



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

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### Procedures 7.3.2 Auxiliary Operations

**Part 1. Authority.** Board Policy 7.3, Authority, delegates to the chancellor authority to develop procedures to implement this policy.

**Part 2. Purpose.** Auxiliary enterprises are a significant part of the colleges and universities' financial affairs. They are vital components of the total academic experience, and their proper and efficient management is an important determinant of student satisfaction.

#### Part 3. Definitions

**Enterprise Funds:** The Governmental Accounting Standards Board defines enterprise funds as those funds used "to account for operations (a) that are 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."

**Auxiliary Enterprises:** Within the Minnesota State Colleges and Universities the term "auxiliary enterprises" is used at various times to refer to types of operations meeting the definition of enterprises fund activities.

In the Minnesota State Colleges and Universities accounting system, "auxiliary enterprises" are generally designated by ENT appropriation or Revenue Fund appropriations and are largely limited to housing services, food services, retail sales (including the retail operations of the student centers and bookstore sales), loan programs and parking.

#### Part 4. Requirements and Recommended Practices

**Subpart A. Allowable Auxiliary Enterprises.** All auxiliary enterprises must be integral to the fulfillment of the college or university's instructional, research or public service missions 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 institution.

**Subpart B. Cost Recovery.** Prices and rates should be established to recover full costs. The president may determine that specified other resources will be used to subsidize the enterprise. The president may also set prices in excess of those necessary to recover full cost in order to generate resources for student scholarships or activities the otherwise benefit students.

**Subpart C. Institutional Procedures.** Each institution shall develop procedures to govern the operation of its auxiliary enterprises. These procedures shall be in compliance with Board Policy 2.3, Student Involvement in Decision Making, and System Procedure 2.3.1, Student Involvement in Decision Making. It is recommended that institutional procedures include budgeting and pricing practices and a process to determine uses of any excess balances. Pricing/rates should be established in a manner that considers funding equity among successive cohorts of students/customers.

**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, recorded in the accounting system and documented with a letter to the file regarding the circumstances.

All inter-program loans, including loans to general fund and special revenue fund supported activities, shall be approved by the president 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 shall be invested in accordance with Board Policy 7.5, Financial Institutions and Investments.

**Part 5. Additional Management Expectations.** The following additional management expectations apply to student fee-funded auxiliary enterprises. These additional management expectations apply to any enterprise that has an annual activity level in excess of \$50,000, unless special circumstances apply.

**Subpart A. Additional Management Expectations.** Multiple year budget and program planning is essential to assure programmatic stability, fiscal soundness and funding equity among successive cohorts of students/customers.

**Subpart B. Generally Accepted Accounting Principles.** The use of generally accepted accounting principles is expected for effective fiscal management in order to ensure that all revenues and expenses are recognized and matched in the appropriate periods, that liabilities are fully recognized and that assets and their impairment are fully considered.

**Subpart C. Net Assets.** Colleges and universities shall have a review process and multi-year plan in place to ensure that adequate but not excessive net assets and designated reserves are established and maintained.

1. It is recommended that net assets designated as reserves equal 30% of the prior year's operating expenses except for enterprises whose primary revenue source is student fees. Any net assets accumulation exceeding 30% of the prior year's operating expenses must be approved by the president.
2. It is recommended that net assets designated as reserves equal 15% of the prior year's operating expenses for auxiliary enterprises primarily funded by student fees. Any net assets accumulation exceeding 15% of the prior year's operating expenses for auxiliary enterprises primarily funded by student fees must be approved by the president.
3. Notwithstanding 1 and 2 above, any auxiliary enterprise related to bond supported activities shall establish reserves in accordance with all applicable bond covenants.
4. Any net assets accumulations in excess of the levels recommended in 1-3 above, must be clearly linked to specific programming and operating needs, such as student scholarships, establishing a quasi-endowment, or planned capital expenditures.
5. Except as provided in 4., above, funds in excess of recommended levels should be used to reduce fees and charges in the next year's operating budget, or where appropriate, to address rate variation expected to occur over the next several operating budgets.

**Part 6. Indirect Costs/Chargebacks.** Auxiliary enterprise operations shall be allocated and may be charged for both direct and indirect costs as provided in System Procedure 7.3.4, Cost Allocation, and related guidelines.

**Part 7. Compliance.** Colleges and universities are responsible for ensuring the programmatic and fiscal soundness of their auxiliary enterprises and maintaining a written multi-year finance/business plan.

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

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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.”