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Contingency reserve statement

Finance Committee

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Contingency Reserve

The process for taking back unused funds at the end of the fiscal year has been the subject of some confusion on campus and at a recent meeting of the Finance Committee it was suggested that a clear description of the process should be promulgated.

During the 2009-2010 academic year, the Campus Resources and Planning Committee (CRPC) recommended the establishment of a contingency reserve that could serve both as a general rainy day fund and as a means for softening the budget cuts that would have to be taken to address projected deficits over the next two or three years. The committee also recommended that \$2 million of excess tuition revenue and projected departmental account balances at the end of the fiscal year on June 30th be used to establish the reserve. In the following academic year, CRPC voted to continue moving excess tuition and unused funds from departments into the contingency reserve.

The process that has developed for taking back unused funds (a.k.a. scooping) is closely tied to the annual budget cycle of the University:

1. In April, each department submits a budget for the following fiscal year that includes a projected balance for the current fiscal year. If the projected year-end balance in a fund 1000 account* is greater than zero, the department can request that some or all of that projected balance be kept in the department account for the next fiscal year. Such a request must explain the specific purpose for which the funds are being kept. (For example, a department might need to accumulate funds for three or four years in order to buy a specific new piece of equipment.)
2. Once the fiscal year ends, balances in fund 1000 accounts in excess of any requested amount to be kept will be moved into the campus contingency reserve. However, the University of Minnesota will not pronounce a fiscal year closed until it has received the official sign off by external auditors, which typically does not happen until four or five months after June 30th. This means each department's entire year-end balance will continue to show as a carry forward in the new fiscal year's financial reports even though all or some of the carry forward is committed to the contingency reserve. Departments should operate as if that committed portion of the carry forward is already gone.

The Finance Committee recently received a report on how the contingency reserve has been used over the past three years. It was used to pay costs associated with the Retirement Incentive Option, to fill deficits in the merit scholarship program, and to balance the FY12 and FY13 campus budgets (thereby avoiding cuts). The current balance in the fund is approximately \$3 million. A reasonable institutional reserve is probably 10% or more (depending on who you ask) so a reserve of \$5 to \$6 million would be prudent for UMM. Over the next few weeks, the committee will discuss guidelines for the use of these funds. Feel free to contact any member of the committee with questions or suggestions.

Michael Korth, chair, Finance Committee

*In the University of Minnesota's current financial system, the fund number indicates the source of the money and the resulting restrictions on its use. Fund 1000 refers to money that originated from either tuition or from state appropriations and was allocated either by the University administration or, in rare cases, directly by the state legislature.