

# R550, Auxiliary Enterprises Operation and Accountability<sup>1</sup>

**R550-1 Purpose:** To designate which services are auxiliary enterprises and establish reporting and accountability requirements for such auxiliary enterprises.<sup>2</sup>

## R550-2 References

- 2.1** Utah Code § 53B-6-102, Standardized Systems Prescribed by the Board
- 2.2** Utah Code § 53B-7-101(11), Combined Requests for Appropriations
- 2.3** Board Policy R555, Providing Facilities, Goods and Services in Competition with Private Enterprise
- 2.4** Board Policy R567-3, Internal Audit Program, Definitions

## R550-3 Definitions

**3.1 “Auxiliary Enterprises”** means business enterprises or other support activities (as distinguished from primary programs of instruction, research, and public service, and from organized activities and intercollegiate athletics) the primary purpose of which is to provide specified services to students, faculty, staff or guests of the institution. All institution housing and food services (without an academic component) and institution store activities are to be classified and managed as auxiliary enterprises. Other activities which serve primarily individuals (as distinguished from internal departments of the institution) and operate on an essentially self-supporting basis, should also be classified and managed as auxiliary enterprises.

**3.2 “Essentially Self-Supporting”** means receiving revenues (fees for services, sales, dedicated general fees, contributions, and investment income) to cover all or most of the direct and indirect operating expenses, assignable indirect costs, debt service and capital expenditures for the activity. This excludes activities that are funded primarily through state appropriations or institution tuition revenues.

## R550-4 General Policy

**4.1 Support to Education, Research, and Public Service:** Auxiliary enterprises are operated as essential elements in support of the education, research, and public service programs of the institutions. They are to be operated at a level of quality sufficient to support the

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<sup>1</sup> Adopted November 14, 1986; amended January 24, 1997, March 18, 2005, January 24, 2014, March 31, 2017, July 14, 2022; and January 5, 2025.

<sup>2</sup> Technical edits August 30, 2024.

objectives of the primary programs. Direct charges for services are to be sufficient to enable the auxiliary enterprises to operate on an essentially self-supporting basis whenever possible. Services provided by auxiliary enterprises may be incidentally available to members of the general public but are not to be marketed to the general public or outside organizations unless those services qualify as an exception under section 4 of Board Policy R555, *Providing Facilities, Goods and Services in Competition with Private Enterprise*. All auxiliary enterprise organizations are required to comply with Board Policy R555, *Providing Facilities, Goods and Services in Competition with Private Enterprise*.

**4.2 Limitations of R555:** The Board recognizes that Board Policy R555, *Providing Facilities, Goods and Services in Competition with Private Enterprise* limits the ability of institutional auxiliary enterprises such as campus stores and food services to generate revenue from outside sources and therefore maximize revenues or to minimize charges to institutional users. In recognition of this limitation, institutions which cannot reach a total self-support level for designated auxiliary enterprise activities are permitted to provide subsidies from institutional discretionary funds or, if necessary, from other education and general funds, subject to the accounting requirements set forth below.

## **R550-5 Designation of Activities to be Operated as Auxiliary Enterprises**

**5.1 Criteria for Designation:** In addition to the core activities of housing, food services, and college or university stores, institutions should propose for designation as auxiliary enterprises any other activities which meet the definitions provided above. However, the fact that an organized activity receives significant direct income is not in itself a reason for auxiliary enterprises designation unless the activity also serves primarily students, faculty, or staff members.

**5.2 Designated Auxiliary Enterprises, by Institution:** In some instances, auxiliary enterprises may have been outsourced to private companies. For the purpose of this policy, the outsourced enterprises are included as well.

## **R550-6 Principles of Operation**

**6.1 Management:** Institutions are expected to employ professional management for their auxiliary enterprise activities, and to provide administrative, accounting, and financial management oversight of each auxiliary enterprise, through one or more senior officers designated by the institution's president.

**6.2 Working Capital:** In order to render adequate service, auxiliary enterprises should have a solid financial base that includes sufficient reserves. Each auxiliary enterprise which involves sale of goods and services should have adequate working capital to support accounts receivable and necessary inventories of goods and supplies. (Where this policy conflicts with existing bond

covenants, the bond covenants shall prevail.) Renewal and replacement funds for all auxiliary enterprises should be accumulated in amounts sufficient to provide for major equipment repair and replacement as well as refurbishment, renewal and replacement of physical facilities. Auxiliary enterprises are not, however, expected to accumulate fund balances in excess of requirements for working capital, renewals and replacements, and debt service. Subsidies from outside funds and then charges to users should be adjusted downward if an enterprise produces revenues in excess of this requirement.

**6.3 Physical Plant Operations and Financial Accounting Services:** Auxiliary enterprises budgets are to include costs of physical plant operations and accounting services directly chargeable to their operations. The cost of these support services may either be budgeted directly in the operations of the auxiliary enterprises or budgeted as payments to the education and general departments or service enterprises providing the support services.

**6.4 Charges for Other Indirect Costs:** In addition to direct charges for support costs, under subsection 6.3, auxiliary enterprises are to be charged for an appropriate share of other administrative support costs of the institution.

**6.5 Level of Prices and Charges:** Appropriate fees shall be charged to users of the auxiliary enterprises, including academic or administrative departments. To the extent reasonably possible, selling prices, rents, fees, admissions and other charges by each auxiliary enterprise are to be set at a level adequate to support the operating and reserve requirements of the enterprise.

## **R550-7 Accounting and Audit Requirements**

**7.1 Accounting Requirements:** Each auxiliary enterprise is to use accounting systems appropriate to the type of business of program operated. Accounts for each auxiliary enterprises are to include all revenues, expenditures, and transfers relating to the enterprise, including interest on loans from other institutional or outside sources and expenditures or indirect charges for operation and maintenance of physical plant and financial accounting services and for other administrative support costs. Mandatory and non-mandatory transfers out are to be specifically identified, as are all loans and all transfers in from other auxiliary enterprises and from institutional discretionary funds, other education and general funds, or other funds of the institution.

**7.2 Auxiliary Enterprises Reports in the Annual Budget Process:** A report of auxiliary enterprises operations, covering the completed actual year and the current budget year, is to be provided annually by each institution, as part of the regular Board of Higher Education budget process. The report, on forms or in a format provided by the Commissioner, is to include as a minimum, for each designated auxiliary enterprise and for the institutional auxiliary enterprises in total, the following information: (1) appropriate detail on revenues (e.g., sales and services,

student fees, other income) and expenditures (e.g., costs of goods sold, direct operating expenses, charges for indirect costs); (2) identification of each specific source and amount of transfers in; (3) identification of each specific amount and recipient of transfers out; and (4) details of any outstanding loans other than bonded indebtedness. (Bonded indebtedness is disclosed in the institution's audited financial statements.)

**7.3 Audits of Auxiliary Enterprises:** Institutions shall annually perform a risk assessment of all auxiliary enterprises. Institutions shall complete at least one auxiliary audit engagement each year, unless each auxiliary enterprise at the institution has been audited within the last five years. Institutions shall send completed audit reports during the calendar year to the USHE Audit Director by January 15.

## **R550-8 Oversight by Institutional Boards of Trustees**

**8.1 Review Reports and Audits, Monitor Services:** Institutional Boards of Trustees shall review the institution's auxiliary enterprises annual reports prepared pursuant to subsection 7.2, and periodic internal audits prepared pursuant to subsection 7.3. Boards of Trustees shall monitor the institution's management of auxiliary enterprises and the quality of the auxiliary services.