GENERAL STATEMENT OF POLICY

The purpose of this Operating Fund (Budget) Reserve Policy is to ensure long-term financial health and stability of the University. Establishing and maintaining adequate financial reserves protects the institution against unexpected revenue shortfalls, emergency expenditures, and unforeseen challenges, while also supporting strategic initiatives aligned with the University's mission and goals as set forth by the President and Board of Governors. This policy applies to the University's unrestricted operating funds and any designated reserves established to support operational stability, strategic investments, and emergency needs.

The policy will follow best practices as outlined by the National Association of College and University Business Officers (NACUBO), Higher Learning Commission (HLC) and the Association of Physical Plant Administrators (APPA).

OPERATING PROCEDURES

1. DEFINITION

- **Reserve**: An accumulation of unrestricted funds set aside for economic uncertainties, unexpected expenses, losses, cash flow shortages, large repair or renovation projects, the acquisition and development of new facilities, and/or for future planning purposes. This could be considered a "savings" account.
- **Contingency:** An ongoing, base budgeted source of funding that is set aside annually yet is not committed for a specific purpose. The contingency may be used on an exception basis, as approved by the Financial Manager, Vice President for Finance and Administration or the President, to cover unexpected costs or revenue decreases within a given year. Unspent contingency at year-end will be allocated to reserves. (Note: The Contingency is part of the annual operating budget and is not covered within the Reserve Policy.)

2. RESERVE POLICY GUIDING PRINCIPLES

It is the policy of Southeast Missouri State University to maintain financial reserves adequate to ensure responsible fiscal management, advance University priorities, and mitigate current and future risk.

- Building reserves is a key component of long-term, strategic planning to meet the University's objectives.
- All expenditures from reserves must include a replenishment plan as part of the approval process.
- Use of reserve funds must be approved by the President and Vice President for Finance and Administration, with notification and/or approval from the Board of Governors as appropriate.
- While it is appropriate to use reserves to resolve timing problems, reserves should be used only to provide a bridge to a solution rather than to delay addressing an issue.

3. FUNDING SOURCES AND ALLOCATION

Reserves are funded by one-time dollars at the end of the fiscal year. Sources include but are not limited to annual budget surpluses, one-time revenues, or non-recurring sources and investment earnings. They are not funded through base reduction or position elimination, though the balances are dependent on coming in under budget each year. Other funds may be allocated toward the Operating Fund Reserve at the discretion of the President. Unless otherwise outlined, new reserve funds will be proportionately distributed to the reserve categories based on the categories' remaining funding need. The President, in agreement with the Vice President of Finance &

Administration, has the discretion to allocate funds outside of this distribution to address strategic priorities.

4. RESERVE CATEGORIES

At a minimum, reserves in the following three areas need to be maintained:

- **Operating Reserves**: Funds set aside to provide liquidity during temporary revenue shortfalls or timing differences in cash flow, short-term strategic initiative funding, or to absorb or respond to temporary changes in the environment or circumstances.
  - **Reserves Best Practice:** The National Association of College and University Business Officers (NACUBO) recommends that universities maintain unrestricted operating reserves with a target range of at least 25%-50% of operating disbursements. This is the equivalent of 3-6 months of the annual operating budget.
  - **Target**: The University will maintain reserves totaling no less than 25% of annual operating expenses, covering approximately 3 months of base budget expenditures. It is the intention of this policy to incrementally increase that percentage base until the target of 50% is achieved. Furthermore, it is recommended that the annual increase be no less than 5%. In addition, the University will aim to maintain a **Primary Reserve Ratio** of no less than **0.4** (equivalent to 4.8 months, excluding the impact of GASB68 and GASB75), consistent with best practices recommended by accrediting agencies such as the Higher Learning Commission.

- **Capital Asset Renewal and Maintenance Reserves**: Funds designated for infrastructure improvements such as large repair, replacement, and renewal of existing facilities, major building systems or the acquisition or purchase of new facilities. This reserve ensures that campus assets remain safe, functional, and compliant with standards over time. It supports planned maintenance and helps avoid the higher costs of deferred repairs. This reserve provides flexibility to respond quickly to critical capital situations that pose immediate risk to operations, safety, or compliance without disrupting planned budgets or operations. Under extraordinary circumstances, it may also be leveraged to support capital projects provided the documented use of reserves is accompanied by a reserve replenishment plan.
  - **Reserves Best Practice:** The Association of Physical Plant Administrators (APPA) recommends that universities maintain a capital and maintenance reserve between 1% and 3% of the Current Replacement Value (CRV) of University facilities.
  - **Target:** 2% of CRV of University Facilities

- **Capitalized Equipment Replacement and Acquisition**: The Capitalized Equipment

Replacement and Acquisition Reserve is dedicated to the planned replacement, upgrade, or acquisition of capitalized equipment that occurs outside of a department's regular operations. This reserve ensures that essential equipment remains up-to-date, operational, and compliant with industry standards. It supports both scheduled replacements and strategic acquisitions that enhance institutional capabilities.

- **Reserves Best Practice:** A commonly recommended best practice is to maintain an equipment reserve of 10-15% of the current replacement cost of all capitalized equipment.
- **Target:** 10% of Current Replacement Value (CRV) of current capitalized equipment.

5. REPORTING

The Vice President for Finance and Administration, in conjunction with the Budget Office, will monitor the reserve balances on a quarterly basis. The VPFA is responsible for reporting the reserve status to the President and Board of Governors annually.

6. REPLENISHMENT OF RESERVES

If reserve levels fall below the established targets, the University will implement a replenishment plan over a reasonable period, typically three to five years. The plan will prioritize restoring reserves before committing significant new discretionary expenditures.

7. POLICY REVIEW

This policy will be reviewed at least once every three years or sooner if there are significant changes in the University's financial condition or strategic direction. Any revisions will be subject to approval by the Board of Governors.