

UNIVERSITY OF HAWAII

COMMUNITY COLLEGES POLICY

Replaces UHCCP # 8.201 dated February 2007

UHCCP # 8.201 Unrestricted Fund Reserve Policy – General, Special, Revolving Funds

January 2009

I. Purpose

The University of Hawai'i Community Colleges recognize the importance of maintaining special and revolving fund reserves (general funds lapse at the end of the fiscal year). The need for adequate reserves is reinforced by the standards of the Accrediting Commission for Community and Junior Colleges (ACCJC) which require that accredited institutions maintain adequate financial resources to ensure financial stability. This policy relates to Community Colleges' unrestricted funds (general, special, revolving funds; excluding the Dormitory Special Fund and the Student Activities Revolving Fund).

II. Related University Policies

Board of Regents Policy, Section 2-2, Duties of the President, delegates to the President and Chancellors the responsibility for administering and operating the respective campuses. This responsibility includes the proper financial management of campus operations.

III. Definitions

A. Cash Reserve

Cash reserves are required to provide for financial stability of programs in addressing emergency situations. Primary purposes of the cash reserve include:

1. Protecting the system and individual institutions from unexpected shortfalls in revenue (e.g., an unforeseen decline in enrollment, significant delays in payments, etc.).
2. Providing funding to cover a limited level of unanticipated expenses.
3. Providing funding for non-recurring investments (e.g., large equipment purchases, special repairs and maintenance of equipment and facilities, etc.).

B. Working Capital Requirements

Working Capital is required to provide sufficient cash to meet startup costs for special and revolving fund programs at the beginning of each fiscal year. Primary uses of working capital include:

1. Providing required cash, above the cash reserve levels, to meet the needs of self-supporting special and revolving operations at the beginning of each fiscal year.
2. Providing sufficient cash for startup expenses that are incurred before revenues are collected (e.g., payment to reserve meeting room for a conference before conference fees are collected from participants).
3. The amount of working capital is based on the timing of revenue collections and operational requirements of specific special and revolving fund programs for each campus.

C. Cash Reserve Parameters

1. The target cash reserve level is set at 3-4% of the unrestricted funds (general, special, revolving funds, excluding the dormitory special fund and student activities revolving fund) expenditures and encumbrances (E&E) for the fiscal year. Working capital are cash requirements that extend beyond the targeted reserve levels.
2. The reserve percentage is calculated using an adjusted cash balance, which reflects fiscal year-end actual cash balances excluding commitments for encumbrances and revenues collected for future time periods (deferred revenues). The adjusted cash balance is then divided by fiscal year end expenditures and encumbrances (12th month) of unrestricted funds to derive the reserve percentage.

IV. Responsibilities

Each Community College Chancellor shall have the responsibility to:

A. Manage Cash Reserve – 3-4% of Unrestricted Fund E&E

Campuses shall adopt measures to improve the financial status of its programs by taking actions as appropriate. These actions may be to increase activities and/or rates to increase revenue; create new revenue generating programs or eliminate non-profitable programs; restrict expenditures and impose more stringent cost-cutting measures; etc.

B. Manage Working Capital Requirements – In Excess of 3-4% Target Reserve Level

Working Capital is cash required at the beginning of the fiscal year to cover operating costs that are incurred before revenues are collected. Campuses shall develop Working Capital requirements that are based on specific program needs. Working Capital requirements will vary depending on the timing of revenue collections and the operating needs for specific special and revolving fund programs.

C. Monitor Cash Reserve and Working Capital Requirements

Quarterly “Reserve Status Report – Unrestricted Funds (General, Special, Revolving; excluding the Dormitory special fund and Student Activities revolving fund)” to monitor cash balances during the fiscal year shall be based on data from the Community College Budget Level Summary (BLS) system. The Community Colleges Budget, Planning and Finance Office will prepare the Reserve Status Reports as part of the regular BLS system reports each quarter throughout the fiscal year.

The projected fiscal year-end cash balances will be compared to the target reserves based on projected current year E&E data from the BLS quarterly reports and estimated working capital requirements. Reserve Status Reports at the end of each fiscal year, which reflects final actual data, will be used to determine reserve sufficiency.