



January 24, 2014

Deans and Directors,

As you may know, under 2013 Wisconsin Act 20 (2013-15 Biennial Budget), the Board of Regents is directed to develop a methodology for the calculation of program revenue balances and reserves, expressed in both dollars and as a percentage of total annual expenses, for the UW-System as a whole and for individual UW institutions. In addition, the Board of Regents was required to submit to the Joint Committee on Finance, by January 1, 2014, proposed limits on program revenue account balances for UW-System as a whole and for each individual institution, as well as proposed reports relating to the limits.

In response to this directive, UW System Administration and the Board of Regents have developed a proposed set of policies that would establish limits and/or reporting requirements on annual cash balances for five categories of funds:

- *Academic Student Fees*: This category includes all cash balances on separately budgeted Fund 131 programs, all cash balances on Fund 189 for-credit extension programs, and all Fund 101 carryover.
- *General Operations*: This category includes all Fund 136 cash balances.
- *Auxiliary Enterprises*: This category includes all Fund 128 cash balances.
- *Federal Indirect Cost Reimbursement*: This category includes all Fund 150 cash balances.
- *All Other Unrestricted Program Revenue*: This category includes a variety of relatively small specific-purpose program revenue appropriations.

The limits proposed by the Board of Regents have not yet been approved by Joint Committee on Finance. Nonetheless, UW-Madison is initiating its own guidance this fiscal year (FY14) to forecast and manage fund balances. Doing so is a sound financial practice of its own merit, as it will contribute towards the health and stability of our institution and maintain adequate levels of reserves to protect the University in cases of sudden shortfalls in revenue, provide for extraordinary events, and protect against unexpected future expenses and losses.

On a quarterly basis, and beginning with the quarter ending December 31, 2013, schools, colleges and divisions are asked to forecast estimated FY14 ending cash balances for their operations within the University's major GPR and PR funds (101, 128, 131, 136, 150, and 189).

The attached guidelines contain additional information about the funds referenced above. Also attached are 2nd Quarter templates for each fund in which forecasts can be provided, along with data for your reference regarding historical expenses, revenues and balances. When reviewing the guidelines and templates, please note the following:

- In some cases, ending balance target percentages have been provided by fund. (Fund 101 is expressed as a budget balance.)
- The target percentages for each fund vary since the nature and accounting requirements for each appropriation vary.
- Regardless of target percentages, all balances should be explained.
- As we progress through the remainder of this fiscal year, the guidelines may be updated and the target percentages may change as more accurate financial information becomes available.
- The guidelines may be updated depending on the outcome of legislative action taken on the limits proposed by the Board of Regents.
- Templates will be provided for your completion in each subsequent quarter.

Also note that the guidance and related reporting requirements address the first four categories of funds described earlier under the Board of Regents proposal. The few units that use the unique funds in the *Other Unrestricted Program Revenue* category will be contacted under separate cover.

Please complete the 2nd Quarter templates for each fund and submit them to Daniel Langer in Accounting Services at dlanger@bussvc.wisc.edu by **Friday, February 14th**. If you need assistance or additional instructions about completing the templates, Dan can also be reached at 262-4766.

If you have broader questions regarding the Academic Student Fee or Federal Indirect Cost categories, please contact Tim Norris (263-4707) in the Budget Office. Similarly, questions regarding the General Operations and Auxiliary Enterprises categories should be addressed to Donna Halleran (265-3443) in the Office of Auxiliary Operations Analysis.

Thank you in advance for your attention and consideration of this important matter. I look forward to working with you to effectively manage our cash flow throughout the fiscal year

Darrell Bazzell

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Guidelines for FY14 Fund Balances

Fund 101 (General Program Operations)

Appropriation 101 funds are for the purpose of educational and related programs. Divisions are to use funds for salaries, supplies and expenses, capital and special purposes. Appropriation 101 fringe benefits are funded by central campus.

Appropriation 101 unused budget balances should be compared to the full year budget to assess the percentage used against the annual budget appropriation. By the end of the fiscal year, divisions are instructed to appropriately use the entire budget appropriation in accordance with Appropriation 101 fund purposes.

Any unused budget balances should be explained.

Fund 131 (Academic Student Fees) and Fund 189 (Extension For-Credit Student Fees)

Appropriation 131 represents all tuition generated by self-supporting instructional programs that have not been budgeted through UW-Extension (e.g., Evening MBA Program, Masters of Biotechnology Program).

Appropriation 189 includes all monies received from academic student fees at UW-Extension, for credit outreach instruction sponsored by UW-Extension.

For the purpose of these guidelines, the appropriations should be combined when forecasting fund balances. The balances should be compared to the most recent previous four quarters expenditures to assess the available balance as a percentage of estimated annual expenditures.

The balance as a percentage of the estimated annual expenditures should be no more than 5% by the end of the fiscal year. All balances should be explained.

Fund 128 (Auxiliary Enterprises)

Appropriation 128 includes a combination of major and minor auxiliaries and, therefore, the appropriate level of fund balances will differ based on the type of activity. Additionally, given the nature of Appropriation 128 activities, other policies and requirements for reserves and cash balances apply. Consequently, it is important for units to consult with the Office of Auxiliary Operations Analysis (AOA) in conjunction with these guidelines.

Transportation Services and Student fee funded auxiliaries are subject to UW-System Policy (F43) <http://www.uwsa.edu/fadmin/fppp/fppp43.htm>. Student fee funded auxiliaries include:

- University Housing
- Wisconsin Union
- Recreational Sports
- University Health Services
- Child Care Tuition Assistance Program
- Non-allocable segregated fee funded activities in the Division of Student Life
- Student Print

Other major auxiliaries have fund balance requirements that vary from program to program. Intercollegiate Athletics, Division of Information Technology, Physical Plant, Car Fleet, and MDS/SWAP should discuss the appropriate fund balance levels with the Office of Auxiliary Operations Analysis (AOA).

Given the complexities of Appropriation 128 activities, specific reserve target percentages for units are not provided in these guidelines. However, units should forecast cash balances as a percentage of the estimated annual expenditures and explain the forecasted results.

In addition, units should be aware that future guidance may include target percentages for ending balances.

All other Appropriation 128 activities are considered minor auxiliaries and should follow the guidelines listed under Fund 136 (see below).

Fund 136 (General Operations Receipts)

Appropriation 136 includes all monies received for, or on account of, UW-Madison, unless otherwise specifically appropriated, to be used for general operations. Several types of activities occur within Appropriation 136, each of which has separate ending cash balance targets (see below).

However, the overall forecasted ending cash balances should not exceed 10% of annual expenditures, and all balances should be explained.

Internal operating activities primarily relate to internal services such as copy centers, research testing and analysis support, etc. Operations that primarily serve University departments, including customers that pay with federal grants, are subject to OMB Circular A-21 http://www.whitehouse.gov/omb/circulars_a021_2004. According to the Circular, rates should be on a cost-recovery basis and cash balances should be managed to zero, as there should not be a positive cash balance for internal operating activities. Deficit cash balances are allowable if appropriately invested in related inventory or equipment or if there are outstanding amounts to be paid. Rate reductions or completeness of expenditures should be considered if cash balances are growing.

External operating activities primarily relate to services provided to external customers including students, faculty and/or staff and may include by-product sales (e.g., crops), or passive income (e.g., rents or royalties). Cash balances as a percentage of the estimated annual expenditures should be no more than 15% by the end of the fiscal year for external operating activities. Should excess cash balances be forecasted, rates charged may need to be reevaluated. In addition, explanations in relation to unearned revenue, spending plans, and/or other factors should be provided.

Also consider the following strategies regarding balances:

- If services are research-related, evaluate whether the activity should be transferred to Appropriation 133 - Non-Federal Grants & Contracts.
- Evaluate external account revenue for the potential for deferred, unearned revenue which should be separately designated as advance deposits and deducted from cash balances.
- Evaluate pricing for compliance with Regent Policy 12-1 (Competition with the Private Sector): <http://www.uwsa.edu/bor/policies/rpd/rpd12-1.htm>. If compliance with this policy results in the creation of a profit, plans should be developed for spending down the resulting cash balances.

Mixed accounts include a mixture of revenue from internal and external customers in the same activity. These activities are subject to the same requirements as internal and external activities in terms of rate structures. Units should carefully review mixed account activities and follow the applicable sections of the guidelines as noted above.

Clearing accounts should not have cash balances at the end of the fiscal year. Reconciliation procedures should be reviewed to confirm these accounts are properly managed and controlled.

Inactive accounts should be closed based on criteria established by the school, college or auxiliary unit. Any remaining cash balances should be eliminated through the use of the [Cost Transfer Tool](#) and a request to close the zero balance account should be submitted to Accounting Services at acctg@bussvc.wisc.edu using the [Department ID Action Request Form](#).

Fund 150 (Federal Aid / Indirect Cost Reimbursement)

Appropriation 150 includes all moneys received from the federal government for reimbursement for indirect costs of grants and contracts for administrative purposes, program purposes, funding of positions, payment of federal aid disallowances, or other purposes authorized by law.

Appropriation 150 is not subject to a targeted cash balance percentage for the purpose of these guidelines. Appropriation 150 monies used to support ongoing operations should be spent entirely by the end of the fiscal year. Carryover is permissible if necessary to honor multi-year commitments (e.g., capital projects).

Balances should be forecasted and units should compare balances to total Fund 150 allocations (including bridge funding allocations). All balances should be explained.