Excess Cash Balance Computation

The State of Illinois Legislative Audit Commission (LAC) permits self-supporting entities to maintain a cash balance that is less than or equal to a "working capital allowance" plus a reserve for capital asset acquisition. Cash balances in excess of this amount must be transferred to the University Income fund.

The LAC looks at cash balances for university-wide entities rather than for each fund. Therefore, an individual self-supporting fund may exceed its limit and not be forced to transfer cash to the income fund because cash balances for other funds in the same entity are below their limit.

When the total cash in an entity exceeds the permitted allowance, however, University Accounting and Financial Reporting (UAFR) transfers cash from those funds that most contributed to the excess balance. Managers of self-supporting funds should therefore monitor their own fund's cash levels to assure their fund will not contribute to an excess of entity-wide cash. See also the Self-supporting fund procedure *Avoid a Build-up of Excess Cash Balances*.

The LAC formula for determining excess cash balances includes taking the following factors into consideration. Some of the items must be computed on an entity-wide basis by UAFR and cannot be determined by individual fund managers:

1. Identification of **total available cash and related assets.** This includes amounts recorded under the following account codes in the Banner General Ledger:

    - 51nnn – Cash and Cash Equivalents
    - 52nnn – Investments and Accrued Investment Income
    - 54nnn – Due from Other Funds

2. Identification of **working capital allowance.** This includes the following amounts based on Banner Operating Ledger and General Ledger balances:

    - The highest amount of expenditures recorded in any one month during the previous fiscal year. This amount excludes certain expenditures that do not occur at regular monthly intervals: administrative allowance charges (Account codes 1985nn-1986nnn), fund transfers (Account codes 4nnnnn) and capital lease payments (Account codes169nnn). Instead, this "highest monthly expenditure" total includes one-twelfth of the year's total of these three types of expenditures/transfers.
    - The balances of the following liabilities:
        - 610nn-613nn – Accounts Payable and Accrued Expenses
        - 6160n – Accrued Payroll
        - 617nn-618nn – Deferred Revenue and Deposits, minus any amount that is *also* recorded as accounts receivable.
    - Lapse period encumbrances. For State of Illinois accounting purposes, the two month period following the close of the fiscal year (July and August) is known as the "lapse period." Costs that were committed to during the prior year business but not paid as of June 30 are

expected to be paid during this period. If these costs were 1) recorded as encumbrances as of June 30 and 2) paid in this lapse period, those costs may be included in this computation. If they were not recorded as encumbrances as of June 30, even if they are legitimate prior year commitments and are paid in the lapse period, they may not be added to this computation.

- Accrued vacation/sick leave. This amount is computed centrally each year for annual financial reporting purposes. It is allocated to each entity by UAFR when preparing this calculation.
- If merchandise inventory at year end is below its normal level, an amount equal to the expenditures required to return the inventory to its normal level may be included in the computation.

3. Identification of the net capital reserve allowance**, or margin of compliance.** LAC also permits entities to retain a limited amount for replacement of capital assets. The limits on these reserves are equal to five percent of the replacement cost of buildings and land improvements (other than parking lots), ten percent of the historical cost of parking lots, and 20 percent of the historical cost of equipment. The university computes these limits annually and then subtracts the total of corresponding *plant fund* reserves on hand for each entity. The difference between the capital asset reserve limit and plant fund reserve balances on hand reflects the margin of compliance, and is subtracted from the excess cash balance computation.
4. The **estimated excess cash balance** is determined by taking the total available cash and related assets (1) and subtracting from it both the working capital allowance (2) and the margin of compliance (3). If the remaining amount is negative, the entity does not have an excess cash balance. If the remaining amount is positive, that amount will be transferred from the self-supporting funds that created the excess into the University Income Fund.