

Auxiliary Financial Standards

FIN-ACC-I-600



About This Policy

Effective Date:

01-01-2015

Last Updated:

12-08-2014

Responsible University Office:

Financial Management Services

Responsible University Administrator:

Senior Vice President and Chief Financial Officer

Policy Contact:

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Scope

All University auxiliary units.

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Policy Statement

The Senior Vice President and Chief Financial Officer (SVPCFO) through Financial Management Services (FMS) will provide accounting and financial reporting oversight to auxiliary units. Units with annual revenues above a materiality threshold determined by the University Controller's office will receive additional oversight through standard policy and procedural requirements.

All costs of an auxiliary unit should be charged to the organization, providing consistency across auxiliary units on the allocation of expenditures. Subsidies made to auxiliary units should be made by transferring resources into the organization's general ledger account, not through the transfer of expenditures out of the organization.

On an annual basis the SVPCFO will review all auxiliary units and identify units that have a fiscal problem. Fiscal problems could manifest themselves in cash overdrafts, fund balance overdrafts, large swings in fiscal activity to the negative, or a systemic industry downturn. Campuses will be required to cover minor fund balance overdrafts at year end, or have a written reason why the unit can recover in one year or less from the problem.

Units that have been identified to have fiscal problems will be required to:

1. Establish a 3-5 year business plan that includes initiatives and changes to the business operation that will solve the fiscal problem, while maintaining quality and excellence. The plan will include income statements and balance sheets for each year of the plan period. These financial statements will be used as measurable targets for the unit and the review process.
2. Quarterly meetings will be held between the unit, the responsibility center, campus administration and the SVPCFO staff to review the activity for the prior quarter and validate progress to the plan. Adjustments will be made and implemented on a quarterly basis if needed.
3. Targets to fund balance that are not met at year end will require responsibility center and/or campus allocation of cash to make the plan whole.

Continued non-performance to the plan after 2 years will require discussion on the viability of the business activity as a University auxiliary enterprise.

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Reason For Policy

This policy provides guidelines for the University community that allows for expeditious management of auxiliary units that develop fiscal difficulties with the goal of correcting problems before they become significant for both the campus and the University.

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Procedure

The SVPCFO during annual year end campus closing meetings will review with the campuses auxiliary units that are having fiscal issues. Discussion in these meetings will lead to one of three conclusions:

1. The fund balance overdraft will be covered by the campus or responsibility center before year-end accounting books are closed,
2. The fund balance overdraft can easily be recovered in one year or less and will be left on the books without campus intervention,
3. The problem is identified to be significant resulting in the 4 step process outlined in the policy section of this document.

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Definitions

Auxiliary Unit: An organization that exists to provide a service or a good for a fee. This policy applies to both auxiliary units that are allowed to provide services to external entities and make a profit and recharge (service) centers that are required to break even and only provide services to other university units. In the IU general ledger system these units have the prefix of 60 through 66.

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Additional Contacts

Auxiliary Accounting at auxacct@iu.edu

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History

Financial Management Services (FMS) is modifying Policy I-600, as of January 1, 2015, in order to raise the Reporting Auxiliary and Service Unit threshold. In 2004, we established our current requirement indicating any auxiliary or service organization earning more than \$250,000 in sustainable revenue for three consecutive years or at least \$500,000 in any given fiscal year is considered a Reporting Auxiliary and Service Unit. Effective January 1, the policy will specify that auxiliary and service units with annual revenues above a materiality threshold determined by the University Controller's office will receive additional oversight through standard policy and procedural requirements.

Note: Redline to be posted as PDF later on.