Budgeting Operating Surplus/Build-up of Reserves and Deficit/Use of Reserves

Scope

All Indiana University units.

Business Practice Statement

Indiana University units will budget surpluses and/or build-up of reserves, deficits and/or use of reserves.

Reason for Business Practice

To establish a uniform budgeting process for budgeting a surplus/build-up of reserves or deficit/use of reserves. The Indiana University operating budget mechanics force the sum of budgeted revenues to equal the sum of expenses, although financial planning for operating units typically should not include outcomes where actual revenues equal actual expenses. Prior to All Funds Budgeting, differences between planned revenues and expenses were resolved in the budget through a variety of mechanisms to increase or decrease revenues or expenses. This practice will explicitly code these differences in budget construction.

Procedure to Address

Surplus/Build-up of Reserves	Object code 7970, Operating Margin, is an expense object code. An operating unit with a surplus/build-up of reserves will have revenues in excess of expense, therefore increasing total expense using object code 7970 for the projected surplus/build-up of reserves will result in a mechanically balanced budget and provide a clear identification of the surplus/build-up of reserves. A surplus should be budgeted as a POSITIVE expense in 7970.
Deficit/Use of Reserves	Object code 7971, Anticipated Use of Cash, is an expense object code and so budgeting a deficit/use of reserves will require the amount be negative. An operating unit with a deficit/use of reserves will have expense in excess of revenue, therefore decreasing total expense using a negative object code 7971 for the projected deficit/use of reserves will result in a mechanically balanced budget and clear identification of the deficit/use of reserves. An **approved** structural deficit should be budgeted as a NEGATIVE expense in 7971 with the sub-object code of DFT.

Definition

Surplus   Revenue is greater than expense.

Deficit   Expense is greater than the revenue.

Budgeted Projected Surplus

Budget for Academic Unit A

Student fee revenue	100,000
Misc revenues	2,000
Total Revenues	102,000
Compensation expense	80,000
Other general expense	10,000
Travel expense	7,000
Operating Margin - Obj Code 7970	5,000
Total Expenses	102,000

Budget is balanced
Revenues = Expenses

Budgeted Operating Surplus

Budgeted Projected Use of Reserves

Budget for Academic Unit B

Student fee revenue	96,000
Misc revenues	1,000
Total Revenues	97,000
Compensation expense	85,000
Other general expense	11,000
Travel expense	3,000
Operating Margin - Obj Code 7971	-2,000
Total Expenses	97,000

Budget is balanced
Revenues = Expenses

Budgeted Use of Reserves