

**MEMORANDUM**

From: Katrina Spencer, Associate Vice President of Finance and Budget Director  
To: University of Chicago Unit Finance Leaders  
Date: April 25, 2018

**Subject: Internal Bank Operations and FY18 Balances**

Attachment: (1) Use of Banked Funds Request Form

**I. Purpose**

With the transition to a budget model based on Generally Accepted Accounting Principles (GAAP), many changes have been made including the use of accumulated fund balances and the establishment of an internal bank. In this memo, we lay out the overall framework, provide more operational detail and include a list of FAQs that we have received in the Budget Office. As always, if you have questions please contact your budget analyst or email the Budget Office at [budgetoffice@uchicago.edu](mailto:budgetoffice@uchicago.edu).

**II. Background**

In the previous budget model (which used a modified cash basis), unspent gift and endowment payout accounts fund balances from previous years' surpluses could be accumulated and used by units as needed. In the new model, revenues are recorded when received, and expenditures are recorded as they are incurred. Thus, current year expenditures of accumulated restricted gift and endowment fund balances now have a direct impact on the bottom line under GAAP. In order to help units better manage year-over-year volatility within this framework, an internal bank has been established as a mechanism to help mitigate revenue and expense fluctuations in the normal course of business.

The bank provides a holding account where units will deposit net surpluses/(deficits) at the end of each fiscal year that may be used in future fiscal years for the purposes of offsetting unexpected future deficits, smooth "lumpy" gift income, support one-time programmatic needs, provide start-up funds, fund entrepreneurial endeavors or help pay for capital projects. Use of banked funds should generally be used for one-time expenditures. However, in the event that a unit chooses to fund programmatic needs with banked funds, the unit will be asked to submit a business case with a plan for generating corresponding programmatic revenues to fund new, ongoing requirements. This is to ensure that the usage of banked funds does not result in a fiscal "cliff" whereby accumulated balances are exhausted with no new revenues to support ongoing programmatic expenditures.

**III. Bank Operations and Initial Deposits**

The internal bank began operation at the end of FY17. Initial bank deposits for each unit were determined as the FY17 end-of-year net gain (the difference between the FY17 budget letter target amounts and the unit's actual end-of-year FY17 performance on a GAAP-basis).

Banked funds were calculated by fund type: unrestricted, restricted gifts, and endowment payout. If a unit had a negative result for FY17 in any of the three fund types, the initial bank deposit was assumed to be zero (0) for that fund type. This was done to ensure that units were not penalized during the transition to the new budget model. Detailed results of these calculations for each unit have been uploaded to the unit shared folders. Note that bankable fund balances are calculated and maintained at the Executive (Exec) level. Units and departments should work with Exec leadership in maintaining and using banked funds at the division or department level.

#### **IV. Using Bank Funds**

Units may submit requests via the “Banked Funds Request Form” to utilize their banked funds to offset unexpected future deficits, smooth “lumpy” gift income, support one-time programmatic needs, provide start-up funds, fund entrepreneurial endeavors or help pay for capital projects. This ensures that the Budget Office is aware of any “missed” target, protects against a “run on the bank,” and memorializes the understanding between the Provost’s Office and the unit. We will be as accommodating as possible in approving use of banked balances, while striving to meet the University’s budget targets. Additionally, any planned draw-down should be done within the framework of a financial plan that supports a sustainable long-term budget strategy. Use of banked funds generally represents a “one-time” funding source. As mentioned previously, the use of banked funds for recurring expenditures without a corresponding plan for generating supporting revenues can lead to missed financial targets.

*NOTE: Gift or endowment funds included in the FY17 Banked balances are a one-year subset of your total gift or endowment fund amount.*

#### **V. FY18 Bank Deposits and Recording Unit Surpluses/Deficits**

FY18 increases or decreases to the units’ fund balances will be calculated based on the difference between the FY18 budget letter targets and final end-of-year net surplus/(deficit) for each unit. Unit surpluses will be deposited annually into the internal bank as of the close of each fiscal year and negative balances or net losses will be deducted from the bank balances. Surpluses will be deposited by ledger (unrestricted, restricted gift, endowment) based on unit performance for each fund ledger.

#### **VI. Frequently Asked Questions (FAQs)**

##### **1) Will a unit earn interest on our bank deposits or be charged interest on loans?**

Yes, interest will be earned for unrestricted funds at the end of the fiscal for those funds that have been in the bank for the entire fiscal year. The earned interest rate will be equal to the daily average of the 1-year Treasury Bill over the past fiscal year. Loans or negative unrestricted fund balances will be charged interest equal to the daily average of the 1-year Treasury Bill + 100 basis points (BPS).

**2) When will the bank be available?**

The bank began operation at the end of FY17. Initial unit deposits and the method of calculating those deposits are detailed in this memo and have been saved in the shared folder. Banked funds are held at the Exec level.

**3) How do units access banked funds?**

Units should use the attached Use of Banked Funds Request Form (**Attachment (1)**) to submit a request to use banked funds. In general, these requests should be made prior to the units' annual budget target meetings. For use of banked funds in FY18 or FY19, please submit your requests as soon as possible. If a unit wants to use the funds for ongoing operations or entrepreneurial initiatives, the requests must include a business case for the use of banked funds. Bank operations and the use of funds is managed at the Executive level only, so departments and divisions that wish to use bank funds must work directly with their Executive leadership to manage their balances and submit requests.

**4) How will FY18 surpluses and deficits be factored into bank balances?**

Surpluses will be determined based on the methodology described in this memo and will be added to the EOY FY17 balance. Deficits will be counted against the bank.

**5) Can bank funds be used for capital projects?**

Yes, a unit can use its banked funds for capital projects as long as there are no restrictions on the funds that the unit wishes to use.

**6) What is the difference between using unrestricted balances vs. endowments or restricted gifts?**

Unrestricted balances may be used for any purpose – to offset unexpected future deficits, smooth “lumpy” gift income, to support one-time programmatic needs, to provide start-up funds, to fund entrepreneurial endeavors or to help pay for capital projects. Endowments and restricted gifts may be used as long as the use of those funds does not violate purpose or use restrictions defined in the endowment or restricted gift agreements. In the new GAAP-based model, use of fund balance will result in a variance from the Budget Target and must be pre-approved by the Budget Office.

**7) How can a unit access bank funds for a start-up or entrepreneurship purposes?**

Units should submit a request to use banked funds during their annual budget meetings. Those requests must include a detailed business case for the use of banked funds, and must clearly identify new revenue sources to be generated to fund any new programmatic requirements for startup or entrepreneurial efforts.

**8) Can we move surpluses to Funds Functioning as Endowment (FFE) in lieu of depositing into the bank at the end of the year?**

Yes. During fall of 2018 the Budget Office will be reaching out to units to gather requests to move funds to FFE and to put together a plan for timing and amount for FY19 and beyond. If you have questions in the meantime, please reach out to your unit's budget analyst. Please note that the requests to move funds to FFE will need to be approved by the Budget Office. All

requests will be reviewed in concert with the CFO's office in order to make final determinations.

**9) How do additions to FFE affect bank balances?**

Funds moved to FFE are captured as reductions in fund balances and therefore are not included in a unit's bank balances.

**10) What is the difference between banked funds and unspent fund balances?**

Unspent fund balances represent the total unspent balances in unit's ledger 6 and ledger 7 accounts that have accumulated over time. Banked balances are only those portions of fund balances and unrestricted funds associated with surpluses in unit operating performance as defined in the new University budget model that was implemented in FY17 and FY18. The method of calculating banked balances detailed in this memo began at the end of FY17 and will continue in FY18 and subsequent fiscal years. Each year's banked balances will be added to existing banked balances, net of any withdrawals for any approved uses of funds as described in this memorandum. Bank balances are a subset of total fund balances but are calculated separately. In all cases, request by a unit to use bankable or accumulated fund balances, needs to be approved by the Budget Office. The request form is included with this memo in **Attachment (1)**. If you have additional questions, please contact your unit's budget analyst or contact the budget office at [budgetoffice@uchicago.edu](mailto:budgetoffice@uchicago.edu).