

Institutional Reserves Fund

Original Implementation: July 13, 2006

Last Revision: April 30, 2019

Purpose

This policy establishes guidelines for the university's institutional reserves fund. An appropriate institutional reserves fund helps maintain financial strength, provides the foundation for debt management and issuance, protects against external volatility, and allows flexibility in planning for the needs of the university.

Definitions

The **institutional reserves fund** refers to resources that are not allocated to any specific unit of the university, but are held centrally within the university's financial system. Additions to the institutional reserves fund balance include revenues that exceed expenditures. Deductions include the use of reserves to fund capital budgets, construction projects, and unanticipated institutional requirements.

General

The purpose of an institutional reserves fund is to provide contingent support for potential significant financial occurrences, including:

- strategic capital projects,
- unanticipated or uninsured catastrophic events,
- temporary institutional revenue shortfalls or expenditure gaps,
- unforeseen legal obligations and costs,
- failures in central infrastructure,
- failures of major business systems.

Institutional Reserves Fund Budgeting

The university may augment institutional reserves as a budget practice during periods of revenue growth and stability. During periods that revenue support is needed, the university may utilize institutional reserves.

Institutional Reserves Fund Size

The target amount of reserves that an institution should maintain is determined using a calculation called the primary reserve ratio. The ratio is calculated by dividing expendable net assets by total expenses, net of depreciation and amortization. The higher education industry target benchmark for the primary reserve ratio is .40. Consequently, an institution's target reserves fund goal should be 40% of its annual operating budget, thus providing approximately five months of operational capacity.

At the end of each fiscal year, the primary reserve ratio calculation will be used to evaluate the institutional reserves fund and target. The information will be reported to the Board of Regents with the Annual Financial Report.

Cross Reference: None

Responsible for Implementation: Vice President for Finance and Administration

Contact for Revision: Vice President for Finance and Administration

Forms: None

Board Committee Assignment: Finance and Audit