

STATE BOARD FOR COMMUNITY COLLEGES AND OCCUPATIONAL EDUCATION

RESERVE REQUIREMENTS AND USE

BP 8-160

APPROVED: May 14, 2003
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REVISED: May 10, 2006
REVISED: June 13, 2007

REFERENCES:
C.R.S. 23-60-202

ISSUED BY:

Nancy J. McCallin, System President

POLICY STATEMENT

In recognition of its fiduciary responsibility, the Board will exercise control over the administration by the system of funds, services, and property. The Board will establish policies which provide oversight over the financial stability and security of the System while providing management discretion required to handle day-to-day operations of the System and its colleges.

SCOPE

College and System Office reserve funds (unrestricted net assets) are subject to this policy. Reserves are defined for the purpose of this policy, as audited year-end unrestricted net assets, including such sources as general fund, tuition, fee revenue and auxiliary revenue, but not including the reserves for compensated absences. Further, sources of funding that are for pass through (e.g., Colorado Vocational Act, Local District Colleges) or for federal or other special purpose grants (e.g., Head Start) are not included in the reserve calculation or subject to this policy. The reserves of the colleges and System office will accumulate through management of revenues and not by annual allocation of System resources through the Board approved budgets.

MINIMUM RESERVE REQUIREMENT

The Board hereby establishes a minimum unrestricted net asset balance to be held in reserve by each college and the System Office equal to 6% of the prior year's audited average operating expenditures for the year (excluding: depreciation, non-Student Financial Aid federal program expenses, and disbursements for the Area Vocational Schools and the Local District Colleges). Reserves will be calculated by the System Office together with each college, based on audited financial statements for the year most recently closed. This will, in effect, create a system-wide reserve of 6% of audited average annual operating expenditures.

Colleges and the System office will achieve these minimum reserve requirements by July 1, 2009. As each college achieves the minimum reserve requirement, the policies outlined below for expending against reserves will become operational for that college. Therefore, since most colleges are already compliant with this required reserve level at the time of this policy issuance, the policies outlined here are in effect.

USE/EXPENDITURE OF RESERVES

Any use of reserves for capital projects must be included in the colleges' or System Office master plan and/or program plan and be presented to the full Board for approval. Capital projects, for the purpose of this policy, are defined as those requiring a program plan by the Colorado Commission on Higher Education.

Colleges and the System Office have the discretion to expend reserves unless the following conditions exist:

- Spending would drop the reserve balance for the college or System below the minimum required by this policy; or
- Spending from reserves would result in a commitment to ongoing costs and expenditures that cannot be supported, or which would affect the overall budget allocation to other colleges;
- The college or System Office has not yet achieved the minimum reserve required by this policy.

When any of the above conditions exist, reserve spending must be approved by the System President (as outlined below) or the Board, as appropriate, prior to expenditure.

The System President may approve expenditures below the required reserve balance in the following situations:

- The college or System Office incurs an emergency that requires immediate action. In such circumstances, other sources of funding shall be sought first (e.g., Risk

Management or State Buildings emergency funding). If such funds are not available, the System President will immediately notify the Board Chair of the situation giving rise to a need to expend below minimum reserve requirements, but is authorized to permit expenditures that reduce the reserve below the required minimum.

- The college or System Office has an opportunity that enhances the quality of programs or services provided but that requires up front investment. The System President is authorized to permit expenditures that reduce the required reserve level to not less than 3% of audited average annual operating expenses. The System President is required to consult with the Board Chair in advance of issuing approval of such expenditures. The college or System Office is required to submit in writing a cost benefit analysis of the opportunity investment and a plan with timelines for restoring the reserve to the required level.

The System Office reserve dollars shall only be used to assist a college faced with extreme financial circumstances. The Board shall be notified of any such use of these reserves for this purpose.

REPORTING

After year-end close and financial audit, the System Controller shall report to the Board the reserve (unrestricted net assets) for each college and the System Office for the year just completed based on audited Financial Statements. This report should also include the amount each entity is above or below the Board established minimum reserve requirement.

For any use of reserve for capital investment as outlined above or for any situation in which the System President has authorized an expenditure from reserve that reduces the level below the Board established policy, the System Office shall report in writing to the Board at the next meeting of the Board the situation that gave rise to the need to take reserves below the required level.

POLICY REVIEW

This policy is to be effective beginning in Fiscal Year 2006-2007.

PROCEDURES

The System president shall promulgate such procedures as may be needed to implement this policy.