ADMINISTRATIVE PRACTICE LETTER

SUBJECT: AUXILIARY ENTERPRISES

I. Auxiliary Enterprises Defined

An auxiliary enterprise, as put forth by the National Association of College and University Business Officers (NACUBO) is an entity that exists to furnish a service to students, faculty or staff acting in a personal capacity, and that charges a fee for the use of goods and services.

Auxiliary enterprises are self-supporting activities which provide non-instructional support in the form of goods and services upon payment of a specific user charge or fee that is at least equal to the full direct and indirect cost of providing the goods and services. The general public may also be served incidentally by some enterprises.

For the University of Maine System, auxiliary services are deemed to be: Dining; Residence; Bookstore; Printing; Concessions; Computer Sales and Services; and Motor Pool. If Parking Operations and/or Child Care meet all of the above criteria, they may also be considered to be auxiliary operations.

II. Operating performance measures

Revenues are to be expended by the auxiliary enterprise by which they were generated.

Auxiliary operations should be self-supporting where revenues cover all operating costs including direct costs; overhead costs such as facilities usage, utilities, custodial, maintenance and administrative overhead; interest and depreciation. Operating surpluses may be used to fund non-auxiliary operations at the discretion of the university Chief Financial Officer.

On a cash flow basis, auxiliary operations should be self-supporting where operating cash flow covers all debt principal payments and capital expenditures not financed by other sources of funds.

Any subsidizing of an auxiliary enterprise must be approved by the university Chief Financial Officer.

III. Operating Budget

Direct costs such as salaries, wages and benefits should be budgeted and charged directly to the auxiliary enterprise. These may be based upon a percentage of time that an employee works for the auxiliary.

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Auxiliary operations also incur overhead costs that must be calculated and budgeted to the auxiliary operation. As noted above under operating performance measures, these costs include administrative overhead, utility and maintenance usage, debt interest and depreciation (provisions for renewal and replacement of fixed assets used in the operation of the enterprise).

- **Administrative Overhead**

  Administrative overhead is an expense to auxiliary enterprises and includes such things as executive salaries, system computer usage and university services (payroll, purchasing, human resources, etc…). Administrative overhead should be budgeted using estimates of the percentage usage of the various services.

- **Utility, Maintenance and Facility Usage**

  Utility and maintenance budgets should be based upon direct costs whenever possible. Otherwise, a reasonable estimate of percentage share of the total costs should be used. This is often calculated using a square foot percentage. If the auxiliary in question is housed in a university operating facility, a rental expense should be included in the budget.

- **Interest on Required Debt Service**

  Interest on required debt service must be included in the annual operating budget and will be determined by the debt instrument (e.g. bond resolution).

- **Provision for Depreciation**

  Depreciation should be budgeted as an operating expense in accordance with the policies established by the University of Maine System. It is management's goal that auxiliary enterprises become fully self-supporting (break-even or better) including covering the cost of depreciation by FY2011.

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IV. Cash Budget

Annual cash flow for auxiliary operations, including debt principal and capital expenditures, should be budgeted to at least break even on a cash flow basis.

V. Periodic Review of Services

Materials and services for the University System should be secured by the most economical means consistent with the fulfillment of its mission and the requirements of the mission.

To this end, the universities will assure that, for services available from outside contractors, a periodic review is made to determine whether such services are most effectively procured by contract or provided by internal university system staff.

A five year review cycle is recommended however the university Chief Financial Officer may approve a shorter or longer cycle consistent with the enterprise to be reviewed. At the beginning of each fiscal year the schedule (frequency) of reviews shall be submitted to the UMS Chief Financial Officer and Treasurer.

The review shall be an analysis of the cost of each campus auxiliary enterprise and a multi-year projection of future costs and revenues. All costs reasonably associated with internal operations should be included in the analysis, including overhead, fringe benefits and other costs of employment. The results of each review shall be submitted to the UMS Chief Financial Officer and Treasurer.

Guidelines for conducting periodic reviews may be obtained from higher education professional associations such as the National Association of College and University Business Officers (NACUBO) or The Council of Higher Education Management Associations (CHEMA).

Contracts with outside organizations for the provision of services, including auxiliary enterprises, will be re-bid at intervals not to exceed five years unless a longer contract term is approved, in writing by the Director of Strategic Procurement.

APPROVED:

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Chief Financial Officer and Treasurer