

Auxiliary Enterprises – Classification and Operation

POLICIES

Issued: March 8, 2017
Responsible Official: Vice President for Finance and Administration
Responsible Offices: Auxiliary Support Services and Housing/Residential Live & Dining Services

Policy Statement

It is the policy of Austin Peay State University to establish educational business activities, or auxiliary enterprises, to provide goods and services that enhance, promote, or support its instructional, research, public service, and all other educational and support functions in order to meet the needs of the students, faculty, staff and members of the public participating in institutional events.

Purpose

The purpose of this policy is to provide uniformity and guidance in the classification and operation of auxiliary enterprises at the University.

Procedures

Educational Business Activity

1. Each educational business activity shall meet the following three conditions:
 - a. The activity is deemed to be an integral part in the fulfillment of the University's educational, research, public service, and campus support functions, and other educational and support activities, without regard to profit.
 - b. The activity is needed to provide an integral good or service at a reasonable price, on reasonable terms, and at a convenient location and time.
 - c. The activity is carried out for the primary benefit of the campus community but with sensitivity to the

total community.

2. Concept of Unrelated Activities

- a. The University must comply with applicable laws and regulations pertaining to such activities, and educational business activities not falling within the conditions established above may be unrelated business income activities and subject to unrelated business income tax.

Auxiliary Enterprise Operation

1. Role and Scope of an Auxiliary Enterprise Operation:

a. Definition of Auxiliary Enterprises

- (1) An auxiliary enterprise furnishes goods or services to students, faculty, or staff, and charges a fee directly related to, but not necessarily equal to, the cost of the goods or services.
- (2) The public may be served incidentally in some auxiliary enterprises.
- (3) They are essential elements in support of the education program, and conceptually should be regarded as self-supporting. Little or none of the revenue comes from educational and general (E&G) sources, but in the case of housing and food services, there may be a limited amount of sales to the University.
- (4) Other examples of auxiliary enterprises are college stores, rental facilities, institutionally operated vending services, recreational areas, and faculty clubs.
- (5) This definition has been approved by the Tennessee Higher Education Commission, the State Comptroller, and the State Department of Finance and Administration in the publication, Financial Reporting for Tennessee Public Colleges and Universities, with the following exceptions:
 - (a) Revenue and expenses of student centers (college unions), but not the auxiliaries

housed therein, are to be classified under the category of student services.

b. Pursuant to the foregoing, the following activities should be classified as auxiliary enterprises:

- (6) Housing, including dormitories, apartments, and all other housing.
- (7) Food Services.
- (8) College Stores, including bookstores, hobby shops, mini-markets, etc.
- (9) Vending Services, including food vending and other non-food vending.
- (10) Post Office operations.
- (11) Laundries, beauty shops, barber shops, etc.
- (12) Any other activity which meets the approved definition.
- (13) Student recreation centers subject to indebtedness.

b. Users of Auxiliary Enterprises

- (1) Auxiliary enterprises exist for the purposes of providing goods or services to students, faculty, and/or staff, and any goods or services provided to the public should only be incidental in nature.
 - (a) For example, student housing facilities are operated for the benefit of students, and occupancy should be limited to students and student housing personnel, provided that, on a space available basis, such housing may be provided to faculty or staff.
 - (b) In the case of food services, bookstores, etc., while non-students who are guests or who otherwise have business on the campus may be served, the University should not actively seek non-campus trade.

c. Concept of Auxiliary Enterprises as Self-Supporting

- (1) The goal for all auxiliary enterprises, both individually and cumulatively, is for revenues to at least equal expenditures and transfers.
 - (a) It is recognized that some auxiliary enterprises may have difficulty in providing necessary services at reasonable prices on a break-even basis, but justification for each such enterprise must be provided to the Board of Trustees (Board) through the annual operating budgets analysis.
- (2) All rate structures should be recommended and set on the basis of projected expenditures and transfers.

2. Purchasing of Goods and Services for Auxiliary Enterprises

a. General

- (1) Purchases for auxiliary enterprises generally fall into two major categories:
 - (a) Purchases for resale; and
 - (b) Purchases for consumption or use in the operation of the auxiliary enterprise.
 - Examples of purchases for consumption or use by the auxiliary enterprises are furnishings for dormitory rooms, general supplies, office supplies, etc.
 - Purchases for resale include items which are to be resold, including textbooks and other course related materials and supplies, and other miscellaneous items which are needed on a regular basis by the users of the enterprises.
- (2) Purchases for auxiliaries are subject to the provisions of APSU Policies 4:013-Contracts and 4:014-Purchasing.

3. Classification of Revenues and Expenditures for Auxiliary Enterprises

- a. All revenues and expenditures will be classified first under the appropriate specific auxiliary enterprise. Further details relative to appropriate classifications are provided below.
- b. Classification of Revenues: The source of funds is the primary determinant of revenue classification. Only nominal amounts may be reported as Other or Miscellaneous. With regard to the Federal Work Study Program (FWS), an amount equal to the federal share of FWS salary expenditures shall be reported as restricted revenue. Supplemental schedules must clearly identify both restricted and unrestricted revenues. On all applicable statements, restricted auxiliary revenue should be reported under auxiliary enterprises regardless of the source. Restricted auxiliary revenues should be reflected as auxiliary enterprises revenue rather than grants and in the same amount as the auxiliary enterprises restricted expenditures.
- c. Classification of Expenditures: Expenditures should basically be classified by activity, with breakdowns by object classification or grouping of objects. The following specific provisions shall be applicable to classifications of expenditures:
 - (1) Staff benefits and FWS expenditures should be reported by activity. In Athletics, the Grant-in-Aid classification should include scholarships, room and board, books, fees and other costs directly associated with individual student athletes.
 - (2) Where several activities are managed by one office, the managing office may be listed as a separate activity with object classifications shown. The last line of the operating expenditures shall show the allocation of these costs to the operating activities. The management of a group of activities may also be reported under one of the activities by detail object, with the appropriate allocation shown as the last item

under operating expenditures.

- (3) Operating expenditures for prorated plant costs may be shown as one line, or they may be shown in further breakdowns under the Plant Allocation heading. Extraordinary Maintenance costs may be listed separately under plant operations. However, shown, the Maintenance and Operation of Plant Costs must be clearly identifiable.
- (4) An Excess (Deficit) of Revenues over Expenditures sub-total before transfers must be included.
- (5) Transfers must be classified as Mandatory or Non-Mandatory, and detailed by the fund to which the transfer is made.
- (6) All direct costs will be charged to the appropriate activity. Where actual incurred costs apply to more than one activity, the costs will be allocated or prorated to each auxiliary enterprise. Salaries and wages will be utilized as the allocation base, unless otherwise designated. For example, vending and contracted food services must have the appropriate cost of the person(s) or activity which coordinates or manages them allocated as an expenditure. These are direct costs which are not replaced by institutional support allocations.

d. Allocation of Institutional Support to Auxiliaries:

- (1) Auxiliary enterprises shall be charged directly for the specific and specialized services or benefits they receive, whether the initial charge is in Institutional Support, Student Services, or some other functional area. For example, if an employee is directly responsible for the management of an Educational and General activity and an auxiliary enterprise activity, his or her salary and related expenses should be prorated.
- (2) Institutional Support functions which provide no benefit to auxiliary enterprises may not be

allocated, such as the chief academic officer, catalogs and bulletins, and graduation expenses.

- (3) All other institutional support costs shall be allocated on the basis of salaries and wages. Direct charges which are charged to auxiliaries should be broken down by object classification between salaries and wages and all other objects.
- (4) Institutional Support allocation should be a separate line item expenditure on supplemental reports.

e. Plant Costs Allocated to Auxiliaries:

- (1) Proportionate amounts of all Operation and Maintenance of Plant costs shall be allocated to Auxiliary Enterprises. The allocations shall be made on the basis of the most accurate information and the most reasonable basis in accordance with the following provisions.
- (2) A direct charge basis shall be used when the University maintains a work order or other costing system which records this information. The total of all costs incurred by the Maintenance and Operation of Physical Plant must be included in the costing system. Where only a portion of the costs is accounted for by direct job orders, the balance of the costs shall be prorated on the basis of square footage or on the basis of the direct charges which have been identified.
- (3) In the absence of accurate costing information, the Maintenance and Operation costs shall be allocated on a square footage basis. Where adjustments are made to any of the allocations, for example, dormitories which are not used in the summer, similar adjustments shall be calculated and recorded for Educational and General Facilities which may not have been in full use during all periods of the year. Due to the difficulty of establishing a reasonable basis for allocation, Care of Grounds costs may also be allocated on a square footage basis.

- (4) It is permissible to allocate some cost elements, such as Custodial Services and Maintenance and Repairs, on a direct charge basis and other costs such as Utilities on a square footage basis. The administrative expense of Maintenance and Operation must be allocated on the same basis that other direct services are allocated. Where a square footage basis is used, the administrative costs must be allocated on the basis of the relative direct charges made to auxiliaries. Any allocation basis other than direct charge of square footage must be approved by the President or designee.

f. Replacement of Equipment and Facilities

- (1) Any mandatory allocations for accumulating funds for the replacement of equipment and facilities must be made in accordance with the bond indenture or other binding external agreements. In financial reporting, these items shall be listed under Mandatory Transfers as transferred to Funds for Renewal and Replacement.
- (2) Non-Mandatory Transfers may be permitted, based upon the excess of revenues over expenditures and other transfers. Where a particular auxiliary or group of auxiliaries, such as dormitories, does not have a sufficient excess of revenues over expenditures and other transfers, Non-Mandatory Transfers to Renewals and Replacements are not permitted.

g. Debt Service

- (1) Mandatory Debt Service Requirements must be shown as transfers to Funds for the Retirement of Indebtedness in accordance with external binding agreements such as bond indentures and agreements with the Tennessee State School Bond Authority. Strict adherence to the absolute transfers required by these external agreements must be made. Where agreements require only that the earnings will be available for debt retirement but do not specify where deficiencies in Debt Services Requirements are to be generated

by the institution, the Mandatory Transfer may not include any amount in Excess of Revenues over Expenditures and other Transfers.

- (2) Other transfers to Retirement of Indebtedness will be based strictly upon the nature of the transaction. Only where funds to increase Debt Service Requirements are planned by the University to come from the auxiliary activity may Non-Mandatory Transfers to Debt Service be shown. Where funding for Retirement of Indebtedness is made from debt service fees assessed to all students from general funds or from other sources, the addition to Retirement of Indebtedness funds shall not be shown as an auxiliary transfer.

Revision Dates

APSU Policy 4:033 – Issued: March 8, 2017

Subject Areas:

Academic	Finance	General	Human Resources	Information Technology	Student Affairs
	<input checked="" type="checkbox"/>				

Approved

President: signature on file