

## **Institutional Reserves**

**Original Implementation:** July 13, 2006

**Last Revision:** October 31, 2022

### **Purpose**

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.

### **Definitions**

Institutional reserves are resources that are held centrally within the university's financial system. Additions to institutional reserves 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 unanticipated institutional requirements. Institutional reserves are represented in the Statement of Net Position as Unrestricted Net Position (UNP).

### **General**

The purpose of institutional reserves 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 Budgeting**

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

### **Institutional Reserves Target**

The university utilizes the primary reserve ratio to target the amount of reserves that should be maintained. The ratio is calculated according to higher education industry standards and the target

benchmark is 40% of its annual operating expenditures as reflected in the university's annual financial report, 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, 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

**Revision History:** April 11, 2022  
April 30, 2019  
July 24, 2018  
July 28, 2015  
July 17, 2012  
July 21, 2009