

A collage of four images on the left side of the slide: a green lawn with trees, a modern building with a glass facade, a classical archway, and a blue sky with clouds.

# UNIVERSITY OF ILLINOIS

AT URBANA-CHAMPAIGN



2013 BUSINESS LEADERSHIP CONFERENCE

## Self-Supporting Funds, Tax Issues, & Beyond

March 11, 2013; 10:30 – 11:45am

March 11, 2013; 3:15 – 4:30pm

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*Destination Success*

# Workshop Presenters

- Name: Roger Fredenhagen, Business and Financial Specialist  
Phone: 217-333-7156  
Email: [frednhgn@uillinois.edu](mailto:frednhgn@uillinois.edu)
- Name: Michelle Flack, Financial Accounting and Reporting Analyst  
Phone: 217-300-0291  
Email: [mflack@uillinois.edu](mailto:mflack@uillinois.edu)
- Name: Nikki Melander, Financial Accounting and Reporting Analyst  
Phone: 217-333-9138  
Email: [melander@uillinois.edu](mailto:melander@uillinois.edu)

# Please ...

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

# Workshop Topics

- Self-Supporting Funds
- Sales Tax
- Unrelated Business Income Tax (UBIT)
- Excess Funds
- Fact Sheets
- Deferred Revenue

# 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.

# Self-Supporting Fund Types

- 3E Service and Storeroom Activities
  - Funds used to account for self-supporting activities where goods or services are provided to other **internal University units** including grant funds.
- 3J Auxiliary Enterprises Not Under Indenture
  - Funds used to account for self-supporting activities where goods or services are provided primarily to individual students, faculty or staff and bond financing is **not involved** in the activities.

# Self-Supporting Fund Types

- 3M Auxiliary Enterprises Under Indenture
  - Funds used to account for self-supporting activities where goods or services are provided primarily to individual students, faculty or staff and bond financing is involved in the activities.
- 3Q Departmental Activities
  - Funds used to account for self-supporting activities where goods or services are provided primarily to external customers.

# Entity Codes at a Glance

Fund Type	Level 3 Code	Title
3E	3100	Communication & Computing Services
3E	3110	Plant & Service Operations
3J	3200	Student/Staff Programs
3M	3300	Housing & Food Service
3M	3310	Student Activity Facilities
3M	3320	Parking
3Q	3400	Instructional Course Activities
3Q	3410	Professional Development Activities
3Q	3420	Unique Programs
3Q	3430	Agricultural Operations
3Q	3440	Public Service & Academic Support



# Fund Type/Entity Codes

- LAC guidelines require the establishment of accounting entities which classify all self-supporting funds into similar groups.
- Entity codes affect
  - Financial statement reporting
  - Excess funds calculations
  - Effect on F&A rate calculation
  - Equipment and fixed assets
- Find Fund Type/Entity Codes
  - Original Fund Create confirmation (if created in the past two years)
  - Banner form FZMFUND/Options/View Hierarchy
- See [Appendix](#) for detailed entity code definitions

# Find Fund Type/Entity Codes

Fund Code Maintenance Form FZMFUND 8.4 [ui\_sghe79\_fin30400] (BANPROD) (ONONE)

Chart of Accounts: 1  Active Status Last Activity Date: 02-JUN-2006

Grant:

Proposal:

Fund: 301010 Title: 105 UIUC Ser Co Over & Short

Effective Date: 02-JUN-2006 Termination Date:  Next Change Date:

Expenditure End Date:

Fund Type: 3E Service and Storeroom Activities  Data Entry

Predecessor Fund: 3110 Plant & Service Operations  Fund Requires Effort Certification

Financial Manager:   Fund Requires Effort Allocation

Unbilled AR Account:

Revenue Account:

Bank: DA UI Accounts Payable Disbursements

Cash Receipt Bank Code:

Capitalization Fund Indicator: Cap Different or No Cap

Capitalization Equity Account:

Capitalization Fund:

Multiple Fund Balance Indicator: Fund Type

Restriction Indicator: Unrestricted

Fund Hierarchy FGQFNDH 8.0 (BANPROD) (ONONE)

Chart of Accounts: 1 Fund: 301010 105 UIUC Ser Co Over & Short

Predecessor Fund: 3110 Plant & Service Operations

Fund Level 1	3E	Storeroom & Service Activities
Fund Level 2	310	Storeroom & Service Activities
Fund Level 3	3110	Plant & Service Operations
Fund Level 4	301010	105 UIUC Ser Co Over & Short
Fund Level 5		

# Acceptable Activities/Restrictions

- Acceptable Activities
  - Opened only for those activities that support and enhance the programs and missions of the University.
  - Expected to break even over time.
- Restrictions
  - Not authorized to provide units with discretionary funds that bypass budgetary control processes.
  - Any activity that is purely commercial in intent or nature should not be conducted nor have a fund authorized.
  - Expenditures must be related to the income generated within the fund.

# Self-Supporting Fund Creates

- Obtain the form online and email OBFS UAFR ([CFOAPALMAINTENANCE@uillinois.edu](mailto:CFOAPALMAINTENANCE@uillinois.edu))
- New questions such as:
  - Rate calculation for all self-supporting fund types
  - Multi-year pro-forma budget
  - Surplus/Deficit Plan
  - Any revenue-generating agreements, contracts, or other documentation related to the activity
- Attestation statement for self-supporting fund requests that the units will need to sign off on before submitting the request

# Self-Supporting Fund Terminations

- Units should terminate funds if
  - Original purpose of fund has changed
  - No revenues/expenses in recent years
- Old funds cannot be used for new activities; unit should request a new fund
- Benefits of termination
  - One less CFOAPAL string to account for
  - One less Fact Sheet to complete at year end

# Self-Supporting Funds Termination

- Termination Process
  - Contact OBFS UAFR  
([CFOAPALMAINTENANCE@uillinois.edu](mailto:CFOAPALMAINTENANCE@uillinois.edu))
  - UAFR will run queries and follow up with outstanding items for unit to resolve
    - Inactivate open A/R detail codes
    - Close open encumbrances
    - Close position labor distributions
  - UAFR will help determine how to properly handle the remaining surplus or deficit balance

# Sales Tax Overview

- General Information
  - Section 18.6 of the OBFS Policies & Procedures Manual
    - General Sales and Use Tax information
    - Current tax rates
    - Information on taxability and exemptions for other state purchases and sales

# Taxability of Purchases

- IDOR granted University a governmental exemption from sales & use taxes
- Tax Exempt Letter dated January 2010
- Not exempt from Hotel Operators' Occupation Tax



# Taxability of Sales

- Taxable Sales
  - Sales of tangible personal property
  - Includes sales from fundraisers or sales of clothing (t-shirts, caps, jackets, etc.) to students, employees, alumni or other individuals

# Sales Tax Question 1

- University Accounting sells “Accountants Unite!” shirts at a fundraiser.
 

– Employees	\$175	<b>YES</b>
– Students	\$75	<b>YES</b>
– Employee Families	\$50	<b>YES</b>
– Shirts ‘R’Us (for resale)	\$150	<b>NO</b>
– Champaign/Urbana Citizens	\$50	<b>YES</b>
– Total Sales	\$500	
- From which groups will University Accounting need to collect sales tax?

# Tax-Exempt Sales

- Sales in interstate commerce
  - Product is shipped to a location outside Illinois and to a state in which the University is not registered
  - The University is a member of the Great Lakes State Tax Enforcement Pact that includes Illinois, Indiana, Ohio, Michigan, Minnesota and Wisconsin
  - See manual for listing of the states in which the University is registered
- Sales to exempt organizations
  - Obtain a copy of the organization's exemption letter issued by the Illinois Department of Revenue (IDOR)
  - Sales to otherwise exempt organizations (including University units) are taxable when an individual is the ultimate consumer of the property transferred and that individual reimburses the exempt organization or University unit for the expense incurred.
  - Sales/Transfers between two University units (i.e., sales of office supplies by a stores/service unit to a campus unit) are nontaxable and not reported to IDOR

# Tax-Exempt Sales

- Sales for resale
  - Obtain a Certificate of Resale, IDOR Form CRT-61, that includes the customer's resale number
- Sales of service
- Other items specifically exempted
  - Dining facilities located on the University's premises with sales limited to students through student contract meal passes/tickets
  - Meals served to students of qualifying programs in closed dining facilities restricted to only such students
  - Auctions of tangible personal property (donated or purchased) that the University is not in the business of selling and where the University is disclosed as the principal
  - Cash refunds for taxable sales previously reported
  - Sales of newspapers and magazines

# Unrelated Business Income Tax (UBIT)

- University of Illinois is exempt from income taxes on normal, related university activity
- University may be subject to UBIT if the activity is:
  - A “Trade or Business” with a profit motive
  - Regularly carried on, and
  - Not substantially related to IRC section 501(c)(3) exempt purposes

# UBIT Exceptions/Modifications

- Exceptions for trade or business
  - Convenience of students, employees, patients
  - Conducted with a volunteer labor force
  - Selling merchandise substantially all of which was received as gifts or contributions
- Modification
  - Income from dividends, interest, royalties and rental of real property

# UBIT Special Rules

- Exempt Situations
  - Food service at an exempt activity where food is available only to attendees
  - Income from scientific research carried on in the public interest
- Possible UBIT Situations (depends on facts/circumstances)
  - Commercial advertising sold by the University in publications and athletic broadcasts
  - Certain “qualified sponsorship payments”
  - Food service activities open to the general public
  - Income from ordinary testing or inspection of materials commonly carried on as an incident to commercial or industrial operations where no intellectual questions are posed.
- Section 18.13 OBFS Policies and Procedures

# UBIT Allowable Deductions

- Expenses directly related to production of unrelated business income
- Expenses indirectly related to production of unrelated business income
  - Personnel expenses
  - Expenses related to facilities used in production of income (utilities, depreciation, interest, etc.)
  - Must be allocated between related and unrelated activities on a reasonable basis



# UBIT Formula

Unrelated Business Revenue

Less: Direct and Indirect Production Expenses

Less: Personnel Expenses

Less: Interest, Depreciation, and Utilities  
Expenses

Equals Total UBI subject to tax

# So You Think You Have UBI...

- What should you do?
  - Do nothing; it's accounting's responsibility to figure it out.
  - Start collecting tax – any and all!
  - Complete a UBIT Questionnaire
  - Terminate the fund

# UBIT Questionnaire

- The UBIT questionnaire should be completed and returned to University Tax for consideration of the tax consequences prior to the start of the project. However, classification as an Unrelated Business Activity does not, in itself, constitute grounds for withholding approval of an activity.

# What are Excess Funds?

- Self-supporting balances that exceed a prescribed formula based on cash balance and other factors
- Required by State of Illinois Legislative Audit Commission
  - “University Guidelines 1982,” amended 1997
  - Limits the amount that can be retained from year-to-year for self-supporting activities

# What are Excess Funds?

- Not based on a subjective review of whether the fund's balance exceeds what is need to continue the activity
- Excess is “lapsed” to the University's Income Fund
- Calculation is based on entity totals, not individual fund balances

# Excess Funds

- UAS prepares preliminary calculations each year and contacts units with potential excess balances
- How to avoid excess funds:
  - Review your rate annually
  - Ensure all expenses included in your rate & related to the activity are posting to the fund
  - Report all deferred revenue and payables on your Fact Sheet

# Excess Funds Formula

Cash

Less—highest month expenses

Less—deferred revenue and deposits

Less—accounts payable

Less—accrued payroll

Less—margin of compliance

Less—obligations paid in lapse period

Less—other adjustments

Equals Excess Funds

# Fact Sheets

- Required for all self-supporting funds
- Provides information to report self-supporting funds on the University Financial Statements using the accrual basis of accounting at 6/30/YY
- Adjustments are entered as of 6/30/YY and are reversed on 7/1/YY
- Notifications sent to Financial Manager
- Due **7/17/13** (after period 12 close)



# Fact Sheet Reporting Items

- Petty cash balance (if not held through USFSCO)
- Inventory (include expense acct that it was purchased on – usually 187100)
- External receivables not recorded in Banner AR & amounts deemed uncollectible
- Deferred revenue
- External payables not recorded in Banner
- Prepaid expenses
- Receivables from and payables due to State Agencies

# **CASE STUDY: COMPLETING THE YEAR END FACT SHEET**

# The Facts

- Fund 1-301XXX performs testing services for external customers.
- On 12/31/12 fund 1-301XXX signs a contract to perform testing services for the Department of Labor for 1/1/13 through 12/31/13. The total compensation for the contract is \$100,000. A check is received on 1/15/13 for \$100,000.
- On 5/1/13 testing services were performed for Boeing. On 6/1/13 Boeing was sent an invoice for \$25,000. On 6/15/13 fund 1-301XXX received a \$10,000 payment from Boeing.
- On 6/1/13 three laptop computers totaling \$5,000 were ordered. As of 6/30/13 the computers had not been received nor had any payments been made. The computers were shipped from the merchant on 6/15/13.
- The testing services require a supply kit that costs \$25. A charge of \$27.50 per test is built into the service rate. On 7/1/13, 500 supply kits are on hand.
- A \$2,000 bill for insurance related to the testing services came on 12/1/12 for the insurance period of 1/1/13 through 12/31/13. The bill was paid in full at 6/30/13.

# Quiz #1

Deferred revenue is money received and deposited before June 30 that a customer remitted in advance to pay for a specific good or service that your unit won't provide to them until after June 30. When a single payment is made for a specific service or event that overlaps June 30, the payment should be prorated over the period of service, and the portion related to providing the service for the period after June 30 represents deferred income. **Deferred income should not be confused with "surplus" income**, which is the balance from monies received in payment for services rendered during the current year that are left over and may be spent in subsequent years

# Quiz #1

- Q: What dollar amount should be reported as deferred revenue on the FY13 Fact Sheet?
  - \$100,000 is received on 1/15/13 for services performed for the time period 1/1/13 to 12/31/13.
  - At 6/30/13 approximately half of the total services would have been performed.

# Quiz #1

- Q: What dollar amount should be reported as deferred revenue on the FY13 Fact Sheet?
- A: \$50,000 of deferred revenue should be recorded on the FY13 Fact Sheet (\$100,000 payment x 6 months in FY14/12 total months).

## 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.

## Quiz #2

- Q: What dollar amount should be reported as accounts receivable on the FY13 Fact Sheet?
  - Testing services were performed for Boeing on 5/1/13.
  - Boeing was sent an invoice for \$25,000 on 6/1/13.
  - Fund 1-301XXX received a \$10,000 payment from Boeing on 6/15/13.



## Quiz #2

- Q: What dollar amount should be reported as accounts receivable on the FY13 Fact Sheet?
- A: \$15,000 of receivables should be recorded on the FY13 Fact Sheet (\$25,000 billed - \$10,000 payment).
  - Note, this assumes the receivable is not already recorded in Banner.

## 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.

## Quiz #3

- Q: What dollar amount should be reported as accounts payable on the FY13 Fact Sheet?
  - Three laptop computers totaling \$5,000 were ordered on 6/1/13.
  - The computers were shipped from the merchant on 6/15/13.
  - As of 6/30/13, the computers had not been received nor had any payments been made.

## Quiz #3

- Q: What dollar amount should be reported as accounts payable on the FY13 Fact Sheet?
  - A: If the shipping terms were FOB “shipping point” or “FOB origin”, a payable for \$5,000 would be required to be recorded as of 6/30/13 because legal ownership transferred once the computers left the merchants warehouse.
  - A: If the shipping terms were “FOB destination” a payable would not be recorded until the computers are received.

# 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.
- Inventory should be recorded at cost.
- Purchases of inventory should be made on the 187100, “Purchase of Goods for Resale” account code.

## Quiz #4

- Q: What dollar amount should be reported as inventory for resale on the FY13 Fact Sheet?
  - The testing services performed require a supply kit that costs \$25.
  - A charge of \$27.50 per test is built into the service rate.
  - 500 supply kits are on hand at 6/30/13.

## Quiz #4

- Q: What dollar amount should be reported as inventory for resale on the FY13 Fact Sheet?
- A: \$12,500 of inventory for resale should be recorded on the FY13 Fact Sheet (500 kits on hand at 6/30/13 x \$25 cost of each kit = \$12,500).

## Quiz #5

- A prepaid expense should be recorded when a service to be provided at a future date has been paid for in advance.



## Quiz #5

- Q: What amount should be reported as prepaid expense on the FY13 Fact Sheet?
  - A \$2,000 bill for insurance related to the testing services came on 12/1/12 for the insurance period of 1/1/13 through 12/31/13.
  - The bill was paid in full at 6/30/13.

## Quiz #5

- Q: What amount should be reported as prepaid expense on the FY13 Fact Sheet?
- A: \$1,000 should be recorded as prepaid expense on the FY13 Fact Sheet (\$2,000 payment x 6 months of service in FY13/12 month service period = \$1,000)

# Workshop Summary

- Self-Supporting Funds
- Sales Tax
- Unrelated Business Income Tax (UBIT)
- Excess Funds
- Fact Sheets
- Deferred Revenue

# Resources

- Frequently Asked Questions
  - <http://www.obfs.uillinois.edu/cms/One.aspx?portalId=909965&pageId=919404#SelfFunds>
- Training: Introduction to Self-Supporting Funds
  - <http://www.obfs.uillinois.edu/cms/One.aspx?portalId=909965&pageId=911972#Self-Supporting>
- Accounting Reference Materials
  - <http://www.obfs.uillinois.edu/accounting-financial-reporting/reference-materials/>
- Sales Tax Summary
  - <http://www.obfs.uillinois.edu/bfpp/section-22-self-supporting-revenue-generating/collect-report-sales-use-tax/>

# Resources

- Benefit Assessments by Fund Type
  - <http://www.obfs.uillinois.edu/common/pages/DisplayFile.aspx?itemId=921905>
- Fund Type Descriptions
  - <http://www.obfs.uillinois.edu/common/pages/DisplayFile.aspx?itemId=921931>
- Allowable Fund Type & NACUBO Function Code Combinations
  - <http://www.obfs.uillinois.edu/common/pages/DisplayFile.aspx?itemId=919265>
- UBIT Questionnaire
  - <http://www.obfs.uillinois.edu/common/pages/DisplayFile.aspx?itemId=929919>;

Questions / Concerns?

Please proceed to the Illinois  
Ballroom.

Chancellor Wise will begin her  
session at noon.

# Appendix: Entity Code Definitions

- **3E – Storerooms and Service Departments**
  - **Communication & Computing Services (3110)** – Activity that provides University-wide services, primarily to University departments for data processing, telecommunications, and computing services.
  - **Plant & Service Operations (3110)** – Activities for distribution of costs associated with services rendered to internal operations on a University-wide basis, including storeroom operations, physical plant, mail service, advance insurance billings to units, printing, duplication, and activities used for collection and redistribution of costs.



# Appendix: Entity Code Definitions

- **3J – Auxiliary Enterprises NOT Under Indenture**
  - **Student/Staff Programs & Services (3200)** – Administration and operation of programs and services for students, faculty, and staff, including counseling, testing, and student government activities.
- **3M – Auxiliary Enterprises Under Indenture**
  - **Housing & Food Service (3300), Student Activity Facilities (3310), Parking (3320)** - Consist of operations of the University of Illinois Auxiliary Facilities System (AFS) that are subject to the provisions, terms, covenants, and conditions of the Resolutions of the Board of Trustees of the University, which provided for the issuance of UIAFS revenue bonds.

# Appendix: Entity Code Definitions

- **3Q – Departmental Activities**
  - **Instructional Course Activities (3400)** – credit bearing instructional activities provided primarily as a public service for private businesses, community organizations, and governmental units.
  - **Professional Development Activities (3410)** – non-credit bearing instructional activities including conferences, workshops, seminars, and continuing education courses provided primarily as a public service.
  - **Unique Instructional Programs (3420)** – unique student and staff programs such as flight training, field trips, summer and abroad programs, and other activities of similar nature.

# Appendix: Entity Code Definitions

- **3Q – Departmental Activities (continued)**
  - **Agricultural Operations (3430)** – agricultural activities in direct support of the instructional, research, and public service functions of the university administered by the College of Agricultural, Consumer, and Environmental Sciences (ACES).
  - **Public Service & Academic Support Activities (3440)** – activities in direct support of the primary academic, public service, and economic development missions of the University including lab and testing centers, publication and design services, technology incubation and economic development services, and facilities which are in direct support of the instructional, research, public service, and economic development functions of the University.