



**BUDGET PRINCIPLE: 1.06**

**Replaces Principle Dated: February 5, 2014**

**Internally Restricted Funds**

**Approved by ACET: May 26, 2022**

**Effective Date: May 26, 2022**

**INTRODUCTION**

Internally Restricted Funds are restrictions on the realized accumulated surpluses of the College from prior years, and reported under the Net Assets section of the Statement of Financial Position in the audited financial statements of the College. There are two categories of internal restrictions: Specific Reserves and the Reserve Fund. Both categories of Internally Restricted Funds are held for spending for specific projects and initiatives in future fiscal years subject to appropriate approvals.

**DEFINITIONS**

<b>Category of Internal Restriction</b>	<b>Sub-Category of Internal Restriction</b>	<b>Description</b>
<b>Specific Reserves</b>		<p>Specific Reserve balances are established at the end of each fiscal period and recorded under Internally Restricted Net Assets in the College’s financial statements.</p> <p>There are a number of broad categories of specific reserve funds including Other Projects and Initiatives, Campus Services Reserve Fund, Contingency Reserve Fund and the Employment Stabilization Fund.</p>
	Other Projects and Initiatives	Reserve funds available for future projects and initiatives intended to improve the College’s facilities, physical infrastructure, information, communications and technology infrastructure, information systems, equipment, program development needs and other strategic initiatives. Also included are set-aside funds required to comply with directions from the Ministry of Colleges and Universities or contractual commitments with a third party.
	Campus Services Reserve Fund	<p>Campus Services is a self-sustaining business unit and must budget for annual contributions to its reserve fund to ensure the ongoing financial sustainability of its operations and ensure that capital is available to renew equipment and infrastructure over time. There are three categories of reserve funds for Campus Services:</p> <p><u>Residence Capital Renewal</u> – major capital renewal of the residence facilities, furniture and fixtures.</p>

		<p><u>Food Services Equipment</u> – renewal of capital equipment in the Food Services.</p> <p><u>Campus Services General Reserves</u> – reserves for strategic projects and initiatives, significant one-time capital costs and contingency for unforeseen losses.</p>
	Contingency Reserve Fund	On June 11, 2012, the Board of Governors mandated that a contingency fund be maintained at 3% of budgeted operating revenues to be drawn upon in the event that a major unexpected financial challenge (greater than \$3 million) is realized by the College.
	Employment Stabilization Funds	Restricted funds set aside for employee re-training as detailed in the terms and conditions of current collective agreements with support staff and academic staff unions.
<b>Reserve Funds</b>		Reserve Funds are established to address long-term, strategic initiatives and major capital projects. They may also be established to comply with long-term Ministry of Colleges and Universities requirements or contractual covenants.
	Future Capital Expansion	Future Capital Expansion funds are a subset of reserve funds available to support major physical infrastructure renewal and facilities expansion requirements of the College.

## PURPOSE

The purpose of this Budget Principle is to set out the terms of categorizing the accumulation of surpluses within internally restricted funds, how these funds can be accessed to support College projects and initiatives and to define the purpose of each fund.

## PRINCIPLE

The College will maintain sufficient levels of internally restricted funds to ensure ongoing sustainability, renewal of facilities, technology, and equipment of the College subject to the following terms:

### Specific Reserves:

At the end of each fiscal year, the Algonquin College Executive Team will identify the need to establish new funds and/or remove existing funds within specific reserves and endorse the allocation of funds within each of the specific reserves. Required annual contributions to the Infrastructure Renewal fund are defined in Budget Principle 1.05-Infrastructure Renewal Fund.

### Contingency Reserve:

In accordance with current Board of Governors direction, this reserve will be maintained at 3% of current year budgeted operating revenues.

### Employment Stabilization Fund:

Funded at levels in alignment with the Support Staff and Academic collective agreements.

#### Future Capital Expansion Fund:

A minimum of \$2 million annual contribution will be budgeted from the College's operating budget to this fund. Where possible, the annual budgeted contribution will be increased each year by an inflation factor that protects the purchasing power of this fund.

#### Interest:

At the end of each fiscal year, internally restricted fund balances will be adjusted to account for interest earned on the funds at a rate aligned with the interest earned on the College's surplus operating funds in accounts with the College's bank.

Specific reserve funds are a source of funds for Strategic Investment Priorities. Individual project requests from Specific Reserves will not be accepted. The use of any reserves must be approved by the Board of Governors either as part of the Approval of the Annual Budget, or as the need arises as part of a Investment Case presentation to the Board of Governors.

## **POLICY**

### 1. Authority

The authority to approve expenditures from all Internally Restricted Funds resides with the Board of Governors.

### 2. Accountability

The Financial Services Department is accountable for ensuring the accurate financial recording and reporting of changes to all internally restricted fund balances.

### 3. Reporting

The Treasurer or Chief Financial Officer will report on Internally Restricted Net Asset balances as part of the College's audited financial statements to the Board of Governors for approval at the Annual General Meeting.

Financial Services will provide a detailed continuity schedule reporting on all internally restricted fund balances, including detailed balances of other specific reserves - projects and initiatives, at the close of each fiscal year to the College Budget Committee for review and to the Algonquin College Executive Team for approval.

### 4. Time frame

The balances of all internally restricted net assets will be presented to the Board of Governors at the Annual General Meeting each year. A more detailed reporting of specific reserves – Other Projects and Initiatives will be presented to the Algonquin College Executive Team for approval by August 31<sup>st</sup> of each fiscal year.

### 5. Transparency

The purpose of each internally restricted fund will be documented, presented and reviewed by the Algonquin College Executive Team at least annually and reported in the audited financial statements. The continuity schedule will be provided to the Algonquin College Executive Team on an annual basis and will include all draws on, and additions to each reserve fund.

## **PROCEDURES**

During the budget preparation process:

- Financial Services will calculate annual contributions to the Contingency Fund, Infrastructure Renewal Fund, and the Future Capital Expansion fund for inclusion in the budget setting process each fiscal year.

- Campus Services will provide Finance and Administrative Services with their planned contributions to the Campus Services Reserve fund for the upcoming fiscal year.
- Financial Services will include all Algonquin College Executive Team approved requests to draw on Internally Restricted Funds as part of the draft annual budget, to be approved by the Board of Governors.

During the fiscal year-end closing process:

- Financial Services will calculate the changes to all reserve balances (additions and draws), and will post all required journal entries.
- Financial Services will provide a continuity report to the Algonquin College Executive Team identifying all changes to Internally Restricted Fund balances.

## **RELATED POLICIES**

Budget Principle 1.05 Infrastructure Renewal Fund  
Budget Principle 1.10 Major Capital Projects

## **RELATED DOCUMENTS**

Support Staff Collective Agreement  
Academic Collective Agreement