

STEPHEN F. AUSTIN
STATE UNIVERSITY

Office of the General Counsel

POLICY SUMMARY FORM

Policy Name: Institutional Reserves Fund

Policy Number: 3.19

Is this policy new, being reviewed/revised, or deleted? Review/Revise

Date of last revision, if applicable: 4/30/2019

Unit(s) Responsible for Policy Implementation: Vice President for Finance and Administration

Purpose of Policy (what does it do): This policy establishes guidelines for the university's institutional reserves. Appropriate institutional reserves help maintain financial strength, provide the foundation for debt management and issuance, protect against volatility in revenue and expenditures, and allow flexibility in planning for the needs of the university.

Reason for the addition, revision, or deletion (check all that apply):

- Scheduled Review Change in law Response to audit finding
 Internal Review Other, please explain:

Please complete the appropriate section:

Specific rationale for new policy: N/A

Specific rationale for each substantive revision: New name and updates for clarification.

Specific rationale for deletion of policy: N/A

Additional Comments:

Reviewers:

Judith Kruwell, Interim Vice President for Finance and Administration
Damon Derrick, General Counsel

Institutional Reserves Fund

Original Implementation: July 13, 2006

Last Revision: April 1230, 202219

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 in revenue and expenditures, 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 *items not included in the operating budget; planned uses of reserves for the operating budget; and capital budgets, construction projects, and unanticipated institutional requirements.* ~~–Institutional reserves are represented in the Statement of Net Position as Unrestricted Net Position (UNP).~~

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 ~~Target~~

~~The university utilizes the primary reserve ratio to target the amount of reserves that an institution should be should maintained. is determined using a calculation called the primary reserve ratio. The ratio is calculated according to higher education industry standards by dividing expendable net assets by total expenses, net of depreciation and~~

~~amortization~~*Governmental Accounting Standards Board ()*~~ment~~. The higher education industry target ~~and the 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, *and* 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