



DRAFT REVENUE PROCEDURE:
**Safe Harbors for Allocation of Expenses by Colleges and Universities
for Purposes of Determining Taxable Unrelated Business Income**

SECTION 1. PURPOSE

This revenue procedure explains optional methodologies that colleges and universities may employ for the allocation of direct and indirect expenses for the purpose of determining taxable unrelated business income (UBI). The methodologies described herein will not be mandatory for any college or university liable for unrelated business income tax, but instead serve as optional safe harbors that set forth a reasonable basis for allocation of costs to unrelated activities.

SECTION 2. BACKGROUND

Section 1.512(a)-1(a) of the Income Tax Regulations (Regulations) defines unrelated business income as the gross income derived from any unrelated trade or business regularly carried on, less those deductions which are directly connected with the carrying on of such trade or business, subject to certain modifications. To be deductible in computing taxable unrelated business income, expenses must (a) be directly connected with the revenue source and (2) have a proximate and primary relationship to that source.

Section 1.512(a)-1(c) of the regulations provides that if a deductible expense is related to both an exempt activity and an unrelated business, the deduction must be allocated between the two activities on a “reasonable basis.”

This revenue procedure sets forth safe harbor models for the allocation of expenses that the IRS will accept as reasonable and on which taxpayers may rely. If either of these methods (Option 1 or Option 2) is applied properly (and corresponding documentation retained), the IRS will accept the safe harbor allocation methods as reasonable.

SECTION 3. DEFINITIONS

For purposes of this revenue procedure, the terms listed below are defined as follows:

1. A “university” is an institution for higher learning with teaching and research facilities comprising an undergraduate school that awards baccalaureate degrees and one or more graduate schools that award master or doctorate degrees.
2. A “college” is an institution of higher learning that grants associate, baccalaureate, and/or higher level degrees, although the term is also frequently used by institutions to describe undergraduate divisions or schools of a university that offer courses and grant degrees in a particular field such as liberal arts or law. “College” as used in this revenue procedure also includes institutions that offer two-year education programs, such as junior or community colleges.
3. An “institution” is either of the above.

4. A “department” refers to a clearly and consistently identified set of associated activities or functions within an institution, essential to provide for managerial and financial responsibility.
5. “A-21” refers to Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*. Most federal funds for research or sponsored programs received by an institution are subject to A-21. Generally, A-21 dictates that for any cost to be allowable to a federal project it must first be reasonable, it must be allocable, it must be given consistent treatment through the application of generally accepted accounting principles, and it must conform to any limitations set forth in A-21 or by the funding agency.
6. “Direct costs” are costs that can be identified specifically with a particular sponsored project, an instructional activity, or any institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. [As defined in A-21.]
7. “Indirect costs” (also referred to as facilities and administrative or F&A costs) are costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. At educational institutions such costs normally are classified under the following indirect cost categories: depreciation and use allowances (buildings, improvements, and equipment), interest expense, general administrative and general expenses, sponsored projects administration expenses, operation and maintenance expenses, library expenses, departmental administration expenses, and student administration and services. [As defined in A-21.]
8. “Long form” refers to the process for A-21 reporting that is required for institutions with covered costs in excess of \$10 million annually.
9. “Short form” refers to the process for A-21 reporting that is required for institutions with covered costs of less than \$10 million annually.
10. “MTDC” refers to Modified Total Direct Costs. According to A-21, most expenses under the administration category are allocated on the basis of MTDC, which consists of all the direct costs of a given function less specific exclusions, such as capital equipment, charges for patient care, rental costs, scholarships, and fellowships. MTDC constitutes the final denominator by which allocated indirect costs are to be divided to determine the indirect cost rate.
11. “OIA” refers to Other Institutional Activities, a functional component of the MTDC base. OIA includes the operation of residence halls, bookstores, dining halls, student unions, intercollegiate athletics, public museums, and other similar auxiliary enterprises. Other activities may also be included in the OIA base, such as costs that are separately identified as “unallowable” to sponsored agreements. The inclusion of these costs in the OIA base inflates the denominator of the rate calculation, thereby lowering the rate.

SECTION 4. SAFE HARBORS / OPTIONAL METHODOLOGIES

.01 Introduction. The methodologies will serve as safe harbors for determining taxable UBI. The purpose of the safe harbors is to provide for the inclusion of an institution’s indirect costs as well as direct costs related to a particular unrelated activity in the calculation of UBI. Indirect costs allocated pursuant to option 1 or 2, as well as direct costs, are to be considered proximate and primary costs under the regulations for the calculation of deductible expenses. The model methodologies are based on principles established in A-21 for accumulating and allocating costs as either direct costs or indirect costs. The first option involves a three-tier cost allocation approach that can be utilized by institutions that use Circular A-21; the second option provides a simplified method for institutions that are not subject to Circular A-21. The simplified method is also an alternative for A-21 institutions.

.02 Option 1—Three-Tier Model. This model provides a detailed approach to the allocation of indirect costs to unrelated activities. The following formula provides an outline of the rationale of this method:

Unrelated Business Revenues	\$XXXX
Less: Tier I—Direct Costs	(XX)
Tier II—Allocated Departmental Administration Costs	(XX)
Tier III—Allocated Institutional Indirect Costs	(XX)
Taxable Unrelated Business Income	<u>\$XXXX</u>

Tier I—Direct Costs. A cost is considered a direct cost if it can be identified specifically with a particular institutional activity or assigned relatively easily with a high degree of accuracy. Examples of direct costs include cost-of-goods-sold, salary and wages of staff directly engaged in the unrelated activity, and supplies consumed in the conduct of the activity. Depreciation of assets (e.g., equipment) used solely in the activity may be a direct cost when accorded *consistent* cost treatment between direct and indirect cost by the institution. For example, if a depreciation factor for the equipment used in the unrelated activity is expensed directly to the unrelated activity, it should not also be included in the indirect cost rate used to allocate institutional indirect costs (Tier III costs).

If per unit pricing differences exist between related and unrelated income, these differences should be considered when allocating direct costs between related and unrelated activities. This is necessary to ensure appropriate alignment of costs to income, as well as to correctly allocate Tier II and Tier III costs.

Tier II—Allocated Departmental Administration Costs. Allocated departmental costs represent the portion of overall operating expenses of a department that are applicable to the

unrelated activity. Tier II costs should be calculated when a factor for departmental administration has not been included in the institution's A-21 rate calculation. This will usually occur when the appropriate rate to apply to the unrelated business activity is the Other Institutional Activity (OIA) rate, since departmental administration costs are not usually developed for that function (unlike the research rate, where departmental administration is fully developed and calculated).

Note: If the unrelated activity is effectively autonomous and does not have any departmental administrative support, it should not receive an allocation.

Tier III—Allocated Institutional Indirect Costs. Allocated institutional indirect costs are central institutional expenses that can reasonably be expected to be consumed by the unrelated activity, such as depreciation, operations and maintenance expenses, general insurance, personnel, and general administration (legal, accounting and finance, president's costs). These costs are allocated based on the A-21 methodology and reviewed by the institution's federal government cognizant agency for reasonableness. This deduction would be derived from the application of an indirect cost rate to Modified Total Direct Costs (MTDC) (long form) or salary and wage (short form) expenses accumulated in the first two tiers. The indirect cost rate, or possibly, the specific cost deduction, would be supported by the indirect cost study or proposal.

Other Considerations. Each institution may define its tiers differently in order to achieve the greatest level of objectivity. For example, one university may allocate electricity as an indirect cost to the unrelated activity, making it a Tier III item, while another university may have an unrelated activity that is separately metered and billed, making electricity a Tier I item.

A-21 costing principles are an acceptable method for calculating deductible expenses. A-21 helps define appropriate expense tiers and the A-21 distribution methodology can be used for the allocation of costs for both the second and third tiers. The essential consideration in accepting an activity base should be that it is reasonably suited for assigning the pool of costs to the unrelated activity. Examples that demonstrate the three-tier methodology for institutions using the long- or short-form of A-21 begin on page 8.

Methodology.

Step 1. Determine the direct costs of the activity. If necessary, distinguish between related and unrelated activities for dual use facilities. If there are per unit pricing differences, determine the parity price and allocate direct expense accordingly.

Step 2. Determine appropriate A-21 indirect cost rate to be applied to the unrelated direct cost in order to allocate institutional indirect costs (Tier III costs). If the activity is included as part of the Other Institutional Activities (OIA) MTDC base, determine whether an OIA rate calculation was included with the institution's indirect cost proposal. If an OIA rate was not calculated at the time the proposal was submitted, the rate should be calculated based on the data contained in the institution's indirect cost proposal as reviewed by federal negotiators. This rate will be applied to the unrelated direct (Tier I) and allocated Tier II costs. The identification of the Tier III rate is conducted as step 2 to determine whether departmental administration costs have been identified for the function in question. If

departmental administration costs have *not* been identified, step 3 is necessary. If the unrelated activity was included in a function where departmental administration costs had been fully identified in the indirect cost proposal (e.g., Instruction), Step 3 is not necessary.

Step 3. If departmental administration costs were not calculated in the indirect cost proposal for the unrelated activity, Tier II costs should be determined in accordance with A-21 (see examples B and C on pages 9 and 10 for sample Tier II calculations).

Step 4. Apply cost allocations for Tier II and Tier III to the appropriate activity base — salaries and wages for short-form, MTDC for long-form institutions.

03. Option 2—Simplified Alternative Method. Many institutions are not required to calculate or negotiate indirect cost rates in accordance with OMB Circular A-21 due to limited federal funding. Other institutions do not require the level of detail inherent in the three-tier method for calculating deductions from unrelated business income. The following simplified alternative method enables institutions to calculate a simplified rate roughly equivalent to an A-21 rate to allocate a share of institutional costs to the direct costs incurred for unrelated activities.

The following forms provide the calculations for the simplified alternative method. They are tailored for institutions according to whether they are subject to the accounting standards of the Financial Accounting Standards Board (FASB) followed by independent institutions of higher education or the Governmental Accounting Standards Board (GASB) standards used by public colleges and universities. The appropriate form should be completed using the financial statements of the institution for the fiscal year covered by the 990-T. The rate calculated on Line 10 of the FASB worksheet (figure 1) or Line 13 of the GASB worksheet (figure 2) should be applied to the direct cost of the unrelated activity and the resulting expense deduction entered on the line for “other deductions” in Part II of the 990-T. The filing institution should assure consistency between direct and indirect cost by only completing the worksheet for items that were not directly charged to the unrelated activity. For example, if equipment depreciation expenses were deducted from unrelated income as a direct cost, depreciation costs should not be claimed as an indirect cost on Line 1 of either worksheet.

FIGURE 1: Simplified Indirect Cost Calculation Worksheet for Institutions Subject to the Financial Accounting Standards Board (FASB)

Calculation of Deductible Overhead Expenses

All figures should be in the unrestricted net asset class unless otherwise noted.

Line		
1	Depreciation Expense (note 1)	_____
2	Operation & Maintenance Expense (note 2)	_____
3	General & Administrative Expense (note 2)	_____
4	Total Overhead—lines 1 through 3	_____
5	Total Expenses	_____
6	Total Overhead from line 4	_____
7	Total Direct Costs (line 5 minus line 6)	_____
8	Student Aid Costs included in line 5	_____
9	Direct Cost Base (line 7 minus line 8)	_____
10	Overhead Rate (line 4/line 9)	_____

Note 1: Total from the Statement of Cash Flows.

Note 2: Exclude depreciation reported on line 1.

FIGURE 2: Simplified Indirect Cost Calculation Worksheet for Institutions Subject to the Governmental Accounting Standards Board (GASB)

Calculation of Deductible Overhead Expenses

All figures should be current fund expenditures unless otherwise noted below.

Line		
1	Total Depreciation Expenditures (note 1)	_____
2	Operation & Maintenance Expenditures (note 2)	_____
3	General & Administrative Expenditures (note 2)	_____
4	Total Overhead—lines 1 through 3	_____
5	Total Current Fund Expenditures	_____
6	Total Overhead from line 4	_____
7	Depreciation from line 1	_____
8	Total Direct Costs (line 5 minus line 6 plus line 8)	_____
9	Student Aid Costs included in line 5	_____
10	Equipment and Other Capital Purchases included in line 5	_____
11	Direct Cost Base (line 8 minus lines 9 and 10)	_____
12	Overhead Rate (line 4/line 11)	_____

Note 1: For institutions that report depreciation, from Statement of Changes in Fund Balance (include total depreciation including any charges to auxiliary activities). For institutions that do not report depreciation, complete the following:

A	Total building value as reported in financial report	_____
B	Use allowance (multiply line A by .02*)	_____ x 0.02
C	Deductible building expense	_____
D	Total equipment value as reported in financial report	_____
E	Use allowance (multiply line D by .0667**)	_____ x 0.0667
F	Deductible equipment expense	_____
G	Lines C plus F (to line 1)	_____

* A-21 allows a 2 percent use allowance for buildings.

** A-21 allows a 6.67 percent use allowance for equipment.

Note 2: Exclude expenditure amounts for capital equipment.

SECTION 5. EXAMPLES OF THREE-TIER METHODOLOGY COMPUTATIONS

EXAMPLE A. SHORT-FORM UNIVERSITY Unrelated Business Income—Food Service/Conference Bureau

Example A (page 11) uses the three-tier conceptual model along with short-form A-21 methodology to report unrelated business revenues and costs for a food service/conference bureau operation at a large public university. The short-form method establishes one indirect pool and one distribution base. The distribution base consists of the salaries and wages of the institution.

This example displays unrelated and related food service and conference bureau revenues in separate columns. The totals are from separate university ledger account balances. Similarly, direct operating, or Tier I expenses, are from separate UBIT university ledger accounts within the university's accounting system.

Allocated departmental direct costs, or Tier II expenses, involve a distribution of student center expenses between related and unrelated activities. All food service and conference bureau operations are located at the student center. Since the per unit/activity charges are the same for related and unrelated operations, the activity base used is gross-to-gross revenues. If the charges were different, a parity pricing adjustment would need to be made to fairly distribute Tier II costs.

Indirect institutional costs, or Tier III expenses, are calculated based upon A-21 short-form methodology. Institutional Support and Operation & Maintenance of Plant from the indirect cost proposal are adjusted downward for costs already deducted in Tier I and Tier II categories. Adjustments should also be made for any pool costs used in direct costs. The total of these adjusted costs is then divided by direct salaries and wages to arrive at a salary and wage base indirect cost rate. The final step is to multiply the salary and wage base indirect cost rate by the salary costs from Tier I.

As a final note, the cost basis of the student center used for purposes of calculating depreciation is reduced based on square footage use for the unrelated activity.

EXAMPLE B. LONG-FORM UNIVERSITY
Unrelated Business Income—Conference Lodging and Food Services

Example B (page 12) demonstrates the use of the A-21 long-form indirect cost rate to estimate allocable overhead costs in lieu of more complex cost identification and allocation techniques used for an actual 990-T. These two models are displayed in a side-by-side format.

Long-Form University tracked and separately identified unrelated business income for its conference lodging and food services operations. The cost of sales, payroll, fringe benefits, and other direct expenses are matched with the unrelated income and are identical under both models.

An A-21 long-form indirect cost rate was calculated for “Other Institutional Activities” (OIA) to be applied to the direct expense identified in the right-hand column. The OIA rate (50.71 percent) was chosen for this example because conference and food services costs are part of the OIA costs in Long-Form University’s indirect cost proposal. The A-21 method assures consistency in cost treatment between direct and indirect costs. Therefore, cost items that are normally indirect, such as equipment depreciation and facilities costs, were removed from the 990-T model and applied through the use of the indirect cost rate in the A-21 model.

“Departmental Administration” (DA) costs are not calculated for the OIA activities of this institution and are not included in the 50.71 percent overhead rate. Therefore, a separate rate calculation was performed to estimate the allocable departmental administrative costs associated with the two unrelated activities. A standard A-21 methodology was used to calculate a DA percentage (19.55 percent) which was then applied to direct expenses to estimate allocated departmental administration costs. The data for these estimates were taken directly from the university’s indirect cost system and are easily reconciled within the indirect cost system. Details of the calculation are shown in the footnotes to the exhibit.

The amounts deducted on the 990-T for building alterations, utilities, and building depreciation were not separately identified under the A-21 method. As stated above, the university’s claim for Tier III—Allocated Institutional Indirect Costs—is captured by applying the indirect rate of 50.71 percent to the sum of the direct and allocated direct costs and Tier II—Allocated Departmental Administration Costs—and is shown as a single entry in the worksheet.

The net result of the A-21 method is a slightly reduced net loss for the two unrelated activities, even though the A-21 rate includes a factor for General and Administrative costs, which were not allocated in the 990-T model.

**EXAMPLE C. LONG-FORM UNIVERSITY
Unrelated Business Income—Driving Range**

Example C (page 13) demonstrates the application of the three-tier methodology for calculating deductions from income generated by a driving range at a university that uses the A-21 long form.

Revenues: *Lines 1 to 7*

Revenues should be segregated into two categories: related use and unrelated business use. This can be accomplished by maintaining sales records. The percentage of sales can then become the basis for expense allocation if the same fees/prices are charged for both related use and unrelated business use.

Expenses: *Lines 8 to 16*

Expenses would be allocated between related and unrelated use on the basis of purchases from the organization.

Tier I - Direct Expenses: *Lines 8 to 11*

Direct costs include the driving range manager's salary, staff salary, ball expense, electricity, and equipment depreciation.

Tier II - Allocated Departmental Administration Costs: *Lines 12 and 13*

(calculation: *Lines 17 to 22*)

Some of the overall operating expenses of the athletic department apply to the driving range. For example, the athletic department may process and review all expenditures incurred by the golf range, the golf range manager may report to the assistant director of athletics, a personnel officer may be department-based and review all hiring and firing at the range. To determine the appropriate portion of departmental support, remove the central administrative costs from the total expense of the department and then divide the remaining expense into the central administrative support costs. The resulting ratio represents the department overhead ratio applicable to direct expenses. The ratio is then applied to the direct costs to calculate how much departmental support costs should be allocated to the unrelated activity.

Tier III - Allocated Institutional Indirect Costs: *Lines 14 and 15*

(calculation: *Lines 23 to 37*)

The allocation of institutional indirect costs is based upon the indirect cost study submission to the government. Lines 23 to 31 represent costs allocated to auxiliary activities, and can be referenced to the submission. These costs are accumulated and then divided by the MTDC (line 32) of the auxiliaries to determine an indirect cost overhead rate. This rate is then applied to the total of direct and allocated departmental administration costs to develop the institutional indirect allocation. The Tier III allocation is then added to Tiers I and II to create total expense. Total expense is then applied against total revenues to calculate total taxable income.

SECTION 6. EFFECTIVE DATE

This revenue procedure is effective on the date of publication.

EXAMPLE A. SHORT-FORM UNIVERSITY
Unrelated Business Income--Food Service/Conference Bureau
For the Year Ended June 30, 1995

	<u>Unrelated Business (UBI)</u>	<u>Related Business</u>	<u>Total</u>
Revenues			
Food Service	160,842	262,426	423,268
Conference Bureau	<u>572,115</u>	<u>933,451</u>	<u>1,505,566</u>
Total Revenues	732,957	<u>1,195,877</u>	<u>1,928,834</u>
Less Cost of Goods Sold	<u>338,510</u>		
Gross Margin	<u>394,447</u>		
 <u>Operating Expenses</u>			
Direct - Tier I			
Salaries	227,010		
Repairs & Maintenance	14,012		
Supplies	12,936		
Printing	1,302		
Information & Communication	2,538		
Equipment Supplies	<u>357</u>		
Total Direct	<u>258,155</u>		
 Allocated Departmental - Tier II *			
Repairs & Maintenance - Other	13,812	22,535	
Utilities	40,811	66,586	
Insurance	1,089	1,777	
Telephone	1,831	2,987	
Postage	3,503	5,715	
Advertising	431	703	
Subscriptions & Dues	2,696	4,399	
Refuse Disposal	<u>2,705</u>	<u>4,413</u>	
Total Allocated Direct	<u>66,878</u>	<u>109,115</u>	
 Allocated Institutional Indirect - Tier III			
A-21 Indirect**	32,213		
Depreciation - (UBI) Building at 2% ***	24,670		
Depreciation - (UBI) Equipment at .6667%	<u>1,563</u>		
Total Indirect	<u>58,446</u>		
Total Operating Expenses	<u>383,479</u>		
Net (UBI) Income	<u>10,968</u>		

* Allocated activity base used—gross-to-gross revenues (732,957/1,928,834) = 38% of total allocated direct expenses.

** From A-21 short-form:

Institutional Support (adjusted)	9,669,570	
Operation & Maintenance of Plant (adjusted)	<u>3,177,472</u>	
Total	12,847,042	
divide by direct Salaries & Wages	<u>90,511,511</u>	
Indirect Cost Rate	<u>14.19%</u>	of Tier I Salaries and Wages

***Cost basis of building for depreciation is 10% of original cost based on UBI square footage use.

EXAMPLE B. LONG-FORM UNIVERSITY
Unrelated Business Income—Conference Lodging and Food Services
For the Year Ended June 30, 1995

	Unrelated Business Income Statement from 990-T <u>Workpapers</u>	Unrelated Business Income Using Cost Allocation <u>Techniques</u>	
REVENUES			
Lodging	621,424.64	621,424.64	
Food Service	<u>500,627.68</u>	<u>500,627.68</u>	
Total Revenues	1,122,052.32	1,122,052.32	
EXPENSES			
Cost of Sales	<u>132,711.36</u>	<u>132,711.36</u>	
Gross Margin	989,340.96	989,340.96	
<u>Operating Expenses</u>			
Payroll & Fringe	447,021.41 (Note 1)	447,021.41	
Other Expense	118,354.15 (Note 1)	118,354.15	
Equipment Depreciation	<u>8,085.08 (Note 2)</u>	<u>8,085.08</u>	
Total Direct Expenses	706,172.00	698,086.92	Tier I
.....			
Dept. Administration			
Payroll & Fringe	115,793.50 (Note 3)		
Dept. Administration			
Other Expense	<u>174,165.38 (Note 3)</u>		
Allocated Departmental Administration	289,958.88	136,503.52 (Note 4)	Tier II
.....			
Building Alterations	49,801.47		
Utilities	97,222.79		
Building Depreciation	<u>131,309.57</u>		
Total Overhead	278,333.82		
University Overhead @50.71%		423,220.81 (Note 5)	Tier III
.....			
Total Expense	<u>1,274,464.70</u>	<u>1,257,811.25</u>	
Net Income (Loss)	(<u>152,412.38</u>)	(<u>135,758.93</u>)	

Notes:

- (1) Operating expenses, including cost of goods sold, were allocated to unrelated income based on the percentage of unrelated income to total income.
- (2) Depreciation costs are included in the overhead rate and are not deducted when university overhead is applied.
- (3) Departmental administration was calculated for the 990-T based on detailed cost analyses at the departmental level.
- (4) Allocated departmental administration expense was calculated based on the percentage of administrative costs for residence halls and union club to total expense excluding administration, multiplied by the total direct costs. Source data from the university's indirect cost study. See items A through G below.

A Total Residence Hall and Union Club MTDC expense	23,847,138
B Total Administrative Costs for Halls and Union	3,900,378
C Non-Administrative costs = A-B	19,946,760
D Administrative Percentage = B/C	19.55%
E Total Direct Expenses for lodging / food services	698,087
F Administrative Percentage	19.55%
G Allocated Departmental Administration Expense = E*F	136,504

- (5) University overhead of 50.71% was applied to the sum of the direct expenses and the allocated departmental expenses.

EXAMPLE C. LONG-FORM UNIVERSITY
Unrelated Business Income—Driving Range
For the Year Ended July 31, 1995

<i>Line</i> REVENUES (per operating statement):	Total	Related Use	Unrelated Business Use
1 Allocation of Use		21.50%	78.50%
2 Ball Rental Income	\$400,000	\$86,000	\$314,000
3 Merchandise Sales	\$164,215		
4 Cost of Goods Sold	<u>\$74,215</u>		
5 Gross Margin on Sales	\$90,000	\$19,350	\$70,650
6 Misc Income	\$55,082	\$11,843	\$43,239
7 Total Revenue	<u>\$545,082</u>	<u>\$117,193</u>	<u>\$427,889</u>
 EXPENSES:			
Direct Expenses - Tier I (per operating statement):			
Driving Range Subdepartment:			
8 Salaries and Benefits	\$140,000	\$30,100	\$109,900
9 Supplies	\$30,000	\$6,450	\$23,550
10 Depreciation	\$9,709	\$2,087	\$7,622
11 Subtotal	<u>\$179,709</u>	<u>\$38,637</u>	<u>\$141,072</u>
 Allocated Departmental - Tier II:			
12 Department of Athletics Administration (from line 22)	\$18,353	\$3,946	\$14,407
13 Subtotal—Tier I and Tier II	<u>\$198,062</u>	<u>\$42,583</u>	<u>\$155,479</u>
 Allocated Institutional Indirect - Tier III:			
14 University Overhead Allocation (from line 37)	\$19,686	\$4,232	\$15,453
15 Total Expense	<u>\$217,748</u>	<u>\$46,816</u>	<u>\$170,932</u>
16 Net Income (line 7 - line 15)	<u>\$327,334</u>	<u>\$70,377</u>	<u>\$256,957</u>
 Calculation of Allocated Departmental Expenses:			
17 Athletic Dept. Expense (per operating statements)	\$16,355,244		
18 Athletic Dept. Central Admin	\$1,515,550		
19 Non-admin. Athletic Dept Expense	<u>\$14,839,694</u>		
20 Admin to Non-admin. rate (line 18 / line 19)	<u>10.21%</u>		
21 Subtotal - Direct Expenses (from line 11)	\$179,709		
22 Direct Allocation (line 20 * line 21)(to line 12)	<u>\$18,353</u>		
 Calculation of Institutional Indirect Allocation Rate:			
Auxiliary Enterprise Rates	Amount	On Campus Rate	
Depreciation:			
23 Buildings	\$621,471	0.55%	
24 Equipment	\$417	0.00%	
25 Improvements	\$222,438	0.20%	
26 Operation & Maintenance	\$3,803,136	3.38%	
27 General and Administrative	\$7,098,928	6.32%	
28 Departmental Administration	\$0	NA	
29 Sponsored Projects Admin.	\$0	NA	
30 Student Services	\$0	NA	
31 Library	\$0	NA	
32 MTDC - Auxiliaries	\$112,387,993	10.45%	
Source: Indirect Cost Study			
33 Total Departmental Expenses (from line 13)	\$198,062		
34 Less: Non-MTDC Items - Depr. (from line 10)	<u>(\$9,709)</u>		
35 Expenses Subject to Overhead	<u>\$188,353</u>		
36 University Overhead Rate for Auxiliaries (from line 32)	10.45%		
37 University Overhead Allocation (to line 14)	<u>\$19,686</u>		