

Portland State University
Auxiliary Funds and Other Self Support Funds including Designated Operating Funds
Indirect Cost Allocation Policy

Policy Issued: May 29, 2007
Effective Date: July 1, 2007
Supersedes: None- New Policy

POLICY

Policy Statement
Policy Rationale
Authority
Issuance and Effective Date of Policy
Knowledge of this Policy
Definitions
Responsibilities
Indirect Costs to be Allocated
Indirect Cost Recovery Limitation
Indirect Cost Allocation Method
Accounting Issues
Policy Updates
Contact Information

POLICY

POLICY STATEMENT

This policy sets forth a directive to allocate indirect costs of PSU's General Fund (001100) to PSU's Auxiliary Enterprise Funds, Fund types 21 through 29, Continuing Education Self Support Funds and Service Funds within Fund Types 11, 12 and 13. Prior to July 1, 2007 PSU has charged General Fund Indirect Costs to University service funds, its self-support educational funds, some auxiliaries and its research funds. The policy provides a consistent method to charge General Fund Indirect Costs to all University Service Funds, Self Support Educational Funds, and to all Auxiliary Funds. The policy is in compliance with OUS Fiscal Policy Number 15.105 which states the following, "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." It is also in compliance with OUS Fiscal Policy 05.712, "Accounting for Designated Operating Funds" which requires that "each Designated Operating Fund should be allocated its computed share of indirect costs." Charges to Research Funds are already mandated by Federal Costing Regulations.

POLICY RATIONALE

The purpose of this policy is to:

- “provide management information through accurate costing of auxiliary activities”¹ and other self-support Funds
- to provide for reimbursement of expenses from the General Fund that support auxiliary enterprises and self-support funds. The General Fund incurs indirect costs for purposes common to all activities of the University including its own general education programs, the University’s service funds, its auxiliary activities, and its research activities.
- to ensure consistency of this policy across all funds affected that PSU’s General Fund incurs indirect costs for
- to ensure compliance with OUS Fiscal Policy number 15.105, “Auxiliary Enterprise Indirect Cost Allocation”
- to ensure compliance with OUS fiscal Policy number 05.712, “Accounting for Designated Operating Funds”

AUTHORITY

The basis for this policy is provided in the following:

- OUS Fiscal Policy Number: 15.105 Auxiliary Enterprise Indirect Cost Allocation
- 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

ISSUANCE AND EFFECTIVE DATE OF POLICY

This policy was issued on May 29, 2007 by a University Committee representing auxiliary departments, self support units and Finance and Administration, with final approval by PSU’s Vice President of Finance and Administration. The policy will be implemented on July 1, 2007.

KNOWLEDGE OF THIS POLICY

All Finance and Administration, Business Affairs and auxiliary and self support departmental institutional personnel with financial oversight responsibilities or management should be knowledgeable of this policy.

DEFINITIONS

Auxiliary Enterprise: Operations that charge a fee to provide goods and services to students, faculty, staff, or in some cases to the general public. They are managed as self-supporting activities through the generation of their own revenues. At PSU they include housing, food services, student centers, athletics, parking, student health services, conference centers and some others. The auxiliary funds reside in Fund Types 21 through 29 in Banner which are called Auxiliary Enterprise.

Self-Support Enterprise: Operations that charge a fee to provide services to students, faculty and staff. They are managed as a self-supporting activity through the generation of their own revenues. They include Continuing Education Activities and services such as telephone and communications and some other funds. Some of these funds reside in Fund Type 11 and have fund numbers greater than 001100. The others reside in Fund Type 12 and 13 in Banner and are called Designated Operations and Service Departments.

Direct Costs: These costs are expenses that can be “readily identified with a special activity. These costs include salaries and benefits, supplies and services, and depreciation. For indentured activities, direct costs also include debt interest payments.”¹

Indirect Costs: These costs (or administrative overhead expenses) are defined as costs that cannot be directly associated with an activity and therefore not directly charged to the activity, yet they provide a benefit to activities. They include, but are not limited to the following: Finance and business Services (e.g. Internal Audit, Budgeting, Accounting, Purchasing and Contracts, Cashiering and Student Accounts Management), Human Resources (Payroll, recruitment and Hiring, Classification Reviews, and Benefits Administration), Computing Services, Campus Security, Community Relations, Custodial and Plant Operations.

Reserve Fund: A fund that is set aside for money that is designated for a special purpose.

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 is responsible for developing campus policies and cost allocation plans for indirect costs charged to auxiliary enterprises consistent with OUS Policy 15.105 and to its self support operations consistent with OUS Policy 05.712.

INDIRECT COSTS TO BE ALLOCATED

PSU Indirect Costs to be allocated include expenses incurred in Fund 001100 that provide administrative benefits to the University. They include, but are not limited to Admissions, Affirmative Action, Business Affairs, Facilities services (electrical maintenance, environmental services, landscape maintenance, locksmith, mail, utilities and many others), Campus Security, Development, Career Center operations, Government relations, Human resources, New student Programs, Office of Information Services, Ombudsman’s Office, the President’s Office, Finance and Administration and others. The costs to be allocated will not include any direct expenses already allocated to the affected funds. The detail of the specific costs may be found in two

studies to support the Cost Allocation Method. One study shows the percentage of these administrative overhead costs incurred by Fund Type as a percentage of the fund type's expenses based on the number of fiscal transactions for a recent fiscal period. Another study uses the University's Facilities and Administrative Cost Rate Proposal as a basis to support the Cost Allocation Method.

INDIRECT COST RECOVERY LIMITATION

PSU's indirect cost recovery rates for each fund type will be limited to the lesser of the percentage of the administrative overhead costs incurred by each fund type in the two studies. It may not exceed the full cost of the fund type and it may not cause a net operating loss during the current fiscal year, or put the fund type in jeopardy for future operations as determined by PSU Administration. If a fund was negative it would be possible that funding would have to be borrowed as a loan from the General Fund to bring it back to a positive balance.

INDIRECT COST ALLOCATION METHOD:

The total expenses of each fund to receive administrative overhead costs will incur a monthly charge based on a percentage of expenses as indicated below.

SELF SUPPORT FUNDS AND SERVICE FUNDS: For Fund Type 11 (Self Support- Continuing Education Funds for credit) and Fund Type 12 (Self Support Funds including Continuing Education Funds non-credit that roll up to the following base funds: 050000, 050001, 055000, 057000, and 058000, but not including 058500- Converted Fixed Price Index Funds) the current rate of 12 % will be charged until another update to the policy is made. These funds cannot support the higher percentages found in the study and operate on a profitable basis. Service Funds, Fund Type 13 will not be charged at this time. Their revenue is mainly derived from charges to Education and General Funds and charges to other fund types. A charge to them would be passed on to the Education and General Fund, thus negating the purpose of the charge.

STUDENT GROUPS/ATHLETICS: Fund Types 22 (Student Center Activities) and 23 Athletics will be charged a total of 1 % for year one, 2% for year two, and continue on with a 1% increase each succeeding year until a 5% cap is reached. This is the General and Administrative overhead percentage that is supported by the "Facilities and Administrative Cost Rate Proposal" study referred to above. It does not include the rate for facilities administration. These operations cannot support the higher percentage found in the study with facilities administration or the 12% that is currently charged to the self support funds. Student Operations and Athletics have been spending down their fund balance in recent years. Raising the percentage may adversely affect student enrollment because students are not supporting any fee or tuition increases. The Governor has advocated for keeping student tuition and fees low for affordability. OUS Policy 15.105 section .180 states "Allocations of budgeted operations costs may be offset with unrecovered costs incurred by an auxiliary enterprise on behalf of budgeted operation." PSU budgeted operations benefit from student oriented activities which attract students to PSU's campus. Without these programs, PSU could not meet its instructional mission and attract the enrollment and diversity of students that it has. PSU would have difficulty trying to promote a strategic goal of building a cutting edge city based campus that provides services to one of the 10

highest rated livable cities in the nation. The committee worked closely with student groups to formulate a viable percentage for the student based operations.

OTHER AUXILIARY ENTERPRISES: Fund Types 21(Housing),24 (Student Health Services), 25 (Parking), and 29 (Other Auxiliaries) will be charged a total of 12%, but 9% of the charge will be credited to a reserve fund and 3% will go to Fund 001100 to reimburse for administrative overhead. Beginning fiscal year 2008-09, 4% will go to Fund 001100 and 8% to the reserve fund, and in 2009-10, 5% will go to Fund 001100 and 7% to the reserve fund. The 5% rate is supported by the General and Administrative Overhead percentage in the “Facilities and Administrative Cost Rate Proposal”. These operations cannot support the higher percentage found in the study with facilities administration or the 12% that is currently charged to the self support funds. They are currently paying almost all of their own operations and maintenance costs and are minimally supported by the General Fund for these costs. Auxiliaries may use the monies available in the reserve fund to reverse negative fund balance trends as needed with the approval of PSU Administration.

Auxiliaries termed “Mock Auxiliaries” by PSU and the UPL Conference Center, Fund 104101, which derive the majority of their income from academic rentals from the Education and General Fund will not be charged in keeping with the same reasoning detailed above for Service Funds. Broadway Housing will not be charged because Broadway is technically managed by another entity and is a separate LLC. PSU Education and General provides minor assistance to this operation.

ACCOUNTING ISSUES:

This charge will be recorded in Account 28204 (General Admin. Overhead Charge) and be credited to Fund 001100 in Account 79390 (Admin Services Reimbursement).

The following accounts will not be included in the expense total by Fund because these accounts are already directly charged by the University, are generally fixed operation costs of the activity that the activity has no control over, are contra revenue accounts, or are transfers between funds and have not been included in the calculation in the past. They are

<u>Account. No.</u>	<u>Title</u>
23599	Misc. Maintenance and Repairs
24901	Designated Operations Fund Support
24902	Service Department Support
25000-25199	Medical and Science Supplies
28000-28499	State Assessments
28704	Medical Insurance- non employee
28810	Interest Expense bond Debt
28990	Withdrawals and Advances
50000-80699	Student Merchandise for Resale, Indirect Charges, Internal Sales Reimbursements, Depreciation
91000-92000	Transfer In/ Out

POLICY UPDATES

Allocation rates will be reviewed and evaluated on a biennial basis. PSU Administration at its discretion may also choose to evaluate the rates on a yearly basis if they determine it is appropriate.

CONTACTS

PSU Policy- The Office of Business Affairs

OUS Policy- The Chancellor's Office in the OUS Controller's Division

¹ OUS Fiscal Policy Number: 15.105 Auxiliary Enterprise Indirect Cost Allocation