

ADVISORY REPORT 1999-2

July 8, 1999

ACCOUNTING AND REPORTING FOR AUXILIARY, AUXILIARY-OTHER, AND OTHER SELF-SUPPORTING ACTIVITIES

POSITION PAPER PREPARED BY THE NACUBO ACCOUNTING PRINCIPLES COUNCIL

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The position paper that follows was approved in April 1999, by the NACUBO Accounting Principles Council. The paper represents preferred industry practice, and in the absence of any guidance from the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), or the American Institute of Certified Public Accountants (AICPA), this document should be followed by all higher education institutions.

Purpose: NACUBO has reviewed certain accountability issues pertaining to the category Auxiliary Enterprises in NACUBO's *Financial Accounting and Reporting Manual for Higher Education* (FARM) and has determined that further guidance is needed as pertains to accounting for entities that function like auxiliaries but do not meet the strict requirement of existing to furnish goods or services to students, faculty, or staff, and charge a fee directly related to, although not necessarily equal to, the cost of goods or services. Many institutions have other auxiliary-like operations and self-supporting activities that are accounted for in a manner similar to auxiliary enterprises. This position paper provides guidance for accounting for those activities in an auxiliary-like manner, as appropriate.

Applicability: This position paper applies to all independent and public higher education institutions.

Scope: An auxiliary enterprise exists to furnish goods or services to students, faculty, staff, or incidentally to the general public. An auxiliary enterprise also charges a fee directly related to, although not necessarily equal 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 residence halls, food services, intercollegiate athletics (only if essentially self-supporting), college stores, faculty clubs, faculty and staff parking, and faculty housing. Student health services, when operated as an auxiliary enterprise, also are included. Hospitals, although they may serve students, faculty, or staff, are classified separately because of their financial significance.

A subcategory titled Auxiliary Enterprise—Other will be created. This subcategory will include expenditures for auxiliary enterprise activities primarily intended to furnish goods and services that are related to the higher education mission. Customers of these goods and services will primarily not be students, faculty, or staff. Entities of this type are formed to meet the geographic and public service needs of a region and generally relate to an institution's mission of teaching, research, or public service. Examples of such an entity would be a drug testing center or a university press department.

A subcategory titled Other Self-Supporting Enterprises will be created. This subcategory includes activities that were primarily established to provide goods and services to other internal units on a fee for service basis. Characteristics that assist in identifying these units are as follows:

- They are self-supporting units that operate on a break-even basis for those goods and services offered to other units.
- They could provide, to a lesser extent, the same goods and services to faculty, staff, students, and related entities.

The goods and services provided are at an institutional level. This excludes enterprises that only serve units within the same department. Examples are that a telecommunications department services the entire institution and would be considered other self-supporting, while the chemistry stores department only services other chemistry units and is therefore reported in net within Educational and General.

- The subcategory of Other Self-Supporting Enterprises should be net of expenses since the predominance of transactions are internal.
- The FARM is being updated to reflect appropriate accounting for activities that are accounted for in a manner similar to auxiliary enterprises but do not meet the strict definition of an auxiliary enterprise.

Significance: The FARM will address the appropriate accounting methods for entities that function like auxiliaries but do not meet the strict requirements of existing to furnish goods or services to students, faculty, or staff, and charging a fee directly related to, although not necessarily equal to, the cost of goods or services.

Effective Date: The requirements of this document are effective for all higher education institutions for fiscal years beginning after June 15, 1999, with earlier application recommended.

Summary

The following paragraphs will be revised and included in a future revision of the FARM and may be used in the interim for accounting and reporting purposes:

Auxiliary Enterprises, Auxiliary Enterprises—Other, and Other Self-Supporting Enterprises

An auxiliary enterprise exists to furnish goods or services to students, faculty, staff, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal 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 residence halls, food services, intercollegiate athletics (only if essentially self-supporting), college stores, faculty clubs, faculty and staff parking, and faculty housing. Student health services, when operated as an auxiliary enterprise, also are included. Hospitals, although they may serve students, faculty, or staff, are classified separately because of their financial significance.

The auxiliary enterprise category includes all expenditures and transfers relating to the operation of auxiliary enterprises, including expenditures for operation and maintenance of

plant and institutional support. Also included are other direct and indirect costs, whether charged directly as expenditures or allocated as a proportionate share of costs of other departments or units. To ensure that data regarding individual auxiliary enterprises are complete and adequate for management decisions, cost data should be prepared using full costing methods. Full costing means that the costs attributed to each enterprise includes a portion of indirect costs related to that enterprise, as well as the costs directly attributable to its operation.

Expenditures of auxiliary enterprises are identified by the same criteria as Educational and General expenditures to distinguish them from transfers. Mandatory transfers follow the same criteria of identification as Educational and General mandatory transfers to distinguish them from expenditures and nonmandatory transfers. Nonmandatory transfers follow the same criteria of identification as Educational and General nonmandatory transfers to distinguish them from expenditures and mandatory transfers.

This category includes the following subcategories:

Auxiliary Enterprises—Student. This subcategory includes expenditures for auxiliary enterprise activities primarily intended to furnish services to students. A student health service, when operated as an auxiliary enterprise, is included. However, intercollegiate athletics are excluded from this category.

Auxiliary Enterprises—Faculty/Staff. This subcategory includes expenditures for auxiliary enterprise activities primarily intended to provide a service to the faculty, staff or both. Such activities include the faculty club, faculty-staff parking, and faculty housing.

Intercollegiate Athletics. This subcategory includes expenditures for an intercollegiate sports program when the program is operated in accordance with the definition of an auxiliary enterprise (essentially self-supporting).

Auxiliary Enterprises—Other. This subcategory includes expenditures for auxiliary enterprise activities primarily intended to furnish goods and services that are related to the higher education mission. Customers of these goods and services will primarily not be students, faculty, or staff. Entities of this type are formed to meet the geographic and public service needs of a region and generally relate to an institution's mission of either teaching, research, or public service. Examples of such an entity would be a drug testing center or a university press department.

Other Self-Supporting Enterprises. This subcategory includes activities that were primarily established to provide goods and services to other internal units on a fee for service basis. The following characteristics assist in identifying these units:

- They are self-supporting units that operate on a break-even basis for those goods and services offered to other units.
- They could provide, to a lesser extent, the same goods and services to faculty, staff, students, and related entities.
- The goods and services are provided at an institutional level. This excludes enterprises that only serve units within the same department. Examples are that a telecommunications department services the entire institution and would be considered other self-supporting while the chemistry stores department only services other chemistry units and is therefore reported in net within Educational and General (331-339).

- This classification does not preclude the current reporting practices for entities included in other functional categories.

The subcategory of Other Self-Supporting Enterprises should be net of expenses since the predominance of transactions are internal.

Mandatory Transfers/Auxiliary Enterprises, Auxiliary Enterprises-Other, Other Self-Supporting Enterprises. This subcategory includes mandatory transfers relating to auxiliary enterprises, including amounts set aside for debt retirement, interest, and required provisions for renewals and replacements, to the extent not financed from other sources.

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