

Prepared by the Office of the
Vice President for Budget and Finance/Chief Financial Officer.
This is a new Policy.

UNIVERSITY OF HAWAII

DELEGATION OF AUTHORITY

December 2004

P 1 or 2

E8.109 Authority to Establish Working Capital Accounts with External Agencies.

I. Purpose:

The University operates a number of service enterprises through external agencies such as RCUH. These enterprises typically provide services to other departments or outside users for the benefit of the University. Historically, these units have charged users for their services, and their charges are set to recover costs over the long term. Due to the necessity to deliver goods and services before accepting payment for them, and to the inevitable delays in collecting receivables, these programs often operate in deficit, which deficits must be funded in order to continue to operate the enterprise. The purpose of this policy is to provide a framework within which University programs will meet working capital requirements imposed by external agencies in connection with these service enterprises.

II. General

1. Working Capital is the amount required to cover the cost of operations for an enterprise or group of enterprises during the period that goods and services are being produced and delivered, and before payment for those goods and services have been received. During this period, the enterprise operates in deficit. Efficient billing, collection, and accounting procedures will minimize the deficit, but on average it will be equivalent to 60 days of operating expenditures. Examples of University operations that may be affected by this policy include, Recharge Centers and Specialized Service Facilities which are self-supporting and rely on collection of revenue to continue operations.
2. General funds shall not be used for the establishment of working capital accounts.
3. Working Capital will be provided by the organizational unit responsible for operation of the enterprise. That unit will assure that the amount of working capital provided approximates the average operating deficit of the enterprise. The account should be reviewed and adjusted as necessary, but at least annually.
4. The Working Capital funds will be maintained in a separate account or accounts clearly identified with the target enterprise(s).

5. The funds required to meet working capital requirements will be paid to the agency in accordance with an invoice generated by the agency requesting a specific amount of working capital. The invoice will be paid via a University direct payment document. A reduction of the working capital will be accomplished by the University invoicing the agency.
6. The purpose, amount, and other conditions with respect to the working capital account shall be established by written agreement between the University and the Agency.

To calculate the maximum working capital amount, take an average of two months of operating expenditures over one or two years.

*Example: Total expenditures for two years \$2,400,000 ÷ 24 = \$100,000 X
2 Months = \$200,000 maximum working capital.*

III. Authority Delegated to:

1. Chancellors or their designee
2. Vice President for Budget and Finance/Chief Financial Officer for approval of exceptions including working capital amounts exceeding the maximum specified in Section II, 4.

IV. Source of Delegation:

Board of Regents Bylaws and Policies, Section 1-2, a, (1) (c) and Section 2-2, b, (5)

V. Effective date of Delegation

December 1, 2004