

Policy Number: 1-125	Policy Name: Oversight of University Relationships with Component Unit Affiliates
Policy Revision Dates: 6/15/2023 (effective: 7/1/2023), 11/18/2021	Page 1

1-125 Oversight of University Relationships with Component Unit Affiliates

- A. For purposes of this policy, a component unit affiliate is a legally separate and independent entity that:
1. Is affiliated with one of the Arizona public universities through a written agreement, and
 2. Is a component unit for financial reporting purposes as defined by Governmental Accounting Standards Board Statement No. 14, as amended by Statement Nos. 39 and 61 and any other amendments that become effective after the adoption of the policy.
- B. The board recognizes the importance of university relationships with component unit affiliates in supporting the success of the universities. Component unit affiliates are not public bodies and the board does not govern these independent entities, but it has a governance and fiduciary responsibility to provide appropriate oversight of and guidance to the universities regarding their relationships with component units. Through this policy, the board will:
1. Establish requirements for university agreements with component unit affiliates,
 2. Require submission of university agreements with component unit affiliates to the board chair, the executive director and board counsel,
 3. Require university oversight of component unit affiliates, and
 4. Require university reporting regarding these relationships to the board University Governance and Operations Committee.
- C. University Agreements with Component Unit Affiliates
1. Each agreement will recognize the separate and independent status of the component unit affiliate and is subject to applicable law, including laws regarding the use of public resources.

Policy Number: 1-125	Policy Name: Oversight of University Relationships with Component Unit Affiliates
Policy Revision Dates: 6/15/2023 (effective: 7/1/2023), 11/18/2021	Page 2

2. The agreement will include language to reflect that:
 - a. The component unit affiliate is not the agent of the university and shall not represent or imply that it operates under an agency, partnership, or joint venture relationship with the university; and
 - b. The component unit affiliate must take appropriate steps in dealing with third parties to ensure that the third parties understand that the component unit affiliate is a separate legal entity from the university, including separate business cards, letterhead, signage, and appropriate identification of the affiliate in communications, on websites and in social media.
3. The component unit affiliate must agree to comply with current and future board and university policies regarding component unit affiliates.
4. The activities of the component unit affiliate and the affiliation agreement must follow sound fiscal and business practices, and the agreement must provide that the component unit affiliate:
 - a. Be audited annually by an independent CPA firm that meets criteria set by the board; and
 - b. Operate in accordance with an annual budget process as described in the agreement with the university.
5. The mission of the component unit affiliate must be in support of, or complementary to, the mission of the university.
6. The university will require component unit affiliates to comply with provisions regarding university approval of restrictive terms and conditions attached to gifts, to the extent the restrictive term(s) impose a commitment, obligation or responsibility on the university.

Policy Number: 1-125	Policy Name: Oversight of University Relationships with Component Unit Affiliates
Policy Revision Dates: 6/15/2023 (effective: 7/1/2023), 11/18/2021	Page 3

7. Each university will establish protocols regarding approval of any payments by the component unit affiliate to or for the benefit of a university employee.
8. No component unit affiliate shall offer any course or seminar in which the name of the university is used without first obtaining the university's permission.
9. A component unit affiliate must establish and enforce conflicts of interest policies covering relationships both between the organization and its directors, officers and employees and persons doing business with the entity.
10. A university may require evidence of bonding of officers and staff members of a component unit affiliate.
11. A component unit affiliate must provide the university with access to the following items:
 - a. Annually, a copy of the entity's Form 990, except any portion that may be exempt from disclosure under federal statute or Internal Revenue Service Regulations (the university may deem this requirement satisfied through public availability of the Form 990 on the internet);
 - b. Annually, a copy of the audited financial statements and such other documents as the university may require from time to time and on a schedule as determined by the university; and
 - c. Copies of any amendments to the entity's articles of incorporation or bylaws.
12. A university may require a component unit affiliate to indemnify the university from damages or liabilities that the university may incur as the result of the organization's negligence or willful misconduct.

Policy Number: 1-125	Policy Name: Oversight of University Relationships with Component Unit Affiliates
Policy Revision Dates: 6/15/2023 (effective: 7/1/2023), 11/18/2021	Page 4

13. A university may impose requirements for the component unit affiliate to maintain general liability insurance, property casualty insurance, commercial/business automobile liability insurance, or other insurance it deems appropriate.
 14. An affiliation agreement may authorize the component unit affiliate to:
 - a. Use designated university space, equipment, and administrative/financial services and staff in the performance of the organization's functions;
 - b. Use the university's name or logo on conditions determined by the agreement; and
 - c. Receive other rights, services or benefits that the agreement may authorize.
 15. University contracts with component unit affiliates are subject to other applicable requirements for university contracts as provided in university and board policy.
- D. Submission of Agreements to the Board Chair, the Executive Director and Board Counsel
1. Upon board approval of this policy, each university will submit to the board chair, the executive director and board counsel copies of current master affiliation agreements between the university and any component unit affiliate that were entered prior to the effective date of this policy. A master agreement is the comprehensive services or affiliation agreement defining the ongoing relationship between the university and the affiliated entity.
 2. The university must submit to the board chair, the executive director and board counsel all new master agreements with affiliated entities and all amendments to previously submitted master affiliation agreements.
 3. All transactions between a component unit affiliate and the

Policy Number: 1-125	Policy Name: Oversight of University Relationships with Component Unit Affiliates
Policy Revision Dates: 6/15/2023 (effective: 7/1/2023), 11/18/2021	Page 5

university shall meet the normal tests for ordinary business transactions, including proper documentation and approvals. Benefits received by the university and university resources provided to the component unit affiliate will be documented in a manner that reflects compliance with Article 9 Section 7 of the Arizona Constitution.

E. University Oversight of Component Unit Affiliates

1. Each university will adopt a policy, consistent with board policy, regarding the establishment and oversight by the university of its component unit affiliates.
2. Each university will designate a senior university official responsible for oversight of university relationships with component unit affiliates. The senior university official is responsible for reviewing agreements with component unit affiliates, maintaining copies of documentation regarding resources provided and services received and working with other members of the university community to identify, monitor and mitigate risks associated with the agreement.
3. The relationship between a university and each of its component unit affiliates must be memorialized through a written master agreement that is reviewed by university counsel and the university president or the president's designee. Amendments to these agreements must also be reviewed by university counsel and the university president or the president's designee before being provided to the board chair, the executive director and board counsel.
4. Each university will conduct a periodic review (at least once every five years) of its relationship with each of its component unit affiliates to determine whether the agreement reflects the needs of the university and is compliant with board policy and applicable law.

F. University Reports on Component Unit Affiliates

1. Each university will provide an annual report on the university's

August 2023

Policy Number: 1-125	Policy Name: Oversight of University Relationships with Component Unit Affiliates
Policy Revision Dates: 6/15/2023 (effective: 7/1/2023), 11/18/2021	Page 6

component unit affiliates to the board University Governance and Operations Committee. The annual report will include audited financial reports from each affiliated entity and will be due on a schedule determined by the executive director. Each annual report will include:

- a. A list of component unit affiliates and a brief description of each.
 - b. A description of the activities of the component unit affiliates and any associated risks and liabilities.
 - c. A description of resource exchanges between the university and the component unit affiliates.
 - d. A description of any periodic reviews of component unit affiliates conducted pursuant to E.4. during the reporting period.
2. The senior university official will facilitate communications among the board representatives, the university and the component unit affiliates, as requested.
 3. Each university will communicate promptly to the board chair, the executive director and board counsel regarding any reasonably suspected material breach of an agreement with a component unit affiliate or regarding any concerns that might threaten or challenge the affiliation. Communications may be through the president, through counsel or through the senior university oversight official.