earnings operation/worktag in accordance with the [FFDMM policy](#).
  - E. The earnings operation must close all operational functions (e.g., internal catalog, credit card payment equipment, check scanners).
- IV. Planning for Earnings Operations
- A. The earnings operation must conduct annual planning in accordance with requirements on the [Financial Planning & Analysis](#) website, which includes timetables and planning assumptions.
  - B. Annual plans are reviewed and approved by the senior fiscal officer and the **unit leader**, and subsequently reviewed by Financial Planning & Analysis.
- V. Taxes
- A. The Tax Compliance Office coordinates all tax issues, including all interactions with and requests to/from the Internal Revenue Service, and is available to consult as needed.
  - B. Earnings operations must collect taxes for certain purposes, including and not limited to:
    - 1. State sales tax,
    - 2. Employee federal tax withholding,
    - 3. Certain excise taxes, and
    - 4. Canadian goods and services taxes.
  - C. Sales taxes must be collected by the earnings operation at the time of sale or invoice and deposited into the sales tax payable account if applicable.
  - D. The Tax Compliance Office will remit sales tax to the state.
  - E. Earnings operations may be subject to [Unrelated Business Income Tax](#) (UBIT) if activities are unrelated to the university mission.
  - F. The earnings operation must collect tax exemption certificates from tax-exempt customers and attach them to the customer record in Workday.
- VI. Managing Earnings Operations
- A. Earnings operations must follow all university policies, requirements, standards, and rules, with special attention to the [Accounts Receivable policy](#), [Bank Accounts policy](#), and [Purchasing policy](#). Recharge centers must additionally adhere to [Office of Sponsored Programs \(OSP\) purchasing guidance](#).
  - B. Earnings operations must use contracts/agreements (e.g., purchase orders, testing/services agreements, and statements of work) to perform services and research that are approved by the Office of Legal Affairs (Legal Affairs) and signed by the senior vice president for business and finance or an individual with formally designated contract signature authority from the senior vice president for business and finance.
  - C. Earnings operations must evaluate their activity each month to:
    - 1. Determine accuracy of billings and expenses charged,
    - 2. Remove unallowable costs that may have been charged (see [Expenditures policy](#) and [OSP guidance](#)), and
    - 3. Assess the effect of each month's activity on the forecasted year-end position.
  - D. Earnings operations must forecast and plan financial activity for the current and upcoming fiscal years five years out, except for conferences, which must plan for the upcoming year only.
- VII. Accounting Requirements
- A. A separate, identifiable worktag (e.g., cost center or program) must be used with one of the earnings operating funds (conferences, earnings auxiliary, earnings other, and recharge center funds) to track all revenue and expense associated with each earnings operation.
  - B. Earnings operating fund worktags must not be used for purposes not directly related to primary earnings activity.
  - C. Goods purchased by earnings operations may be recorded as inventory, and not directly expensed, if they are not sold or consumed during the fiscal year of purchase. See [Inventory policy](#).

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- D. Non-capital asset purchases must be expensed in the year of acquisition as a non-capital asset expense. All capital asset purchases must be capitalized. See the [Asset Management policy](#) for definitions of capital and non-capital assets.
- E. Earnings operations recovering the cost of capital assets via the fee structure must use a Capital Reserve fund in conjunction with the same separate worktag used to identify the earnings operation. All revenue directly related to the recovery of the cost of the capital asset must be transferred to the reserve fund and held for the eventual replacement of the capital asset(s). This reserve must not be used for an operating reserve.
- F. Capital assets are depreciated centrally by the Controller's Office. 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 (e.g., maintenance).
- G. While it is preferred that every earnings operation be self-supporting, earnings operations may be subsidized by other unrestricted funds including general funds, with prior approval of the senior fiscal officer. All support must be reflected in the earnings fund as a cross-subsidizing transfer in, with the offset cross-subsidizing transfer out reflected in the fund providing the subsidy.
- H. The cost of personnel used in the earnings operation must be reflected in the earnings fund. Direct appointment to the earnings operation fund is the required method for accomplishing this. If, in certain limited circumstances, this treatment is not feasible, the earnings operation must use a cost distribution transfer out to reflect personnel expense in the earnings operation, with the offset cost distribution transfer in reflected in the fund where earnings operation personnel are appointed.
- I. To properly account for space costs, all rooms associated with earnings operation activity must be flagged in the Space Inventory Management System (SIMS). Units must work with their Planning, Architecture and Real Estate (PARE) contact to ensure all rooms assigned to the unit are flagged appropriately.

### VIII. Fees

- A. Earnings operations must submit any changes to internal and external fees to Financial Planning & Analysis during the annual planning process.
  - 1. Internal fees are reviewed by [University Senate Fiscal Committee](#) and approved by Financial Planning & Analysis.
  - 2. External fees are reviewed and approved by Financial Planning & Analysis.
- B. Fees remain in effect for the fiscal year once approved.
- C. **Marketplace fees** may only be used to set external fees. 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 or industry.
- D. All internal fees must be **full cost recovery fees**; differential internal fees are prohibited. Fees based on full cost recovery must have proper documentation including an accounting of projected costs and sales volumes used to build the fees.
- E. The current fees schedule is maintained in Workday.

### IX. Operating Surpluses

- A. To remain in compliance with OMB [Uniform Guidance](#), operating surpluses are permitted only when:
  - 1. Reasonable marketplace competition exists, and
  - 2. Customers are primarily members of the general public, private companies, or university employees or students.
- B. Operating surpluses are not permitted for recharge centers. If an operating surplus accumulates in a recharge center, the earnings operation must adjust fees downward the following year to eliminate the surplus.

### X. Earnings Operations Balance Review

- A. Earnings operations balance reviews apply only to recharge centers.
- B. Earnings operations with revenues \$500,000 and over must be reviewed annually by Financial Planning & Analysis.
- C. Earnings operations with revenues of \$100,000 up to \$500,000 must be reviewed every three years by Financial Planning & Analysis.

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- D. Earnings operations with revenue below \$100,000 are not subject to this review unless Financial Planning & Analysis deems it necessary.
  - E. The earnings operation’s ending equity balance must not exceed 17% of net operating expenditures for the year or three-year-period, whichever is greater; 17% percent is equivalent to 60 days working capital.
- XI. Overhead
- A. **Overhead** rates are set annually and jointly between the Controller’s Office and Financial Planning & Analysis, are reviewed and recommended by University Senate Fiscal Committee, and are approved by the provost and senior vice president for business and finance.
  - B. Overhead is calculated and charged monthly by Workday.
- XII. The Controller’s Office and Financial Planning & Analysis are responsible to evaluate earnings operations every three to five years and make recommendations about their disposition.
- XIII. Conferences – Special Considerations
- A. The conference fund is intended for periodic activity to record revenue related to smaller events. These events may be annual, periodic, or one time. Due to the unpredictable and short-term nature of these types of events, activities booked in the conference fund are exempt from these sections of this policy: Procedure II- Establishing an Earnings Operation, Procedure VIII-Fees, and Procedure X-Earnings Operation Balance Review.
  - B. Financial Planning & Analysis may review conferences based on activity level to ensure the fund is being used appropriately.
- XIV. **Waivers** to this policy must be approved in advance and documented by the Office of Business and Finance, using the [Business and Finance University Policy Waiver Request](#).
- XV. Policy Violations
- A. All policy violations must be tracked as an **exception** in accordance with the [Fiscal Stewardship policy](#).
  - B. The university may require successful completion of training.
  - C. The university may enforce corrective action, up to and including termination, in accordance with applicable policies or rules.
  - D. The university may seek restitution, as appropriate.
  - E. Criminal charges may be filed, as appropriate.

### Responsibilities

| Position or Office  | Responsibilities  |
|---------------------|---|
| Controller’s Office | <ol style="list-style-type: none"> <li>1. Approve earnings operations jointly with Financial Planning &amp; Analysis.</li> <li>2. Depreciate assets.</li> <li>3. Set overhead rates annually and jointly with Financial Planning &amp; Analysis.</li> <li>4. Evaluate earnings operations every 3-5 years with Financial Planning &amp; Analysis.</li> </ol>  |
| Earnings operation  | <ol style="list-style-type: none"> <li>1. Be self-supporting and have start-up funding.</li> <li>2. Provide goods or services to customers outside the unit or to sponsored projects in the unit.</li> <li>3. Do not create conflicts of interest with existing university contracts.</li> <li>4. Capture all costs associated with earning revenue.</li> <li>5. Provide customers alternative worktags to use for residual payments.</li> <li>6. Close all operational functions when closing an earnings operation.</li> <li>7. Conduct annual planning as directed on the Financial Planning &amp; Analysis website.</li> <li>8. Collect required taxes.</li> <li>9. Collect sales taxes and deposit into the sales tax payable account.</li> <li>10. Collect tax exemption certificates and attach to customer record in Workday as appropriate.</li> <li>11. Follow all university policies, requirements, standards, and rules.</li> <li>12. Use contracts and agreements to perform services and research that are approved by Legal Affairs and obtain signature from an individual with formally designated contract signature authority.</li> <li>13. Evaluate activity monthly to assess items in Procedure VI.C.</li> </ol> |

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| Position or Office                 | Responsibilities   |
|------------------------------------|--|
|                                    | <ol style="list-style-type: none"> <li>14. Forecast and plan financial activity for current and upcoming fiscal years five years out; conferences need to plan one year out.</li> <li>15. Use a Capital Reserve fund in conjunction with the same separate worktag used to identify the earnings operation when recovering the cost of capital assets via the fee structure.</li> <li>16. Receive prior approval of the senior fiscal officer before being subsidized by other unrestricted funds including general funds.</li> <li>17. Reflect the cost of personnel used in the earnings fund as outlined in Procedure VII.H.</li> <li>18. Flag all rooms associated with earnings operation activity in the SIMS.</li> <li>19. Submit any changes to internal and external fees to Financial Planning &amp; Analysis during the annual planning process.</li> <li>20. Adjust fees downward the following year to eliminate any surplus that accumulates in a recharge center.</li> <li>21. Ensure the ending equity balance does not exceed 17% of net operating expenditures for the year or three-year-period, whichever is greater.</li> </ol> |
| Financial Planning & Analysis      | <ol style="list-style-type: none"> <li>1. Approve earnings operations jointly with the Controller's Office.</li> <li>2. Provide annual planning requirements on the Financial Planning &amp; Analysis website.</li> <li>3. Review annual plans after approved by the senior fiscal officer and the unit leader.</li> <li>4. Approve internal fees after review by University Senate Fiscal Committee.</li> <li>5. Review and approve external fees.</li> <li>6. Review earnings operations with revenues \$500,000 and over annually.</li> <li>7. Review earnings operations with revenues of \$100,000 up to \$500,000 every three years.</li> <li>8. Review earnings operations with revenues below \$100,000 if deemed necessary.</li> <li>9. Set overhead rates annually and jointly with the Controller's Office.</li> <li>10. Evaluate earnings operations every three to five years with the Controller's Office.</li> <li>11. Review conferences to ensure the funds are being used appropriately.</li> </ol>  |
| Office of Legal Affairs            | Approve earnings operation contracts and agreements to perform services and research.  |
| Recharge center                    | <ol style="list-style-type: none"> <li>1. Adhere to OSP purchasing guidance.</li> <li>2. Do not accumulate operating surpluses.</li> </ol>   |
| Senior fiscal officer              | <ol style="list-style-type: none"> <li>1. Approve request for new earnings operations.</li> <li>2. Review and approve earnings operations annual plans.</li> <li>3. Approve in advance when earnings operations may be subsidized by other unrestricted funds.</li> </ol>  |
| Tax Compliance Office              | <ol style="list-style-type: none"> <li>1. Coordinate all tax issues, including all interactions with and requests to/from the IRS; consult as needed.</li> <li>2. Remit sales tax to the state.</li> </ol>   |
| Unit                               | <ol style="list-style-type: none"> <li>1. Do not establish an earnings operation that will create a conflict of interest with existing university contracts.</li> <li>2. Identify the employee(s) responsible for ensuring that all responsibilities assigned to the earnings operation are fulfilled.</li> <li>3. Initiate process for closing an earnings operation within 60 days of activity ceasing; ensure there is a zero cash balance, no encumbrances, and balance sheet activity is closed out.</li> <li>4. Submit the intention to close an earnings operation/worktag in accordance with the FFDMM policy.</li> <li>5. Work with PARE to ensure all rooms assigned to the unit are flagged appropriately.</li> </ol>   |
| Unit leader                        | Review and approve earnings operations annual plans.   |
| University Senate Fiscal Committee | <ol style="list-style-type: none"> <li>1. Review internal fees.</li> <li>2. Review and recommend overhead rates annually.</li> </ol>   |

### Resources

University Policies, [policies.osu.edu/](https://policies.osu.edu/)

Accounts Receivable, [go.osu.edu/accounts-receivable-policy](https://go.osu.edu/accounts-receivable-policy)

Bank Accounts, [go.osu.edu/bank-accounts-policy](https://go.osu.edu/bank-accounts-policy)

Financial Foundation Data Model Management, [go.osu.edu/ffdmm-policy](https://go.osu.edu/ffdmm-policy)

Fiscal Stewardship, [go.osu.edu/fiscal-stewardship-policy](https://go.osu.edu/fiscal-stewardship-policy)

Purchasing, [go.osu.edu/purchasing-policy](https://go.osu.edu/purchasing-policy)





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Business and Finance Forms, [busfin.osu.edu/policies-forms](https://busfin.osu.edu/policies-forms)

Business and Finance Earnings Operation Request Template, [busfin.osu.edu/document/new-earnings-operation-request-template-financial-planning-analysis](https://busfin.osu.edu/document/new-earnings-operation-request-template-financial-planning-analysis)

Business and Finance University Policy Waiver Request, [docusign.net/Member/PowerFormSigning.aspx?PowerFormId=fd68959a-4afb-48bb-a0ae-67521b9ad821&env=na1&acct=387d1013-fb1c-4705-9bd9-7cf575f484ce&v=2](https://docusign.net/Member/PowerFormSigning.aspx?PowerFormId=fd68959a-4afb-48bb-a0ae-67521b9ad821&env=na1&acct=387d1013-fb1c-4705-9bd9-7cf575f484ce&v=2)

### Additional Guidance

Earnings Operations at Ohio State training, [busfin.osu.edu/financial-training](https://busfin.osu.edu/financial-training)

Earnings Operations Requirements, <https://busfin.osu.edu/manage-financial-resources#earnings>

Financial Code of Ethics, [busfin.osu.edu/sites/default/files/financial-code-of-ethics.pdf](https://busfin.osu.edu/sites/default/files/financial-code-of-ethics.pdf)

OSP Purchasing, [osp.osu.edu/administration/procurement/](https://osp.osu.edu/administration/procurement/)

OMB Uniform Guidance, [www2.ed.gov/policy/fund/guid/uniform-guidance/index.html](https://www2.ed.gov/policy/fund/guid/uniform-guidance/index.html)

Unrelated Business Income Tax (UBIT), [irs.gov/charities-non-profits/unrelated-business-income-tax](https://irs.gov/charities-non-profits/unrelated-business-income-tax)

### Contacts

| Subject  | Office   | Telephone    | E-mail/URL  |
|--|--|--------------|---|
| Policy questions; earnings operations accounting | Financial Planning & Analysis, Office of Business and Finance                        | 614-292-6220 | <a href="mailto:FPA-BF@osu.edu">FPA-BF@osu.edu</a><br><a href="https://busfin.osu.edu/financial-planning">busfin.osu.edu/financial-planning</a> |
| Rooms assigned to unit, space costs              | Planning, Architecture and Real Estate (PARE), Office of Administration and Planning | 614-688-3715 | <a href="mailto:pare@osu.edu">pare@osu.edu</a><br><a href="https://pare.osu.edu/">pare.osu.edu/</a>   |
| Tax issues                                       | Tax Compliance, Office of the Controller, Office of Business and Finance             | 614-292-0355 | <a href="https://busfin.osu.edu/tax-compliance">busfin.osu.edu/tax-compliance</a>   |

### History

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