



Budget Allocation Model Procedure
Carryover and Reserve Balances
Effective 8/1/21

Carryover and Reserve Balances

OBJECTIVE:

To provide guidance to campus units regarding the responsible accumulation and management of operating budget balances at the end of the fiscal year.

Procedure:

1. Surplus fiscal year-end balances

Revenue Generating Units:

Unexpended balances at the end of the fiscal year are calculated as total operating budget less total expenses. The full balance of positive carryover will be deposited into a unit-specific reserve account for revenue generating academic units, auxiliary units, and service centers as defined in the Budget Allocation Model.

During periods of financial crisis, the Chancellor may redirect carryover and / or reserve balances as recommended by the Executive Budget Committee.

Support Units:

Support units will not receive automatic carryover. Exceptions to this rule include:

- i. Balances accumulated by mandatory fees or unit specific fees
- ii. Institutional financial aid
- iii. Multi-year funding commitments such as cost share, matching and other contractual obligations

Carryover requests will be considered for one-time investments in strategic initiatives, process improvements, or developing new/enhanced services that benefit the campus and move forward institutional mission and goals. Requests should be included with the annual budget proposal to the Allocation Review Committee. Carryover balances in excess of those approved will be applied to campus reserves. If surplus balances for support units are consistently generated over a three year period, a budget reduction may be recommended by the Allocation Review Committee. Support units should address urgent funding needs with their Vice Chancellor who may request bridge funding assistance from the Executive Budget Committee.

2. Deficit fiscal year-end balances



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Unplanned deficit balances at year end for revenue generating academic units, auxiliary units, and service centers will ordinarily be offset by existing unit discretionary reserves. If discretionary unit reserves cannot absorb the deficit, campus reserves may be used to provide a loan. Loan repayment terms will be approved by the Executive Budget Committee and could represent a full offset in the subsequent budget cycle or equal installments over a determined period (generally not to exceed three fiscal years).

The Executive Budget Committee may elect to offset support unit deficit balances at year end with campus reserves. Otherwise, support unit deficit balances at year end will be included in subsequent year cost pool allocations.

3. Reserve Balances

In order to allow the academic units to build appropriate levels of reserve during the initial years of the Budget Allocation Model, all carryover balances for the academic units will be deposited into reserve accounts with no cumulative cap on the reserve balance. After three years of budget model activity, recommendations will be made for determining an appropriate reserve cap for future budget periods. Auxiliary units and service centers will manage reserve balances as needed to operate their self-funded units.

These reserves are classified as Renewal and Replacement funds. An annual report detailing the amount and purpose of all unrestricted carry forward funds is required. This report, combined with other financial reports, will provide transparency and clarity about the use of university resources to stakeholders such as the University community, public officials, and taxpayers. The report will include a designation of the level of commitment of all Renewal and Replacement funds, using four categories: Obligated, Planned, Reserves, and Discretionary. Units holding a reserve balance at fiscal year-end will provide a schedule with these categorical designations to the Office of Budget and Finance. Supplemental supporting documentation should be included for funds which are Obligated or Planned.

Obligated – Balances held to cover a legal liability / binding agreement with a party external to the University.

Planned – Balances held for a specific purpose as approved by an appropriate University official (president, vice presidents, chancellors, vice chancellors, deans, directors, or designees in accordance with institutional policies or practices). Planned is a broad category that can include funds committed (but not yet encumbered) for expenditure in the following fiscal year or for longer-term initiatives. The purpose for which funds are held can range in



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degree of specificity from a narrowly defined purpose, such as “replacement of the ERP system,” to a broad category, such as “future technology needs.”

Reserves - Balances purposefully held for contingencies that must be addressed to ensure the continuation of operations. Reserves are not held to fund known future expenses, but rather to mitigate risks that may result from unexpected funding shortfalls or unanticipated needs.

Discretionary - Balances, with no funding source requirements, held to take advantage of strategic opportunities that emerge during the year. In the Budget Allocation Model, these funds are available for use at the Dean’s discretion and may be used to absorb unplanned deficit balances at fiscal year- end.

For More Information

[Budget Allocation Model Overview | Office of Budget and Finance \(utk.edu\)](#)

Office of Budget and Finance (865) 974-4204.