

Executive Vice President – Chief Financial Officer December 16, 2010

BUS-72

Establishment of Auxiliary Enterprises

http://www.ucop.edu/ucophome/policies/bfb/bus72.pdf

Refer specific program questions to Associate Vice President and Controller Peggy Arrivas

Business and Finance Bulletins Home Page: http://www.ucop.edu/ucophome/policies/bfb/

I. REFERENCES

- A. Business and Finance Bulletin A-47, University Direct Costing Procedures
- B. Business and Finance Bulletin A-59, <u>Costing and Working Capital for</u>
 Auxiliary and Service Enterprises
- C. Business and Finance Bulletin A-61, <u>Procedures for Determining</u> Unrelated Business Income and Expenses

II. INTRODUCTION

It is the policy of the University to operate, or to authorize groups affiliated with the University to operate, auxiliary enterprises which support and enhance its instructional, research and public service programs. Accordingly, auxiliary enterprises shall be conducted primarily for the convenience of University students, faculty and staff, and may only incidentally serve members of the general public.

III. SCOPE OF POLICY

This policy is applicable to all auxiliary enterprises operated by the University, or by organized groups affiliated with the University which are authorized to operate auxiliary enterprises. Service activities (including computer centers) operated by the University which primarily provide goods and services to University departments and whose costs are primarily recharged to departmental budgets are excluded from the scope of this policy. Academic support units and the incidental sales and services income of academic units also are excluded from this policy.

IV. CHARACTERISTICS OF AN AUXILIARY ENTERPRISE

Auxiliary enterprises are essentially self-supporting activities which provide non-instructional support in the form of goods and services to students, faculty, and staff upon payment of a specific user charge or fee. The general public may be served only incidentally by these enterprises. Examples of auxiliary enterprises are housing operations, non-housing food service operations, parking operations, bookstores, student centers/unions, and child-care centers.

Certain activities may be considered hybrid auxiliaries since the activities include characteristics of both student services (includes, but is not limited to, programs, services, and activities that are complementary to the core instructional program, that contribute to students' physical and psychological well-being, or enrich their social, recreational, or cultural experience). Athletic programs at certain campuses may be considered hybrid auxiliaries.

Although hospitals and faculty practice plans serve students, faculty and staff and generate revenues, they serve a teaching function and are therefore not considered auxiliary enterprises.

V. RATIONALE FOR ESTABLISHMENT AND OPERATION OF AUXILIARY ENTERPRISES

A. Criteria for establishment of a new Auxiliary Enterprise

Establishment of an auxiliary enterprise is at the discretion of the Chancellor. The Chancellor should consider whether the need exists for certain goods and services, which, if provided at a reasonable cost and at a convenient location, would enhance and support the University's instructional, research, or public service programs. The plan to provide these goods or services through a University-operated or affiliated auxiliary enterprise shall take into account the availability, the price, and the quality of any such goods or services offered by the local business community. When such goods or services are reasonably available under favorable commercial terms and conditions, the determining factor in the decision to operate the particular auxiliary enterprise must be the demonstration of the greater benefit which would accrue to the instructional, research, or public service programs of the campus from University operation.

B. Direct and Indirect Costs

Auxiliary enterprises bear all direct costs and, to the extent required under the University's direct costing policies, a share of their own indirect costs, such as utilities, custodial services, and other maintenance and business services.

For hybrid auxiliaries, the Chancellor has discretion over the source of funds that will be used for direct and indirect costs of the activities. The source of funds used for hybrid auxiliaries may be modified periodically at the discretion of the Chancellor.

C. Auxiliary Reserves

While it is anticipated that auxiliary enterprises are essentially self supporting activities, auxiliaries are not required to be entirely self-supporting. Chancellors may subsidize auxiliary enterprises with appropriate available campus funds.

Reserves (generated by the excess of revenues after payment of the auxiliary's expenses) from auxiliary enterprises that have been pledged by the campus for future capital projects or deferred maintenance must be maintained by the campus in their financial records. Funds in excess of the pledged reserves from auxiliary activities may be transferred to other activities for use in campus operations at the discretion of the Chancellor.

D. Activities that May Generate Unrelated Business Income

Auxiliary enterprise activities that serve the community may result in unrelated business income. When an activity is approved that may produce such income, the federal tax liability must be considered in the planning and budgeting of the activity, and the activity will be subject to the reporting requirements specified in Business and Finance Bulletin A-61, *Procedures for Determining Unrelated Business Income and Expenses.*