

Auxiliary Enterprises (aka Educational Business Activities)

Operating Guidelines

**University Controller’s Office**

This manual is intended to provide assistance to USF department personnel. It does not replace government regulations.

**TABLE of CONTENTS**

1. [OBJECTIVE 2](#_bookmark0)
2. [DEFINITION OF AUXILIARY ENTERPRISE OPERATIONS 2](#_bookmark1)
3. [TYPES OF AUXILIARIES 2](#_bookmark2)
   1. [AUXILIARY OPERATIONS FOR STUDENTS/FACULTY/STAFF 2](#_bookmark3)
      1. [Academic Auxiliaries 2](#_bookmark4)
      2. [Non- Academic Auxiliaries 3](#_bookmark6)
   2. [AUXILIARY OPERATIONS FOR OTHER THAN STUDENTS/FACULTY/STAFF 3](#_bookmark7)
   3. [RESEARCH RECHARGE OPERATIONS 3](#_bookmark8)
   4. [SELF-SUPPORTING SERVICE ACTIVITIES](#_bookmark9) 3
4. [ESTABLISHMENT OF AUXILIARY ACTIVITIES 4](#_bookmark10)
5. [BUDGETING AND REPORTING](#_bookmark11) 4
6. [ACCOUNTING GUIDELINES 4](#_bookmark12)
   1. [RATE AND BILLING GUIDELINES 4](#_bookmark13)
   2. [COMPONENTS OF FEES CHARGED](#_bookmark14) 4
   3. [COMPONENTS OF COSTS 5](#_bookmark15)
      1. [Direct Costs 5](#_bookmark16)
      2. [Indirect Costs 5](#_bookmark17)
      3. [Unallowable Costs 5](#_bookmark18)
      4. [Income Tax](#_bookmark19) 5
   4. [FUND BALANCE MANAGEMENT](#_bookmark20) 5
7. [OPERATIONS 6](#_bookmark21)
8. [DEACTIVATION OF AUXILIARY ACTIVITIES 6](#_bookmark22)

[APPENDIX A – Additional References](#_bookmark23) 6

# Objective

The purpose of this manual is to define and provide guidelines for establishing and operating Auxiliary Enterprises (also known as Educational Business Activities), including reporting and accountability requirements at the University of South Florida.

# Definition of Auxiliary Enterprise Operations

An Auxiliary Operation is an entity that exists to furnish goods or services primarily to benefit students, faculty and staff, and that charges a fee directly related to, although not necessarily equal to, the cost of the goods or services.

Auxiliary Operations are managed as self-supporting activities through the fees they charge their customers for products or services rendered and may not obtain any support from the Educational and General Fund (E&G). At all times, auxiliary activities must support the mission of the University and enhance its functioning.

Revenue from other sources, such as gifts and grants, tuition, state subsidies and financial aid are governed by polices specific to their funding source.

# Types of Auxiliaries

Auxiliary operations are categorized by the type of goods and services they provide and the customers that are served. Following is a summary of the types of auxiliary operations at USF.

## Auxiliary Operations FOR Students/Faculty/Staff

## Academic Auxiliaries

### For-Credit Academic Activities

These activities facilitate and supplement the academic learning experience for students receiving credit towards a degree or certificate program. The revenues in this category represent fees charged to students above state-mandated tuition.

The funds generated by for-credit academic activities are restricted in that fees charged should approximate costs with reserves generally allowed for working capital needs and future capital outlays. Accumulating general reserves to guard against adverse market demand conditions or to fund new auxiliary opportunities is prohibited.

Examples of such auxiliary activities include:

* Market based and cost recovery courses
* Online and distance learning courses
* Material and laboratory or equipment use fees
* Study abroad programs

### Non-Credit Academic Activities

Non-credit academic auxiliaries provide education without university credit. The funds generated by non-credit academic activities are unrestricted in that fees charged may be used to support other activities at the unit/college level.

Examples of such auxiliary activities include:

* Conferences & seminars
* Professional education (e.g. review courses, licensure education, non-credit certificates)

## Non- Academic Auxiliaries

### Other Fee-Based Auxiliaries

Other fee-based activities primarily benefit students, faculty and staff in terms of costs, quality, timeliness or convenience. The funds generated by other fee-based activities are restricted in that fees charged should approximate costs with reserves generally allowed for working capital needs and future capital outlays.

Examples of such auxiliary activities include:

* + - * + Parking and transportation
        + Housing
        + Health, student and recreation centers

### Contractual/ Commission Auxiliary

Contractual/commission auxiliaries produce revenue by charging a contractually agreed base rate and/or commission for the rental of space or for providing other services. Rates charged are negotiated with the vendor and should not be significantly less than the fair market value of similar operations outside the university. Fund balance surpluses may be used to maintain or enhance existing or surrounding facilities.

Examples of such auxiliary activities include:

* + - * + Food services
        + Bookstore

## Auxiliary Operations for OTHER than Students/Faculty/Staff

These enterprises primarily provide services to external parties. They promote the mission of the university by providing students and/or faculty with opportunities to gain real-life, practical skills to reinforce their experience. These auxiliaries may also generate revenues to the University through sponsorship, promotions and marketing partnerships. The funds generated with services to external parties are unrestricted in that fees charged may be used to fund other activities at the unit/college level.

Examples of such auxiliary activities include:

* USF Botanical Gardens
* Consulting agreements

## Research Recharge Operations

Research Recharge Centers are operating units within the University that primarily provide goods and/or services to USF sponsored awards and incidentally to members of the community for a fee.

Research Recharge Centers differ from traditional auxiliaries in that they are primarily research-oriented and are therefore subject to federal regulations which require, among other things, that they operate on a break-even basis. The USF Research and Innovation Division of Sponsored Research provides guidance on the Research Recharge Center rates because of the special regulatory environment in which they operate.

The Comparative Medicine animal care auxiliary is an example of a USF Recharge Center.

## Self-Supporting Service Activities

These service activities provide a specific type of service to various University activities and units and are supported by cost-based charges to the benefiting activities and units. The activities in this category usually provide a service to other activities rather than individuals, although individuals and external users may be served in limited cases.

Information Technology is an example of a USF Self-Supporting Service Activity.

# Establishment of Auxiliary Activities

In establishing an auxiliary enterprise the University is mindful that the need for such goods or services exists and, if provided at a reasonable cost and at a convenient location, would enhance and support the University’s mission. The plan to operate the auxiliary enterprise must take into account the availability, price, and quality of any such goods or services offered by the local business community. The unit requesting a new auxiliary activity should submit an EBA Request Form, which is available at [UCO Accounting and Reporting Forms](http://www.usf.edu/business-finance/controller/accounting-reporting/gaforms.aspx). Once approved, a fund number will be assigned to the activity. The EBA request form should also be revised if an auxiliary fund’s activities have changed or expanded substantially from what is documented in the original form that is on file with the UCO.

# Budgeting and Reporting

The primary responsibility for managing and operating each auxiliary shall rest with the unit’s Director (or Chair). Each Director shall work with the unit’s Budget Manager to develop budgets and operating plans and shall monitor the financial health of the activity.

Annual operating budgets and forecasts set formal financial goals and should be consistent within the guidelines provided by the [RMA University Budgets and Reporting](http://www.usf.edu/business-finance/resource-management-analysis/ubr/index.aspx). Within the context of the overall University operating and capital budgeting processes, the Chief Financial Officer is responsible for reviewing and recommending the annual auxiliary budget to the President, which is ultimately approved by the Board of Trustees.

The VP Area Budget Directors (VPBD’s) are responsible for ensuring that annual budgets and forecasts are entered in the University’s financial system in a timely manner. The VPBD’s are also responsible for annually reviewing the financial results of the auxiliaries.

USF’s fiscal year runs from July 1 to June 30 and the budget process from February 1 to June 30th

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# Accounting Guidelines

## Rate and Billing Guidelines

* Rates established by auxiliaries must be nondiscriminatory; all users/customers are charged the same rate for the same level of goods or services purchased under similar circumstances.
* The use of special rates, such as for high-volume work or for less demanding applications, is allowed but such rates must be equally available to all users/customers and communicated as such. Supporting documentation justifying the rate development methodology for special rates should be retained.
* All users/customers should be billed for goods and services received at the time of product/service delivery.
* Each auxiliary enterprise is considered an individual business. All revenues and expenses associated with the operation of the auxiliary business should be assigned to that auxiliary’s fund number so that the financial performance of that individual enterprise can be documented.

## Components of Fees Charged

Fees charged for **all** individual auxiliary activities must incorporate the reimbursement of costs incurred in providing the services, including:

* Cost recovery of direct and indirect costs
* Reasonable working capital needs
* Reserves for expected capital outlay or to service debt

Fees charged for unrestricted activities may incorporate costs to:

* Fund new auxiliary opportunities at the unit/college level
* Fund discretionary E&G activities at the unit/college level (e.g. adjunct salaries, travel, materials and supplies, dues and subscriptions, etc.).

Fees charged should not be significantly less than the fair market value of similar operations outside the university.

## Components of Costs

Each auxiliary activity shall be accounted for as a self-sustaining enterprise whether the service is operated by the university or by a private contractor under the university’s supervision. As such, all costs incurred by the auxiliary operation should be “fully loaded” into the rates charged, thus ensuring that costs required to generate revenues are matched against the actual revenue earned. These costs include:

## Direct Costs

Direct costs are those that can be specifically identified with the auxiliary activity. Examples include overload salaries of professors teaching tuition-plus courses, materials and supplies used to deliver the service, etc. These support costs include salaries of administrative personnel, office supplies, property insurance, etc., directly involved in the operations of the auxiliary.

## Indirect Costs

Indirect costs are those costs which cannot be specifically identified with the unit of output or service, usually benefitting several activities. Examples of these indirect (shared) costs include salaries and related costs of administrative and finance personnel supporting entire units/colleges.

Units/colleges should allocate these shared costs to individual auxiliaries based on a methodology applied uniformly among **all** the activities. Examples of such methodologies include percentage of time dedicated to different activities or as a percentage of direct costs applied. This methodology should be documented and kept on record by the College.

In addition, an administrative overhead fee is charged to auxiliaries to address auxiliary use of university-wide resources, such as human resources, accounting, legal, etc. The Shared Services Fee for the 2017-2018 fiscal year is 6.0 % of total operating expenses (salary, OPS, operating expenses). Additional overhead fees may be charged within Vice Presidential organizations to recover related costs therein.

Note:Certain circumstances support overhead exemption. These situations are rare and are individually approved by the Chief Financial Officer.

## Unallowable Costs

According to State Regulations and [USF Policy](http://finance.fiu.edu/purchasing/Docs/FIU_Purchasing_Manual-Final-Updated_12_09_2008.pdf) there are certain goods which may not be purchased with auxiliary funds. Details are available at [USF Expenditure Guide](http://www.usf.edu/business-finance/purchasing/documents/expenditure-guide.pdf).

**Note:** [USF Research and Innovation Sponsored Research](http://www.usf.edu/research-innovation/sr/index.aspx) provides guidance on unallowable costs for recharge centers.

## Income Tax

The University is exempt from the federal corporate income tax because of its exempt purposes of education, research, and public service. However, in instances where the University receives revenue from activities unrelated to its exempt purposes, the revenue (referred to as Unrelated Business Income (UBI)), may be subject to tax. See [Unrelated Business Income Tax Guidance](http://www.usf.edu/business-finance/controller/payroll/taxubit.aspx) for definitions and applicability standards of unrelated activities.

## Fund Balance Management

Fund balances will be reviewed during the annual budget process by VPBMs. Restricted activity fund balances in excess of those for working capital and expected capital outlay require the development of a plan to use excess funds. Fund balances for unrestricted activities in excess of working capital and expected capital outlay may be used for the benefit of other unit/college operations.

## Credits, Refunds, Discounts and Journal Entries

## Occasionally there is need for the recording of credits, refunds, discounts, or adjustment journal entries. These actions must comply with University standards and policies and meet sound internal control policy. All of these actions require proper approval in accordance with USF Procedures. Find more information on the[Online Business Processes](http://www.usf.edu/businessprocesses)web site.

## Outstanding Accounts Receivable

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# Colleges, departments, and units that have auxiliary funds have the responsibility to formally monitor all accounts receivable in a timely manner, pursue collection of outstanding accounts receivable, and reconcile the auxiliary in a timely manner in accordance with University standards. In accordance with effective internal control procedures and established accounting processes as well as University regulations and supported by Standard practice 4-01-055 which states "The Universities have the authority to write off uncollectable accounts regardless of the amount", commercial auxiliaries at USF are tasked with review of accounts receivable and the write-off of uncollectible AR. Write-off requests should be sent by email in Excel spreadsheet format, with all necessary supporting documentation, to [Derek McKinney](mailto:dmckinney@usf.edu) (Manager, UCO Accounts Receivable Office). Find more detailed information on the [Online Business Processes](http://www.usf.edu/businessprocesses) searching the phrase “AR write off”.

# Operations

Auxiliary activities should have written policies and procedures which guide the day-to-day operations, document the rate development methodology or other noted information about the activity and direct its business processes.

Auxiliary departmental policies and procedures must be in compliance with University policies and procedures and those expressed in this manual. Where differences exist, the University’s policies and procedures shall take precedence.

USF has established an Auxiliary Workgroup to leverage university resources and share best practices. The workgroup meets monthly and often included representation from UCO and other central USF offices. Participation in this group is voluntary but highly encouraged.

# Deactivation of Auxiliary Activities

Colleges, departments, and units that have auxiliary funds that become dormant have the responsibility to request the inactivation of the funds from the UCO. This follows sound business practice and mitigates the possibility of fraud. Auxiliary funds which have been inactive for 12 months may be subject to inactivation. Existing balances (positive or negative) in the inactivated auxiliary fund must be zeroed-out and should be absorbed by the unit/college’s reserves. Note: Remaining auxiliary funds can only be transferred to other auxiliary funds.

In limited situations, the unit may request to re-use an auxiliary fund number. The Controller’s Office will approve such a request as long as the existing balance of the auxiliary fund has been zeroed-out and there are no revenues or expenses in the past two fiscal years. This will provide adequate segregation in history between one auxiliary activity and another.

# APPENDIX A – Additional References

[Florida Statute 1011.47 "Auxiliary enterprises; contracts, grants, and donations."](http://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&URL=1000-1099/1011/Sections/1011.47.html)

[Florida Board of Governors Regulation 9.013 Auxiliary Operations](http://www.flbog.edu/documents_regulations/regulations/9_013_Auxiliary%20Operations.pdf)

[NACUBO Advisory 1999-2 Accounting and Reporting for Auxiliary, Auxiliary-Other, and Other Self-Supporting Activities](http://www.nacubo.org/Business_and_Policy_Areas/Accounting/Advisory_Reports/Advisory_Report_1999-2_Accounting_and_Reporting_for_Auxiliary_Auxiliary-Other_and_Other_Self-supporting_Activities.html)

[University Controller's Office](http://www.usf.edu/business-finance/controller/index.aspx)

[UCO Purchasing Service Record Retention](http://www.usf.edu/business-finance/purchasing/staff-procedures/records-retention/index.aspx)