Auxiliary Funds and Other Self Support Funds including
Designated Operating Funds Policy: Administrative Services
Overhead Charge for Indirect Cost Allocation

Policy Issued: August 15, 2013
Effective Date: July 1, 2019
Supersedes: Indirect Cost Allocation Policy Effective July 1, 2007

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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 (for the purpose of this policy this family of funds shall be referred to as AUXS). Based in best and/or common practice at institutions of higher education, this policy provides for a transparent and consistent methodology to charge General Fund Indirect Costs or administrative overhead charges (ASOC) to all AUXS Funds. This policy stipulates that AUXS activities (at the fund type level) be self-supporting, generating sufficient operating revenues to cover operating expenses, including direct expenses and their allocable portion of indirect costs borne by administrative and supporting functions of the university. The allocation of indirect costs against AUXS funds should be recorded within the accounting records of the institution. 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 AUXS activities and Funds.
- Establish best and/or common practice in indirect and administrative overhead cost recovery.
- To provide for reimbursement of expenses from the General Fund that support AUXS funds—as the General Fund incurs costs for purposes common to all activities of the University including its own general education programs and AUXS activities—and additionally to the extent possible remove all circular financial relationships.
- To ensure consistency of this policy across all supported funds in which PSU’s General Fund incurs expenses.
- Identify total AUXS expenses as a percentage of total University expenses excluding activity in restricted funds and plant funds.
- Identify centralized PSU General Fund activity and associated costs that benefit AUXS programs.
- Identify AUXS expenditure activity to be excluded from the calculation of indirect costs and the administrative overhead charge.

ISSUANCE AND EFFECTIVE DATE OF POLICY

The ad hoc University Committee on Administrative Services Overhead Charges for Indirect Cost Allocation—representing auxiliary departments, self-support units, student government, and Finance and Administration finalized, the methodology documented in this policy on August 15th, 2013. Final approval by PSU’s Vice President of Finance and Administration was given for policy implementation on July 1, 2015.

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.

**Designated Operations & Service Departments:** Operations that charge a fee to provide services to students, faculty and staff, managed as a self-supporting activity through the generation of their own revenues. They reside in Fund Type 12 and 13 in Banner and are called Designated Operations and Service Departments respectively.

**AUXS:** Auxiliary Enterprises, Designated Operations & 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, capital purchases, and depreciation. For indentured activities, direct costs also include debt interest payments.”
**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.

**RESPONSIBILITIES**

The Vice President for Finance and Administration is responsible for developing campus policies and cost allocation plans for indirect costs charged to auxiliary enterprises.

**INDIRECT COSTS TO BE ALLOCATED**

PSU Indirect Costs to be allocated include expenses incurred in General Funds that provide administrative benefits to the University as calculated in the Revenue and Cost Attribution tool (RCAT). They include, but are not limited to the functional areas providing Institutional Support and Operations & Maintenance for Enrollment Management & Student Affairs, the President’s Office, Office of Academic Affairs, University Advancement, Research and Strategic Partnerships, Finance & Administration, as well as University-wide Expenses & Reserves. The costs to be allocated will not include any direct expenses already allocated to the affected funds.

**INDIRECT COST RECOVERY LIMITATION**

PSU’s indirect cost recovery rates (ASOC) 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.

**ADMINISTRATIVE OVERHEAD CHARGES (ASOC) FOR INDIRECT COST ALLOCATION METHOD:**

The ASOC rate for FY20 – FY21 is determined on the basis below.

\[
\frac{\text{Size of AUXS}}{\text{FY18 Modified Total Direct Costs of University}} = \frac{\text{FY18 Modified Total Direct Costs of AUX}}{0.1035} = 10.35\%
\]

\[
\text{Size of AUXS} \times \text{FY18 Modified Adopted Budget RCAT} = 0.1035 \times \$92,265,191 = \$9,552,430
\]

\[
\text{ASOC Rate} = \frac{\text{AUXS Share of Modified RCAT Expenses}}{\text{FY18 Modified Total Direct Costs of AUX}} = \frac{\$9,552,430}{\$44,482,279} = 21.5\%
\]

For FY20 – FY21, the ASOC rate will be 21%.
The total expenses of each fund to receive an allocation of indirect costs will be levied to administrative overhead costs will incur a charge per transaction, applied as an additional percentage against expenses as indicated below.

**DESIGNATED OPERATIONS AND SERVICE DEPARTMENTS:** For Fund Type 12 (Designated Operations 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 21% will be charged through FY19 and will be charged until another update to the policy is made.

Service Departments, 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 7%. This is the General and Administrative overhead percentage that is supported by the ad hoc University Committee on Administrative Services Overhead Charges for Indirect Cost Allocation referred to above. These operations cannot support the higher percentage found in the study with facilities administration or the 21% that will be charged to the self-support funds. 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. 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. 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 the current rate of 21% directly to General Fund operations to reimburse for administrative overhead.

Viking Pavilion Conferencing, Fund 190200, which shares resources such as labor and supplies with Smith Student Union will be charged 7% to remain consistent with the rate charged to Student Center Activities and Athletics.

Auxiliaries termed “Mixed Use 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.
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).

Administrative Services Overhead Charges will be levied against the total expense activity of account type 60 (labor) and 70 (expenses) except for the following accounts which will be excluded from the expense total by Fund. These accounts are already directly charged by the University, are generally fixed operational costs of the activity, that the activity has no control over, are contra revenue accounts, are expenses directed toward the purchase of or lease of capital/physical plant/real property, are associated with the payment of debt for the acquisition of capital/physical plant/real property, or are transfers between funds and have not been included in the calculation in the past. They are:

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<tr>
<th>Account. No.</th>
<th>Title</th>
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<tbody>
<tr>
<td>23599</td>
<td>Misc. Maintenance and Repairs</td>
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<td>Land Rentals</td>
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<tr>
<td>24151</td>
<td>Building Rentals</td>
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<tr>
<td>25000-25199</td>
<td>Medical and Science Supplies</td>
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<tr>
<td>28000-28499</td>
<td>Assessments</td>
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<td>28800-28840</td>
<td>Debt and Investment Expense</td>
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<tr>
<td>28990</td>
<td>Withdrawals and Advances</td>
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<td>Capital Outlay</td>
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<tr>
<td>50000-79999</td>
<td>Student Merchandise for Resale, Indirect Charges, Internal Sales Reimbursements</td>
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<tr>
<td>80500-80699</td>
<td>Depreciation</td>
</tr>
<tr>
<td>90000-99999</td>
<td>Transfer In/Out</td>
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POLICY UPDATES

Allocation rates will be reviewed and evaluated on a biennial basis. PSU Finance and Administration will at the close of every even fiscal year’s financial activity, analyze and recalculate the appropriate rate of Administrative Services Overhead Charge for Indirect Cost Recovery. Any changes in rates of charge will be applied in PSU’s accounting system at the onset of the following even fiscal year. 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- Finance Administration – Finance & Accounting Services Team