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3.433 University Reserves

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Type of Policy <input checked="" type="checkbox"/> University <input type="checkbox"/> <i>Campus</i> <input type="checkbox"/> <i>Department/Unit</i> <input type="checkbox"/> <i>Interim</i>		University Reserves Policy 3.433	
Business Management Policies		Effective date: July 1, 2012	
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Revised (Non-substantive):	Office of University Counsel	N/A	May 2, 2017
Responsible Office:	Responsible Administrator:	Contact information:	Applies to:
Office of University Chancellor	Vice Chancellor / CFO	937-769-1304	University and All Campuses

I. Introduction and Purpose

The purpose of this policy is to define the process for accumulating, allocating, investing, accessing and accounting for Antioch University’s reserves funds. It also provides a source of funds and capital for the University and campuses to invest in new initiatives either of importance to the University system as a whole, or for individual campuses or units.

A stable level of aggregate reserves balances (liquidity, campus/unit, and university) is an important component of the University’s financial health, and is looked upon by regulators, accreditors and financial institutions as an indicator of the University’s financial performance. It is included as part of bond covenants for financial institutions holding University bonds. In addition to being critical to the University’s immediate financial health, reserve balances provide the capital required to ensure long-term sustainability and allow for growth.

II. Reserves Generally

A. The operating divisions of the University are expected to operate with sufficient surplus budgets to generate reserves necessary to ensure the long-term sustainability of the University.

B. Budget guidance shall be developed each year to inform the operating units of the University, including the campuses and University-wide programs, of the surpluses expected to be achieved. Such budget guidance shall be developed by the Chancellor and Vice Chancellor, CFO, with approval from the Finance Committee and the Board of Governors.

III. Liquidity Reserve Account

A. The liquidity account is a reserve account designated for emergency projects as defined by the Chancellor and Board of Governors. The primary uses of these funds are for extraordinary items. This account may not be used to balance campus budgets or offset cash shortfalls without the express action of the Chancellor and the Board of Governors.

B. Campuses/units shall be required to deposit 1% of net tuition revenues (after discounts, not including fees) into this account each year until the liquidity account for the University in aggregate reaches a predetermined “stable” level (defined below in C.). This amount must be shown in budgets presented by campuses annually.

C. As noted above, campuses and units will contribute 1% of tuition to reserves until such time as a “stable” level of aggregate reserve balances is reached. The “stable level” will be developed as part of the budgeting process, collaboratively by the Vice Chancellor/CFO with the input of the Chancellor, Provosts and Directors, campus and unit CFOs, and the input of the University’s financial advisors and financial institutions. Factors that will be taken into account include external economic conditions, the three year future forecast of campus, unit and aggregate University financial performance, along with reviews of peer university financial ratios, rating agency frameworks, regulatory and accrediting requirements and aggregate trade association data (NACUBO, et al). Once determined, it will be forwarded by the VC/CFO for the approval of the Board of Governors on the recommendation of the Finance Committee.

IV. Campus/Unit Reserves

A. The allocation of operating unit surpluses to operational unit reserve accounts will be discontinued effective June 30, 2014. Current campus/unit reserves balances as of year-end June 30, 2014, shall remain allocated to campus/unit reserve accounts until expended as provided below.

B. Campus/unit projects funded from such reserve accounts shall primarily be capital projects, program development, major equipment purchases and special projects that cannot be funded from annual budgets. Project requests with on-going funding requirements such as personnel expenses and multi-year contracts must have an accompanying business plan that will show how these expenditures will be funded with other sources of revenue in future years. Use of reserves to fund operating expenses is strongly discouraged. However, in extenuating circumstances, they may be used to offset campus deficits. See V. below.

C. All project requests from the campus/units reserve account should be explored with the Chancellor as they are developed. The campuses' Provosts should review and recommend these requests for action prior to submitting them to the Chancellor or Board of Governors for approval. Project requests less than \$100,000 can be approved by the Chancellor. Any project requests over \$100,000 require the approval of both the Chancellor and the University Board of Governors.

V. University Reserve Account

A. After funding the liquidity account, all year-end surpluses from any campus or other operating unit of the University, shall be allocated to the University reserve accounts. This includes, but is not limited to, any surpluses generated, in whole or in part, from the following:

1. An increase in revenues,
2. A reduction in expenses,
3. The sale of buildings, land, or other asset(s)

B. Projects funded by this account may be approved by the Chancellor up to \$100,000. Any proposed projects over \$100,000 must be approved by the Finance Committee of the Board of Governors and by the Board of Governors. Ordinarily, no more than 50% of the total University Reserve balance may be requested for one project, and the University should strive to maintain a ratio of unrestricted cash to debt of 100%.

C. The Chancellor, Antioch University campuses and all operating units may apply for funding from the University's Reserve. Decisions will be made based upon the process outlined in section VI. A. Projects funded for capital improvements ordinarily will not require repayment, but a capital campaign may be required depending upon the project. A project funded for program development or other projects that result in revenue generation may be required to repay the funds to the University Reserve on a predetermined payment schedule.

D. Requests to access University reserves shall ordinarily be part of the budget approval process, and follow the proposal request procedure outlined above.

E. The Chancellor, in conjunction with the VC/CFO and CAO will evaluate all requests prioritizing the projects and their timing as it relates to the overall cash needs of the University and the alignment of the request to the University strategic plan, conceptual roadmap and growth needs of the University and requesting campuses. It is anticipated that the University will use its strategic planning priorities and the guidance of the Board of Governors to develop and prioritize investment plans for campus, unit and University reserves.

F. A report will be provided to the Finance Committee of the Board of Governors detailing the Sources and Uses of all reserve funds at the conclusion of each fiscal year.

VI. Use of Reserves to offset Campus, Unit or University Budget Deficits

A. In extenuating circumstances, campuses and units may use reserves to offset campus budget deficits. Access to reserves for this purpose will be provided upon the recommendation of the campus Board of Trustees and the Chancellor, and approval of the Board of Governors, and will require justification and supporting documentation, including a mitigation plan designed to boost enrollments or reduce costs to minimize the future call on reserves.

B. Should the University, campus or unit be given permission to access the reserves for this purpose, the following rules will apply:

1. 100% of deficits will first be charged against the campus, unit or University reserve account, as appropriate.
2. Campuses and units operating at a deficit will still be required to fund their liquidity account.
3. If a campus or unit does not have enough reserve to cover a deficit and the required liquidity balance, the excess deficit amount will be covered by a “loan” from University reserves. A loan repayment plan will be documented for the loan at any agreed upon interest rate, term and payment plan.
4. If the University borrows reserves from a campus to cover a system deficit, the excess deficit amount will similarly be covered by a “loan” from that campus’ reserves. A loan repayment plan will be documented for the amount borrowed at any interest rate, term and payment plan determined on a case-by-case basis.
5. Loan repayment plans will be tailored to the campus, unit or University’s projected financial performance to ensure the amounts and timeline are reasonable. The payment plan will allow for annual campus surpluses above and beyond the required loan payment. This will ensure that campuses and units will have the funds available to

fund critical campus projects to allow the campus or unit to grow and succeed during difficult financial times.

6. All loan balances of record as of June 30, 2014 shall be forgiven.

VII. Custody and Investment of Reserve Balances

A. All reserves (campus/unit, liquidity, University) are held and invested by the Office of the Chancellor. The reserves are deposited centrally and invested under the provisions of the Short-Term Investment Policy or the University Investment Policy depending upon the anticipated liquidity needs of the fund. There are three types of reserves:

1. Liquidity Account
2. Campus/Unit Reserves
3. University Reserves

B. Final reserve balances are calculated annually, when the books are closed on the fiscal year, and distributions are made as appropriate to reserve accounts. Reserve balance sheets are distributed to campuses and units annually by the CFO's office with the budget guidance documents. These statements will be presented in three categories: available reserves, reserves committed for specific projects and loans to campuses.

C. Interest income from investing the reserves will be reinvested in reserves, and allocated proportionately to campus and University reserve balances. The income will be calculated using a three-year quarterly rolling average.

VIII. Miscellaneous

A. Unexpended funds raised through campus Institutional Advancement are to be allocated to campus reserves and are subject to any donor restrictions of record.

Policy Cross References

Short-Term Investments	Policy # 3.439
University Investment and Expenditure Policy	Policy # 3.443