

University of Northern Colorado
Fiscal Management Practices
Fund Allocation, Reallocation, and Retention

EXECUTIVE SUMMARY

In a continuing effort to most effectively use university fiscal resources, procedures for fund allocation, reallocation and retention have been reviewed. Particular areas of attention were practices for roll-forward balances and distribution of interest earnings.

Procedures have been reviewed, documented and changed to:

- Improve transparency of university finances by
 - describing the types and purposes of fund groups and,
 - more clearly identifying the intended purpose of budgetary and cash balances.

- Systematically reallocate unexpended budget and cash balances in excess of operating requirements to university priorities.

Fund Retention and Roll-forward

In general, decentralized retention of unexpended operating balances (budgetary or cash) will be limited to 1.5% of the current year resources.

After the close of each year, remaining balances that exceed 1.5% of annual revenue (cash funds) or budget (general funds) will be reallocated to central funds to be used for university priorities. Any balances within the 1.5% limit will be de-centrally retained by colleges or divisions and rolled-forward.

This practice will be implemented in phases. Retention of unexpended fiscal year 2006-07 balances (i.e., roll-forward into fiscal year 2007-08) will be limited to 3.0%. Retention of unexpended fiscal year 2007-08 balances (i.e., roll-forward into fiscal year 2008-09) will be limited to 1.5%.

In some cases, thoughtful planning and prudent use of limited resources are supported by decentralized retention of unexpended balances. To encourage wise fiscal management and long-term planning, several accounting structures and procedures have been designed to allow for fund retention in excess of the general limit (3.0% for FY 07 and 1.5% for FY 08 1.5%). Conceptually, the university has four types of fund retention:

1. Central funds that benefit the university as a whole and specially

designated funds retain balances from year to year.

2. Decentralized funds managed by colleges, schools, or other units retain limited balances (3.0% in FY 07 and 1.5% in FY 08).
3. Funds with external or quasi-external restrictions retain balances from year to year.
4. Project funds are used for major multi-year initiatives like capital construction or property acquisition. These funds generally retain balances for three years.

Examples of fund retention by major fund groups include:

- General fund (state appropriated) -- 1xxxx funds
Retention of most general funds will be limited. If an activity typically crosses fiscal years, funds may be segregated into specially designated funds to allow for easier review and to permit 100% balance retention across fiscal years. Examples include:
 - Tuition-funded facility repair and replacement
 - Faculty start-up packages
 - Research incentives

Consistent with university priorities, general funds may also be transferred to project funds with approval from the Provost and CFO.

- Cash funds -- 2xxxx funds
Retention of most cash funds will be limited. There are some broad exceptions for activities that have quasi-external restrictions or other rationale for 100% balance retention. Examples include:
 - Student fees
 - Extended studies
 - Auxiliary services
 - Other revolving funds as specifically approved by the Provost and CFO.

Consistent with university priorities, cash funds may also be transferred to project funds with approval from the Provost and CFO.

Central funds that benefit the campus as a whole, as well as adjustment or clearing funds will not be subject to annual balance reallocation. Examples include:

- Fringe benefit pool
- Net payroll clearing fund

- Project funds – 6xxxx funds
Fiscal managers are encouraged to save for major projects consistent with established university priorities by transferring general or cash resources to capital project funds. Transfers to these funds must be specifically approved by the Provost and CFO. Capital project funds retain balances which should be used within three years.
- Restricted, Loan, Endowment, Capital, and Agency Funds – 3xxxx, 4xxxx, 5xxxx, 7xxxx, 8xxxx funds.
These funds are subject to external requirements. All balances will be retained in the funds from year to year.

Interest Allocation

In general, interest earnings will be allocated centrally and not to individual fund balances.

- Interest earned on general funds (1xxxx) will be commingled with other general revenues for budget allocation.
- Interest earned on cash funds (2xxxx) will be allocated to a central fund for university priorities.
- Interest earned on restricted or bond funds (3xxxx, 4xxxx, 5xxxx, some 6xxxx) will be retained if required, or allocated to the central cash fund for university priorities.
- The auxiliary service fund (28xxx) and auxiliary project funds (some 6xxxx) will retain interest earnings.
- Interest earned on project funds, other than bond proceeds or auxiliary service projects, (most 6xxxx) will be allocated to a central fund for university priorities.
- Agency funds (8xxxx) are not assets of the university but held for others. Balances of individual funds are typically small. In exchange for processing deposits and disbursements, the university will retain interest earned on these balances. (Administrative overhead was formerly charged on agency funds, but will be discontinued). If an individual agency fund carries balances in excess of \$10,000, a flat rate of interest will be allocated to the fund.

Figure 1 - Resources allocated and controlled by budget -- 1xxxx funds

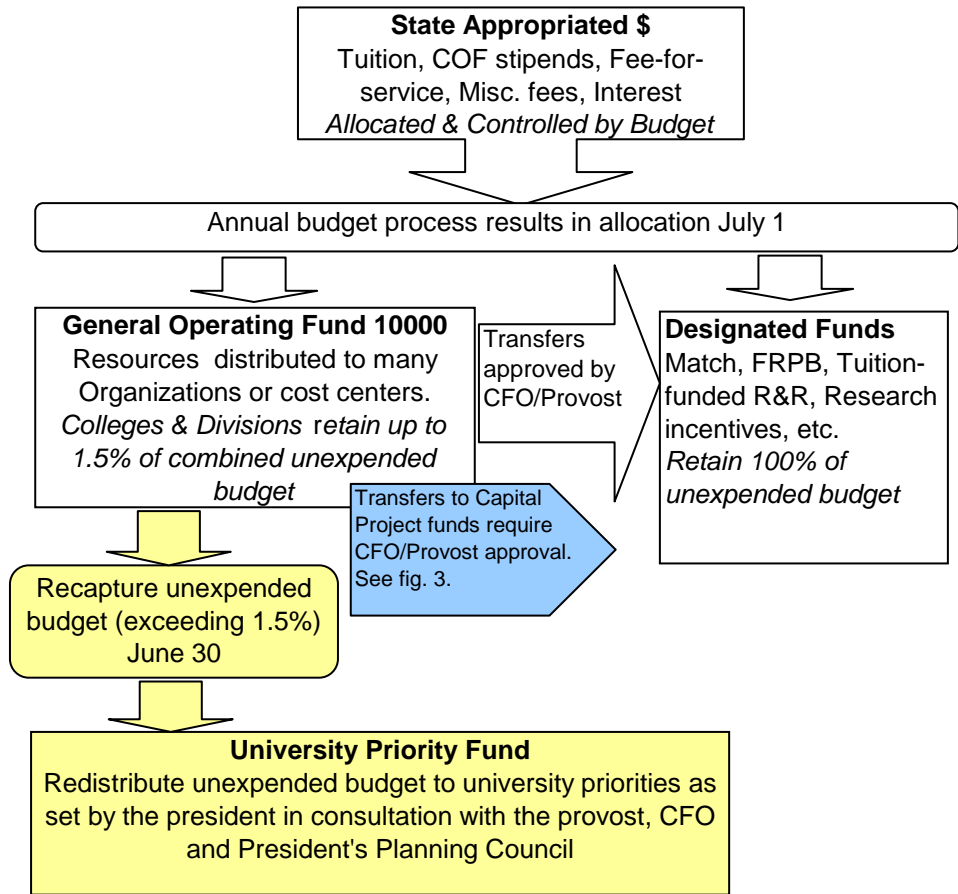


Figure 2 - Operating resources earned, expended and controlled by cash balances -- 2xxxx funds

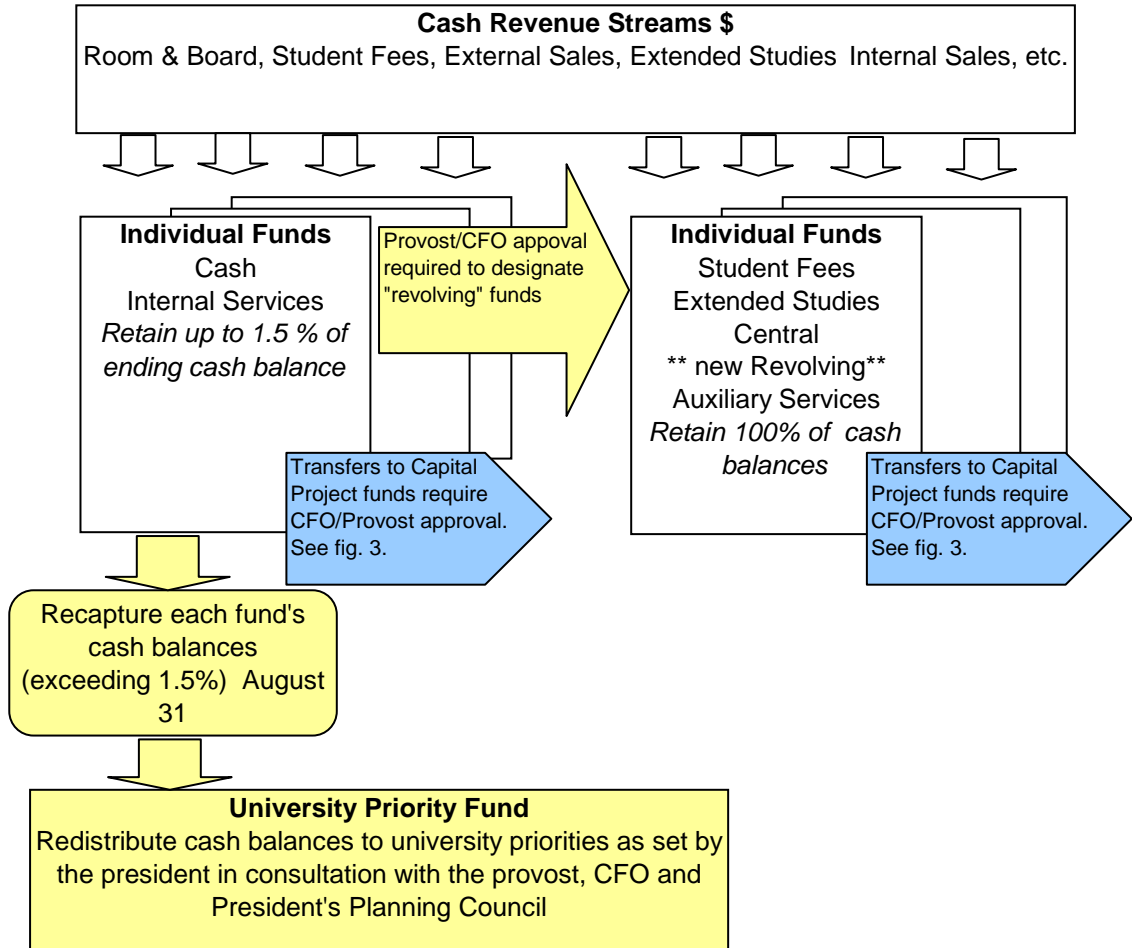
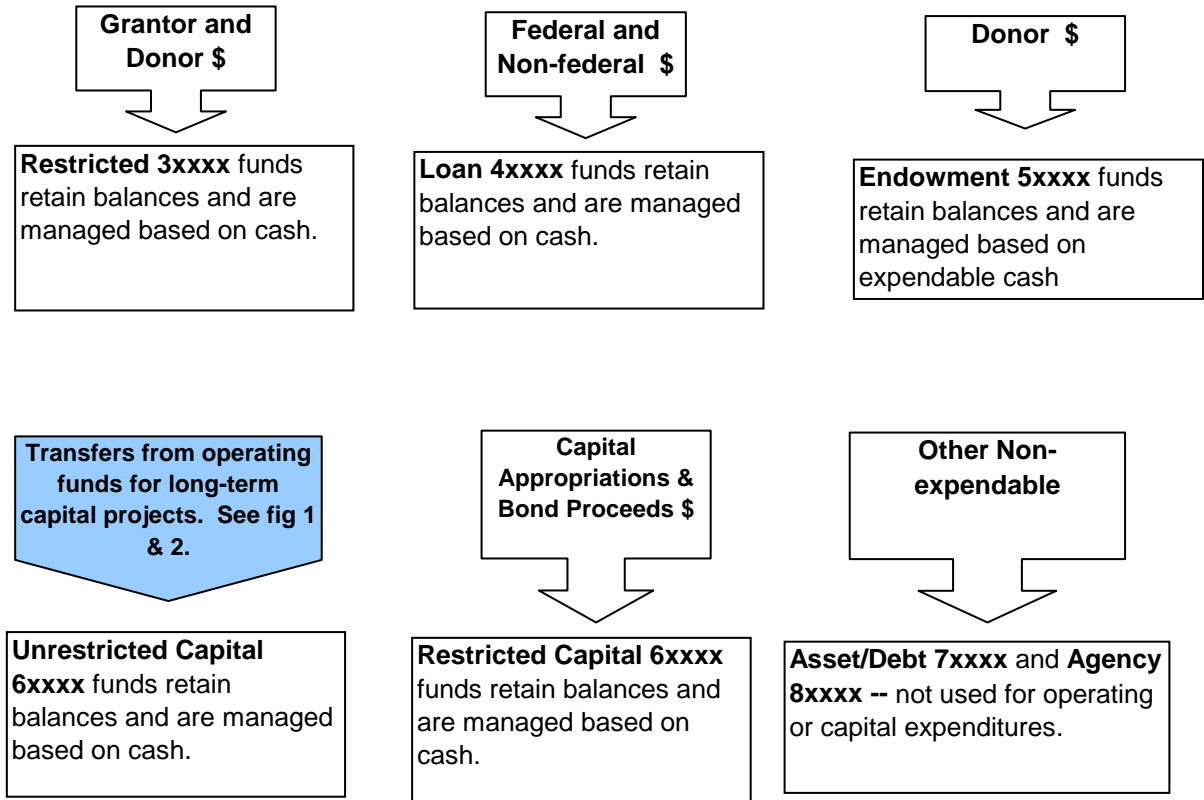


Figure 3 - Summary of other funds



PURPOSE AND SCOPE

This procedure applies to all university fiscal resources and is intended to:

- Improve transparency of university finances by
 - describing the types and purposes of fund groups and,
 - more clearly identifying the intended purpose of budgetary and cash balances.
- Systematically reallocate unexpended budget and cash balances in excess of operating requirements to university priorities.

BACKGROUND

Definitions

Chart of Accounts: A structure for capturing data and reporting information about financial activity.

Fund: An element of the chart of the accounts that separates financial resources based on the source of the resources. Fiscal control at the fund level is based on the cash balance.

Organization: An element of the chart of accounts that captures budget, revenue, and expense data based on the university organizational unit managing the funds. Organization codes are similar to cost centers and can cross fund boundaries. Fiscal control at the organization level is based on budget.

UNC Fund Groups

The university manages its finances and records financial transactions using a chart of accounts with a primary element called a fund. Funds are used to segregate finances by source of funding, i.e., they answer the question, "Where did the money come from?" Primary fund groups and sub-groups are described below.

1. State Appropriated: This money comes from tuition, including COF stipends, state fee-for-service, treasury interest, and certain fees or fines. The ability to spend these resources is controlled by budgetary allocation to many organizations.
 - a. *General* – This is the primary operating fund of the university -- 10000
 - b. *Grant Match* – State appropriated financial "matching" or grants are allocated to these funds -- 1xxx funds that roll-up to 1010
 - c. *Faculty Research and Publication Board (FRPB)* – Support for scholarly work is allocated from state appropriated resources -- 1xxx funds that roll-up to 1030
 - d. *Designated General Funds* -- State appropriated resources that have been internally restricted or designated for particular university priorities (e.g., tuition-funded repair and replacement) rather than general operating needs are allocated to these 1xxx funds that roll-up to 1040
 - e. *Financial Statement Adjustment Funds* – 1xxx fund that roll-up to 1050
 - f. *Dedicated Revenue* – Certain revenue streams, such as transcript fees, have been dedicated to supporting the activity that generates the revenue. These funds are unique in the state appropriated group because control is based on cash, not budget -- 1xxx funds that roll-up to 1080 or 1085
2. Facilities and Administration Recovery (abbreviated F&A, ICR, or IDC): This money comes from grantor agencies to cover indirect facilities and administrative costs allocable

to a grant program. UNC chooses to use these funds to support research and other scholarly activity --- 1xxxx funds that roll-up to 1130.

3. Student Fees: This money comes from mandatory student fee assessments and is allocated to various clubs and activities -- 20xxx and 21xxx funds.
4. Extended Studies: This money comes from off-campus tuition and fees as well as revenue contracts – 22xxx.
5. External Sales & Services: This money comes from sales to individuals and organizations outside the university.
 - a. *Central*-- These include adjustment and presentation funds that either do not have cash or funds balances, or represent unfunded balances like compensated absences. It also includes a control fund that holds interest revenue and other miscellaneous balances -- 2xxxx funds that roll-up to 2300.
 - b. *Cash funds* – Examples include athletic camps, Bear Logic, Tointon Institute, academic conferences, copying and printing revenues, student health insurance, collection fees, etc.
 - c. *Revolving funds* -- This is a new sub-group for external sales & services funds that have been approved to retain balances – 2xxxx funds that roll-up to 2600.
 - d. *Clearing funds* – This is a new sub-group for external sales & services funds that should generally not have balances, except due to timing differences – 2xxxx funds that roll-up to 2700.
6. Internal Services: These funds are generated by charges to other university units. They are not truly revenue to the university, but a mechanism for allowing a service unit to operate as a business by charging for services.
 - a. *Central*-- These include adjustment and presentation funds that either do not have cash or fund balances, or represent unfunded balances like compensated absences. It also includes a control fund that holds unallocated interest and other miscellaneous balances -- 25xxx funds that roll-up to 2500.
 - b. *Internal Services* – Examples include Bear Logic, transportation, postage, fringe benefits, equipment loan fund etc.
 - c. *Clearing funds* – This is a new sub-group for internal sales & services funds that should generally not have balances, except due to timing differences – 25xxx funds that roll-up to 2570.
7. Auxiliary Facilities System Funds: These funds are generated by sales to students, employees and others. Revenues from these funds are pledged to our bonds. (Revenues from other funds not in this group may also be pledged, e.g., recreation and athletics facilities fee, counseling center cash revenues, etc.) – 28xxx funds
8. Accounting Only: These are adjustment funds required to restate transactions as required by generally accepted accounting principles and the state controller's office. Does not represent "real" money, only presentation changes. Should not have cash or fund balances – 29xxx funds.
9. Restricted Funds: The revenue in these funds is externally restricted to the use specified by the grantor or donor– 3xxxx funds.
10. Loan Funds: These funds are used for managing federal and non-federal student loans – 4xxxx funds.
11. Endowment Funds: These funds have been restricted by donors to be maintained in perpetuity. They are managed by the UNC Foundation but remain net assets of the

university – 5xxxx funds.

12. Unexpended Capital Funds: These funds include state capital appropriations, bond proceeds, and money transferred from operating funds for capital projects.
 - a. *Unrestricted Auxiliary* – Resources come from Auxiliary Facilities System transfers of net operating revenues for capital projects -- funds that roll-up to 6100.
 - b. *Unrestricted Other* – Resources come from transfers of net operating revenues for identified projects -- funds that roll-up to 6200.
 - c. *Capital Clearing* – These funds are for adjusting and presentation entries only - funds that roll-up to 6400 or 6800.
 - d. *Restricted State Appropriation* – These funds are state capital appropriations – funds that roll-up to 6500.
 - e. *Restricted Auxiliary* – These funds are for bond proceeds or other externally restricted sources of Auxiliary Facilities System capital projects – funds that roll-up to 6600.
 - f. *Other Restricted* – These funds are from capital grants, non-auxiliary bond proceeds or other restricted sources—funds that roll-up to 6700.
13. Capital Funds: These funds typically do not have cash, but carry the value of capital assets and related debt.
 - a. Capital assets – funds that roll-up to 7000.
 - b. Capital debt (bonds payable and leases) – funds that roll-up to 76xx.
 - c. Construction in progress – funds that roll-up to 7800.
14. Agency Funds: These are funds for which the university acts as an agent; that is, the funds are not assets of the university – 8xxxx funds.

PROCEDURES

Methods of Fiscal Allocation and Control

Budgetary Spending Authority: Fiscal resources in the state appropriated general fund (10000 and most other 1xxxx funds) are allocated to many budget leaders for use in managing programs and functions. The allocation is made to different organization codes – an element in the chart of accounts that identifies who is responsible for managing funds.

These budgetary allocations are made on a fiscal year basis as an outcome of the budget process. Expenses are budgeted in individual budget manager's organization codes. All revenue is budgeted in central organization codes. Total budgeted revenue equals total budgeted expense. Budget leaders have spending authority up to the amount of the total allocation in any given organization code.

Cash Balances: Most operating funds are centrally monitored based on cash balances. Budget leaders' ability to spend from these funds is directly tied to the revenue deposited in the funds. Costs in these funds may relate to a single organization code (cost center) or may relate to many organization codes. Budget leaders should use budgets in appropriate organization codes for planning and management, but budgets are not the primary control mechanism.

Blended: The auxiliary facilities system fund, 28xxx, is the second largest operating fund (after the general 10000 fund). Central control and monitoring is based on the total fund cash balance. However, the auxiliary units develop a detailed budget by organization code that is heavily used

for decentralized fiscal management. Unlike with general fund budgets, unexpended resources have not historically been rolled-forward to individual organizations.

Financial Reallocation Procedures

This section addresses the reallocation of unexpended operating resources at the end of each fiscal year. The procedures include some existing practices, but also represent changes and limits in the way decentralized balances are carried forward from one fiscal year to the next.

State Appropriated and Facilities & Administrative Recovery Funds – 1xxxx groups

- 1.5% Annual Retention Limit– This procedure applies to the state appropriated general fund (10000).

Annually, combined unexpended budget balances will be calculated as of June 30 for each college and division. Unexpended budget is defined as: total budget less total actual expenses for all organization codes in a college or division.

Any unexpended budget up to 1.5 % of the fiscal year allocation will be rolled-forward into the college or division's new fiscal year budget. Unexpended fiscal year 2007 balances will be limited to 3.0% rather than 1.5%.

Unexpended budget in excess of 1.5% of the fiscal year allocation (3.0% for fiscal year 2007) will be rolled-forward into a central organization. These centralized roll-forwards will be re-allocated to university priorities through a process administered by the Provost and CFO.

- Designated Budgets with 100% Retention-- Any 1xxxx fund other than 10000 is considered to be a designated/priority fund.

Establishment of these funds and transfers to the funds must be consistent with institutional priorities and be approved by Provost and CFO. Examples include grant match funds, faculty research and publications board funds, faculty start-up packages and tuition-funded building repair and replacement funds.

Unexpended budget balances in organizations within these funds will roll-forward in total to the same fund / organization in the next fiscal year.

Cash Balance Funds – 2xxxx groups

- 1.5% Annual Cash Retention Limit -- This procedure applies to: cash funds that roll-up to 2400 (complete list available) and Internal service funds that roll-up to 2510 (complete list available)

Because the end of normal business cycle for many cash funds falls more naturally at the beginning of fall, cash balances, less accounts payable, will be measured at August 31, rather than June 30. This will minimize problems associated with reallocating cash balances before all operating expenses are incurred.

The amount of cash balances, less accounts payable, to be retained is the greater of:

- up to 1.5% of the prior fiscal year revenue in the fund .(Up to 3.0% of balances at August 31,2007 will be retained)
- Up to \$5,000

Any cash balances in excess of 1.5% of revenue (3.0% for fiscal year 2007) and in excess of \$5,000 will be transferred to a central fund, as appropriate, and will be reallocated to university priorities by the Provost and CFO.

- Cash Balance Funds with 100% Retention – Certain cash balance funds will retain 100% of year-end balances. Fund groups that fall within this procedure are described below.

Central Funds (roll-up to 2300, 2500, 2570, 2700, and all 29xxx) are used to manage resources that benefit the campus in total, or are for adjustments and financial reporting presentation. Examples include the fringe benefit pool, risk management pool and the equipment loan fund.

Revolving Funds include student fees (20xxx and 21xxx), extended studies (22xxx), auxiliary facilities system (28xxx) and other (roll-up to 2600).

New student fee, extended studies and auxiliary facilities system funds are revolving funds by definition. Subject to approval by the President upon recommendation by the Senior Vice President /CFO and Senior Vice President/Provost, new revolving funds may be established or existing cash funds may be re-characterized as revolving.

Capital Project Funds – Roll-up to 6100 and 6200

Capital project funds exist to plan for, fund and manage major capital projects using unexpended operating funds. The auxiliary facilities system regularly transfers net operating revenues to capital project funds. Transfers may be made for major facility, equipment or system projects. Recent examples include the Banner and VOIP projects.

Capital project funds provide a mechanism for funding larger, longer-term initiatives. Review of capital project funds will be included as part of the annual budget process to support broad-based understanding of the initiative.

Balances in these funds may be retained for up to three years.

Transfers to capital project funds must be approved by the CFO or Provost

General guidelines for the use of capital project funds are as follows:

- The minimum project size is \$20,000. Smaller projects should be managed within operating budgets.
- The specific project for which the transfer is being requested must be defined in sufficient detail so that, through the budget process, it can be evaluated. Additionally, the project must be defined relative to unit and institutional planning and budget priorities. The Senior Vice President is responsible for creation and ongoing refinement of the process and detail to support the priority account requests.
- Project purposes must be defined in the request for transfer. Once approved, the project purpose and scope cannot be changed without specific approval.

Restricted, Loan, Endowment, Capital, and Agency Funds (3xxxx,4xxxx,5xxxx, 6xxxx,7xxxx, 8xxxx)

These funds are subject to external requirements. All balances will be retained in the funds from year to year.

Interest Allocation Procedures

In general interest earnings will be allocated centrally and not to individual fund balances.

- Interest earned on general funds (1xxxx) will be commingled with other general revenues for budget allocation.
- Interest earned on cash funds (2xxxx) will be allocated to a central fund for university priorities.
- Interest earned on restricted or bond funds (3xxxx, 4xxxx, 5xxxx, some 6xxxx) will be retained if required, or allocated to the central cash fund for university priorities.
- The primary auxiliary service fund (28000) and auxiliary project funds (some 6xxxx) will retain interest earnings.
- Interest earned on project funds, other than bond proceeds or auxiliary service projects, (most 6xxxx) will be allocated to a central fund for university priorities.
- Agency funds (8xxxx) are not assets of the university but held for others. Balances of individual funds are typically small. In exchange for processing deposits and disbursements, the university will retain interest earned on these balances. (Administrative overhead was formerly charged on agency funds, but will be discontinued). If an individual agency fund carries balances in excess of \$10,000, a flat rate of interest will be allocated to the fund.

Other Information

Date Issued: March 23, 2007, revised May 17, 2007
Effective Date: Procedures will take effect July 1, 2007
Issued by: Randy Haack, Senior Vice President and CFO

SUMMARY CHART

Fund Group	Fund Sub-group	Fund Source / Allocation Method	Fund Retention	Interest Earnings	Comments
State Appropriated		Underlying resources are tuition, stipend, fee-for-service, etc			
	General – 10000	Budget Control: Spending authority is granted and controlled by budget allocations to different “organizations”	1.5% Limit: Unspent budget at June 30 in excess of 1.5% of the annual allocation will be reallocated to a central organization. Calculated at the college or division level.	Fund 10000 Org 90000	Interest earnings are added to total resources available as the basis for budgetary allocations of spending authority
	Match – roll-up 1010	Budget Control: Annual recurring allocations attributable to general fund resources, and transfers from the general fund.	Yes, unspent budgets are rolled-forward each fiscal year	Fund 10000 Org 90000	
	FRPB – roll-up 1030	Budget Control: Annual recurring allocations attributable to general fund resources, and transfers from the general fund.	Yes, unspent budgets are rolled-forward each fiscal year	Fund 10000 Org 90000	
	Designated – roll-up 1040	Budget Control: Annual recurring allocations attributable to general fund resources, and transfers from the general fund.	Yes, unspent budgets are rolled-forward each fiscal year	Fund 10000 Org 90000	
	Adjustment – roll-up 1050	No real balances: Timing and presentation adjustments only.	N/A	N/A	
	Dedicated revenue – roll-up 1080	Cash: Ability to spend and control is based on cash generated	1.5% limit: Cash balances at August 31, in excess of 1.5% of prior year revenues, will be transferred to the appropriate central priorities fund.	Fund 10000 Org 90000	
	Dedicated revenue – roll-up 1085	Cash: Ability to spend and control is based on cash generated	Yes, cash and other balances are retained	Fund 10000 Org 90000	
Facility & Admin (F&A, ICR, IDC)		Underlying resources are transfers of revenue from grants			
	Research Incentives – roll-up 1130	Cash: Ability to spend and control is based on cash generated	Yes, cash and other balances are retained	Fund 10000 Org 90000	

Student Fees					
	Student Fees – 20xxx and 21xxx	Cash: Ability to spend and control is based on cash generated	Yes, cash and other balances are retained	Fund 23010	
Extended Studies					
	Extended Studies – 22xxx	Cash: Ability to spend and control is based on cash generated	Yes, cash and other balances are retained	Fund 23010	
External Sales & Services					
	Central – roll-up 2300	Cash: Ability to spend and control is based on cash generated	Yes, cash and other balances are retained	Fund 23010	
	Cash – roll-up 2400	Cash: Ability to spend and control is based on cash generated	1.5% limit: Cash balances at August 31, in excess of 1.5% of prior year revenues, will be transferred to the appropriate central priorities fund.	Fund 23010	
	Revolving - roll-up 2600	Cash: Ability to spend and control is based on cash generated	Yes, cash and other balances are retained	Fund 23010	
	Clearing – roll-up 2700	No real balances: Timing and presentation adjustments only.	N/A	N/A	
Internal Sales & Services					
	Central – roll-up 2500	Cash: Ability to spend and control is based on cash transferred from other units in payment for services	Yes, cash and other balances are retained	Fund 23010	
	Services – roll-up 2510	Cash: Ability to spend and control is based on cash transferred from other units in payment for services	1.5% limit: Cash balances at August 31, in excess of 1.5% of prior year revenues, will be transferred to the appropriate central priorities fund.	Fund 23010	
	Clearing -- roll-up 2570	No real balances: Timing and presentation adjustments only.	N/A	N/A	
Auxiliary Facilities System					
	Operating -- 28xxx except 289xx	Cash: Ability to spend and control is based on cash generated	Yes, cash and other balances are retained	Fund 28xxx	
	Adjusting – 289xx	No real balances: Timing and presentation adjustments only.	N/A	N/A	
Accounting Only					
	Adjustment 29xxx	No real balances: Timing and presentation adjustments only.	N/A	N/A	
Restricted					

	Financial Aid, Grants, Donations – 3xxxx		Yes , cash and other balances are retained	Retained if externally required – otherwise Fund 23010	
Loans					
	Student Loans – 4xxxx		Yes , cash and other balances are retained	Yes, if externally required – otherwise Fund 23010	
Endowment					
	Endowments – 5xxxx		Yes , cash and other balances are retained	Each fund	
Unexpended Capital					
	Unrestricted Auxiliary – roll-up 6100		Yes , cash and other balances are retained	Each fund	
	Unrestricted Other – roll-up 6200		Yes , cash and other balances are retained	Fund 23010	
	Capital Clearing – roll-up 6400 and 6800		Yes , cash and other balances are retained	N/A	
	State Capital Appropriation – roll-up 6500		Yes , cash and other balances are retained	N/A	
	Restricted Auxiliary Bonds – roll-up 6600		Yes , cash and other balances are retained	Each fund	
	Capital donations/ grants, non-auxiliary bonds – roll-up 6700		Yes , cash and other balances are retained	Each fund	
Capital Assets & Debt					
	Property, Equipment – roll-up 7000	No cash exists in these funds.	N/A	N/A	
	Bonds payable, capital leases – roll-up 76xx	Cash is transferred from operating funds for debt service.	Yes , cash and other balances are retained	Darwin??	
	Construction in		Yes , cash and other balances are	Darwin??	

	progress –roll-up 7800		retained		
Agency					
	Clubs, 3 rd party scholarships,etc. – 8xxxx		Yes , cash and other balances are retained	Fund 23010	Agency funds with balances > \$10,000 earn a flat rate established by the Contoller