

<b>Policy Name:</b>	University Operating and Capital Reserves
<b>Originating/Responsible Department:</b>	Vice-President (Finance & Administration)
<b>Approval Authority:</b>	Board of Governors
<b>Date of Original Policy:</b>	April 2018
<b>Last Updated:</b>	June 2023
<b>Mandatory Revision Date:</b>	June 2028
<b>Contact:</b>	Associate Vice-President (Financial Services)

**Purpose:**

Reserves are the cornerstone of financial flexibility and prudent fiscal management. Reserves provide organizations with options to respond to unexpected issues and afford a buffer against shocks and other forms of risk.

Carleton acknowledges that prudent financial management and effective planning requires maintaining reserves for a variety of purposes. At the corporate level, such reserves may be required to address economic uncertainties, capital projects, capital renovations, facilities maintenance and repair, encumbrances, catastrophic events, or other specified purposes consistent with the sustainable operations of the University.

In academic, research, and administrative Resource Planning Committees (RPCs), reserves may be accumulated or be required to support specific initiatives such as succession planning, equipment purchases, lab fit-up, and research. The University also recognizes, from the perspective of open and transparent governance, that the allocation and use of funds held over a period of one or more years should be subject to regular scrutiny and reporting.

**Policy:**

Subject to oversight from the Finance Committee of the Board of Governors, the University may establish operating (also referred to as “appropriations” or “carry-forward” balances) and capital reserves by:

- Allowing academic, research, and administrative operating RPCs to carry-forward unspent budget balances from one year to the next for specific purposes. RPCs include: Faculties; Library; President’s Office; Vice-Presidents (including Ancillaries); and, Advancement;
- Reserving amounts for specific university expenditures as recommended by the University’s Provost’s Budget Working Group (PBWG).

This policy defines the criteria for the creation and utilization of specific operating and capital reserves, and recovery of overspending by units. Reserves may also be required to comply with applicable legal, contractual and funder requirements.

**Scope:**

The policy applies to all Operating and Ancillary units.

**Process:**

Operating and capital reserves are reviewed by PBWG as part of the annual budgeting process to reflect approved strategic priorities and, at the end of the year, to address the appropriation of operating surplus or recovery of deficits.

**Reserves can be established to address:**

- Existing or future liabilities such as: pension plan deficits, unexpected events, self-insured claims, legal disputes;
- Acquisition of capital assets including construction of new facilities, major equipment, deferred maintenance;
- One-time strategic initiatives such as donation matching contributions, endowments, major research projects;
- Unexpected changes in financial condition – these could include amongst others: variation in investment returns, declining enrolment, government funding cut-backs;
- Academic, research and administrative operating requirements, such as succession planning, cost of replacing staff on temporary leave, equipment purchases, lab fit-up;
- To comply with applicable legal, contractual and funder requirements.

The appropriation of university funds to centrally managed reserves will be reported to and reviewed by the Finance Committee and approved by the Board of Governors as part of the annual budget process (spring review), and upon presentation of the University's annual audited financial results (fall review).

**Operating Budget Carry-forward Balances**

The operating budget, for the purposes of carry-forward balances, means the adjusted fiscal budget, excluding any balances classified as University Budgets (i.e. utilities, insurance, benefits). The University acknowledges the need to permit academic, research, and administrative units to carry-forward unspent operating budget resources:

- (1) as a contingency against unexpected change in revenue/expenses;
- (2) for short-term planning/development needs and,
- (3) for longer-term strategic initiatives.

Carry-forward budget balances are meant to encourage academic, research, and administrative units to effectively manage their resources.

Up to 10% (including contingency funds) of a unit's original budget, after all fiscal year encumbrances and expenses, can be carried forward by the academic/administrative unit. For balances over 10%, a

plan must be submitted to PBWG for review and approval. Units that do not have PBWG approved plans may see carry-forward balances in excess of 10% re-allocated by the University.

If a unit has a budget deficit (encumbrances plus expenditures) at the end of the fiscal year, 100% of this deficit balance will be carried forward into the next fiscal year.

Carry-forward budget balances will be reported to PBWG at the end of each fiscal year. Determination of carry-forward reserves will be governed by the following process:

- Calculating the unit carry-forward operating reserve

At fiscal year-end (April 30<sup>th</sup>) the unit's carry-forward is calculated as the free balance before encumbrances and excluding any funds classified as University Budgets (e.g. utilities).

- Use of operating reserves

Units should have established plans for any funds carried forward in excess of permitted amounts. Operating reserves cannot be used to fund recurring and permanent expenditures (e.g. continuing salaries).

- Reporting on carry-forward balances

- i) Unit carry-forward balances for any unspent amount will be reported to PBWG at fiscal year-end, but no later than the June meeting of the following fiscal year.
- ii) The report must describe in detail how the funds carried forward in excess of 10% of budget will be used.
- iii) The Associate Vice-President (Financial Services) will confirm the availability of carry-forward balances.
- iv) In the event that a unit ended the year with a negative budget balance, a plan to recover these funds must be presented to PBWG no later than at the June meeting.
- v) The status and purpose of carry-forward balances will be reported to the Finance Committee and Audit and Risk Committee of the Board of Governors annually concurrent with the discussion of year end results and presentation of the annual audited financial statements.

#### Ancillary Carry-forward Balances

Ancillary units are expected to generate sufficient revenue to fund the full cost of providing service and capital costs or improvements. The University acknowledges the need for ancillary units to establish reserves for the operating purposes noted above, as well as capital requirements. As such, ancillary units shall carry-forward the accumulated excess or deficit of revenues over expenditures each year. The accumulated surplus or deficit will be presented as part of the annual Budget for Ancillary Services, to be approved by the Board of Governors.

**Contacts:**

Vice-President (Finance & Administration)  
Associate Vice-President (Financial Services)  
University Secretary

**Related Policies:**

Financial Fraud Prevention and Reporting Policy