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

Purpose:

Reserves are the cornerstone of financial flexibility. 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 units, reserves may be accumulated 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 and administrative units to carry-forward unspent budget balances from one year to the next for specific purposes. Units include: Faculties; Library; President’s Office; Vice-Presidents (including Ancillaries); and, Advancement;
- Reserving amounts for specific university expenditures as recommended by the University’s Financial Planning Group (FPG).

This policy defines the criteria for the creation and utilization of specific operating and capital reserves, and recovery of overspending by units.

Scope:

The policy applies to all Operating and Ancillary units.

Process:

Operating and capital reserves are reviewed by FPG 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 and administrative requirements, for example to accommodate: succession planning, cost of replacing staff on temporary leave, equipment purchases, lab fit-up.

The appropriation of university funds to centrally managed reserves will be reported to and approved by the Finance Committee and ultimately 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 University acknowledges the need to permit academic and administrative units to carry-forward unspent operating budget¹ 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 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 the Financial Planning Group for review and approval. Units that do not have FPG 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.

¹Operating Budget means approved fiscal budget excluding any funds classified as University Budgets (e.g. utilities).

Carry-forward budget balances will be reported to the Financial Planning Group 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 30th) the unit's carry-forward is calculated as the free balance after encumbrances and 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) Units carry-forward balances for any unspent amount will be reported to the FPG at fiscal year-end, but no later than June 15th of the following year.
- ii) The report must describe in detail how the funds carried forward in excess of 10% of budget will be used.
- iii) The Secretary of the FPG (Assistant 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 the FPG no later than June 15th.
- v) The status and purpose of carry-forward balances will be reported to the Finance Committee and Audit Committee annually concurrent with the discussion of year end results and presentation of the annual audited financial statements.

Contacts:

Vice-President, Finance & Administration
Assistant Vice-President, Financial Services
University Secretary

Links to related Policies: N/A