

EASTERN MICHIGAN UNIVERSITY
BUSINESS AND FINANCE

EMU – Eliminates Carry Forwards in Budget Process

*By Janice M. Stroh
VP Business and Finance*

Contents

Introduction	1
Problem Statement	1
Implementation	3
Summary	3

Introduction

The University has a long historical practice of approving carry forward funding for controllable expenditures that were departmental budgeted dollars unused in one fiscal year carried forward to the next fiscal year. These carryover funds were mainly for purchases initiated or planned for in one fiscal year, where the items or benefit was not incurred until the next fiscal year. Last fiscal year this carryover funding totaled \$5.0 million dollars. The funding for the carryovers comes from the University reserves. The operating budget for fiscal year 2007 included expenses of \$246 million with \$241 million coming from anticipated revenues and \$5 million from reserves. This practice of carrying forward unspent departmental budget from one year to the next, resulting in depletion of reserves is not a fiscally sound process and has put the University in financial jeopardy. After careful review of this practice, the Budget Committee consisting of the president, vice presidents, government relations officer, and budget director have determined that this practice will be discontinued at the end of this fiscal year. There will be no automatic carryovers of unused budget from this fiscal year to fiscal year 2008. The elimination of this practice was also discussed and supported by the Board of Regents at its recent May '07 retreat.

Problem Statement

The Budget process over the past five years has resulted in reductions that accumulated to a total of \$40 million dollars. In addition the University is looking at additional cuts for fiscal year 2008. This budget cutting process is difficult and becomes more difficult as cuts over a five year period have depleted the University resources and ability to cut efficiently. The University is at a

Date

critical point where cuts are into the “core” of the operation. There are many reasons that contribute to this situation, such as, shrinking state appropriations, declining enrollment, and economical factors at the state and local levels. These constant strains on the University’s financial resources resulting in cuts, necessitates a strong look at policies and procedures that need to be revised to assist the University to operate within its means. Carry forwards is one process that places a strain on the limited and insufficient general operating reserves.

Implementation

Beginning July 1, 2007 carry forwards are officially eliminated. The following are guidelines regarding processing year end transactions: All items and/or benefits that are received or incurred by June 30, 2007 will be expensed against the budget for 2007. All items/benefits received or incurred after July 1, 2007 will be expensed against the budget for fiscal year 2008. An example would be travel, if a conference occurred on or before June 30, 2007, all the expenses for the travel would be charged against the budget for fiscal year 2007 assuming the travel expense form was received in the accounts payable office by July 9, 2007. If the conference was in July 1, 2007 or after, all the expenses would be charged to the 2008 budget, even the air fare and registration fees that were paid for in fiscal year 2007. See Attachments A and B for more details.

Summary

This change will prove challenging for the close of 2007 and for the budget in 2008. The future benefits will be a budget that is more transparent and fiscally secure.