

2012 Bringing Administrators Together Conference

Successfully Managing Self-Supporting Funds

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Workshop Presenter(s)

- Name: Nicholas Deitch
Title: Fin Accounting & Reporting Coordinator
Contact Information : ndeitch@uillinois.edu
312-996-5960
- Name: Sherri Faith
Title: Assistant Director
Contact Information: slfaith@uillinois.edu
217-244-7264

Please ...

- Turn off cell phones.
- Avoid side conversations.
- Please hold questions until the end
- Sign the attendance roster.
- Complete the evaluation at the end of the workshop.

Workshop Objectives

- Recognize the impact that year-end reporting has on self-supporting Funds
- Describe how to complete the year-end Fact Sheet properly
- Locate resources available for self-supporting Funds

Self-Supporting Funds Overview

Self-supporting Funds are used to record revenue and expenses generated from the sale of products or services to University departments, students/faculty/staff, or the general public which support and enhance the programs and missions of the University.

Types of Self-Supporting Funds

- Storerooms and Services – Products or services provided primarily to University departments.
- Auxiliary Enterprises (under indenture and not under indenture) – Products or services provided primarily to students, faculty and staff.
- Departmental Activities – Products or services provided primarily to the general public

Self-Supporting Funds Overview

- Self-Supporting Funds should be designed so that they operate at a break-even level of production.
- All direct income and expenses should be recorded within the self-supporting Fund.
- Units are required to perform monthly reconciliations.
- Units are required to complete a year-end fact sheet for each Fund.
- If the activity involves the sale of tangible goods, sales tax may need to be collected and remitted.
- Some self-supporting activities may be subject to Unrelated Business Income Tax (UBIT).
- Factors which affect UBIT determination include:
 - Is the activity considered a “trade or business”?
 - Is the activity regularly carried on?
 - Is the activity substantially related to the mission of the University?

Operational Audit Objective and Scope

- Determine if self-supporting Funds are appropriately established, approved, monitored, and closed in compliance with University policies and procedures.
- Reviewed a judgmental sample of self-supporting Funds created during FY 2010.

Operational Audit Findings

- Several Funds were set up inappropriately or classified in the wrong entity.
- Documentation of conclusions in support of the established Fund was insufficient.
- Rate information was inconsistently submitted and often inadequate.
- Insufficient review of Funds with excess balances was performed.

Operational Audit Corrective Actions

- Correct Funds that were inappropriately established or classified in the wrong entity.
- Conduct thorough review of well-documented requests for new self-supporting Funds.
- Develop a methodology for assessing Funds with excess balances.

Operational Audit Corrective Actions

- Broaden scope of UAFR annual review to address additional items, such as
 - Unrelated business income
 - Sales tax
 - Unit approval for sales on credit
 - Acceptance of credit cards
- Strengthen guidance for units by improving OBFS P&P Section 5 – Revenue, Income, and Receivables

Revised FPI Request Form

Reasoning Behind the Form Revision:

- Make the FPI Request Form more “user-friendly” as it now includes more guidance, instruction, and details within the form itself to assist units during the form completion process
- Enable University Accounting to collect more detailed information prior to establishing the Fund, Program, or Index code to ensure codes are properly established in compliance with applicable legislative/regulatory guidelines, donor intent restrictions, and NACUBO functions
- Address concerns related to the FPI creation process from internal auditors, as this process is under more scrutiny in the current environment

Revised FPI Request Form

What's new?

- More detailed questions, helpful links throughout the form
- Instructions on how to complete form now included in a separate tab in the form rather than in a separate document
- Revised Supplemental Information form with more detailed questions for self-supporting Fund requests
- Created an attestation statement for self-supporting Fund requests which gives an overview of helpful guidance on how to manage self-supporting Funds that the units will need to sign off on before submitting the request

Additional Resources

- Coming soon:
 - Presentation at upcoming BMG meeting.
 - A webinar will be available soon to go over the revised FPI request form in greater detail.
- The new FPI request form can be found at:
<http://www.obfs.uillinois.edu/forms/accounting-financial-reporting/>.
- When you have completed your FPI request, please submit your request to:
cfoapalmaintenance@uillinois.edu (or newaccounts@uif.uillinois.edu if the request is for a gift or endowment income fund)
- UAFR Who to Ask:
<http://www.obfs.uillinois.edu/cms/one.aspx?portalId=909965&pageId=919408>

What are excess funds?

- Self-supporting balances that exceed a prescribed formula based on cash balance and other factors.
- **Not** based on a subjective review of whether the Fund's balance exceeds what is needed to continue the activity

Source of Requirement

- Legislative Audit Commission University Guidelines 1982 – amended 1997 (LAC Guidelines)
- Formula that limits amount that can be retained for self-supporting activities
- Excess is “lapsed” to Income Fund

Formula

- Cash
- Less – highest month expenses
- Less – deferred revenue and deposits
- Less – accounts payable
- Less – accrued payroll
- Less – obligations paid in grace period
- Equals = Excess Funds

Factors in Calculation

- Performed by campus and entity
 - Not by Individual Fund
- Entity 3420 – Unique Programs
 - Not allowed high month expenses deduction
- Accrued Vacation and Sick Leave
 - From HR data for the entity

Factors in Calculation

- Margin of compliance:
 - Allows deduction based on percentage of cost of capitalized assets used in the activity.
 - Based on Property Accounting data
 - Uses entity codes assigned to fixed assets.
- Fact Sheet data affects calculation

Year-End Fact Sheets

- Fact Sheets are required to be completed for all self-supporting Funds.
- The Fund financial manager will receive an e-mail notifying them that they have fact sheets which they need to complete.
- Fact Sheets must be submitted by July 18, 2012.
- The purpose of the Fact Sheet is to insure that self-supporting Funds are reported on accrual basis of accounting on 6/30/YY for university financial statement purposes.

Year-End Fact Sheets

- The Fact Sheet collects information on:
 - Sources of revenue,
 - Inventory for resale,
 - Accounts Receivable,
 - Deferred Revenue, and
 - Accounts Payable.
- YE Fact Sheet adjustments are entered by UAS personnel as of 6/30/YY and are reversed by UAS personnel on 7/1/YY.

Case Study: Completing the Year-End Fact Sheet

- The Facts:

- John Doe receives an e-mail notifying him that he needs to complete a FY12 Year End Fact Sheet for fund 2-301XXX (Year end 6/30/12).
- Fund 2-301XXX performs testing services for customers external to the university (i.e. – Boeing, Kraft, Chicago Department of Labor, etc...).
- On December 31, 2011 fund 2-301XXX signs a contract to perform testing services for the Chicago Department of Labor for the time period beginning 1/1/2012 through 12/31/2012. The total compensation for the contract is \$100,000. On January 15, 2012 John Doe receives a check from Chicago Department of Labor for \$100,000.
- On May 1, 2012 John Doe performed testing services for Boeing and sent Boeing an invoice for \$25,000 on June 1, 2012. On June 15, 2012 fund 2-301XXX received a \$10,000 payment from Boeing.
- On June 1, 2012 John Doe orders three laptop computers totaling \$5,000. As of June 30, 2012 John Doe had not received the computers and he had not made any payments. The computers were shipped from the merchant on 6/15/12.
- The testing services performed require a \$25 supply kit. John Doe builds a \$27.50 charge per test into his service rate. On July 1, 2012 John Doe counted 500 supply kits on hand.

Quiz #1

What dollar amount should John Doe report on the FY12 Fact Sheet for deferred revenue?

Quiz #1

- Deferred Revenue is revenue which has been recorded on the books but has not yet been earned.
- In this example John Doe received \$100,000 for regularly performed services for the time period 1/1/12 to 12/31/12.
- At 6/30/12, John Doe would have performed approximately half of the total services he is contracted to perform.
- John Doe should indicate \$50,000 of deferred revenue on the FY12 YE Fact Sheet.
- Please be sure to fill in all requested detail on the Fact Sheets when you complete the spreadsheet.

Quiz #2

What dollar amount should John Doe report on the FY12 Fact Sheet for accounts receivable?

Quiz #2

- A receivable should be recorded once services have been substantially completed or a good has been delivered and you have reasonable expectation to receive payment for that service or good.
- Once John Doe substantially completed testing services for Boeing and sent them an invoice a receivable should have been recorded for \$25,000. University departments are strongly encouraged to use Banner Accounts Receivable to track and manage receivables.
- On 6/15/12, John Doe received a payment for \$10,000. This would reduce the receivable to a total receivable of \$15,000.
- As of 6/30/12, John Doe received no further payments from Boeing. However, John is still waiting for the final payment of \$15,000.
- John Doe should indicate a receivable from Boeing in the amount of \$15,000 on the FY12 YE Fact Sheet if the unit does not use Banner A/R. (If the amount is already recorded in Banner A/R this should be noted on the Fact Sheet).
- Please be sure to fill in all requested detail on the Fact Sheets when you complete the spreadsheet.

Quiz #3

What dollar amount should John Doe report on the FY12 Fact Sheet for accounts payable?

Quiz #3

- A payable should be recorded once legal ownership has transferred from the merchant to the customer.
- It is important to check shipping terms when purchasing tangible goods.
 - FOB “shipping point” or “FOB origin” indicates the buyer pays shipping cost, and takes responsibility for the goods when the goods leave the seller's premises.
 - “FOB destination” designates the seller will pay shipping costs, and remain responsible for the goods until the buyer takes possession.
- If the shipping terms were FOB “shipping point” or “FOB origin”, John Doe would be required to record a payable for \$5,000 as of 6/30/12 because legal ownership transferred to John once the computers left the merchants warehouse.
- If the shipping terms were “FOB destination” John Doe would not record a payable until he took physical possession of the computers.

Quiz #4

What dollar amount should John Doe report on the FY12 Fact Sheet for the inventory for resale?

Quiz #4

- If a self-supporting activity maintains an inventory of items available for resale, the unit should perform a year-end count (as close to 6/30 as possible) to determine the year-end inventory balance. (If the physical inventory does not occur on 6/30, the unit needs to adjust the count and valuation for acquisitions and sales from the date of the physical inventory to 6/30).
- On 7/1/12 John Doe counted 500 supply kits.
- The cost of each supply kit was \$25.
- John Doe would need to indicate that his year-end inventory balance is $500 \text{ kits} \times \$25 = \$12,500$.

Sponsorship Payment Overview

- The University receives donations (cash or non-cash) from individuals and corporations to sponsor programs and activities within its units/departments.
- Donations of this nature are important to the University's programmatic and operational life.
- These donations must be handled appropriately to meet the criteria of a qualified sponsorship and be recorded as a gift.
- If a sponsorship payment is determined to constitute advertising, it is considered a non-qualified sponsorship, which may create unrelated business income (UBI).

Qualified Sponsorship

A **qualified** sponsorship payment, as defined by the IRS, is any payment:

- made by a person engaged in a trade or business; **and**
- for which the person will receive no substantial benefit other than the use or acknowledgement of the business name, logo, or product lines in connection with the organization's activities. "*Use or acknowledgement*" does not include advertising the sponsor's products or services.
- A qualified sponsorship payment does not include advertising or any payment contingent upon attendance level, broadcast ratings, or other factors indicating the degree of public exposure to one or more events.
- If a qualified sponsorship is received, the campus unit/department should record it as a gift or gift-in-kind, less any goods or services provided to the donor, in accordance with [Section 11.3, Campus Processing of Gifts](#).

Qualified Sponsorship

- The term "use or acknowledgement" includes logos and slogans that do not contain qualitative or comparative descriptions of the payor's products or services.
 - This includes value-neutral descriptions of the payor's product-line or services, a list of the payor's locations, telephone numbers, or Internet address, and the payor's brand or trade names and product or service listings.
 - "The University of Illinois is proud to have XXX as our sponsor" is a statement of recognition.
- The term "advertising" includes qualitative language (price information, savings), endorsements, or comparative language (savings or value or better) or an inducement to purchase, sell, or use goods and/or services-a call to action.
 - "The University of Illinois suggests that you buy from XXX" is advertising.
- The display or sale of the sponsor's product by the sponsor or the University at a sponsored event, is not considered an inducement to buy, sell, or use the sponsor's product and does not affect the determination of whether a payment is a qualified sponsorship payment.

Qualified Sponsorship

- Acknowledgement of an exclusive sponsorship of the University's activity generally does not, by itself, result in a substantial return benefit.
- However, if the University agrees to perform substantial services in connection with the exclusive provider arrangement, income received by the University may be included in UBI.
- Examples of substantial services include:
 - guaranteeing that coaches make promotional appearances on behalf of the company (for example, to attend photo shoots, to film commercials, and to appear at retail stores),
 - assisting the company in developing marketing plans, and participating in joint promotional opportunities. These activities are unlikely to be substantially related to the University's exempt purposes and are likely to constitute a regularly carried on trade or business.

Non-Qualified Sponsorship

- If the payment is deemed a **non-qualified** sponsorship, it may create UBI.
- The campus unit/department must ensure that the required financial information is maintained in order for the University to report such UBI on its annual business income tax return.
- The activity's financial information (i.e., revenue less direct and indirect expenses) must be reported to the OBFS, University Accounting Services on a fiscal year-end basis.
- See [Section 18.13, Unrelated Business Income Tax](#), for additional information on UBI reporting.
- For additional information on sponsorship payments please see [Section 11.13](#) of the OBFS Policy & Procedure manual.

Case Study: Sponsorship Payments

- Facts:

- John Doe is now the business manager for the ergonomics department and his AFO wants him to establish a fund for a new series of conferences his department will be hosting.
- John Doe finds out the following information about this new conference series:
 - Microsoft Corp and Northwestern University will each pitch in \$10,000 to help support the event. Both companies will have their name printed on the conference pamphlet.
 - The pamphlet at the conference will include a coupon for 15% off any purchase of Microsoft software.
 - Conference attendees will be the general public. They anticipate 100 attendees.
 - Anticipated costs:
 - Speaker fee & transportation: \$29,000
 - Leasing ballroom for Thurs & Fri: \$ 5,000
 - Continental breakfast for two days & beverages: \$ 5,000
 - Printing & advertising: \$ 1,000
 - Total costs: \$40,000

Quiz #5

Is this a self-supporting activity?

Quiz #5

- Is this a self-supporting activity? **Yes.**
- Definition from self-supporting overview:
 - Self-supporting Funds are used to record revenue and expenses generated from the sale of products or services to University departments, students/faculty/staff, or the general public which support and enhance the programs and missions of the University.
- This activity will be supporting the college's mission of public service. They will also be collecting registration fees from conference attendees and using that revenue to pay for conference expenses.
- The fund type will fall under 3Q or Departmental Activities (Products or services provided primarily to the general public).

Quiz #6

What amount should John Doe charge attendees?

Quiz #6

- The total anticipated cost of the event is \$40,000.
- They will be receiving a total of \$20,000 from Microsoft Corp and Northwestern University.
- This leaves a net amount of \$20,000 which John Doe needs to recover from registration ticket sales.
- John Doe is anticipating 100 conference attendees.
- John Doe needs to take the \$20,000 of costs and divide by the 100 attendees to arrive at estimated ticket price of \$200 per person.

Quiz #7

When John Doe submits his FPI request for a new self-supporting fund, which revenues and expenses should be included on his pro forma budget?

Quiz #7

- The pro forma budget on the FPI request should include the following revenue and expenses:

– Registration Fees	\$20,000
– Other: Advertising Income	<u>\$10,000</u>
– Total Revenue	\$30,000
– Speaker fee & transportation	\$19,000
– Leasing ballroom for Thurs & Fri	\$ 5,000
– Continental breakfast for two days & beverages	\$ 5,000
– Printing & advertising	<u>\$ 1,000</u>
– Total Expenses	\$30,000
– Total Fund Balance	<u> \$ 0</u>

- The payment from Microsoft Corp is considered a non-qualified sponsorship payment and should be recorded on the self-supporting Fund. This is because Microsoft has offered a coupon, or an inducement to purchase their products, and is therefore considered an advertisement.
- The payment from Northwestern is considered a qualified sponsorship payment and needs to be recorded in a gift Fund. The unit can then use those funds for any expenses they need to cover, in this case the speaker fee & transportation costs.

University Accounting Services Contact List by Fund Type

<u>Name</u>	<u>Fund Type</u>	<u>Tel #</u>	<u>e-mail</u>
John Laroe	State, ICR, Gift	217-333-9133	jmlaore@uillinois.edu
Timisha Luster	Gift	217-333-9147	tluster@uillinois.edu
Nicholas Deitch	Self-Supporting, Agency	312-996-5960	ndeitch@uillinois.edu
Mark McClellan	Self-Supporting, Agency	312-355-2112	mmccle1@uillinois.edu

***Please feel free to contact any one of these people for any general accounting questions you may have. If we don't know the answer, we can help you find the the correct information.**

***You can also contact our General Help Line at 217-333-4568.**

Helpful Links/Resources

- Accounting FAQ's:
 - <http://www.obfs.uillinois.edu/accounting-financial-reporting/faqs/>
- Accounting Job Aids & Training Materials:
 - <http://www.obfs.uillinois.edu/training/materials/accounting/>
- OBFS Training Events Calendar:
 - <http://public.obfs.uillinois.edu/trainingcalendar/default.aspx>
- The OBFS Homepage:
 - <http://www.obfs.uillinois.edu/>
- Business & Financial Policies & Procedures:
 - <http://www.obfs.uillinois.edu/bfpp/>
- Accounting & Financial Reporting, Who To Ask:
 - <http://www.obfs.uillinois.edu/accounting-financial-reporting/who-to-ask/>
- Accounting & Financial Reporting Forms:
 - <http://www.obfs.uillinois.edu/forms/accounting-financial-reporting/>
- Accounting & Financial Reporting Year-End Procedures:
 - <http://www.obfs.uillinois.edu/accounting-financial-reporting/year-end-procedures/>
- Orientation for New Business and Finance Employees:
 - <http://www.obfs.uillinois.edu/orientation/>

Workshop Summary

- Recognize the impact that year-end reporting has on self-supporting Funds
- Describe how to complete the year-end Fact Sheet properly
- Locate resources available for self-supporting Funds

Questions / Concerns?