

Auxiliary Enterprise Indirect Cost Allocation

Section: Auxiliary Enterprises and Other Activities
Title: Auxiliary Enterprise Indirect Cost Allocation

Number: 15.105

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POLICY

.100 POLICY STATEMENT

The State Board of Higher Education believes it is critical that management have accurate information regarding the revenue and costs associated with major operating units within OUS institutions in order to make sound fiscal management decisions.

It is OUS policy that auxiliary enterprise activities be self-supporting, generating sufficient operating revenues to cover operating expenses, including direct expenses and the allocable portion of indirect costs borne by other units of the university. The allocation of indirect costs should be recorded within the accounting records of the institution.

Each OUS institution will develop and implement an indirect cost allocation policy and plan for allocating the applicable portion of the institution's indirect costs to its auxiliary enterprises.

.110 POLICY RATIONALE

The purpose of this policy is to:

- provide management information through accurate costing of auxiliary activities.
- provide for reimbursement between budgeted operations and auxiliary enterprises, or within auxiliary enterprises, for costs incurred by one unit, which benefit one or more other unit.
- ensure consistency at a high level between each university's indirect cost allocation policy. In particular, each university's policy should incorporate the principles contained in the sections "Guidelines for Developing Indirect Cost Allocation Methods", "Indirect Costs to be Allocated", "Indirect Cost Recovery Limitation", and "Accounting Issues."
- ensure consistency between universities in the accounting for the allocation of indirect costs.

.120 AUTHORITY

The basis for this policy is provided in the following:

- [ORS 351.085 - Duties and Powers of Chancellor](#)
- [OAR 580-040-0005 - Delegation and Assignment of Responsibility](#)
- [IMD 6.001 - Finance and Business Affairs Accounting Policies - Assignment of Responsibility](#)
- [IMD 6.500 - Fiscal Management of Auxiliary Enterprises and Other Self-Liquidating Activities](#)
- [NACUBO Financial Accounting and Reporting Manual, Section 342.20 C2003](#)

.130 APPROVAL AND EFFECTIVE DATE OF POLICY

Approved by the Controller on December 20, 2005. This policy is to be phased in and fully implemented no later than July 1, 2007, to allow for planning and rate adjustments.

.140 KNOWLEDGE OF THIS POLICY

All Chancellor's Office and institutional personnel with financial oversight responsibilities, auxiliary enterprise management and related responsibilities should be knowledgeable of this policy.

.150 DEFINITIONS

Auxiliary enterprise – exists to furnish goods or provide services to students, faculty, staff, other institutional departments, or incidentally to the general public. Fees charged relate directly to the cost of the goods or services. The distinguishing characteristic of an auxiliary enterprise is that it is managed as an essentially self-supporting activity. Examples are housing facilities, food services, student centers, intercollegiate athletics, bookstores, parking, educational conference centers, vending, and student health services.

Direct costs – costs of producing goods and services, which can be readily identified with a specific activity. These costs include salaries and benefits, supplies and services, and depreciation. For indentured activities, direct costs also include debt interest payments.

Indirect costs – costs generally applicable to an auxiliary enterprise that cannot be charged directly without effort disproportionate to the benefits received. Typically these costs benefit more than one

function or organization. Examples of these costs may include utilities, building maintenance, and central campus administrative services.

.160 RESPONSIBILITIES

The Vice Chancellor for Finance and Administration is responsible for System fiscal policy, including the Auxiliary Enterprise Indirect Cost Allocation policy.

The Vice President for Finance and Administration at each institution is responsible for developing campus policies and cost allocation plans for indirect costs charged to auxiliary enterprises consistent with this policy.

.170 GUIDELINES FOR DEVELOPING INDIRECT COSTS ALLOCATION METHODS

Allocation of indirect costs should be based on a process that is reasonable relative to the activity and the related costs. OUS institutions will each develop their own methodologies for allocating indirect costs within the guiding principles listed below:

- Reasonable – costs which are applicable to the overall operation of the activity
- Properly allocable – costs are allocated in accordance with the relative benefits received by the auxiliary enterprise
- Simple and easy to understand
- Auditable – recalculable based on documented principles and procedures
- Objective – Based on relevant and reliable financial and other information
- Applied consistently within each campus
- A single rate or multiple rates may be used based on the cost factors involved. If multiple rates are used for the same service, the costs of the service should be allocated only once. For example, an auxiliary enterprise with a high dollar volume of expenditures and only a few transactions may have a different rate for allocating central office accounts payable costs than an auxiliary with low dollar volume and many transactions.
- A process for handling rate changes will be included as a part of each institution's cost allocation plan.
- Allocation rates must be reviewed and evaluated biennially or more frequently if warranted or desired.
- Rates may be based on analysis of costs over multiple years to smooth trends.
- The development of allocation methodologies must include consideration of the impact on other indirect cost recoveries to help ensure continued compliance with federal costing regulations.

The appendix provides alternative allocation suggestions for various categories of indirect costs. These include commonly used allocation methods/bases for allocation, but any reasonable, accepted method may be used.

.180 INDIRECT COSTS TO BE ALLOCATED

Significant indirect costs that benefit auxiliary enterprises should be reviewed and analyzed in developing the cost allocation plan. Generally, all indirect costs should be allocated if the accounting

benefit of allocating the indirect cost outweighs the related accounting effort and cost. The institution should document the reasons for excluding any significant indirect costs.

The following are examples of services that, if provided by one unit, organization or activity to another, would usually be classified as an indirect cost for allocation purposes. The following list is not exhaustive and does not preclude institutions from identifying other services being provided between activities: building use, physical plant operations and maintenance, custodial services, utilities, support services, institutional support, administration, business affairs services, computing/information services, risk management services, human resources, communications, purchasing, inventory control, community relations, and public safety.

Allocations of budgeted operations costs may be offset with unrecovered costs incurred by an auxiliary enterprise on behalf of budgeted operations. If a cost allocation plan incorporates such exchanges of value, they should be documented.

.190 INDIRECT COSTS RECOVERY LIMITATION

Indirect cost recovery rates are limited to no more than the full costs of the activity, inclusive of direct and indirect costs.

.200 ACCOUNTING ISSUES

Charging of Indirect Costs to Auxiliary Enterprises

Objectives – Charging of Indirect Costs:

1. At each university, each auxiliary enterprise should be charged its computed share of indirect costs.
2. Indirect costs to an auxiliary enterprise are considered expenses, and are recorded as an expense in the auxiliary enterprise funds. The account code(s) must be specific to indirect cost charges and not confused with other types of expenses such as salaries and wages, OPE, other services and supplies, etc.
3. Indirect costs to an auxiliary enterprise should be recorded at least quarterly.
4. The recovery of the indirect costs should be recorded in the budgeted operating funds (fund type 11).
5. The recovery of indirect costs is considered a reduction of expense and not a revenue.

Process – Recording of Indirect Costs:

1. Indirect cost charges will be recorded by each auxiliary enterprise, at a minimum, at the fund type level II:

Fund Type
21 - Housing
22 - Student Centers/Activities
23 - Intercollegiate Activities

24 - Health Services
25 - Parking
26 - Bookstores
27 - Other Rentals
29 - Other Auxiliaries

2. Indirect cost charges will be recorded in the auxiliary enterprises with the following account codes:

Account Code
28201 - Admin & Support Service Charge
28202 - Building Use Overhead Charge
28203 - Oper & Maint of Physical Plant
28204 - General Admin Overhead Charge

3. Indirect cost charges will be recorded in the auxiliary enterprises at least quarterly.
4. Recovery of the indirect cost charges will be credited to a fund type 11 – budgeted operations fund at the university.
5. Recovery of the indirect cost charges to the institution will be credited to a fund type 11 – budgeted operations using the following account code:

Account Code
79390 - Admin Services Reimbursement

.690 CONTACT INFORMATION

Direct questions about this policy to the following offices:

Subject	Contact
General questions from institutional personnel	Institution Office of Business Affairs
General questions from institutional central administration and Chancellor's Office personnel	Chancellor's Office Controller's Division

.695 HISTORY

Policy Last Updated: 12/20/05

APPENDIX

.710 OPTIONAL METHODS OF COST ALLOCATION

Indirect Costs

(Extracted from Minnesota State Colleges & Universities Board of Trustees documents)

Depreciation

Square Footage

Buildings and Building Equipment (HVAC)

% of Total Budget

Utilities

% of Total Square Footage

% of Total Budget

Use studies

Executive Administration (President / V. P.s)

% of Total Budget

% of Total Compensation

% of Total Expenditures

Credit Hours/FYE/Student Headcount

Number of Employees Served by HEB Fund Code

Human Resources \ Payroll

Number of Employees Served by HEB Fund Code

Total Employee "Pays" (head count)

% of Total Compensation

% of Total Budget

% of Total Expenditures

Time Studies

Other Administrative

% of Total Budget

of documents processed

Time Studies

Physical Plant / Grounds

Total Campus Building Square Footage
% of Total Budget
% of Total Expenditures

Security / Public Safety

Total Campus Building Square Footage
% of Total Budget
% of Total Expenditures

Student Services

Full Year Equivalent
Total head count
Total Credit Hours + CEUs
% of Total Expenditures

Marketing

Total Campus Building Square Footage
% of Total Budget
Credit Hours/FYE/Student Headcount
% of Total Expenditures

Academic Support

Full Year Equivalent
Total student head count
Total Credit Hours + CEUs
% of Total Expenditures

An additional source of information for the entire subject of cost accounting for colleges and universities is: *Cost Accounting in Higher Education, Simplified Macro- and Micro Costing Techniques*, published by the National Association of College and University Business Officers.