

UNIVERSITY *of* HOUSTON
MANUAL OF ADMINISTRATIVE POLICIES AND PROCEDURES

SECTION: Administrative Operations
AREA: General

Number: 03.01.02

SUBJECT: Auxiliary Enterprises

I. PURPOSE AND SCOPE

This document establishes consistent financial and operational practices among the applicable units to ensure compliance with state of Texas, Board of Regents, and University of Houston System laws and regulations. This document applies to all auxiliary enterprises operated by the University of Houston or by others affiliated with the university that are authorized to operate auxiliary enterprises.

II. POLICY

Auxiliary enterprises are responsible for ensuring that: (1) all activities are related to the educational objectives of the university, (2) these activities contribute significantly to the achievement of those objectives, and (3) these activities are carried out in compliance with all applicable rules and regulations.

III. DEFINITIONS

- A. Auxiliary enterprise: An entity which furnishes goods or services primarily to students, faculty, and/or staff; which charges a fee that is directly related (although not necessarily equal) to the cost of the goods or services delivered, and which is managed as a self-supporting entity. The general public may incidentally be served by some auxiliary enterprises. Examples include residence halls, food services, student stores, student unions, vending machines, and intercollegiate athletics.
- B. Self supporting: Revenue received should cover direct and indirect operating expenses, debt services and capital expenditures.

IV. AUXILIARY ENTERPRISE POLICY GUIDELINES

- A. Auxiliary enterprises are distinguished from other on-campus service providers by the following characteristics/criteria:
 - 1. Auxiliary enterprises exist to furnish goods or services to students, faculty, or staff and which charge a fee that is directly related, though not

necessarily equal, to the cost of the goods or services delivered, and which is managed as a self-supporting entity.

2. Auxiliary enterprises may incidentally serve the general public.
3. ~~Auxiliary enterprises should function as self-supporting entities~~ and, if ~~subsidy is necessary~~ If an auxiliary enterprise requires more funds than the revenue generated by its operations, care must be taken in selecting a source for the funds to ensure that only institutionally generated funds are used.
4. Auxiliary enterprises may not use state appropriated funds to support their activities.
5. Auxiliary enterprises may need to collect and remit state and local sales tax for sales made to students, faculty, and staff. Under certain circumstances, sales to students, faculty, and staff members may qualify for state and local sales tax. Auxiliary enterprises are responsible for ensuring that adequate records are maintained to satisfy state and local sales tax reporting requirements. Auxiliary enterprises should contact the General Accounting Department for more details and guidance.
6. Auxiliary enterprises may be subject to unrelated business income tax (UBIT). Under certain circumstances, profit (revenue in excess of expenses) from an auxiliary enterprise's activities may qualify for federal unrelated business income tax. Auxiliary enterprises are responsible for ensuring that adequate records are maintained to satisfy federal unrelated business income tax reporting requirements. Auxiliary enterprises should contact the Tax Accounting Department for more details and guidance.
7. Auxiliary enterprises may be subjected to a "UHS Administrative Charge". This charge is assessed against auxiliary net expenditures (total expenditures less cost of goods sold, less residence hall and hotel food service, less waivers, and less the auxiliary charge itself). Auxiliary enterprises should contact the Budget Office for more details regarding this charge.

B. Financial record keeping responsibilities for auxiliary enterprises:

1. All financial-related information to be included in the reporting required by this policy, and all other university policies, is to come from, and be reconciled to, the university's official financial records system.
2. All revenue received (i.e., fees charged for goods or services) shall be recorded in the unique operating funds assigned to the auxiliary enterprise.

3. All expenses incurred to provide goods or services shall be recorded in the unique operating fund assigned to the auxiliary enterprise. (In those instances where an auxiliary enterprise receives a subsidy from another operating fund (or funds), records must be maintained to document the amount(s) and source(s) of the subsidy fund(s).)
4. Auxiliary enterprises shall not transfer revenue, expenditures, or fund balances from, or to, the primary operating fund without first submitting a request to, and obtaining approval from, the Budget Office.^[g2]
5. ~~Financial records and supporting documentation for revenue, expenditures, and fund transfers must be maintained by the auxiliary enterprise for the time periods prescribed in the state of Texas Records Retention Schedule, Category 4: Fiscal Records.~~^[g3]

C. Providing goods or services to students, faculty and staff:

Auxiliary enterprises are responsible for developing a pricing structure for goods or services which will ensure that:

1. The fees charged enable the operation to be self-supporting and maintain the university's investment in such activities.
2. There is no price discrimination amongst the various groups (students, faculty, and staff) that patronize the auxiliary enterprise.

V. ESTABLISHING & DISCONTINUING ~~SERVICE FACILITY~~ AUXILIARY ENTERPRISESPECIALIZED OPERATIONS

A. Establishing an auxiliary enterprise:

1. A written request providing sufficient justification for recognition as an auxiliary enterprise must be submitted to the appropriate division vice president in accordance with procedures prescribed by that division.
2. The request for recognition as a specialized service facility must include a three-year business plan using forms and in a format prescribed by the ~~appropriate division vice president of~~ Administration and Finance^[g4]. These must be reviewed and approved by the appropriate division vice president before the proposed new auxiliary enterprise begins operations.
3. Once the appropriate division vice president has reviewed all required documentation and approved the formation of a new auxiliary enterprise, the approved request must be forwarded to the Associate Vice President

for Finance to justify the assignment of a unique ~~operating fund~~ cost center for the newly formed auxiliary enterprise's use in recording financial transactions.

B. Discontinuing operations as an auxiliary enterprise:

1. A written request providing sufficient justification for ceasing operations as an auxiliary enterprise must be submitted to the appropriate division vice president in accordance with procedures prescribed by ~~that the~~ Division of Administration and Finance.
2. The request must include the planned termination date, reason for discontinuing the operation, an explanation of the auxiliary enterprise's plan for the resolution of any cost center surplus or deficit, and the planned disposition of capital equipment and remaining inventory. Other information (supporting schedules, documentation, etc.) may be required as deemed appropriate and necessary by the division vice president. Upon completion of close out, the auxiliary enterprise's primary operating fund should have a zero balance and be ~~frozen and flagged for deletion~~ inactivated by the Budget Office^[g5].

VI. REVIEW AND RESPONSIBILITY

Responsible Party: Associate Vice President for Finance

Review: Every three years, on or before December 1

VII. APPROVAL

Executive Vice President for Administration and Finance

President

Date of President's Approval: _____