SELF-SUPPORTING EXCESS FUNDS
PROVIDING BUDGET TO UNITS WITH LAPSED SELF-SUPPORTING EXCESS FUNDS

The Legislative Audit Commission *University Guidelines 1982* as Amended 1997 (Guidelines) requires that "all funds remaining in the accounting entities at the end of the fiscal year shall be paid into the Income Fund within 45 days of the close of the lapse period except as follows: Each entity is allowed to retain a working capital allowance and capital reserves at the end of the fiscal year." (See definition of Working Capital at the end of this policy). These programs have expanded significantly since the Guidelines were written and working capital allowances have become more common.

Subsequent to the implementation of the Guidelines, the State of Illinois delegated administration of the Income Fund to the University, eliminating the need to remit these funds to the State. The State Finance Act stipulates that self-supporting income "which is not necessary to the support, maintenance, and development" of the activities which generated the revenue should not be "applied to any general or operational educational purpose" and shall instead be deposited to the Income Fund. However, the legislation that permits the University to retain these funds only specifies that the money be used "by the University, pursuant to order and direction of the Board of Trustees of the University, for the support and improvement of the University." [30 ILCS 105/6d] The Guidelines preclude using state appropriated funds to subsidize "auxiliary" enterprises or to create or increase working capital reserves of an "auxiliary" enterprise entity. The Guidelines do not address use of these funds for "activities". In addition, excess funds of one entity may not be offset against another entity.

Campus has the authority to decide how to use the self-supporting funds lapsed into the Income Fund. In some instances, a campus may return the funds to the originating unit(s). When deciding whether to return the funds to the unit(s), the campus is responsible for first collecting information on the attached form. This form documents and justifies the unit's need for having the funds returned. In making this decision, the campus will analyze the information provided and may refer to information UAFR received during its pre-fiscal year closing review of potential excess fund activities.

While the campus may use its discretion in determining whether or not to return the funds, funds should only be returned to units when they will be used to further the activity from which the related self-supporting revenues were initially generated. In addition, the return of funds cannot violate the State stipulations cited above.

Examples of situations that could merit return of the funds include: plans to purchase new equipment or remodel a facility; funds needed for expenses that occur irregularly across fiscal years; plans to expand the program or activity; providing working capital for units in the "unique programs" entity (since this entity is not allowed working capital in the excess funds calculation); or fluctuation in the level of revenue from year to year requiring a larger amount of working capital than one month's expenses. An example that would not represent appropriate circumstances for returning the funds to the unit would be saving the funds for a "rainy day".

If the funds are returned to the unit and will be used for personnel costs, the campus may withhold a portion of the amount. The withheld amount will be equivalent to the benefits assessments that the unit would have been responsible for funding from the self-supporting fund but will be exempt from funding due to spending state funds rather than self-supporting funds.

Working Capital defined: Working capital includes: the highest month's disbursements, encumbrances paid during the lapse period and current liabilities, deferred income and refundable deposits, the amount necessary to increase current inventory to normal operating levels, and an allowance for anticipated payouts of accumulated vacation and sick leave during the next fiscal year. The Guidelines provide that "Charges" (such as foreign programs, field trips and flight training) may only deduct current liabilities, encumbrances paid in the lapse period, deferred income, and refundable deposits.

UNIVERSITY OF ILLINOIS
REQUEST FOR RETURN OF LAPSED SELF-SUPPORTING EXCESS FUNDS

1) Fund (code and title) ___________________________________Amount Lapsed $_______________

Dept Org Code____________________ Dept Title ____

Dean or Vice Chancellor (VC) Org Code________Dean or VC Title______________________________

Contact____Phone number ________________

2) Describe the activity accounted for in this fund.

3) Explain how the fund accumulated an excess balance.

4) Explain why the unit requires the lapsed funds in order to continue operations, including if the funds are needed for any unusual, irregular, or capitalized expenses; if the funds will finance expansion; and why the nature of the activity requires more than the typical carryover amount allowed by the Legislative Audit Commission Guidelines.

5) Specify the amount requested for return.

6) Indicate what percent of the funds, if returned, will be spent for salaries and wages.

7) Describe how the unit determines rates charged to customers and indicate when the unit last analyzed and reviewed the rates.

8) Complete the attached 3 year pro-forma budget.

9) Provide any other relevant information, data, or comments related to justification for return of funds. Attach additional pages as needed.

Completed by: ______________________________ **Date:** ____________

Department Head Signature: ______________________________ **Date:** ____________

Dean or Vice Chancellor Signature: ______________________________ **Date:** ____________

Submit to campus Provost Office

PROVOST OFFICE USE ONLY:

Amount Approved for Return $___________________

Comments

Provost Designee Signature: ______________________________ **Date:** ____________

SELF-SUPPORTING EXCESS FUNDS ASSESSMENT DISTRIBUTION METHOD
PERFORMED BY UNIVERSITY ACCOUNTING AND FINANCIAL REPORTING (UAFR)

If a self-supporting entity is determined to have excess funds based on the LAC Guidelines formula, the excess must be assessed to the entity and distributed among the funds in the entity. UAFR will perform the computation defined below to identify which funds to assess and will forward the list to the applicable campus OBFS Budget office and/or the Provost office who will make the final decision of how to distribute the assessment.

Discussion of Distribution Approach

- Goals of this approach:
    - To limit the number of funds assessed for the excess. Given the administrative effort required in reviewing activities when determining whether or not to budget the funds back to the unit, limiting the number of funds is practical.
    - To eliminate judgmental selection of which funds to assess.
    - To select funds using a formula that is reasonable in a wide variety of circumstances (see attached examples).
    - To use a formula driven approach which will approximate the list of funds selected for distribution that would be selected if chosen judgmentally.
- High Month Expenditures by Fund rather than by Entity
    - Assessing the funds based on the calculation of the high month by fund is more equitable since a particular fund's increased expenditure activity can occur at varying times of the year.
- In certain instances, the cash balance is less than the computed Excess funds balance for a particular fund. In these cases, the assessment should be based on the cash balance rather than the excess fund balance. Otherwise, theoretically, a fund could have an amount lapsed greater than its cash balance.
- Using 300% and 10% parameters (explained in UAFR Detailed Selection Criteria below)
    - Generally, five funds will be assessed. However, in cases where only one or a couple of funds constitute the majority of the excess balance, or where excess balance of additional funds are very close to the top five, assessing more or less funds is deemed reasonable.
    - Rather than leave the decision purely to judgment, these parameters are used as a more objective way to make this determination.
    - The 300% parameter isolates funds that are true outliers in the magnitude of their balances, over 3 times more than funds not selected.
    - The 10% parameter enables selection of funds that have balances close in size to the smallest of the original five selected, i.e. assures that the cutoff is based on a difference in excess funds balances greater than a negligible (10%) amount.
    - As recommended by our internal auditors, these parameters represent measurable, easily applied criteria which avoid using random judgment on a case by case basis.

UAFR Detailed Selection Criteria (Examples Attached)

Distribute the excess based on the LAC Guidelines formula to the funds having the largest balances determined by using the following modifications and parameters:

- Compute the Excess Balance using High Month Expenditures by Fund
    - This is not applicable to entities that are not allowed high month expenditures in the excess funds calculation; i.e., 3420 – Unique Programs

- Use the cash balance for any funds where the calculated excess fund balance happens to be greater than the cash balance itself.
- The amount resulting from the above two steps is referred to as the Modified Excess.
- Once the above modifications are made, select the five funds having the largest Modified Excess balances.
- Analyze the second through fifth largest funds, and remove funds from the selection if the difference in the Modified Excess from the largest fund is over 300%.
- Add additional funds if the total Modified Excess of all selected funds is less than the total Modified Excess balance for the entity.
- If at least five funds are still selected, perform an analysis to determine if other funds should be added to the selection due to having Modified Excess balances similar to the fifth largest fund selected. Determine the difference of each of the next several subsequent funds' Modified Excess and that of the fund with the fifth largest Modified Excess divided by the fifth fund's Modified Excess. [Formula – ((*n*th fund Modified Excess *minus* 5^{th} fund Modified Excess) *divided* by 5^{th} fund Modified Excess)]. If this percent is less than 10%, add the fund to the list of funds to assess. The attached examples illustrate this calculation.
- Compute the percentage for each of the selected funds of its Modified Excess over the total Modified Excess of all selected funds.
- Multiply the percentage for each times the total amount of excess to assess. This is the amount that should be transferred from each fund to income fund.

Final Selection of Funds to Assess

UAFR will select and recommend the list of funds to assess using the method discussed above and will provide the list and amounts to the applicable campus OBFS Budget office and/or Provost office. The final decision regarding which funds to assess will be made by these two campus offices. Typically, the recommendation provided by UAFR should be followed, but if unusual and/or unique circumstances exist that make it preferable or more equitable to choose an alternate assessment scheme, the central units involved in making these assessments (OBFS and the Provost office), may do so. After the final determination is made, UAFR will post the excess funds assessment to Banner. Typically, the assessments should be posted in October or November. The Budget Office and/or the Provost office will notify the units being assessed and will communicate the process for requesting return of the funds to them.

accepted November 2011