



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

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Scope

All Indiana University units.

Business Practice Statement

Indiana University units will budget surpluses and/or build-up of reserves and 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

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 clear identification of the surplus/build-up of reserves. A surplus should be budgeted as a POSITIVE expense in 7970.

Deficit

Object code 7970, Operating Margin, 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 7970 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 7970 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
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Total Revenues	102,000
Compensaiton expense	80,000
Other general expense	10,000
Travel expense	7,000
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Operating Margin - Obj Code 7970	5,000
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Total Expenses	102,000

Budget is balanced
Revenues = Expenses

Budgeted Operating Surplus

Budgeted Projected Deficit

Budget for Academic Unit B

Student fee revenue	96,000
Misc revenues	1,000
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Total Revenues	97,000
Compensaiton expense	85,000
Other general expense	11,000
Travel expense	3,000
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Operating Margin - Obj Code 7970	-2,000
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Total Expenses	97,000

Budget is balanced
Revenues = Expenses

Budgeted Operating Deficit