UCDAVIS
BUDGET AND
INSTITUTIONAL ANALYSIS

DECEMBER 2013

Guidance: Management of Campus Carryforwards and Reserves

PURPOSE

This document provides guidance to support a consistent and transparent approach to how campus units manage and report on carryforward balances. As outlined in the November 2013 working paper on carryforward balances, generally these funds are used to pay for future obligations and manage financial risk. This guidance implements the direction outlined in the November 2013 paper by establishing a coordinated approach to managing balances across campus. The new processes described in this document will allow the campus to provide better information about the balances and intended uses as part of ongoing accountability and stewardship to our students, the citizens of California and others who fund university operations.

DEFINITIONS

Carryforward balances (or carryforward funds) are unexpended balances at the end of the year. For most units, these balances are calculated as: current year budget appropriation and prior year balances less expenditures. For self-supporting, auxiliary and other revenue-generating activities, carryforward balances also include revenues. Planned uses of funds are not reflected in this calculation.

Committed obligations are planned uses of funds tied to specific commitments for an identified organization or individual, and could be considered legally binding; or are funds designated by the Provost/BIA as committed obligations. Committed obligations have been approved in writing by the appropriate decision-making authority e.g. executive management level (Chancellor, Provost, Dean, Vice Chancellor or equivalent), or as delegated by this level. An object consolidation code, COBL, has been established to record funds being used for these types of obligations in our financial system (see Appendix 1).

Core, Fee and Other Unrestricted Funds are defined as general funds and tuition, summer session fees, professional degree fees, student services fee, course material fees, campus-based and other student fees, indirect cost recovery revenues, private unrestricted gifts, unrestricted endowment/FFE earnings, University Extension reserves, self-supporting degree fees, application fees and other funds which include primarily short-term investment and patent revenues.

Known obligations are tied to planned expenditures for items/purposes, but costs and timing are estimated (for example, start-up funds for a faculty hire without specificity as to the precise position or timeframe for recruitment). These obligations have been approved in writing by the appropriate decision-making authority e.g. executive management level (Chancellor, Provost, Dean, Vice Chancellor or equivalent), or as delegated by this level. An object consolidation code, KOBL, has been established to record funds being used for known obligations in our financial system (see Appendix 1).

Legal encumbrances (also called external encumbrances) are generated by the purchasing system when a purchase order is approved and reflect a contractual obligation by the university to expend funds.

Reserves are a specific fund category recognized in the accounting system and generally used for self-supporting, auxiliary activities or campus-based student fees. These are funds set aside for a specific and future use and typically fall into one of two categories: reserves for equipment and reserves for improvement. Equipment reserves are accumulated following a standard depreciation schedule for equipment being replaced, whereas improvement reserves are set aside as part of the budget planning process for that activity and are generally more subjective.

GUIDANCE FOR MANAGING CARRYFORWARD FUNDS

The campus is providing the following guidance to encourage a more consistent and transparent approach to manage carryforward balances. This guidance strives to increase consistency, but recognizes the need for units to have some flexibility to manage financial risks within the specific context of programmatic and operational constraints.

Carryforward Balances

The campus has established an initial guideline that a prudent level of carryforward will be 10 - 15% or 25% of prior year expenditures. The campus will generally evaluate balances at the level of schools, colleges, divisions, academic support and administrative units (major units). The following fund categories will be reviewed regularly, within the carryforward margins of 10 – 15% or 25% as outlined:

Core, Fees and Other Unrestricted Fund Categories	
State Funds and Tuition: 10-15%	199xx (not 19920, 19933, 19980)
Summer Session Fees (SUMFEE): 10-15%	2029x
Professional Degree Supplemental Tuition-excludes FINA: 10-15%	202240, 20242, 20233, 20223, 20225, 20231, 20226, 20229, 20230
Student Services Fee: 10-15%	20000
Course Materials Fees: 10-15%	MATFEE, VETFEE
Campus-Based and Other Student Fees[1] : 10-15%	20025, 20028, 20031, 20095-97, 20260, 20300 - 20302, 20305 - 20308, 20321 - 20327
Indirect Cost Recovery Funds: 10-25%	07427, 19980, 19920, 19933
Private Unrestricted Gifts: 10-25%	SFGT U
Other Funds[2]: 10-25%	SFGT B,D,H, 00002, 00005, 00010, 00012, 00018-19
Unrestricted Endowment/FFE Earnings: 10-25%	SFGT K (not 07427, 05397)
UNEX Reserve Funds: 10-25%	75090
Self-Supporting Degree Program Fee: 10-25%	20235, 20236, 202323, 20027
Application Fees (APPFEE): 10-25%	20201, 20202

[1] Campus-Based and Other Student Fees category is almost 90% student referendum funds on a campus-wide basis.
[2] Other Funds category is 90% STIP and patent revenue on a campus-wide basis.

These fund type categories are generally provided by the state, students, university operations or other key funding partners and therefore will be subject to central reporting and review. For central campus reporting purposes, the prudent carryforward calculation will be made at the major unit level - with flexibility to consider being below or above this level, provided there is appropriate explanation in keeping with committed obligation (COBL) or known obligation (KOBL) considerations (see Appendix 1).

There may be variances among organizational levels within each of these major units in how this summary-level margin is calculated and reported. Each major unit has the ability to provide additional guidance to subordinate organizational levels to be able to respond to unique circumstances within their units. The summary level calculation should still meet the 10 - 15% or 25% margin.

Reporting Process and Format

The following reporting process and format has been developed to balance workload considerations with the need for appropriate and accurate reporting. Early feedback from units helped to streamline this reporting, and while new steps are added to the transaction process, campus needs to move beyond "we just know" to being able to provide high level data to identify planned uses for these funds. This approach is also consistent with internal audit recommendations to implement more consistent and robust reporting practices for campus carryforward balances. Key measures adopted include a standard reporting template with data to be preloaded each year by BIA and shared with major units (see Appendix 2), as well as clarity on reporting timelines and expectations.

a) Spring Review (to align with the annual Budget Meeting process)

Budget and Institutional Analysis (BIA) will provide the carryforward data for the last two fiscal years for discussion with major units in preparation for each unit's Spring budget meeting. Units are expected to discuss how the current year's starting carryforward balance will change based on activities/commitments made during the year, including discussion of any major variance with the 10-15% or 25% guideline margins as appropriate.

b) Fall Review (to provide an analysis soon after each fiscal year close)

After each fiscal year, BIA will provide additional data related to the most recent year-end carryforward balance to each major unit. Further discussions with BIA and major units will take place if balances are below or above the 10-15% or 25% margin, or if there are issues/questions that arise about this data. BIA will provide the results of this review to the Provost and Chancellor.

c) Potential Management Decisions

The review and analysis of carryforward balances is primarily focused on improving information and ensuring financial decisions take into account existing balances as one factor. And, in the context of this review and the overall budget process, there is potential to consider a range of management decisions about each unit's carryforward balances and intended uses. Possible outcomes of these discussions might include requests to deploy and invest carryforward funds to: match or cost-share specific activities/programs; or advance high priority needs in lieu of a central funding contribution (full or partial). Leadership might also ask for a plan to invest (spend-down) funds within a specific time period or conversely direct units to slow expenditures to build balances within a specific time period. As fiscal circumstances permit, there will be further discussion of establishing some central mechanisms for investment of one-time funds or establishment of central bridging funds to provide more direct incentives. To recognize that circumstances faced by individual units or campuswide may vary from year to year - different options may be developed or pursued.

It is noteworthy that while the 2012-13 budget realignment process involved an assessment based partially on carryforward balances held by units, this was reflective of the significant shortfall in the overall campus budget. In contrast, the strategy described in this document seeks to build additional tools or mechanisms to ensure carryforward funds are being used in the most efficient manner across our campus. Therefore, the use of assessments on carryforward funds is not viewed as a routine practice.

Procedures for Coding Carryforward Funds in the Financial System

To assist campus implement this carryforward strategy, BIA and Accounting and Financial Services have developed two new object consolidation codes, "Committed Obligations" (COBL) and "Known Obligations" (KOBL), to more easily track and record intended uses of carryforward balances in our financial system.

Committed obligations are planned uses of funds tied to specific commitments for an identified organization or individual, and could be considered legally binding; or are funds designated by the Provost/BIA as committed obligations. Committed obligations have been approved in writing by the appropriate decision-making authority e.g. executive management level (Chancellor, Provost, Dean, Vice Chancellor or equivalent), or as delegated by this level.

Known obligations are tied to planned expenditures for items/purposes, but costs and timing are estimated (for example, start-up funds for a faculty hire without specificity as to the precise position or timeframe for recruitment). These obligations have been approved in writing by the appropriate decision-making authority e.g. executive management level (Chancellor, Provost, Dean, Vice Chancellor or equivalent), or as delegated by this level.

Judgment will need to be exercised in using these definitions to record future expenditures as COBL or KOBL. Individual entries should be of significant enough value to warrant reporting. Some units have suggested a $10,000 (or percentage based) threshold, though this designated amount is likely to vary from unit to unit.

Steps to Record COBL and KOBL

1. Identify funding needs/obligations e.g. start-up package, contract, equipment, renovation etc.
2. Ensure appropriate approvals are in place and availability of funds to meet needs/obligations.
3. Establish a project code beginning with "CF", consistent with the list below.
4. Transfer funds using a budget adjustment from the appropriate account into KOBL with assigned project code *(Note: supporting documentation identifying estimated amounts and timing of expenditure approved by the appropriate decision-making authority is required. As KUALI gains the functionality to upload documents, it will also become a requirement to attach this supporting documentation electronically when entries are made.)*
5. Once firm commitments are made to expend funds, move committed amounts from KOBL to COBL. *(Note: supporting documentation approved by the appropriate decision-making authority is required. As KUALI gains the functionality to upload documents, it will also become a requirement to attach this supporting documentation electronically when entries are made.)*
6. Transfer funds from COBL to other object consolidations to cover expenses made.

Carryforward Project Codes

Obligation Type/Description	Project Codes
Start-up funding for faculty recruitment: use xx to denote unit (1st two digits of organization code) and "####" for position number	CFSUxx"####"
Retention funding for faculty: use "####" for position number as appropriate	CFRETENT"####"
Fellowships: use "####" for position number as appropriate	CFFELLOWSP"####"
Endowed Chairs: use "####" for positon number as appropriate	CFENDOW"####"
Contract employee: use "####" for position number if relevant	CFCONTEMP
Summer session/seminar compensation	CFSSC
Equipment	CFEQUIP
Renovation	CFRENOV
Bridge funding: support between research grants	CFBRIDGE
All Others: designate appropriate abbreviation for "xxxx"	CFOTHER or CF"xxxx"

Transaction example for a typical start-up package:

1. A recruitment request is developed for a new faculty start-up package
2. Recruitment is authorized by the Provost in writing and funds are identified to support the recruitment.
3. Dean's office establishes project code following campus naming conventions.
4. Dean's Office moves start-up funds from provision account to departmental start-up account as a Known Obligation (KOBL).

	Account	Sub acct	Object	Project	Amount	
FROM:	ESSTART		SUB8	START	200,000	
	ES19933		SUB8	START	360,000	
TO:	STUP19900		KOBL	CFSTUP1301	200,000	
	STUP19933		KOBL	CFSTUP1302	360,000	
					560,000	Total Known Obligation

5. Candidate accepts an official offer in writing. Dean's Office moves Known Obligation (KOBL) to Committed Obligation (COBL).

	Account	Sub acct	Object	Project	Amount	
FROM:	STUP19900		KOBL	CFSTUP1301	200,000	
	STUP19933		KOBL	CFSTUP1302	360,000	
TO:	STUP19900		COBL	CFSTUP1301	200,000	
	STUP19933		COBL	CFSTUP1302	360,000	
					560,000	Total Committed Obligation

6. Candidate begins employment at UCD. Department establishes accounts to receive start-up funding. Funds are transferred to department as needed (i.e. for renovations). Department expenditures accounts are balanced periodically to the expense object consolidation level (i.e. SUB3, SUB4) and during fiscal close process.

	Account	Sub acct	Object	Project	Amount
FROM:	SU19900		COBL	CFSTUP1301	100,000
	SU19933		COBL	CFSTUP1302	300,000
TO:	DEPTACCT		COBL	B201301	100,000
	DEPTACCT		COBL	CFSTUP1302	300,000
					400,000

7. College and campus can now easily determine balance of committed start-up funding.

Account	Sub acct	Object	Project	Amount	
SU19900		COBL	CFSTUP1301	100,000	(200,000 - 100,000)
SU19933		COBL	CFSTUP1302	60,000	(360,000 – 300,000)
				160,000	Year-End Committed Obligation