

**Office of the Chancellor
Pennsylvania's State System of Higher Education
University Operations Procedure/Standard Number 2020-45**

**Educational and General, Auxiliary Enterprise,
and Associated Unrestricted Plant Fund
Definitions and Guiding Principles**



Approved by: _____ Date: June 22, 2020

Revised:

History:

The *University Success - System Redesign Budget Team* was established in 2019 to ensure that the System's budget process results in consistent application of terms, guidelines, and expectations by all universities to enable reliable, consistent, and realistic projections based on audited financial data and is used to predict changes in financial position over the years. While the team has finalized the standard budget definitions document (rolled out during the 2020-21 budget reporting cycle), during the refinement phase, it has become clear that further definition and guiding principles need to be developed and communicated for the various funds used.

Related Policies, Procedures, or Standards:

Board of Governors' Policy [1984-07-A](#): *System Reserve Allocation and Expenditure Criteria*.

Board of Governors' Policy [1996-03-A](#): *Defining Auxiliary Enterprises and Associated Cost Allocation*.

Board of Governors' Policy [2019-01](#): *University Financial Sustainability*.

System Procedure/Standard [2019-40](#): *University Financial Sustainability*.

Board of Governors' Policy [2000-02-A](#): *Capital Facilities Planning, Programming, and Funding*.

System Procedure/Standard [2011-01](#): *Capital Planning and Programming* (formerly titled *Facilities Manual*).

State System's [Facilities Manual](#).

Key words/Categories:

Finance, facilities, budget, accounting, physical plant, reporting

I. Introduction

To ensure that the System's budget and financial reporting processes result in consistent application of terms, guidelines, and expectations by all universities to produce reliable, consistent, and realistic projections based on audited financial data, the following definitions and guiding principles have been developed for the Educational and General (E&G), Auxiliary Enterprises (Auxiliary), and associated Plant funds (E&G and Auxiliary).

II. Definitions

E&G Fund (SAP Funds Application Codes 11-16; Excluding Code 14-Unfunded Liabilities)—The E&G fund should be used to account for transactions related to academic and instructional programs and their administration, essentially the non-auxiliary operations of the institution. The revenue primarily consists of:

- Student tuition and fees
- State appropriation
- Unrestricted grants and contracts
- Income on investments
- Sales and services of departments
- Miscellaneous revenue

Expenses of the E&G fund are recorded in functional and natural (minor object) classifications. The Statement of Revenues, Expenses, and Changes in Net Position reports expenses in the following functional classifications:

- Instruction
- Research
- Public service
- Academic support
- Student services
- Institutional support
- Operations of maintenance and plant
- Student Aid

E&G Plant Fund (SAP Funds Application Codes 61 and 65)—The E&G Plant fund should be maintained to account for non-auxiliary funds designated for the construction of capital projects (including capitalizable items such as information technology projects or scientific equipment), the acquisition of physical properties to be used for institutional purposes and funds set aside for lifecycle repairs and maintenance/renewal and replacement of institutional properties, as well as funds expended for such. The E&G Plant fund generally receives its funding from unrestricted gifts which the university intends to use for capital purposes, interest income earned on cash balances, and transfers in from the E&G fund.

Auxiliary Fund (SAP Funds Application Codes 21-29; Excluding Code 26-Unfunded Liabilities-Aux)—The Auxiliary fund should be maintained to account for the revenues and expenses of revenue-producing, self-supporting activities that furnish goods or services to students, faculty, or staff, other institutional departments, or incidentally to the general public where a fee is charged directly to the users to cover the costs of providing 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 and budgeting purposes, health centers will not be reflected as Auxiliary Enterprises.

Auxiliary Plant Fund (SAP Application Codes 63 and 67)—The Auxiliary Plant fund should be maintained to account for funds designated for the construction of capital projects (including capitalizable items such as information technology projects or scientific equipment), the acquisition of physical properties associated with Auxiliary Enterprises and funds set aside for lifecycle repairs and maintenance/renewal and replacement of Auxiliary Enterprises properties, as well as funds expended for such. The Auxiliary Plant fund generally receives its funding from capital gifts, interest income earned on cash balances, and transfers in from the Auxiliary fund.

Operating Expenses—Expenses that are routine in nature and regularly recur.

Lifecycle Repairs and Maintenance/Renewal and Replacement

Expenditures—Expenditures related to the nonroutine/nonrecurring maintenance, repair, or replacement of the facility components that wear out before the end of the useful life of the facility, up to and including the complete renovation of the facility or a major portion thereof. (Adapted from the State System’s *Facilities Manual*, Appendix VI-D-3). This definition has been modified for this procedure/standard, as nonroutine/nonrecurring lifecycle repairs and maintenance/renewal and replacement expenditures are typically recorded in Plant funds.

III. Guiding Principles

The following **guiding principles** apply:

- A. Effective immediately, transfers out from the E&G fund into the E&G Plant fund and out from the Auxiliary fund into the Auxiliary Plant fund should be made only for capital projects, and lifecycle repairs and maintenance/renewal and replacement. Operating expenses, including routine, recurring repairs and maintenance, must be paid from the E&G or Auxiliary fund. The general expectation is that once funds are transferred to a Plant fund, they will not be transferred back to an operating fund.
- B. Transfers from the E&G Plant fund to the E&G fund or from the Auxiliary Plant fund to the Auxiliary fund should be made only in instances where:
 - 1. Funds were previously transferred out from the E&G fund into the E&G Plant fund or Auxiliary fund into the Auxiliary Plant fund to create a reserve for future debt service payments and those payments are now due (the practice of transferring funds from the E&G fund to the E&G Plant fund and the Auxiliary fund to the Auxiliary Plant fund to create a reserve for future debt service payments should cease with the issuance of this document; reserves for future debt service payments should reside in fund 16 [E&G] and 25 [Auxiliary]).
 - 2. Funds are no longer designated for plant fund purposes, e.g., capital projects or acquisitions, as they are needed for operations.
- C. Routine/recurring operating expenses should not be paid from E&G Plant or Auxiliary Plant funds. In cases where funding erroneously resides in the E&G Plant or

Auxiliary Plant funds for operations or does not comply with the definitions in this document, it should be transferred back to the E&G or Auxiliary fund, effective with the issuance of this document, so that the operating expense can be paid from the E&G or Auxiliary fund.

- D. Loans (out to)/in from Auxiliary are permissible for periods of time when a loan is necessitated due to shortfalls in operations, in accordance with Board of Governors' Policies 1996-03-A: *Defining Auxiliary Enterprises and Associated Cost Allocation*, and 2019-01: *University Financial Sustainability*; and System Procedure/Standard 2019-40: *University Financial Sustainability*. Loans between funds should be recorded as Due to Other Funds or Due from Other Funds using the applicable Current or Noncurrent Account Code with the offset being Cash. For budget purposes, loans between funds will be reported via footnote since there is no impact on net asset balances.
- E. Transfer commitment items/general ledger accounts (801000 – 813530) should not be used to process chargebacks. All chargebacks should be processed using SAP established chargeback revenue and expense commitment items/general ledger accounts (820XXX, 830XXX, and 831XXX) or by direct charges to the natural expense code.

IV. Implementation

Upon approval of this procedure/standard, available balances that do not meet the definition of plant funds, as defined in this document, will be transferred to the E&G or Auxiliary fund, as appropriate, by the end of the fiscal year (June 30, 2021). Any noncapital projects in progress or that have been completed within the plant fund may continue to be accounted for in the plant fund. As that activity already in progress is completed, remaining balances should be moved back to the E&G or Auxiliary fund, as appropriate, or designated for a capital project and remain in the plant fund.

Adjustments required for compliance with this procedure/standard will be reported separately in financial reporting in fiscal year 2020-21, given that some of the available balances may not be known for projects that are still being completed after June 30, 2021.

V. Effective Date—Immediately.