

**University of Rhode Island
Office of the Controller**

Deficit Spending Policy

Revised: July 2013 | Reviewed May 1, 2017

I. Purpose:

This policy creates a uniform understanding regarding deficit spending at the University.

II. Applicability:

This policy applies to all University accounts.

III. Policy:

This policy generally prohibits deficit spending within the accounts, service centers, self-supporting, auxiliaries, enterprises, sponsored awards, capital projects and agencies at the University of Rhode Island. Departments are responsible for preventing deficits. The Office of Sponsored Projects monitors awards deficient spending. The Controller's office is responsible for monitoring deficits and establishing appropriate deficit spending controls and deficient transfers reported.

A. Definition of deficit spending.

Each college, auxiliary, enterprise, capital project, sponsored award, service center, self-supporting and agencies in the general ledger require a self-balancing set of accounts for recording assets, liabilities (i.e., net assets), revenues, expenditures, and transfers. Each has a source of funding, whether it is revenue from external or internal sources, or a transfer of funds from another account that can be specifically identified. The identification of the source of funds must precede any expenditure. If the expenditures, excluding depreciation expense within a general ledger account exceed the funding sources, a deficit occurs. In other words, a deficit results when the sum of its revenues (including accrued and deferred amounts) is less than the current year to date expenses. Stated another way, a deficit results when liabilities exceed assets.

B. Deficit spending is prohibited.

At all times, the total revenues must equal or exceed expenses. Stated differently, the maintenance of a balance of zero or greater for fund balance net assets is required. The funding sources must be identified, secured and recorded in the general ledger before expenses may be incurred. To do otherwise would cause the cash balance in the fund to be negative, similar to an overdrawn personal checking account. A negative cash balance in a fund causes a draw on URI's general equity, resulting in unauthorized inter-fund borrowing.

C. Exceptions for deficit spending.

Auxiliary, enterprise and specific identified service centers may, with proper approval, incur temporary deficits during the fiscal year due to the business

nature of their operations, i.e., they must often incur expenses before generating revenue. However, auxiliary, and enterprises must end the fiscal year with a positive operating result (excluding depreciation). Internally designated service centers and self-supporting accounts with proper campus approval, may incur temporary deficits during the year provided that the business manager has plans when the deficit will be corrected and identifies a specific Unrestricted, Undesignated fund area that will absorb any remaining deficit at year end or until an agreed upon payment plan can be worked out.

Sponsored awards will typically incur temporary deficits due to dean's pledges, task driven contracts or because moneys are not normally received in advance of expenditures. When a grant / contract ends in a deficit, it will be written off to the dean's / departments' overhead account within sixty days of the end of the award. The reason for this action is that most federal awards require that final financial reports be submitted within 90 days after the end of the award.

D. Responsibilities regarding deficit spending.

Each director, administrator, business manager and dean is responsible for assuring compliance with this policy for all accounts within their department and / or college. The Controller's office is responsible for the monitoring and periodic reporting of deficit spending to the Vice President for Research & Economic Development (if sponsored award), the Provost Office (if academic) and the Vice President for Administration and Finance.