Accounting for Designated Operating Funds

Section:  Accounting and Financial Reporting  Number:  05.712
Title:  Accounting for Designated Operating Funds

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POLICY

.100 POLICY STATEMENT
This policy sets forth certain basic system-wide standards for accounting for Designated Operating funds. Designated Operating funds are recorded in Banner FIS under Fund Type 12, Fund Level 1, 050000 "Designated Operating Funds."

.110 POLICY RATIONALE
OUS seeks to ensure that the policies and procedures related to accounting for Designated Operating funds are documented, communicated, clearly understood, and consistently applied.

.120 AUTHORITY
.130 APPROVAL AND EFFECTIVE DATE OF POLICY

Approved by the Vice Chancellor for Finance & Administration, effective March 3, 2005. Significant revisions to this policy were approved by the Associate Vice Chancellor for Finance and Administration/Controller on June 14, 2007. To allow for planning and rate adjustments, converting from the 8% overhead charge to an institutionally determined allocation of indirect costs is to be phased in and fully implemented no later than July 1, 2008.

.140 KNOWLEDGE OF THIS POLICY

All Chancellor's Office and institutional personnel with financial management responsibilities should be knowledgeable of this policy.

.150 DEFINITIONS

Designated Operating Funds - Designated operations (fund type 12, fund level 1 roll-up 050000) account for self-sustaining activities related to instruction, community education, public service and student aid activities. The following functions are included:

- Instruction (field trips; international education) - non-credit
- Community Education (non-credit conferences, workshops, seminars, etc., sponsored by Continuing Education)
- Public Service (non-instructional services to the general public or outside groups such as: non-credit short courses, workshops, seminars, conferences, and camps; testing and consulting services; special interest publications; theater and music activities; etc.)
- Scholarships (financial aid funds generated from fund raising activities accounted for in designated operating funds)

Designated Operating funds are accounted for in the Other Funds Non-Limited category of the OUS legislative budget.

Fund Balance: The difference between a fund's assets and liabilities. (assets-liabilities=fund balance)

Direct Costs - Costs of producing goods and services, which can be readily identified with a specific activity. For designated operating funds, these costs include salaries and benefits, and services and supplies.

Indirect Costs - Costs generally applicable to a designated operating fund that cannot be charged directly without effort disproportionate to the benefits received. Typically these costs benefit more than one function or organization. Examples of these costs may include utilities, building maintenance, and central campus administrative services.
.160 RESPONSIBILITIES

A. CHANCELLOR'S OFFICE

The Vice Chancellor for Finance and Administration or designee shall have oversight responsibility for this policy.

B. INSTITUTION

Each university Vice President for Finance and Administration or designee shall have oversight responsibility for institutional provisions set forth in this policy. They are also responsible for developing campus policies and cost allocation plans for indirect costs charged to designated operations consistent with this policy.

.170 FUND BALANCE STANDARDS

A. Lower Limit: Any negative fund balance as of June 30, must be eliminated by providing adequate funding to the designated operating fund by the responsible department or from other Education and General Funds expense accounts.

Exceptions: Exceptions for situations where the institution believes it is more appropriate to require the designated operating fund to eliminate its deficit through future year operations, or where the deficit condition is a normal timing difference relating to its operating calendar will be approved by the institutional Vice President for Finance and Administration or designee, and documentation justifying the exception will be retained for audit. Institutions will report exceptions to the Controller's Division as part of the annual closing of the books process. Each exception must notate plans for eliminating the negative fund balance.

.180 INDIRECT COSTS TO BE ALLOCATED

By definition designated operating funds are self-sustaining, generating sufficient operating revenues to cover operating expenses, including direct expenses and the allocable portion of indirect costs borne by other units of the university.

The allocation of indirect costs should be recorded within the accounting records of the institution.

Allocation of indirect costs should be based on a process that is reasonable relative to the activity and the related costs. OUS institutions will each determine and document the rationale for allocating or not allocating indirect costs to each series of designated operating funds, and develop their own methodologies for allocating indirect costs.
For additional information for allocating indirect costs, refer to Fiscal Policy Manual 15.105 "Auxiliary Enterprise Indirect Cost Allocation."

.190 INDIRECT COST RECOVERY LIMITATION

Indirect cost recovery rates are limited to no more than the full costs (direct costs and indirect costs) of the activity being allocated.

.200 ACCOUNTING ISSUES

Charging of Indirect Costs to Designated Operating Funds

A.
B. Objectives - Charging of Indirect costs:
   1. At each institution, each designated operating fund should be allocated its computed share of indirect costs.
   2. Indirect costs to a designated operating fund are considered expenses, and are recorded as an expense in the designated operating funds. The account code(s) must be specific to indirect cost charges and not confused with other types of expenses such as salaries and wages, OPE, other services and supplies, etc.
   3. Indirect costs to designated operating funds should be recorded at least quarterly.
   4. The recovery of the indirect costs should be recorded in the budgeted operating funds (fund type 11).
   5. The recovery of indirect costs is considered a reduction of expense and not a revenue.

C. Process - Recording of Indirect cost:
   1. Indirect costs charged to designated operating funds will be recorded in each applicable designated operating fund that rolls up to the following baseline roll-up funds:

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>050000</td>
<td>Designated Operating Funds</td>
</tr>
<tr>
<td>050001</td>
<td>Continuing Education (non-credit)</td>
</tr>
<tr>
<td>055000</td>
<td>Other Instructional Opns</td>
</tr>
<tr>
<td>057000</td>
<td>Public/Community Service Opns</td>
</tr>
</tbody>
</table>

   2. Institutions may use the following account codes to record indirect cost charges in the designated operating funds:

<table>
<thead>
<tr>
<th>Account Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>28201 - Administrative and Support Service Charge</td>
</tr>
<tr>
<td>28204 - General Administration Overhead Charge</td>
</tr>
<tr>
<td>70003 - Designated Operating Funds Administrative Costs</td>
</tr>
</tbody>
</table>
3. Indirect cost charges will be recorded in the designated operating funds at least quarterly.
4. Recovery of the indirect cost charge will be credited to a fund type 11 - budgeted operations fund at the institution.
5. Recovery of the indirect cost charges to the institution will be credited to fund type 11 - budgeted operations using the following account code:

<table>
<thead>
<tr>
<th>Account Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>79390 - Admin Service Reimbursement</td>
</tr>
</tbody>
</table>

In accordance with policy 05.650 "Accounting for Interfund Transactions", the allocation of overhead is considered an allocation of expense and is recorded as an expense debit to the designated operating funds and an expense credit to the budgeted operations funds.

.690 CONTACT INFORMATION

Direct questions about this policy to the following offices:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>General questions from institutional personnel</td>
<td>Institution Office of Business Affairs</td>
</tr>
<tr>
<td>General questions from institutional central administration and Chancellor's Office personnel</td>
<td>Chancellor's Office Controller's Division</td>
</tr>
</tbody>
</table>

.695 HISTORY

3/3/05 - Approved
06/14/07 - Updated
11/10/08 - Updated

Policy Last Updated: 11/10/08

APPENDIX

None

Appendix Last Updated: xx/xx/xx