



Minnesota State Colleges and Universities System Procedures Chapter 7 – General Finance Provisions

Procedures 7.3.2 Auxiliary Operations

Part 1. Purpose

To describe the requirements and recommended practices for auxiliary operations.

Part 2. Definitions

Auxiliary Enterprises

Types of operations meeting the definition of enterprise fund activities.

Auxiliary enterprises are vital components of the total academic experience, and efficient management of these enterprises is an important determinant of student satisfaction and the financial health of the college or university.

In the Minnesota State Colleges and Universities accounting system, auxiliary enterprises are generally designated by the Enterprise (ENT) or Revenue Fund appropriations. Auxiliary enterprises may include student housing, food services, health services, wellness centers, retail sales (including the retail operations of the student centers and bookstore sales), student Perkins loan programs, and parking. For purposes of this procedure, auxiliary enterprises include activities operated by a college or university and activities obtained through contracted services.

Enterprise funds

The following Governmental Accounting Standards Board definition of enterprise funds is incorporated: funds used “to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and /or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.”

Revenue fund

The statutorily-established, restricted enterprise fund for use in issuing bonds, managing bond financing, and governing operations of certain revenue-generating facilities at Minnesota State Colleges and Universities.

Part 3. Requirements and Recommended Practices

Subpart A. Allowable auxiliary enterprises

All auxiliary enterprises must be integral to the fulfillment of the instructional, research, or public service missions of the college or university; or must meet one of the other four criteria specified in System Procedure 7.6.1 Competition with the Private Sector. An auxiliary enterprise is allowable only if:

1. there are compelling reasons of economic efficiency to do so;
2. the project or service is unavailable elsewhere in the community;
3. providing the product or service is a major convenience to the campus community or to members of the public participating in institutional activities; or
4. offering the product or service is of major importance to maintaining the quality of the college or university.

Subpart B. Cost recovery

Prices and rates should be established to recover full costs. The president or the president's designee may determine that other specified financial resources will be used to subsidize an auxiliary enterprise. The subsidy will be recorded in the accounting system and addressed in the multi-year financial plan. The president or designee may also set prices in excess of those necessary to recover full cost in order to generate resources for activities that benefit students or promote the long-term stewardship of an asset.

Subpart C. Institutional procedures

Each college or university shall develop procedures to govern the operation of its auxiliary enterprises. These procedures must be in compliance with Board Policy 2.3 Student Involvement in Decision Making, and System Procedure 2.3.1 Student Involvement in Decision Making. Institutional procedures must include budgeting and pricing practices and a process to determine the use of expendable net position. Pricing and rates must be established in a manner that considers equity among students and customers. Excess cash must be invested in accordance with Board Policy 7.5 Financial Institutions and Investments.

Subpart D. Revenue and loans

Generally, revenues are to be expended for the auxiliary enterprise for which they were generated. Any subsidizing of one auxiliary enterprise by another auxiliary enterprise or by another fund must be approved by the president or the president's designee, recorded in the accounting system, and documented with a letter to the file regarding the

circumstances. The Revenue Fund is subject to additional approval and reporting requirements as provided by Board Procedure 7.3.5 Revenue Fund Management.

All loans involving auxiliary enterprises must be approved by the president or designee and recorded as a loan in the accounting system. A written agreement is required for a loan and must include a defined time period for repayment. Excess funds must be invested in accordance with Board Policy 7.5 Financial Institutions and Investments.

Part 4. Management Expectations

The following management expectations apply to each auxiliary enterprise activity with total annual revenues for the preceding fiscal year in excess of \$100,000.

Subpart A. Multi-year planning

Multi-year budget and program planning is essential to assure programmatic stability, fiscal soundness, and funding equity among students or customers. The planning may include, but not be limited to, current and future years' projected profit and loss statements, based on prior-year performance and assumptions about future years.

Subpart B. Fund balance

Colleges and universities shall have a review process and multi-year financial plan in place to ensure that adequate, but not excessive, fund balance and designated reserves are established and maintained.

1. It is recommended that fund balance designated as reserves equal three months of the prior year's average monthly operating expenses (excluding depreciation and including cost of goods sold).
2. Notwithstanding item 1 above, any auxiliary enterprise either financed or related to revenue bond-supported activities must establish reserves in accordance with all applicable bond covenants and fiscal requirements.
3. Any fund balance accumulation in excess of the levels recommended in items 1 and 2 above must be clearly linked to specific programming and operating needs, such as student scholarships, establishing a quasi-endowment, planned capital expenses (including deferred maintenance), or reduction of fees and charges in the next year's operating budget; and must be reviewed and approved annually by the president or the president's designee.

Part 5. Indirect Costs/Chargebacks

Auxiliary enterprise operations must be charged direct costs. Indirect costs must be allocated and may be charged to auxiliary enterprise operations as provided in System Procedure 7.3.4 Cost Allocation, and related guidelines.

Part 6. Compliance

Colleges and universities shall ensure the programmatic and fiscal strength of their auxiliary enterprises and maintaining a written multi-year financial plan.

System administration will monitor the fiscal soundness of auxiliary enterprises through budgetary reviews.

Part 8. Revenue Fund

This procedure must be applied in coordination with Procedure 7.3.5 Revenue Fund Management.

Date of Adoption: 01/18/02

Date of Implementation: 01/18/02

Date of Last Review: 10/31/16

Date & Subject of Amendments:

10/31/16 - Eliminated Part 1 Authority. Eliminated subpart B Annual Financial Statements under Part 5 Management Expectations. Other wording and formatting changes throughout for clarity and consistency with other policy and procedures.

5/18/11 - Part 3, added definition of "Revenue Fund or the Fund" and amended definition of "Auxiliary Enterprise". Part 4, subpart B, clarified that subsidies for auxiliary enterprises must be recorded in the accounting system. Part 5, updated management expectations for auxiliary enterprises. Added part 8, "Revenue Fund", to direct reader to procedure 7.3.5, Revenue Fund Management, for more information on those enterprises.

07/09/09 - Amended Part 3, cleaned up language in second paragraph of "Auxiliary Enterprises." Amended Part 5, Subpart C from "Retained Earnings" to "Net Assets."