

Policy Name:	Operating Reserve		
Policy No:	4.9	Approval Authority:	Board of Governors
Volume	4, Finance and Administration	Responsible Executive:	Vice President Finance and Administration
Chapter	9, Operating Reserve Policy	Responsible Office	Finance and Administration
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Policy Statement

Adequate reserve levels are necessary components of NSCAD University’s overall financial strength and fiduciary integrity. The purpose of this Operating Reserve Policy for NSCAD University is to build and maintain an adequate level of unrestricted net assets to support the University’s operations in the event of unforeseen shortfalls. Examples of unforeseen shortfalls include: unanticipated or uninsured catastrophic events; temporary institutional revenue declines or expenditure gaps; unforeseen legal obligations; failure in facility infrastructure, and failure of major business systems. The reserve may also be used for one-time, non-reoccurring expenses that will assist to build long term capacity. Operating reserves are not intended to replace a permanent loss of funds or eliminate a structural budget gap. NSCAD University intends for operating reserves to be used and replenished within a reasonable period of time.

Reason for Policy

The purpose of the Operating Reserve Policy is to establish a contingency fund to mitigate the effects of a revenue shortfalls and spending emergencies on the general operations of the University, and to establish policy for managing the disbursement and replenishment of these funds.

Policy Applies to

- This policy applies to all departments and units of the University

Who Should Read this Policy

- All members of the university community

Definitions

Emergency Expense is an event resulting in significant one-time costs which were not reasonably foreseeable when the budget was approved and which cannot be reasonable avoided.

Year End Deficit is the operating cash deficit at the end of the fiscal year factoring all cash outlays including principal payments of debt.

Total Budgeted Operating Fund Revenues is the total budget of all unrestricted revenues in the operating budget including tuition, fees, unrestricted donations, government grants and ancillary income.

Senior Management is the President and Vice Presidents of the University.

The Policy

1. Operating Reserve Establishment

- 1.1. At the end of fiscal 2017-18, a surplus in the operating fund and unrestricted reserves will be appropriated and used to create an Operating Reserve.

2. Operating Reserve Target

- 2.1. The maximum amount that will be held in the Operating Reserve will be 5% of the total budgeted operating fund revenues. Once this Operating Reserve Target amount is reached, any additional operating surpluses will be available for supporting one-time expenses until such a time as they are required to replenish the Operating Reserve.

3. Operating Reserve Replenishment

- 3.1. Annual operating surpluses and unrestricted endowment income that has not been committed to another purpose by the Board, that in total amount to the lower of:
 - a) 1% of budgeted operating fund revenues,
 - b) the amount required to bring the Operating Reserve to the Operating Reserve Target as defined in section 2 of this policy.

4. Accounting for the Operating Reserve

- 4.1. The Operating Reserve will be recorded in a separate general ledger account and in the financial statements.

5. Excess Annual Operating Budget Surplus

- 5.1. Any annual operating budget surpluses above the required Operating Reserve Target can be used to fund one-time non-recurring expenses. In the event of an excess annual operating budget surplus, Senior Management will assess detailed spending plan proposals.

6. Use of the Operating Reserve

- 6.1. At the end of the fiscal year, the Board of Governors may approve the use of the Operating Reserve to fund the lesser of the cost of an emergency expense and the year-end deficit. The Vice President Finance and Administration will identify the need for access to the Operating Reserve and confirm that the use is consistent with this policy. Determination of need requires analysis of the sufficiency of the current level of reserve funds relative to the Operating Reserve Target, the availability of any other sources of funds before using reserves, and evaluation of the time period for which the funds will be required and replenished.

7. Authorization for Use of Operating Reserve

- 7.1. The President and the Vice President Finance and Administration will submit a request to use the Operating Reserve to the Finance and Physical Resources Committee of the Board of Directors. This request will include the analysis and determination of the use of funds and plans for replenishment. The University's goal is to replenish the funds used within 12 months. If the use of the Operating Reserve will take longer than 12 months to replenish, the request will be scrutinized more carefully. Finance and Physical Resources Committee will either approve or modify the request and recommend the request to the Board of Governors.

8. Reporting of the Operating Reserve

- 8.1. The Office of Finance and Administration shall report annually to the Finance and Physical Resources Committee on the use, balance and other relevant information concerning the Operating Reserve. If the Operating Reserve is below the Operating Reserve Target, The President and the Vice President Finance and Administration will report progress the Finance and Physical Resources Committee to restore the Operating Reserve.

Forms and Tools

Name of document