

OVERHEAD FEE ASSESSMENT	DOCUMENT NO.	102
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1.0 Purpose (problem statement, philosophy)

An overhead fee allows the university to recover part of the cost of providing institution-wide support services for those departments who use university resources to raise department or unit funds. Currently, about a dozen units on campus pay an overhead fee; the rate has been 3% of the previous year's expenditures. In order to ensure a more equitable policy, Northern Arizona University will change its implementation of an overhead fee to a methodology commonly used by universities. The overhead fee will be assessed on all units of the university that generate income not subject to indirect cost recovery. Many, though not all, of the units affected are self-supporting or auxiliary units.

Recent years have seen a significant growth in the number and type of revenues generated on university campuses by various units. These revenues range from fees for sales and services to interest income and special event fees and many are directly for the benefit of and controlled by the departments/units. Non-tuition based revenues now comprise a significant portion of the NAU overall operating budget but these added revenues also come at a price to the university. Revenues generated on campus use university resources (e.g. time, utilities, equipment and facilities) that are funded by central monies. As this independent revenue base has grown so has the demand on the university's central resources.

In order to ensure that the associated overhead expenses for these revenues produced for departments does not unfairly erode available funding for other university initiatives and priorities it is important that we find an equitable method to recoup a portion of these associated expenses.

2.0 Revision History

Basing the overhead fee on revenue instead of previous year expenditures better reflects the use of university resources, facilitates planning for units generating revenue, and avoids fluctuations that occur when a unit has major, untypical expenditures.

3.0 Persons Affected

We anticipate that most units will recover the fee by raising prices by an equivalent percent to their external customers. In that case, it is real revenue. For a variety of reasons, including market considerations, some units may not be able to adjust their pricing. In these cases, units will need to look for other cost-cutting measures in their budgets to accommodate the cost of the overhead fee. The university will also review internal subsidies that auxiliaries and other units are charged, and will, as feasible, remove subsidies that should be the responsibility of the university, not the unit.

4.0 Policy (statement of policy and scope)

In recognition of the need to recoup a portion of central expenses in an equitable way the university will implement revenue based overhead assessment or fee beginning July 1, 2006. The overhead assessment will be charged on all defined revenues (see below) generated by any department and will be implemented programmatically as revenues are recorded in the financial information system. These assessment resources will be held in university central accounts. The rate of assessment will begin at 4% on July 1, 2006, and is currently at 8% for both FY10 and FY11. The rate will be re-evaluated annually to determine whether changes are needed.

5.0 Definitions

Parameters for revenues subject to overhead assessment are outlined below.

General Overview:

- Revenues subject to assessment are generally those funds accounted for in activities or operations that are intended to be primarily or partially self-supporting. These activities are classified as auxiliary business enterprise operations or designated operating activities.
 - Auxiliary enterprise operations are generally self supporting business operations that exist primarily to furnish services to students, faculty and staff. Examples would be the Bookstore and Student Housing.
 - Designated operating activities account for self-sustaining activities related to the community, public service, non-university-based student, equipment, or other fees. Examples include conferences, workshops, non-instructional camps or seminars offered to general public, theater, athletics and music activities.

Revenue classes subject (generally) to overhead assessment:

- Investment Income- university investments and cash.
- Sales & Service Revenue- revenues derived from business activities generally associated with Auxiliary units and self supporting activities. Examples include bookstore merchandise sales and student housing rent.
- Other Fees and Revenue Sources. Examples include application fees, commissions, department fees, ticket sales, other miscellaneous revenues.

Revenue classes generally *excluded* to overhead assessment:

- Student tuition and mandatory student fees
- Non-profit-generating billings to other university departments
- Internal transfers
- Course and special program fees (ex. fees for study abroad)
- Private funds raised by the Foundation

6.0 Procedures

The fee will be automatically deducted as revenue is accrued. The group of units that will be assessed the overhead fee will be reviewed carefully, and in some cases revenue class and source codes will be changed to be consistent throughout the institution. The overhead fee should be budgeted for FY07 and beyond. All affected units will be notified through their vice presidential offices. Units with concerns about the policy and how it is being applied should bring these to their vice president.