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Date: December 4, 2009 **Code: FS 09-09**

To: Tax Coordinators

From: George V. Ashkar
Interim Assistant Vice Chancellor and Controller
Financial Services

Subject: Unrelated Business Income Packet

This memo is pursuant to email communication sent by Roberta McNeil on October 29, 2009, which included the attached Unrelated Business Income Tax Packet. To review all requirements for submission, we held two conference calls for campuses, on November 5th and November 10th.

The various schedules comprising the packet are to be completed by the campus and returned to the Chancellor's Office by January 15, 2010 to facilitate the preparation and filing of the systemwide Form 990-T tax return for the 2008/2009 fiscal year. Your timely response is appreciated and will allow internal review of the Form 990-T before its filing.

You will note we have completely revised the UBIT packet this year to assist the campuses with their collection of the data we need to submit a timely and accurate return. The new questionnaire was also reviewed by KPMG and we have incorporated their recommendations in the final product. Instructions for completion have been included.

The packet consists of the following:

- UBIT Packet Instructions
- UBIT Basics (providing background information)
- UBIT Analysis Template
- Depreciation Worksheet
- Prior Years' Depreciation Schedules
- Prior Year Taxable Income Listing

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

If you have any questions, please contact Nikhil Bassi at (562) 951-4697 or e-mail nbassi@calstate.edu.

GVA:NB: td

Attachments

Distribution:

FOA Administration

Financial Managers

Accounting Officers

Vice Presidents for Finance & Administration

Dr. Benjamin Quillian (without attachments)

UBIT Basics

THIS DOCUMENT IS A COMPILATION OF MATERIALS CREATED FOR THE CSU BY EOAG, INC. AND THE UC UBIT EVALUATION GUIDELINES (USED WITH PERMISSION). DOCUMENT REVISED FALL / 2009.

Three elements must be present for an activity to be considered unrelated to the CSU's tax exempt purpose of education. The activity must be 1) *not* substantially related to the University's exempt purpose, 2) "regularly carried on," and 3) a trade or business.

GENERAL

Related to University Exempt Purpose - To be related to the University's educational purpose, there must be a substantial causal relationship to the achievement of those purposes, i.e., the activity must contribute importantly to the accomplishment of the exempt purposes (other than the University's need to produce income) (Reg. §1.513-1(d)(2)).

1. *Size and Extent* - Particular emphasis is placed on the size and extent of an activity. If an activity is conducted on a scale larger than reasonably necessary to carry out the exempt purpose, it is more likely to be treated as unrelated (Reg. §1.513-1(d)(3)).

2. *Dual Use of Facilities or Personnel* - The use of facilities or personnel for both exempt and commercial purposes will not exempt the income derived from the commercial use unless the commercial activity "contributes importantly" to the accomplishment of an organization's exempt purposes (Reg. §1.513-1(d)(4) (iii)).

Regularly Carried On - The regulations consider the frequency and continuity of the activity and the manner in which it is pursued. Thus, the unrelated business income tax applies only to a business activity that is "regularly carried on" as distinguished from commercial transactions that are sporadic or infrequent. However, the conduct of a year-round business activity for one day each week would constitute the regular carrying on of a trade or business (Reg. §1.513-1(c)(2)(i)).

Short-term activities conducted by an exempt organization are not considered "regular" if the activities are of a kind normally conducted by a nonexempt business on a year-round basis. Intermittent, casual, or sporadic activities are generally not regular. The conduct of activities on a seasonal basis is considered regular where the activities are of a kind normally undertaken by commercial organizations on a similar basis (Reg. §1.513-1(c)(2)(ii)).

Trade or Business - Generally, a trade or business for unrelated business income tax purposes is any activity that is carried on for the production of income from the sale of goods or the performance of services. However, an activity will not lose its identity as a trade or business merely because it is carried on within a larger framework of activities that

may relate to an organization's exempt purpose. In addition, the regulations state that where an activity carried on for the production of income constitutes an unrelated trade or business, no part of the trade or business shall be excluded from such classification merely because it does not result in a profit (Reg. §1.513-1(b)).

Unrelated Business Income - "Unrelated business taxable income" is generally defined as the gross income derived by an organization from an unrelated trade or business less the deductions, which are directly connected with the carrying on of such trade or business. For each unrelated activity, the income generated and the expenses *related to that activity* must be determined. Expenses related to a separate but related activity which is partially funded by the unrelated activity cannot be used to offset the unrelated income.

For example, income generated from unrelated usage of a nonprofit facility may be used to help fund other programs which are deemed related to the nonprofit's exempt function. Even though the income from the facility is used to help fund these related programs, the expenses attributable to the related program cannot offset income from the unrelated activity.

In computing the taxable income of an activity, the first step is to identify the gross revenue generated by the activity. For an activity generating both taxable and nontaxable income, the revenue is divided between the exempt and nonexempt sources. Once the taxable revenue is determined, the direct and indirect allocable expenses attributable to the activity must be calculated. Where a facility is used both to carry on exempt activities and to conduct unrelated activities, direct expenses (building depreciation, utilities, department-related expenses, administration expenses, etc.) attributable to such facilities are allocated between the two uses on a reasonable basis.

MODIFICATIONS TO INCOME

The IRC contains several modifications that have the effect of exempting various kinds of income from the unrelated business income tax. These include income from dividends, interest, annuities, royalties, rents from real property, and certain forms of research. The modifications, however, generally do not apply to income derived from debt-financed property.

Passive Income

The IRC excludes most types of passive income from the definition of unrelated business taxable income. IRC section 512(b)(1) excludes all dividends, interest, payments with respect to securities loans, and annuities from tax. IRC section 512(b)(2) excludes all royalties whether measured by gross or taxable income from tax. IRC section 512(b)(3) excludes certain types of rental income from tax as further discussed below.

Rental Income From Personal Property

Income generated by the rental of personal property (i.e. property other than real estate) is generally taxable unless the personal property is rented in conjunction with the rental of real property (see *Mixed Leases* in section directly below). However, the income may not be subject to unrelated business income tax if the rental of the personal property is not regularly carried on, substantially related to the lessor's exempt purposes, without a profit motive, or primarily for the convenience of students, faculty or staff.

Rental Income From Real Property (and Mixed Leases of Real and Personal Property)

Rental income from real estate is normally excludable from unrelated business income (Reg. §1.512(b)-1(c)(ii)(a)). Consideration received for granting another party a temporary right to occupy real property is considered rent from real property if such compensation fairly represents the value of the use of the property **and does not** reflect the rendition of any significant services that are primarily for the convenience of the temporary occupant.

Amounts paid for the occupancy of space do not qualify as excludable rents if the owner of the property renders services for the convenience of the occupant. Services are considered rendered to the occupant if they are primarily for his/her convenience and are other than those usually rendered in connection with the rental of rooms or other space for occupancy only (Reg. §1.512(b)-1(c)(5)). For example, the provision of maid, linen or food services constitute services rendered for the convenience of the occupant, whereas the furnishing of utilities, the cleaning of public areas (e.g. public entrances and exits, stairways, lobby) and collection of trash do not. The operation of a box office and concession stand has been treated as services for the lessee of an auditorium.

Rents dependent on profits or income derived from real property do not qualify for the exclusion unless they are based on a fixed percentage of **gross** receipts or sales. Rents based on a percentage of net profits are taxable (Reg. §1.512(b)-1 (c)(2)(iii)).

The IRS has determined that the rental of parking spaces to the general public is not considered rent from real property, regardless of whether any services are being provided.

1. *Mixed Leases* - Where both real and personal property are rented, the rents from personal property are excluded if the rents attributable to the personal property are an "incidental" part of the total rents received under the lease. Determination of the excludable portion of rentals attributable to personal property is based on the following rules:

- 10% or less is considered incidental and not subject to tax;
- 11-50% is considered taxable in proportion to the percent of personal property rents to the total rents;
- 51% or more is considered 100% taxable (Reg. §1.512(b)-1(c)(ii)(b)).

2. *Debt-Financed Property* - The IRC contains an exception to the debt-financed property rules for the acquisition of real estate by "qualified organizations," including educational institutions. Rents received by the CSU from debt-financed property are not taxable provided the following criteria are met:

- The purchase price is a fixed amount;
- The amount of an indebtedness, and the time for payment of such indebtedness, is not dependent on revenue, income, or profits derived from the real property;
- The real property is not leased back to the seller or a party related to the seller;
- The real property is not financed by the seller (or a party related to the seller) on commercially unreasonable terms.

Royalties - A royalty is defined as a tax, duty, or compensation paid to owners of a patent or copyright for the use or right to act under such patent or copyright. The royalty exclusion includes overriding royalties and royalty income received from licenses accorded the University as the legal and beneficial owner of patents assigned to it by inventors (IRC §512(b)(2) and Reg. §1.512(b)-1(b)).

However, where the royalty income is derived in part from the performance of services, the payment will not constitute royalty income (Rev. Rul. 73-193).

ADVERTISING AND SPONSORSHIPS

Advertising - The sale of commercial advertising is taxable even though the advertising is published in an exempt organization's periodical (e.g. a newsletter, magazine or scholarly journal) that contains editorial matter related to the exempt purpose of the organization (IRC 513(c)).

1. *Related* - Advertising published in a college newspaper as part of an instructional program or advertising which serves an "informational function," as opposed to providing a means of stimulating demand for products, is considered related to the college's exempt purpose.

However, consumer advertising may be regarded as related to the University's exempt purpose if students are actively involved in the solicitation, sale and publication of the advertising under the supervision and instruction of the University.

For example, a campus newspaper operated by students publishes paid advertising. Although the services rendered to the advertisers are of a commercial character, the advertising business contributes importantly to the University's educational program through the training and participation of the students involved (Reg. 1.513-1(d)(4)(iv) Example (5)).

2. *Unrelated* - The sale of general consumer advertising in an exempt organization's journal is considered to be an exploitation of the organization's exempt purpose. Such advertising is not

substantially related to the accomplishment of the purpose that constitutes the basis for the organization's exemption (Reg. 1.513-1(d)(4)(iv)). However, the publication of advertising in programs for sports events or music or drama performances will not ordinarily be deemed to be the regular carrying on of a trade or business (Reg. 1.513-1(c)(2)(ii)).

Corporate Sponsorship Income - Generally, contributions received by a charitable organization are not considered unrelated business income if the organization does not provide a valuable service or benefit to the donor. However, if an organization goes beyond mere acknowledgement of a contribution and extensively promotes the sponsor of a special event, such as a post-season tournament, bowl game, or fundraiser, the income may be subject to tax because a valuable benefit or service in the form of advertising is being provided in exchange for the contribution (Prop. Reg. 1.513-4).

1. *Non-Taxable Acknowledgements.* Sponsorship activities that merely acknowledge a corporate sponsorship payment by using the following means of sponsor identification are not considered taxable:

- The name of the corporation in the title of an event;
- Sponsor logos and slogans that do not contain comparative or qualitative descriptions of the sponsor's products, services, facilities, or companies;
- Sponsor locations and telephone numbers;
- Value neutral descriptions, including displays or visual depictions, of a sponsor's product-line or services; or
- Sponsor brand or trade names and product or service listings.

Incidental recognition of a contributor as a benefactor is also not considered taxable advertising. Examples of such acknowledgements include:

- Naming a university professorship, scholarship, or building after a benefactor;
- Acknowledging the underwriting of a public radio or television program or museum exhibition; and
- Listing a contributor to a fund-raising event or to a performing arts organization in an accompanying program.

2. *Taxable Advertising.* Messages or other program materials broadcast or otherwise transmitted, published, displayed, or distributed in connection with a specific sponsored event to promote a company, service, facility, or product in exchange for a corporate sponsorship payment are considered taxable advertising. For example, the presence of the following factors would indicate that an exempt organization is engaged in advertising for a corporate sponsor:

- Qualitative or comparative language;
- Price information or other indications of savings or value associated with a product or service;
- A call to action;
- An endorsement; or
- An inducement to buy, sell, rent, or lease the sponsor's product or service. (Distribution of a sponsor's products at a sponsored event whether for a fee or free is not considered an inducement to buy.)

In addition, if the amount of a sponsorship payment is contingent, by contract or otherwise, upon such factors as broadcast ratings or attendance at an event, the payment is considered advertising.

JOINT VENTURES

Generally, income from a joint venture will not be taxable if the undertaking contributes importantly to the University's exempt purpose or if it is carried on for the convenience of University members. However, joint venture relationships have been scrutinized by the IRS to ensure that a tax-exempt organization is not serving the private purposes of the for-profit entity.

STATUTORY EXCEPTIONS

Even if an activity meets the definition of an unrelated trade or business, it may not be subject to tax if it meets one of the following criteria:

Convenience of University Members - Any unrelated activity conducted primarily for the convenience of University students, faculty, staff or patients is exempt from tax. The convenience exception applies *only* to members of the University. Any sales to nonmembers, e.g. the general public, are taxable unless the sales are not regularly carried on (Reg. 1.513-1(e)(2)).

The IRS has ruled that alumni should be treated the same as members of the general public since there is no stipulation in the IRC that alumni should be treated otherwise (PLR 8020010).

Volunteer Labor - Any activity in which substantially all the work of the trade or business (probably 85%) is performed *without compensation* is immune from tax. In assessing the contribution made by volunteers, such factors as the monetary value of the services rendered, the number of hours worked, the intrinsic importance of the volunteer work performed, and the degree of reliance placed upon volunteers should be considered (Reg. 1.513-1(e)(1)).

Donated Merchandise - Any unrelated activity involving the sale of merchandise, substantially all (probably 85%) of which was received as gifts or contributions, is exempt

regardless of whether the labor to operate the activity is paid or volunteer (Reg. 1.513-1(e)(3)).

All Revenue Generating Activities

A

Campus Name:

Remember to evaluate these common UBI activities:

Dorm Rooms Rented to Non-Students

Parking Lot Operations

Power Generation

Bookstore

Credit Card Promotions

Food Services

Catering Services

Operation of a Restaurant

Operation of a Conference Center

Exclusive Use Contracts

Catalog Sales

Internet Sales

Internet Advertising

Travel Services

Broadcast Rights

Mailing List Rentals

Logo Usage

Affinity Cards

Commercial Research

Copyrights/Trade Names

Computer Services

Summer Camps

The mission of the CSU is to advance and extend knowledge, learning, culture and to offer undergraduate and graduate instruction leading to bachelor's and higher degrees.

Unrelated to Exempt Purpose (Reg §1.513-1(d)(2))

Activity Number	Activity Name and Description	Is this activity related to the exempt educational mission of the CSU?
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UBIT Questionnaire

B

Campus Name:
Activity Name and Number:

(Adapted from UC Non-Financial Questionnaire, revised by CO Sept. 2009)



Unrelated to Exempt Purpose (Reg §1.513-1(d)(2))

1 Explain what the activity is, how it is carried out, and where it is located.

2 If students participate in the activity as part of a requirement of instruction, describe how they are involved.

If the activity is related to the educational mission of the CSU, STOP HERE, activity is not taxable.

Generally, if an activity is a year-round activity, it may be considered regularly carried on.

Regularly Carried On (Reg §1.513-1(c))

1 How often is the activity performed?

2 How often would this activity be performed by a taxable entity (competitor)?

If the activity is infrequent or sporadic, it is not deemed to be regularly carried on. STOP HERE, activity is not taxable.

An activity is considered a trade or business if the taxpayer's primary purpose for engaging in the activity is for income or profit. A good indication is also if it competes with activities engaged in by taxable entities.

Trade or Business (Reg §1.513-1(b))

1 Is the intent of the activity to make a profit, break even, or to run at a loss?

2 How is the activity advertised?

3 Are prices charged lower than taxable entities?

4

What kinds of books and records are maintained for this activity? How did you identify and report the revenue from this activity?

If the activity does not have the attributes of a trade or business, STOP HERE, activity is not taxable.

If the activity is NOT RELATED to the CSU's educational mission, is REGULARLY CARRIED ON, and is a TRADE OR BUSINESS continue to Schedule C of this worksheet. The income generated by this activity may be subject to UBIT.

UBIT Questionnaire

C

Campus Name:

Activity Name and Number:

**Rental Income (IRC §512(b)(3)) (e.g. facility rental, rental of arena, rec. center usage, athletic facilities usage
personal property rental, rental of telecom equipment or broadcast tower)**

Describe the type of real and / or personal property rented. If the rental is a broadcast tower, state if it is the tower being rented or the roof top space for a third party's tower.

1

2	Is the property managed by a third party?	Yes	No
3	Is the real property used in the activity to generate income financed with debt?	Yes	No

If no, skip to question 8. If Yes, answer questions 4 through 7.

4	Is the purchase price a variable amount?	Yes	No
5	Is the debt (or debt repayment) dependent at least partly on revenue, income, or profits derived from the property?	Yes	No
6	Was the property leased back to the seller (or person related to seller)?	Yes	No
7	Was the financing provided by a related party on terms that are not commercially reasonable?	Yes	No

If the answer to any one of the questions numbered 4 through 7 is "Yes", report the income on Schedule D.

8	Does the activity generate revenue solely from the rental of real property?	Yes	No
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9 Are services provided for the tenant? If so, describe the nature and extent of the services provided (e.g. maid service, food, janitorial, security, etc.).

If services were provided in connection with the rental of real property, report the income on Schedule D.

10	Was personal property rented?	Yes	No
11	Was the personal property rented in conjunction with a lease of real property?	Yes	No

If "No", report the income on Schedule D. If "Yes", continue to Question 12.

Rents from personal property are taxable, unless they are an "incidental" (10% or less) component of a mixed lease with real property.

12	Enter dollar amount of rental income sourced to personal property on this line (has a default value of 1 as a placeholder).	\$	1
13	Enter total rental income (sourced to both personal and real property) on this line (has a default value of 10 as a placeholder).	\$	10
14			10%

If the number in Box 14 is 11% but not more than 50%, multiply the total rent by the % attributed to personal property (box 14) and report on Schedule D; if the number exceeds 50%, report all income from this activity on Schedule D.

**Royalties (IRC §512(b)(2)) (e.g. broadcast rights, royalties from oil and gas interests, affinity cards,
mailing list rentals, logo usage, etc.)**

If this activity generates royalty revenue, explain the basis for determining payment (gross income, net profits, etc.). Attach related contract or agreement.

1

2	Was the campus required to perform any services in order to receive payment?" If "Yes", describe services performed.	Yes	No
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If you answered "Yes" to Q2, report the income on Schedule D.

Advertising (Reg §1.513-1(d)(4)(iv)) (e.g. printed materials, Internet, billboard, radio broadcasting)

1	What medium is used for the advertising sold (e.g. printed publication, other printed material, internet, facility (such as billboard, marquee, scoreboard), TV/radio broadcasting)?		
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2	Does the message, ad or broadcast include qualitative or comparative language related to the advertiser's company or products?	Yes	No
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3	Is information about price or other indications of savings or value associated with a product or service?	Yes	No
---	---	-----	----

4	Is there a "call to action" requesting that readers patronize the advertiser?	Yes	No
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5	Is there an endorsement of the advertiser's company, product, services, or facilities?	Yes	No
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6	Is there an inducement to buy, sell, rent or lease the advertiser's product or services?	Yes	No
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Any "Yes" response to Q2-Q6 may result in taxable advertising that needs to be reported on Schedule D.

7	Does the sale of advertisements contribute importantly to the CSU's educational mission?	Yes	No
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8	If so, please explain how (e.g. sale and publication of ads is conducted by students under supervision) and provide detail of activity.		
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If the answer to Question 7 is "No", report the income on Schedule D.

Corporate Sponsorship Income (IRC §513(i)(2)) (e.g. publications, events, Internet, scoreboard, TV broadcasting)

1	Describe the event related to the sponsorship. Attach related contract or agreement.		
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If some form of advertisement of the entity or its product is part of the sponsorship agreement, answer Q2 - Q6.

2	Does the message, ad or broadcast include qualitative or comparative language related to the sponsor's company or products?	Yes	No
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3	Is information about price or other indications of savings or value associated with a product or service?	Yes	No
---	---	-----	----

4	Is there a "call to action" requesting that participants patronize the sponsor?	Yes	No
---	---	-----	----

5	Is there an endorsement of the sponsor's company, product, services, or facilities?	Yes	No
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6	Is there an inducement to buy, sell, rent or lease the sponsor's product or services?	Yes	No
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Any "Yes" response to Q2-Q6 may result in taxable advertising. Estimate the FMV of this benefit to the sponsor and provide on Schedule C-2.

7	Does the sponsor receive any other benefits in exchange for payment (e.g. tickets, parking, services)?	Yes	No
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8	Does the sponsor receive an exclusive provider agreement stating that competing products / services will not be sold in connection with the activity?	Yes	No
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Any "Yes" response to Q7 & Q8 may result in taxable benefits. Estimate the FMV of each of these benefits and provide on Schedule C-2.

To determine if the benefits listed on C-2 are taxable, complete Q9 & Q10.

9	Enter the total FMV of benefits from C-2 (default value is 2 as a placeholder):	\$	2
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10	Enter the total contribution payment made by the sponsor (default value is 100 as a placeholder):	\$	100
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			2.00%
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If the value of benefits provided to sponsor exceeds 2% of sponsor's payment, report the total contribution on Schedule D.

Convenience of CSU students, faculty or staff (IRC §513(a)(2))

1 Who are the primary recipients of the services/products comprising the activity?

2 Indicate the percentage of total sales attributable to each group of users:

Students:	
Faculty/Staff:	
General Public (includes alumni):	
TOTAL	0

3 Does the activity involve concession sales (e.g. sale of food, novelty items, T-shirts)?	Yes	No
4 Does the activity involve sales of items directly related to education (e.g. sale of books, school supplies, athletic clothing for PE)?	Yes	No
5 Is the activity conducted at a location that is relatively inaccessible to the general public? Describe the location below.	Yes	No

If activity is not conducted solely for the convenience of CSU members, report the income on Schedule D.

Volunteer Labor (IRC §513(a)(1))

1 If volunteers are participating in the activity as part of a requirement of instruction, describe what they do.

If volunteers are not performing substantially all of the work involved in the activity, report the income on Schedule D.

Donated Merchandise IRC -(§513(a)(3))

1 If this activity involves the sale of goods, indicate the percentage of revenue attributable to donated goods.

If the activity does not involve the sale of donated goods, report the income on Schedule D.

If the activity does not meet any of the listed modifications or exclusions, remember to explain the activity on Schedule B and report the income on Schedule D.

Corporate Sponsorship Income

Campus Name:
Activity Name and Number:

Benefit Provided to Sponsor (e.g. advertising, exclusive provider agreement, etc.)	FMV of Benefit	Basis / Rationale for Amount Reported in Col. B (internal pricing schedule, prices for similar services in community, contractual value)
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	
	\$ -	

\$ - Enter at Q9, Corporate Sponsorship Income section of Questionnaire C



Summary of Revenue & Expenses

D

Campus Name:

Report UBI by activity **Amount of UBI**
 (populate with Name and Activity Number from Questionnaire B)

Activity 1	\$ -
Activity 2	\$ -
Activity 3	\$ -
Activity 4	\$ -
Activity 5	\$ -

Report deductions (complete detail below)

Activity 1	\$ -
Activity 2	\$ -
Activity 3	\$ -
Activity 4	\$ -
Activity 5	\$ -

Tax Exempt Interest

(Name of issuer)	\$ -
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Net Income

Activity 1	\$ -
Activity 2	\$ -
Activity 3	\$ -
Activity 4	\$ -
Activity 5	\$ -

Attach depreciation worksheet if assets are palced into service for UBI generating activities this year

	Activity 1	Activity 2	Activity 3	Activity 4	Activity 5
Salaries & wages	\$ -	\$ -	\$ -	\$ -	\$ -
Repairs and maintenance	\$ -	\$ -	\$ -	\$ -	\$ -
Bad debts	\$ -	\$ -	\$ -	\$ -	\$ -
Employee benefit programs	\$ -	\$ -	\$ -	\$ -	\$ -
Supplies & services	\$ -	\$ -	\$ -	\$ -	\$ -
Overhead	\$ -	\$ -	\$ -	\$ -	\$ -
Printing	\$ -	\$ -	\$ -	\$ -	\$ -
Utilities	\$ -	\$ -	\$ -	\$ -	\$ -
Advertising	\$ -	\$ -	\$ -	\$ -	\$ -
If sale of goods, then enter:					
Returns and allowances	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of goods sold	\$ -	\$ -	\$ -	\$ -	\$ -
(complete COGS schedule below)					
Total	\$ -	\$ -	\$ -	\$ -	\$ -

Check Figure	\$	-
Total Deductions	\$	-

Schedule A—Cost of Goods Sold. Enter method of inventory valuation ►

1 Inventory at beginning of year	1			6 Inventory at end of year	6		
2 Purchases	2			7 Cost of goods sold. Subtract line 6 from line 5. Enter here and in Part I, line 2	7		
3 Cost of labor	3			8 Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the organization?		Yes	No
4a Additional section 263A costs (attach schedule)	4a						
b Other costs (attach schedule)	4b						
5 Total. Add lines 1 through 4b	5						

Narrative of Expense Methodology

Please provide a narrative of how deductions and expenses are allocated.

Why is your expense methodology reasonable? Has it been consistently applied?

What is your methodology for calculating and applying overhead?



Acknowledgment

E

I understand that the Chancellor's Office relies on campus staff and administrators to gather and report unrelated business income and expense information to be included on a consolidated system-wide IRS 990-T form. The campus is responsible for documenting and supporting all income and expense items reported in this packet, as well as maintaining and presenting all relevant records in case of an IRS audit. Under penalties of perjury, I declare that I have examined this worksheet, including accompanying schedules and statements. To the best of my knowledge and belief, it is true, correct, and complete.

Signature of Campus President

Date



UBIT PACKET INSTRUCTIONS



This packet is composed of 5 sections and is designed to assist you in determining the campus activities resulting in taxable income. The questionnaire sections pose a series of inquiries to aid in determining if an activity generating revenue meets a three-pronged test for unrelated business income and if it does, whether it qualifies for tax exemption. The attached schedules should be completed in the order presented. Further instructions are offered below.

Included in this packet is a document entitled *UBIT Basics*. We recommend that you read this before filling out the forms as it provides essential background information.

Section Instructions

Schedule A

Begin the process of reporting UBIT by considering the campus's sources of revenue, other than those which are clearly related to its exempt purpose (such as state appropriations and student fees). On Schedule A list all these sources and indicate by checking the Yes/No boxes whether they are related to the CSU's mission. The mission statement is provided for your convenience. In evaluating the system's tax obligation, it is important for us to know every source of income your campus has.

Schedule B

Complete one Schedule B for **each** activity marked with a "No" on Schedule A. Write the activity name and number (established on Schedule A) at the top of Schedule B. The purpose of the schedule is to determine if the unrelated activity meets all three UBIT tests (i.e. the activity is unrelated to the organization's exempt purpose, it is "regularly carried on" and it qualifies as a trade or business). Be sure to provide a complete description of the activity on this schedule.

Schedules C and C-2

Complete one Schedule C for **each** activity meeting the three-prong test as determined at Schedule B. Write the activity name and number at the top of Schedule C. The purpose of this schedule is to determine if the revenue from the unrelated activity can be excluded, in full or in part, from taxation. Check all categories that apply and for those that do apply, answer the related questions. Instructions on how to report any income determined to be taxable are provided on the schedule.

Schedule C-2 is a separate schedule to be filled out when you are reporting corporate sponsorship income and requires that you identify and value the benefits provided to a sponsor in return for a contribution that goes beyond simple acknowledgement of the contribution.

Amounts for the benefits provided are to be reported at fair market value, which may be ascertained by reviewing pricing sheets the campus has for advertising fees and other services charged to unrelated third parties. If such information is not available, refer to market rates for similar benefits or services that were present in the community at the time of the contribution, or refer to the contract to determine any contractual value assigned for such benefits.

Schedule D

Complete this schedule for **all** activities generating taxable income, including those determined as taxable on Schedule C. The purpose of this schedule is to report the income derived from activities unrelated to the campus's exempt purpose and allocable expenses. It has two sections. The first is for entry of revenue and expenses. Expense detail in the categories indicated (i.e. salaries and wages, repairs and maintenance, etc.) is required. The second section requires information on your expense and overhead allocation methodology. Be sure to provide a complete description of your methodology.

Fill out a depreciation worksheet if assets are placed into service for a UBI-generating activity this year and you wish to claim tax depreciation. If tax exempt interest was received or accrued during the tax year enter the dollar amount on Schedule D.

Acknowledgment

This is your campus's confirmation that the information being submitted for the system-wide UBIT return (Form 990T) is accurate. It must be signed by an AVP or higher position. The packet will be immediately returned to you if the acknowledgment has not been executed.

It is the campus's responsibility to prepare and maintain all documents supporting the reported revenue and expenses. In the event of an IRS audit, the campus will be required to submit for examination all relevant documents.

The System-Wide Tax & Legislation Analyst is responsible for preparing the consolidated return and will rely on the information submitted to determine the appropriate tax treatment of the reported activities. **To assist him in his evaluation, we have requested all contracts or agreements relating to royalty or corporate sponsorship revenue be submitted. In addition, we ask that any contract generating gross UBI of \$100,000 or more also be submitted.** Where required, attach to Schedule B/C for the relevant activity. In addition, the analyst may issue follow-up questions concerning your submission and will provide a separate due date for response.

Submission Instructions

Campus packets are due no later than January 15, 2010. Return to:

The California State University
Office of the Chancellor

401 Golden Shore Drive, 5th Floor
Long Beach, CA 90802-4210
Attention: Nikhil Bassi, Systemwide Tax and Legislation Analyst

Phone: (562) 951-4697

Fax: (562) 951-4865 (use cover page)

Depreciation Worksheet

Campus	Description of Property	MACRS/Other /Listed	Classification of Property	Mo/Yr in Service	Cost	Business Use Percentage	Sec 179 Deduction	Basis for Depreciation	Residual Value	Recovery Period	Convention	Method
Totals												
<u>FY 95/6</u>												
FU	Stadium Scoreboard	MACRS	10 year	Aug-88	\$ 230,600	100.00%	-	\$ 230,600	-	10	HY	S/L
FU	Baseball Scoreboard	MACRS	11 year	Feb-89	\$ 223,700	100.00%	-	\$ 223,700	-	10	HY	S/L
FU	Freeway Sign	MACRS	12 year	Mar-89	\$ 127,362	100.00%	-	\$ 127,362	-	10	HY	S/L
ST	Computer equipment	MACRS	5 year	Aug-91	\$ 8,892	100.00%	-	\$ 8,892	-	5	HY	200DB
<u>FY 96/7</u>												
PO	Digital Voice Logging Recorder	MACRS	5 year	Sep-92	\$ 14,014	40.91%	-	\$ 5,734	-	5	HY	200DB
PO	Radio Dispatch Console	MACRS	5 year	May-93	\$ 16,549	40.91%	-	\$ 6,771	-	5	HY	200DB
FU	Sports Complex (note 2)	MACRS	39 Year	Feb-92	\$ 9,731,730	5.00%	-	\$ 486,587	-	39	MM	S/L
SM	Modems, Modem Cards, Power Sup	MACRS	5 year	Apr-93	\$ 8,934	100.00%	-	\$ 8,934	-	5	HY	200DB
SM	Data Storage Tapes	MACRS	5 year	May-93	\$ 1,015	100.00%	-	\$ 1,015	-	5	HY	200DB
SM	Access Server	MACRS	5 year	Jun-93	\$ 6,580	100.00%	-	\$ 6,580	-	5	HY	200DB
SM	Newsserver Software	MACRS	3 year	Nov-92	\$ 640	100.00%	-	\$ 640	-	3	HY	S/L
SM	ARS Server Software	MACRS	3 year	Sep-92	\$ 7,165	100.00%	-	\$ 7,165	-	3	HY	S/L
ST	Public Safety Vehicle (note 1)	MACRS	5 year	Dec-92	\$ 21,596	22.76%	-	\$ 4,916	228	5	HY	200DB
<u>FY 97/8</u>												
SM	Computer	MACRS	5 year	Sep-93	\$ 1,320	100.00%	-	\$ 1,320	-	3	HY	200DB
SM	Computer Software	MACRS	3 year	Jun-93	\$ 2,703	100.00%	-	\$ 2,703	-	5	HY	S/L
<u>FY 98/9</u>												
SM	Computer	MACRS	5 year	Aug-98	\$ 1,320	100.00%	-	\$ 1,320	-	5	HY	200DB
ST	Gas Carts	MACRS	5 year	Jul-98	\$ 26,580	100.00%	-	\$ 26,580	-	5	HY	200DB
ST	Portion of Vehicle	MACRS	3 year	Jul-98	\$ 9,214	100.00%	-	\$ 9,214	-	3	HY	200DB
<u>FY 99/0</u>												
SM	Computer	MACRS	5 year	Aug-99	\$ 1,320	100.00%	-	\$ 1,320	-	5	HY	200DB
SM	Network Catalyst	MACRS	5 year	Sep-99	\$ 7,207	100.00%	-	\$ 7,207	-	5	HY	200DB
<u>FY 00/01</u>												
ST	Carton Sealer	MACRS	5 year	Oct-02	\$ 9,976	100.00%	-	\$ 9,976	-	5	HY	200DB
<u>FY 04/05</u>												
LA	Electric Cart	MACRS	10 year	Jun-05	\$ 20,002	100.00%	-	\$ 20,002	-	10	HY	S/L
<u>FY 05/06</u>												
FU	Baseball Dugout-design, planning, construction, lab	MACRS	30 year	Jun-06	\$ 38,657	100.00%	-	\$ 38,657	-	30	HY	S/L
FU	Baseball Batting Cage	MACRS	30 year	Jun-06	\$ 164,988	100.00%	-	\$ 164,988	-	30	HY	S/L
FU	4302M John Deere/1200A Ballfield Groomer	MACRS	10 year	Jan-06	\$ 10,452	100.00%	-	\$ 10,452	-	10	HY	S/L
FU	Baseball Field Proj-0706	MACRS	30 year	Jan-03	\$ 443,036	100.00%	-	\$ 443,036	-	30	HY	S/L
FU	Sport Complex-Feas Std	MACRS	30 year	Jan-05	\$ 19,600	100.00%	-	\$ 19,600	-	30	HY	S/L
ST	911 System	MACRS	5 year	Jun-06	\$ 80,767	100.00%	-	\$ 78,075	-	5	HY	200DB
<u>FY 06/07</u>												
FU	Gymnastic Tumbling Ramp	MACRS	5 year	Jun-07	\$ 8,230	100.00%	-	\$ 8,230	-	5	HY	S/L
FU	Softball Field Storm Drainage	MACRS	40 year	Jun-07	\$ 19,408	100.00%	-	\$ 19,408	-	40	HY	S/L
PO	Computer	MACRS	5 year	Aug-06	\$ 2,990	10.23%	-	\$ 306	-	5	HY	200DB
PO	Radio Equipment	MACRS	5 year	Dec-06	\$ 9,123	10.23%	-	\$ 933	-	5	HY	200DB
<u>FYE 2008</u>												
LA	Electric Cart	MACRS	10 year	Apr-08	\$ 64,000	100.00%	-	\$ 64,000	-	10	HY	S/L
FU	KHS Training Room Remodel	MACRS	40 year	Jun-09	\$ 71,235	200.00%	-	\$ 71,235	-	30	HY	S/L

Note 1: Not listed property since police vehicle: Reg. section 1.274-5T(k)

Note 2: Final depreciation will be \$8,822 in year 39

Prior Years Depreciation Schedule

Campus	Prior to 95/96	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	Thereafter	Total Depreciation	
Totals	-	59,944	72,741	86,532	90,761	91,056	87,114	81,247	76,831	74,382	73,288	39,469	69,721	44,250	48,638	48,638	48,638	41,300	10,775	10,775		1,156,101	
<u>FY 95/6</u>																							
FU	-	23,060	23,060	23,060	23,060	23,060	23,060	23,060	23,060	23,060	23,060											230,600	
FU	-	22,370	22,370	22,370	22,370	22,370	22,370	22,370	22,370	22,370	22,370											223,700	
FU	-	12,736	12,736	12,736	12,736	12,736	12,736	12,736	12,736	12,736	12,738											127,362	
ST	-	1,778	2,845	1,707	1,024	1,024	514															8,892	
<u>FY 96/7</u>																							
PO	-	-	1,147	1,835	1,101	661	661	329														5,734	
PO	-	-	1,354	2,167	1,300	780	780	390														6,771	
FU	-	-	3,639	12,477	12,477	12,477	12,477	12,477	12,477	12,477	12,477	12,477	12,477	12,477	12,477	12,477	12,477	12,477			358,178	548,972	
SM	-	-	1,787	2,859	1,715	1,029	1,029	515														8,934	
SM	-	-	203	325	195	117	117	58														1,015	
SM	-	-	1,316	2,106	1,263	758	758	379														6,580	
SM	-	-	107	214	214	105																640	
SM	-	-	1,194	2,388	2,388	1,195																7,165	
ST	-	-	983	1,573	944	566	566	56														4,688	
<u>FY 97/8</u>																							
SM	-	-	-	264	422	253	152	152	77													1,320	
SM	-	-	-	451	901	901	450															2,703	
<u>FY 98/9</u>																							
SM					264	422	253	152	152	77												1,320	
ST					5,316	8,506	5,103	3,062	3,062	1,531		(1,531)										25,049	
ST					3,071	4,096	1,365	682														9,214	
<u>FY 99/0</u>																							
SM						264	422	253	152	152	77											1,320	
SM					1,441	2,306	1,384	830	830	416												7,207	
<u>FY 00/01</u>																							
ST						1,995	3,192	1,915	1,149	1,149	576											9,976	
<u>FY 04/05</u>																							
LA										1,001	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	1,001	20,002	
<u>FY 05/06</u>																							
FU												1,289	1,289	1,289	1,289	1,289	1,289					30,923	38,657
FU												5,500	5,500	5,500	5,500	5,500	5,500					131,988	164,988
FU												1,045	1,045	1,045	1,045	1,045	1,045					4,182	10,452
FU									14,768	14,768	14,768	14,768	14,768	14,768	14,768	14,768	14,768					324,892	443,036
FU											653	653	653	653	653	653	653					15,029	19,600
ST												2,692	30,676										
<u>FY 06/07</u>																							
PO													61										
PO													187										
FU													823	1,646	1,646	1,646	1,646	823					8,230
FU													243	485	485	485	485	17,225					19,408
<u>FYE 2008</u>																							
LA														3,200	6,400	6,400	6,400	6,400	6,400	6,400	22,400		64,000
FU														1,187	2,375	2,375	2,375	2,375	2,375	2,375	55,798		71,235

Note 1: Not listed property since police vehicle: Reg. section 1.274-5T(k)
 Note 2: Final depreciation will be \$8,822 in year 39

The worksheet should report all assets placed into service during the tax year. Additional sheets may be used if more columns are required. Refer to instructions for Form 4562, Publication 946, campus records, and information contained on the Prior Years Depreciation Schedule for guidance.

	Asset 1	Asset 2	Asset 3	Asset 4	
Description of Property *					
MACRS/ Other/ Listed					
Classification of Property					
Mo./ Yr in Service					
Cost					
Business Use Percentage					
Section 179 Deduction					
Basis for Depreciation					
Residual Value					
Recovery Period					
Convention					
Method					
Depreciation Schedule:					
1997/ 1998					
1998/ 1999					
1999/ 2000					
2000/ 2001					
2001/ 2002					
2002/ 2003					
2003/ 2004					
2004/ 2005					
2005/ 2006					
2006/ 2007					
2007/ 2008					
2008/ 2009					
2009/ 2010					
2011/ 2012					
Thereafter					

Total Additions

Total depreciation expense for FYE 2009

* (include state tag # where applicable)

Income Summary

Previous Years Taxable Income Listing

Source of income	Campus
Parking Passes	Bakersfield
Energy Efficiency Program w/ Socal Edison	CO
Rental of University Facilities	East Bay
Printing	Fresno
Electronic Waste Disposal	Fresno
Conference Facility Rentals	Fresno
Parking	Fresno
Smithcamp Alumni House	Fresno
Internet Subscription Fees	Fresno
Special Event Parking	Fullerton
Golleher Alumni House Rentals	Fullerton
Rental of University Facilities	Fullerton
Special Programs, Promotions, Sponsorship	Fullerton
Public Use of Facilities	Humboldt
Use of Facilities	LA
Facility Rental	Maritime
Facility Licensing	Northridge
Advertising: Intercollegiate Athletics Contracts	Northridge
Career Center - Alumni Services	Sacramento
Facility Rental	Sacramento
Real Property Rental	San Bernardino
Corporate Sponsorships - Advertising	San Diego
Fingerprinting Service	San Francisco
Special Event Parking	San Jose
Stadium Rentals for pro sports events	San Jose
Facility Rental Meeting Room Parking	San Marcos
Facility Rental-Parking	Stanislaus