

# **KU Lawrence/Edwards**

## **All Funds Budgeting Guidelines**

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### **Background and Purpose of All Funds Budgeting**

Historically, the annual budgeting process for KU Lawrence/Edwards has focused nearly exclusively on allocation of the general fund (State appropriations and Tuition). This funding source comprises only 41% of the total annual revenues used to cover expenses. Since 2008, the general fund has been constrained with few recent tuition increases and “at best” flat state funding, while expenses continued to grow. This resulted in general fund cuts in 12 of the last 16 budget years.

During this same time period, non-general fund revenues have grown and now make up over 26% of the annual operating revenues. While these funds have grown and generally have carry-forward balances (unused funds in the year), they have not consistently been a focus in balancing the budget, other than occasional fund sweeps during severe budget pressures.

Non-general sources include funds such as donor gifts, course fees, and restricted funds (Fund 700). All research-related funds are excluded from these guidelines. From its generous donors, KU receives significant philanthropic support from KU Endowment that is both restricted and unrestricted in designation. Depending on the donor’s intent, these gifts can be used for endowed faculty salaries, annual scholarships, buildings, equipment, or unrestricted for any use by a unit. Donors expect the gifts to be fully deployed. They do not expect for them to remain unused year after year unless carry-forward balances are being accumulated for a specific purpose. It is important to monitor these funds, to not jeopardize future fundraising efforts.

Many academic units have implemented course fees that supplement tuition revenue and can be used for various academic and student support activities. These fees are paid by students and should be deployed during the period of enrollment for students paying the fee. Various restricted fees are assessed throughout campus and are used to cover specific annual expenses related to the fees charged.

The remaining revenues are associated with 501c3 affiliates who operate using their own resources and will not be part of All Funds Budgeting.

Beginning FY23, KU Lawrence/Edwards is implementing a rolling five-year financial plan that is integrated into the Jayhawks Rising Strategic Plan. Both plans utilize an all funds model (not just general fund revenues) to meet needs such as annual salary increases, market-based pay, facilities maintenance, inflation, and strategic priorities.

The guidelines below, which complement new fiscal reports and new budget practices implemented in FY23, have been developed to create transparency when deploying all funds to address campus needs.

These guidelines are based on assumptions and accountabilities outlined in KU Lawrence/Edwards Budget Roles and Responsibilities.

### **Budget Policies and Practices for Efficient Use of All Funds**

Each year during unit 4+8 budget-monitoring meetings in November, unused carry-forward balances in each fund are examined. Planned use is then finalized after the 8+4 budget process in March, which is part of the budget-setting process for the upcoming fiscal year. Non-general funds are included in this budget process, as these funds are to be used consistently with any associated restrictions and prudently planned. Assignment of non-general funds is the first step in building a unit's annual budget, because this empowers unit leaders to be as effective and efficient in operations as possible, and at the same time, decreases pressure on general funds, allowing these unrestricted sources to be used to address campus priorities such as preventing budget cuts, providing resources for pay raises, inflation, deferred maintenance, and strategic needs.

As a result, the General Fund Allocation Model will adjust unit allocations if excess non-general funds exist in an Administrative or Academic Unit. This should not encourage unit leaders to use the non-general fund excess; this instead recognizes the existence of other resources available to use. As good stewards of KU, all unit leaders should always spend strategically, prudently, and efficiently when deploying any non-general fund resources.

The guidelines that will be used to adjust the General Fund Allocation Model for excess non-general fund carryforward balances are described below and applies to the units that report to the Provost. **The percentages listed in the guidelines below may be adjusted at fiscal year-end to meet the all-funds requirement of the five-year financial plan.**

General Fund adjustments will be determined at the unit level based on the Sources and Uses data. Each revenue fund will have separate guidelines.

#### **Course Fees**

***Allowable Carry-Forward Balance:*** Six-Months of Current Year Projected Annual Revenue

***General Fund Allocation Adjustment:*** Reduced by 100% for any carryforward balance above the Allowable Carry-Forward Balance

#### **Unrestricted Endowment Funds (Endowed and Expendable)**

***Allowable Carry-Forward Balance:*** One Year of Current Year Projected Annual Investment Income

***General Fund Allocation Adjustment:*** Adjustment will be equal to 10% of the carry-forward balance above the Allowable Carry-Forward Balance level. For example: if annual investment income is \$1,000,000 and the carry-forward balance is \$3,000,000, the general fund will be reduced by 10% of the excess ( $3,000,000 - \$1,000,000 = \$2,000,000$ ) or \$200,000. If the carry-forward balance is at or below one year of current prior annual investment income, no adjustment will be made. If the account does not have investment proceeds, the assessment will be 10% of the carry-forward balance.

Unrestricted endowment funds accumulated for strategic needs such as equipment, faculty start-up packages, or other uses consistent with KU's strategic priorities may be excluded from the excess calculation. If approved for exclusion, the excess funds will be reviewed annually as part of the budget-setting process.

## **Restricted Endowment Funds (Endowed and Expendable)**

***Allowable Carry-Forward Balance:*** One Year of Current Year Projected Annual Investment Income

***General Fund Allocation Adjustment:*** Adjustment will be equal to 10% of the carry-forward balance above the Allowable Carry-Forward. A unit must comply with all endowed fund restrictions and should identify needs that meet the requirements early in the budget and planning process. KU Endowment will work with Units to ensure these funds are used consistent with donor intent. If the account does not have investment proceeds, the assessment will be 10% of the carry-forward balance.

Balance level. For example: if annual investment income is \$1,000,000 and the carry-forward balance is \$3,000,000, the general fund will be reduced by 10% of the excess ( $3,000,000 - \$1,000,000 = \$2,000,000$ ) or \$200,000. If the carry-forward balance is at or below one year of prior annual investment income, no adjustment will be made.

## **Restricted Fees (Fund 700)**

***Allowable Carry-Forward Balance:*** One Year of Current Year Projected Annual Revenue

***General Fund Allocation Adjustment:*** Reduced by 100% for any carry-forward balance above the Allowable Carry-Forward Balance.

## **Excluded balances from the General Fund Allocation Adjustments**

KUEA accounts permanently excluded from the All Funds adjustment include

- All scholarships (Graduate Scholarships, Scholarships, Scholarships-Student Support, Undergraduate Scholarships)
- Acquisition-Collection Support
- Student awards and Prizes
- Student Assistance or Activity
- Faculty Staff Awards Prizes
- Faculty-Staff Awards Prizes
- Faculty Staff Asst or Support
- Construction-Capital Projects
- Equipment
- Furnishings Maintenance
- Univ Prop Maintenance Reserve
- Grant
- Research

In addition, units that do not have allocated funds (i.e. Auxiliaries) are excluded.

As stated above, funds accumulated in excess of the Allowable Carry-Forward Balance for a specific purpose (equipment, faculty start-up packages, or other uses consistent with KU's strategic priorities) may be exempt from the general fund allocation adjustment. The excess must be discussed during the annual budget-planning process and approved by the Provost and Chief Financial Officer.

### **All Funds Adjustment will be Capped**

The All Funds Adjustment will be no more than 15% of unit's current projected ending cash balances within the scope of the policy.

### **All Funds Adjustment will be Reviewed for Accuracy**

At the end of the fiscal year, a comparison of the projected vs actual ending balances will be completed. A cash transfer (positive or negative) will be made to reflect any difference. **The percentages identified in the guidelines above may be adjusted at fiscal year-end to meet the all-funds requirement of the five-year financial plan.**

### **Unit Requests to Endow (invest in the long-term) Cash Not Spent or Used in Prior Fiscal Year**

Historically, units could request KU Endowment to endow (invest over the long-term) any unused unrestricted or restricted cash available at the end of the fiscal year. This effectively restricts current liquid funds, therefore reducing the carry-forward balance and the ability to deploy these funds to address current fiscal needs. When the general fund is in structural deficit or funds are needed to cover basic operating expenses such as inflation, maintenance or market-based wages, a unit that wants to endow unspent funds must meet with the KU Endowment Chief Operating Officer, Provost, Chief Financial Officer, and Dean or Vice Provost of the requesting unit to discuss the purpose and to ensure it is consistent with KU's strategic priorities and financial needs. A decision will be agreed upon before actions are taken by the KU Endowment Chief Operating Officer.