



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

Responsible Office

Office of Business and Finance

POLICY

Issued: 01/07/2021
Revised: 05/24/2024 (interim revision)

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. Financial Planning & Analysis and the Office of the Controller (Controller’s Office) in the Office of Business and Finance (Business and Finance) 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 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](#) in the Code of Federal Regulations.

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"> 1. Any cost incidental to or in support of providing a good or service, 2. Inventory of products published or grown on campus, 3. Cost of university personnel and associated benefits, and 4. Ancillary and overhead costs of any kind.
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, other earnings funds).
Exception	Any violation of or noncompliance with a university policy issued by 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 external to the university.
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 cost of sales. This charge reimburses the university for costs of centrally provided services (e.g., accounting, police, snow removal).
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, non-academic entities that exist to furnish goods/services to students, faculty, staff, or the general public. These goods/services are considered ancillary to the institution, and fees charged must directly relate to the cost of the furnished goods/services. Auxiliary operations are recorded in the earnings auxiliary fund (FD200).
 2. Department earnings operations – Entities that sell goods/services related to the primary purpose of the department to users within the academic and administrative community. Departments who primarily charge other internal university departments or federal, state, and local grants must record their operations in the recharge center fund (FD120).
 3. 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 (FD121).
 4. Other earnings operations – Entities that do not meet the definition of auxiliary and whose revenues are primarily generated by providing goods or services to the external community. These departments must use the other earnings fund (FD122).
- II. Requirements for Establishing an Earnings Operation
 - A. The earnings operation must be critical to the mission of the unit.
 - B. The earnings operation must be self-supporting and must have start-up funding rather than deficit funding, except in accordance with Procedure VII.J.
 - C. 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.
 - D. A unit may not establish an earnings operation if doing so will create a conflict of interest with existing university contracts or if an insourced service fee is greater than third party charges.
 - E. 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. Transfers of funds are generally not permitted.
 - F. There are additional administrative costs associated with managing an earnings operation. Business and Finance does not recommend establishing an earnings operation when the expected annual revenue is less than \$50,000. Additional justification must be provided during the submission process as to why the earnings operation is needed.
 - G. The earnings operation must use the proper accounting, including:
 1. The appropriate business processes,
 2. The appropriate worktags and classification of transactions, and
 3. Timely reconciliation of accounts.
 - H. An earnings operation cannot be used to circumvent other policies or rules (e.g., student fees).

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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.

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II. Establishing an Earnings Operation

- A. New earnings operations must be requested via Workday a minimum of three 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. In addition, the Enterprise for Research, Innovation, and Knowledge will approve any earnings operation that plans to charge federal grants.
- 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.
- 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, recurring internal charges).

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 Controller's Office coordinates all financial 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 Controller's Office will remit sales tax to the state and relieve the sales tax payable account.
- 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](#).
- 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 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:

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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, except for conferences, which must plan for the upcoming year only.
- E. Earnings operations that close the fiscal year with a fiscal deficit in excess of \$50,000 must submit within six months a business plan to Financial Planning & Analysis that corrects the financial deficit.

VII. Accounting Requirements

- A. A separate, identifiable worktag, including one balancing unit and cost center, must be used with one of the earnings operating funds (earnings auxiliary, earnings conferences, other earnings funds) to track all revenue and expense associated with each earnings operation. Program or other worktags cannot be used to primarily track earnings operations.
- B. Earnings operating fund worktags must not be used for purposes not directly related to primary earnings activity.
- C. If the earnings operation is billing internally, they must request an Internal Service Provider through Workday and use the Internal Order Billing Process within Workday.
- D. 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](#).
- E. Non-capital assets purchased by earnings operations 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.
- F. Earnings operations recovering the cost of capital assets via the fee structure must use a Capital Reserve fund (FD811) in conjunction with the same separate worktag used to identify the earnings operation.
- G. Capital and non-capital assets purchased with federal grants and contracts cannot be transferred to earnings operations or factored into fees. This reserve must not be used for an operating reserve.
- H. 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).
- I. Cost of goods sold includes the cost of goods and services purchased for the purpose of resale and direct pass-through and should be identified with the expenditure treatment **Cost of Sales** worktag (ET101).
- J. While it is preferred that every earnings operation be self-supporting, earnings operations may be subsidized by other unrestricted funds including general funds, with approval of the senior fiscal officer and Financial Planning & Analysis. 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 and must be factored into the rate setting calculation.
- K. The cost of personnel used in the earnings operation must be reflected in the earnings fund. Direct appointment and costing to the earnings operation fund is the required method for accomplishing this.
- L. 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 the [University Senate Fiscal Committee](#) and approved by Financial Planning & Analysis.
 2. External fees are reviewed and approved by Financial Planning & Analysis.
- B. Fees should remain in effect for the fiscal year once approved. Requests for annual fee changes will be managed by Financial Planning & Analysis with published earnings fee reviews aligned with the Autumn and Spring forecasting schedule. Earnings operations may submit fee changes for implementation once per year.

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- 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 must be maintained by the unit and posted in a manner that is visible to the individual purchasing the goods or services (e.g., website, catalog within Buckeye Buy, or other subsystem). The earnings operation cannot deviate from the approved fees.
- 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 department earnings operations. If an operating surplus accumulates in a department earnings operation, the earnings operation must adjust fees downward the following year to eliminate the surplus.
- X. Earnings Operations Balance Review
- A. Earnings operations with revenues \$500,000 and over must be reviewed annually by Financial Planning & Analysis.
 - B. Earnings operations with revenues of \$100,000 up to \$500,000 must be reviewed every three years by Financial Planning & Analysis.
 - C. Earnings operations with revenue below \$100,000 are subject to review at the discretion of Financial Planning & Analysis.
 - D. The earnings operation's ending equity balance across all funds 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 the University Senate Fiscal Committee, and are approved by the executive vice president and provost and senior vice president for business and finance.
 - B. Overhead is charged monthly through Workday.
- XII. Earnings Operations Assessment
- A. The senior fiscal officers should assess earning operations within their unit at least annually and ensure continued operation is appropriate and complies with this policy.
 - B. The Controller's Office and Financial Planning & Analysis are responsible for evaluating earnings operations every three to five years and making 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.

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- XIV. **Waivers** to this policy must be approved in advance and documented by Business and Finance, using the [Business and Finance University Policy Waiver Request](#).
- XV. Policy Violations
- All policy violations must be tracked as an **exception** in accordance with the [Fiscal Stewardship policy](#).
 - The university may require successful completion of training.
 - The university may enforce corrective action, up to and including termination, in accordance with applicable policies or rules.
 - The university may seek restitution, as appropriate.
 - Criminal charges may be filed, as appropriate.

Responsibilities

Position or Office	Responsibilities
Controller's Office	<ol style="list-style-type: none"> Approve earnings operations jointly with Financial Planning & Analysis. Coordinate all tax issues, including all interactions with and requests to/from the IRS; consult as needed. Remit sales tax to the state. Depreciate assets. Set overhead rates annually and jointly with Financial Planning & Analysis. Evaluate earnings operations every 3-5 years with Financial Planning & Analysis and make recommendations about their disposition.
Earnings operation	<ol style="list-style-type: none"> Be self-supporting and have start-up funding. Provide goods or services to customers outside the unit or to sponsored projects in the unit. Do not create conflicts of interest with existing university contracts. Capture all costs associated with earning revenue. Use proper accounting as set forth in the policy. Provide customers alternative worktags to use for residual payments when closing an earnings operation. Close all operational functions when closing an earnings operation. Conduct annual planning in accordance with Financial Planning & Analysis website. Collect required taxes. Collect sales taxes at the time of sale or invoice and deposit into the sales tax payable account if applicable. Collect tax exemption certificates from tax-exempt customers and attach to customer record in Workday. Follow all university policies, requirements, standards, and rules. 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. Evaluate activity monthly to assess items in Procedure VI.C. Forecast and plan financial activity for current and upcoming fiscal years; conferences need to plan one year out. 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. Receive prior approval of the senior fiscal officer and Financial Planning & Analysis before being subsidized by other unrestricted funds including general funds. Reflect the cost of personnel used in the earnings fund as outlined in Procedure VII.K. Flag all rooms associated with earnings operation activity in the SIMS. Submit any changes to internal and external fees to Financial Planning & Analysis during the annual planning process. Ensure the ending equity balance does not exceed 17% of net operating expenditures for the year or three-year-period, whichever is greater.
Enterprise for Research, Innovation, and Knowledge	Approve earnings operations that plan to charge federal grants.
Executive vice president and provost	Approve overhead rates as set forth in the policy.
Financial Planning & Analysis	<ol style="list-style-type: none"> Approve earnings operations jointly with the Controller's Office. Provide annual planning requirements on the Financial Planning & Analysis website. Review annual plans after approved by the senior fiscal officer and the unit leader.

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	<ol style="list-style-type: none"> 4. Approve in advance when earnings operations may be subsidized by other unrestricted funds. 5. Review and approve internal and external fees as set forth in the policy. 6. Manage requests for annual fee changes with published earnings rate reviews aligned with the Autumn and Spring forecasting schedule. 7. Review earnings operations with revenues \$500,000 and over annually. 8. Review earnings operations with revenues of \$100,000 up to \$500,000 every three years. 9. Review earnings operations with revenues below \$100,000 if deemed necessary. 10. Set overhead rates annually and jointly with the Controller's Office. 11. Evaluate earnings operations every three to five years with the Controller's Office.
Office of Legal Affairs	Approve earnings operation contracts and agreements to perform services and research.
Planning, Architecture and Real Estate (PARE)	Work with unit leader to ensure all rooms assigned to the unit for earnings operation activity are flagged appropriately.
Senior fiscal officer	<ol style="list-style-type: none"> 1. Approve request for new earnings operations. 2. Review and approve earnings operations annual plans with unit leader. 3. Approve in advance when earnings operations may be subsidized by other unrestricted funds. 4. Assess earning operations within their unit at least annually and ensure continued operation is appropriate and complies with this policy.
Senior vice president for business and finance	Approve overhead rates as set forth in the policy.
Unit	<ol style="list-style-type: none"> 1. Do not establish an earnings operation that will create a conflict of interest with existing university contracts. 2. Identify the employee(s) responsible for ensuring that all responsibilities assigned to the earnings operation are fulfilled. 3. Initiate process for closing an earnings operation within 60 days of activity ceasing as set forth in the policy. 4. Submit the intention to close an earnings operation/worktag in accordance with the FFDMM policy. 5. Work with PARE to ensure all rooms assigned to the unit for earnings operation activity are flagged appropriately. 6. Maintain current fees schedule and post in manner visible to individual purchasing the goods or services.
Unit leader	Review and approve earnings operations annual plans with senior fiscal officer.
University Senate Fiscal Committee	<ol style="list-style-type: none"> 1. Review internal fees as set forth in the policy. 2. Review and recommend overhead rates as set forth in the policy.

Resources

University Policies, policies.osu.edu

Accounts Receivable, go.osu.edu/accounts-receivable-policy

Bank Accounts, go.osu.edu/bank-accounts-policy

Financial Foundation Data Model Management, go.osu.edu/ffdmm-policy

Fiscal Stewardship, go.osu.edu/fiscal-stewardship-policy

Purchasing, go.osu.edu/purchasing-policy

Business and Finance Forms, busfin.osu.edu/policies-forms

Business and Finance Earnings Operation Request Template, busfin.osu.edu/document/new-earnings-operation-request-template-financial-planning-analysis

Business and Finance University Policy Waiver Request, go.osu.edu/busfinpolicywaiverrequest

Additional Guidance

Earnings Operations at Ohio State training, busfin.osu.edu/financial-training

Earnings Operations Requirements, busfin.osu.edu/manage-financial-resources#earnings

Financial Code of Ethics, busfin.osu.edu/sites/default/files/financial-code-of-ethics.pdf

OSP Purchasing, research.osu.edu/award-management/managing-expenditures

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OMB Uniform Guidance, www2.ed.gov/policy/fund/guid/uniform-guidance/index.html

Unrelated Business Income Tax (UBIT), 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	FPA-BF@osu.edu busfin.osu.edu/financial-planning
Rooms assigned to unit, space costs	Planning, Architecture and Real Estate (PARE), Office of Administration and Planning	614-688-3715	pare@osu.edu pare.osu.edu
Tax issues	Office of the Controller, Office of Business and Finance	614-292-6220	busfin.osu.edu/university-business/tax-office

History

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