

GUIDELINES FOR DISCRETIONARY/DESIGNATED FUNDS

with external sources of funding

(Excludes Intramural Research Funds)

Purpose

The University has a *fiduciary* responsibility to fulfill its overall mission ethically and in compliance with applicable policies, laws, rules and regulations. Accordingly, the University is obligated in taking reasonable actions to ensure that sound financial management practices are implemented and fiscal policies and procedures are in place that:

- Reasonably ensure the fiscal impact of University operations is planned, controlled, and accurately accounted for in the University's financial records;
- Reasonably ensure *Fiscal Transactions* comply with applicable policies, laws, regulations, and rules; contracts, grants, and donor restrictions; and generally accepted accounting principles; and
- Require an *Internal Control* environment to accomplish the above two objectives.

Scope

These guidelines establish the fiscal roles and responsibilities to *Employees* by providing additional clarification and guidance regarding the management of discretionary funds.

Responsibility

These guidelines apply to all University funds and to all *Employees*.

The financial manager (individual responsible for the fund) has the responsibility to ensure that proper documentation procedures are followed for projects/programs that he/she controls and that only authorized expenditures are charged to a project/program. The financial manager is responsible for ensuring that any projects/programs which he/she may control are reviewed at least monthly and any transactions which are incorrect or do not belong on a project/program are reported to the UFST office. Finally, a financial manager is responsible for ensuring that he/she maintains a positive or zero cash balance in the fund.

It is anticipated and encouraged that some WesternU faculty members will be involved in activities external to the University that yield beneficial products and services and for which there is financial remuneration. These types of activities could potentially lead to conflicts of interest situations, so disclosure of such activities should be considered. Please refer to the WesternU policy regarding Conflicts of Interest http://wsprod.westernu.edu/policy/pp_policies_view.jsp?PID=1213 for further clarification.

External sources of revenue

DEFINITION OF AN EXTERNAL SOURCE OF REVENUE

Revenues and earnings have the same meaning under these guidelines and are considered operations that are self-supporting university activities which derive their revenue from the sale of goods and/or services and are **NOT** part of the university's operating budget.

Regardless of the name used on the fund, discretionary funds are considered University assets and are to provide support for the university's mission.

The most common type of revenue is generated from conferences. When a university department organizes a conference that charges registration fees, the expenses and revenue related to the conference should be tracked separately from the department's other activities in a Discretionary Fund. Other sources of revenue can be generated from doctor's house calls, speaking engagements, balance transfers from expired grants/contracts, etc.

Both revenue and the associated expenses must be recorded in the same fund, matching the attributable expenses that generates the revenue.

Discretionary Funds are assessed a University Overhead on revenue. This expense reimburses the University for costs of centrally provided services such as accounting, management, human resources, etc. The overhead rate can vary but is generally set at 20% for non-taxable university related activities or 35% for activity that is subject to IRS unrelated business income tax (UBI). The rate is applied to gross revenues.

CRITERIA FOR ESTABLISHING A DISCRETIONARY FUND

External revenue should provide incentives for the most efficient use of resources and exist only to support the primary mission and goals of the university.

Generally operating funds (fund 1100) should not be used to support the activities in discretionary funds. Expenses within the department's annual operating fund should be used solely for the departments operating activities and unless approved during the budget process should not support activities other than their intended purpose. However, if start-up funding is required approval from the Provost or Chief Financial Officer is required.

Discretionary funds operating at a loss at the end of each fiscal year will require a transfer from the college's alternate discretionary fund.

A. Discretionary funds must have start-up funding. Using deficit funding to begin an earnings unit is not appropriate. Sufficient funds must be provided by the department to cover the initial costs until the operation can be self-supporting.

B. Generally Discretionary funds must provide goods or services outside the College or equivalent department. If it does not, the establishment of an earnings operation is not necessary.

C. Individuals managing earnings operations must have an understanding of university budgeting and accounting procedures.

OPERATING SURPLUS

Operating surpluses are allowed when the primary customer is the general public, a private corporation, university employees or students acting as the general public, when there is reasonable marketplace competition or, in the case of conference offerings, when it is stated on the registration form.

Operating surpluses are not allowed when the operations are generated by university departments or certain grants. These operations must be “revenue neutral” – that is, fees/rates are set to cover the cost of the service or goods provided but not to generate a surplus.

ACCOUNTS RECEIVABLE

It is the responsibility of each department to accurately reflect accounts receivable in the University’s Financials System.

All receivables must be promptly recorded in the financial accounting system.
Receivables more than 120 days old must be addressed and action taken for collection.
Proper approvals must be obtained when a receivable is deemed uncollectible.

Returned checks are processed with a new receivable established by the Bursar’s Office and the appropriate department is notified.

TAX ISSUES

Unrelated Business Income Tax (UBIT):

Earnings operations that have income derived from an activity that is unrelated to the university’s exempt functions (instruction and research) may have a tax liability on the activity’s net income. All questions regarding UBIT and whether a specific activity is subject to UBIT should be directed to UFST.

State and Local Sales Tax:

Earnings operations at the university must collect sales tax when goods or services subject to the sales tax are sold. Sales tax must be collected regardless of the “profitability” of the operation. Any sales tax collected from customers must be properly recorded and paid to the California authority. All questions regarding state and local sales tax should be directed to the UFST department.

Excise Tax:

Departments at the university may also be responsible for paying the federal excise tax when goods or services subject to the federal excise tax are sold. Similar to sales tax, excise taxes are paid when there is a different rate depending on location of where the goods or services are performed, contact UFST department for any questions.

EXTERNAL BANK ACCOUNT

Departments may not establish external bank accounts (checking or savings). The University Treasurer is the only person authorized by the Board of Trustees to establish bank accounts.

OPENING A DISCRETIONARY FUND

If you decide that a discretionary fund is needed, you must submit a request form. This form is available here <https://intranet.westernu.edu/offices/business/forms/>

You can request that a Fund be inactivated at any time if you wish to stop financial activity in the Fund. If you do this, please notify UFST and any other department that may have recurring expenses charged to the fund.