Institutional Reserves Fund

Original Implementation: July 13, 2006
Last Revision: July 28, 2015

Definition and Purpose

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.

The institutional reserves fund balance 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 operating budgets, construction projects, and unanticipated institutional requirements.

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

- 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 SFA Board of Regents through the vice president for finance and administration shall set aside revenue to fund the reserves as an annual budget practice during periods of revenue growth and stability. During periods that revenue support is needed, the board may choose to augment revenue by utilizing institutional reserves. The board may use reserves to support an annual operating budget for various reasons including, but not limited to:

- funding expenditures that are fixed term in nature (usually three years or less)
- funding expenditures that should be paid from sources other than tuition or state appropriations
- funding a general contingency for unplanned or unexpected financial needs that may arise during the fiscal year
- strategically allocating reserves when the balance is significantly above the target

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 benchmark for the primary reserve ratio is .40. Consequently, an institution's reserves fund goal should be 40% of its annual operating budget, thus providing approximately five months of operational capacity. An institution with a low primary reserve ratio generally lacks sufficient resources for strategic initiatives and may have less operating flexibility. Therefore, when the primary reserve ratio calculation is .20 or less, the institution will take steps to restore reserves.

At the end of each fiscal year, the primary reserve ratio calculation will be used to measure the distance from the reserves target. The amount of the institutional reserves fund and the reserves gap will be reported to the Board of Regents when year-end information is available.

In the event reserves are utilized, a restoration plan should include an appropriate payback period.

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