



PA State System of Higher Education Board of Governors

Effective: July 1, 1996

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POLICY 1996-03-A: DEFINING AUXILIARY ENTERPRISES AND ~~ESTABLISHING FINANCIAL REPORTING~~ ~~REQUIREMENTS~~ ASSOCIATED COST ALLOCATION

See Also:

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

A. ~~Policy~~ 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.

~~An auxiliary enterprise is an operation that exists to furnish goods or services to students, faculty, or staff, and charges a fee directly to the users that is intended to cover the costs of providing the goods or services. The operation must be designed to be self-supporting and the application of the definition must be consistent from year to year. 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 on the university's audited financial statements. Activity related to residence halls, food service, student centers, and student recreational centers (as it relates to the building and its operating expenses) must be considered auxiliary enterprises. For accounting purposes, health centers will not be reflected as auxiliary enterprises; universities are not precluded from charging a fee directly to the users of health centers to cover the costs of providing these services.~~

B. ~~Procedures~~ 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.

- ~~1. Expenditures for all indirect costs must be allocated to the auxiliary enterprises. Such allocation may be based upon estimates of usage levels. Allocations of expenditures related to university-wide services, such as computer usage, telephone, central duplicating, postage, etc., shall be made to the extent considered practicable based on estimates or actual volume of usage.~~
- ~~2. Auxiliary enterprises will be viewed and operated as service centers. These service centers will have both direct costs (e.g., personnel) and indirect costs (e.g., purchasing, accounting services, grounds keeping, maintenance/custodial services) associated with their operation. These service centers will be required to fund these costs either by generating income as a result of their own function or by charging a fair and equitable fee for the use of auxiliary enterprise facilities.~~
- ~~3. All expenses associated with the operation of these service centers will be recorded as auxiliary enterprise activity for financial statement purposes. Revenue generated as a result of their own operation or from fees charged to related entities (e.g., student government associations, foundations) for the use of the building will be recorded directly as auxiliary enterprise activity. A charge to the university's educational and general budget for use of an auxiliary enterprise building for educational and general purposes (e.g., instruction) will be accounted for as a charge back for service.~~
- ~~4. Ownership of capital assets for auxiliary enterprises, as defined under the scope of this policy, will be recorded as university-owned assets on the university's books.~~

C. Effective Date Policy

~~July 1, 1996.~~

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.