



## PA State System of Higher Education Board of Governors

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Effective: July 1, 1996

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### ***POLICY 1996-03-A: DEFINING AUXILIARY ENTERPRISES AND ASSOCIATED COST ALLOCATION***

See Also:

Adopted: April 18, 1996  
Amended: July 12, 2018

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#### **A. Purpose**

Auxiliary enterprises are university operations that furnish goods or services to students, faculty, or staff, where a fee is charged directly to the users to cover the costs of providing the goods or services. This policy further defines auxiliary enterprises and provides direction regarding expense allocations and revenue sources, including associated fees.

#### **B. Definition**

**Auxiliary Enterprises:** Self-supporting operations of the university that exist to furnish a service to students, faculty, or staff, other institutional departments, or incidentally to the general public, and that charge a fee that is directly related to, although not necessarily equal to, the cost of the goods or services. The following must be designated as auxiliary enterprises:

- Residence halls.
- Food service operations.
- Student unions and student centers.
- Student recreational centers.

Other operations may be designated as auxiliary enterprises, as appropriate. For accounting purposes, health centers will not be reflected as auxiliary enterprises, but universities are not precluded from charging a fee directly to the users of health centers to cover the costs of providing these services.

**Life-Cycle Maintenance Requirements:** An annualized cost analysis that predicts and models the deterioration of building systems and includes the need for routine maintenance, component repair or replacement, and renovation and renewal over the facility's useful life. Planning, funding, and execution of the least-cost life-cycle maintenance requirements allows resources to be optimized over the life of the facility.

**C. Policy**

1. Auxiliary enterprises must be self-supporting.

The full cost of operations, including related costs of operating and maintaining auxiliary plant and of administration, must be covered with revenue generated by the enterprise, and not with tuition or appropriation revenue. Once an operation is deemed auxiliary in nature for financial statement purposes, the annual profitability of the operation must not be a factor for inclusion or exclusion as an auxiliary operation on the university's audited financial statements.

2. Universities must charge each auxiliary operation for its related direct and indirect costs, whether charged directly as expenses or allocated as a proportionate share of costs of other departments or units, including:
  - a. Personnel, including accounting, purchasing, information technology, maintenance and grounds, etc.
  - b. Supplies and services, including utilities, phone services, technology services, etc.
  - c. Capital expenditures.
  - d. Interest expense.
  - e. Annual debt principal payments.
  - f. Unfunded pension, postretirement healthcare, and compensated absences liabilities. (The annual associated expenses of the unfunded liabilities are excluded when determining whether or not the operation is self-sustaining.)
3. The allocation of indirect costs should be based upon best estimates of usage. If usage cannot reasonably be measured, the allocation should be based upon square footage, number of personnel, or another measure that best approximates usage.
4. Revenue generated from auxiliary operations, including interest income, shall be recorded as auxiliary revenue. Auxiliaries may charge related entities (e.g., student government associations, foundations) and the university's educational and general operations for the use of buildings or for other services rendered.
5. Fees charged shall include adequate funding for a life-cycle reserve in the amounts necessary to fund projected life-cycle maintenance requirements for capital renewal, replacement, repairs, and maintenance of the auxiliary facilities as required.
6. Construction of parking garages shall not be funded by tuition or appropriation revenue.

**D. Effective Date**

July 1, 1996.