Carryforward Estimates for “A” Funds

Revised April 13, 2012
What is Carryforward?

Surplus funds that are retained by the unit at the end of the fiscal year and included in the following year’s budget
Surplus funds are generated when the **SOURCES** for a unit exceed the **USES** during the fiscal year.
What is My Unit’s Carryforward?

Object codes 31533 & 31534
How Do I Calculate My Carryforward?

1. Start with the prior year’s carryforward amount (31533 & 31534)
2. Add final BUDGETS for remaining allocations (3’s)
3. Add ACTUAL revenues (4’s)
4. Add ACTUAL transfers from (81XXX)
5. Subtract ACTUAL transfers to (86XXX)
6. Subtract ACTUAL expenditures (5’s)
7. Add ACTUAL IITs (6’s)
8. Balance = New year’s carryforward amount

➢ The balance should equal the YTD fund balance PLUS the allocation budgets (All the 3’s)
What Are My Unit’s Sources – FY12?

Tuition & Fees (Academic Units)
401XX

Other Revenue
4XXXX

State Appropriations
31500/31525/31526

NET of other 3’s
Non-recurring - 363XX/368XX and 36400/36500
Permanent - 373XX/378XX and 37400/37500

NET of Transfers
81XXX and 86XXX

Carryforward
31533/31534
How will my sources change for FY12?

**Tuition & Fees (Academic Units)**
SUMMER I and SUMMER II ONLY

**Other Revenue**
4XXXX

**Base Budget Allocation**
31900 – note that this includes prior year permanent transfers

**NET of other 3’s**
Non-recurring - 363XX/368XX and 36400/36500
Permanent - 373XX/378XX and 37400/37500

**NET of Transfers**
81XXX and 86XXX

**Carryforward**
31533/31534
What Are My Unit’s Uses?

Expenditures

5XXXX

Contra-Expenditures

6XXXXX
How Does Carryforward Occur?

**SOURCES exceed USES**

**Examples:**
- Tuition and fee receipts are higher than budget
- Transfers in more than anticipated
- Expenditures are lower than budget
  - Salary lag
  - IIT’s are higher than expected
  - Planned project/initiative is implemented late
  - Expenditures move to grant funds

The reverse is true too – if **USES exceed SOURCES**, then a unit would have a **NEGATIVE** carryforward
Is Carryforward Recurring or Non-recurring?

This is the million dollar question!

By definition – carryforward is non-recurring!

➢ **BUT** – if your unit’s regular actual expenditures are less than regular actual revenues – there is a recurring component to your carryforward

➢ Beginning in FY2011 the budget was recentralized for a period of two years. Units will receive a base allocation via object 31900. Units will still need to determine carryforward status given the many differences under which they operate
What About the Other Funds?

Do the other alphabet funds have carryforward?

Yes – it is the fund balance – booked by an OB to object 32000

**Current Funds:**
- B, C, D, E, R and S (some) – unrestricted
- F, G, H, J, K, L and S (most) – restricted

**Non-Current Funds:**
- Loan, Endowment, Agency, Plant
What About the Other Campuses?

Do the USC Senior, Regional and School of Medicine campuses have “A” fund carryforward?

Yes – it is the campus fund balance

All campuses except for one have “A” fund balance less than 10% of their “A” fund budget
Is Carryforward Bad?

NO!

- Having carryforward allows us to plan expenditures
- Discourages end-of-year spending under a “use-it-or-lose it” mentality

BUT

Too much carryforward MIGHT be bad
Too little carryforward – a deficit – definitely is bad
Why all the concern about carryforward?

- Public Perception – Tuition caps, reduced state allocation, reduced philanthropy
- Financial Management Problem – Understating revenue, overstating expenditures
- Misalignment of resources to needs
- Inability to express commitments on carryforward dollars
- Use of carryforward funds for recurring expenditures
What is the appropriate amount of carryforward?

- There is not one answer for that because it is specific to each unit

- Every unit operates differently

- Every unit has a different level of budget and mix of funds
Why did we complete the Carryforward Estimate in the Spring?

- Carryforward is a component of the University budget and is reported to the Board of Trustees in total during the budget development process.

- Estimating carryforward is one step towards better budget forecasting for the next year and in future years.

- Units at USC need to manage carryforward.
What is Carryforward Management?

At the unit level, the administration is looking for clearly defined and expected commitments of these funds.

Better budget planning on the front end yields less variance which yields less **unforecated** changes in carryforward balances.
What is Carolina’s “A” Fund Carryforward Position?

The percentage of carryforward to total “A” fund budget at March 31, 2012

USC Columbia – TOTAL – 20%

Of the total amount of “A” fund carryforward
  Academic Units have 46% of the total
  Service Units (including OneCarolina) have 54% of the total
Last year the unit projection to actual was out $15.4M – a variance of 13%

The prior year, the difference in the unit projections and actual carryforward was over $15.5M – a variance of 16%
Why Were the Estimates Off?

- The source of carryforward not well understood
- Units may be unsure of the purpose and use of the carryforward estimate
- Are units deliberately understating revenue and overstating expenditures?
Why Were the Estimates Off?

- The source of carryforward not well understood
- Units may be unsure of the purpose and use of the carryforward estimate
- Are units deliberately understating revenue and overstating expenditures?
For FY11, FY12 and FY13, in order to deploy funds more effectively, there is a small surtax on carryforward funds.

This applies only to the Columbia campus and will enable us to pool some one-time resources for important institutional objectives.

This small surtax is not intended to discourage careful carryforward management.
Carryforward Surtax

The surtax will be based on carryforward amounts in “A” funds after the fourth post-close of FY12. The Budget Office will also monitor transfers including E funds and W funds. The unit’s base budget is the February, 2012 budget as of the “freeze date” with budget office adjustments and budget cut applied. Although percentages are not yet known for the FY13 surtax, the prior year methodology will be applied.

- For carryforward that was no more than 5% of “A” funds base budget, no tax was applied.
- The portion of carryforward that was greater than 5%, but less than 10% was taxed at 10%.
- Carryforward amounts between 10% and 20% of base budget were taxed at 12.5%.
- Amounts between 20% and 50% of base budget were taxed at 15%.
- Amounts in excess of 50% of base budget were taxed at 25%.
## Carryforward Surtax

### Carryforward Example

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Budget</td>
<td>8,395,283</td>
<td></td>
</tr>
<tr>
<td>Carryforward</td>
<td>2,285,832</td>
<td>27.23%</td>
</tr>
<tr>
<td>5% Tier of Carryforward</td>
<td>419,764</td>
<td>5% Exclusion (No Tax)</td>
</tr>
<tr>
<td>2nd Tier 10% Carryforward</td>
<td>419,764</td>
<td>2nd 10% Carryforward</td>
</tr>
<tr>
<td>3rd Tier 20% Carryforward</td>
<td>839,528</td>
<td>3rd 12.5% Carryforward</td>
</tr>
<tr>
<td>4th Tier of Carryforward</td>
<td>606,776</td>
<td>4th 15% Carryforward</td>
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### SurTax Calculation

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>1st Tier Under 5% No Tax</td>
<td>0</td>
</tr>
<tr>
<td>2nd Tier 10% Carryforward</td>
<td>41,976</td>
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<tr>
<td>3rd Tier 12.5% Carryforward</td>
<td>104,941</td>
</tr>
<tr>
<td>4th Tier 15% Carryforward</td>
<td>91,016</td>
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**TOTAL SurTax** 237,934
<table>
<thead>
<tr>
<th>Month</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>Carryforward removed from base line-item budget for all units</td>
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<tr>
<td>March/April</td>
<td>Academic Units – Provost meetings</td>
</tr>
<tr>
<td>April</td>
<td>All units estimate carryforward</td>
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<tr>
<td>Early May</td>
<td>Carryforward estimate rolled up for senior administration</td>
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<tr>
<td>May</td>
<td>Vice President’s budget hearings with President</td>
</tr>
<tr>
<td>June</td>
<td>Carryforward estimate rolled up in Board of Trustees Budget Document</td>
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<tr>
<td>July</td>
<td>As weekly post-close runs, carryforward estimate updated by Budget Office</td>
</tr>
<tr>
<td>Early August</td>
<td>Carryforward workbooks sent to all units</td>
</tr>
<tr>
<td>Mid-August</td>
<td>Budget Office books all unit Carryforward and Carryforward tax</td>
</tr>
</tbody>
</table>
QUESTIONS