



UNIVERSITY OF GUAM
UNIBETSEDĀT GUAHAN
BOARD OF REGENTS

RESOLUTION NO. 08-41

RELATIVE TO RESERVE ACCOUNTS AND CARRY FORWARD BALANCES

WHEREAS, the University is the primary U.S. Land Grant institution accredited by the Western Association of Schools and Colleges (WASC) serving the post-secondary needs of the people of Guam and the region; and

WHEREAS, the governance and well-being of the University is vested in the Board of Regents; and

WHEREAS, the University requires financial stability and long-term viability to deliver its mission and sustain educational effectiveness, which is reinforced by the WASC standards; and

WHEREAS, the University is reordering priorities, restructuring its operations, generating new revenue, saving costs, and addressing administrative policies and processes to sustain educational effectiveness and balance its budget in an environment of scarce resources; and

WHEREAS, the University has an audited, unrestricted FY07 current fund balance of \$2.7 million, which consists of carry-forward balances of non-appropriated, auxiliary and special funds; and

WHEREAS, a review of best practices found that universities establish policies and manage the use of carry forward balances and set aside reserves for contingencies, unanticipated revenue shortfalls, cyclical equipment purchases, capital replacement and renovation and others; and

WHEREAS, the University continues to face allotment holdbacks, appropriation decreases and payment delays in its general operations budget associated with the government of Guam's General Fund deficit and cash shortfalls; and

WHEREAS, the University proposes to establish reserves for contingencies, unanticipated revenue shortfalls, cyclical equipment purchases, capital replacement/renovation, and other purposes and to prepare systematic plans for funding, maintaining, and using these reserves; and

WHEREAS, having reviewed and discussed the management of carry forward balances and the proposed reserves and their funding, the President and the Board's committees on Physical Facilities and Budget, Finance, Investment and Audit recommend approval.

NOW, THEREFORE, BE IT RESOLVED, that for the purposes of University's financial stability and long-term viability to deliver its mission and sustain educational effectiveness, the Board authorizes the Unrestricted Fund Reserve Policy (Attachment I) to provide for purchase, maintenance, replacement and refurbishment of capital equipment and facilities, and to sustain critical expenditures in times of financial or other crisis. The Board authorizes existing reserves to continue as before.

BE IT FURTHER RESOLVED, that the Board authorizes the Unrestricted Carry Forward Balances Policy (Attachment II) to provide for the systematic management of carry forward account balances.

Adopted this 20th of November, 2008.

P. Sonny Ada, Chairman

ATTESTED:

Dr. Robert A. Underwood, Executive Secretary

UNRESTRICTED FUND RESERVE POLICY ATTACHMENT I TO RESOLUTION NO. 08-41,

Purpose and Overview

Sufficient reserves will be maintained for the purposes of institutional financial stability and long term viability, as reinforced by WASC Standard 3.5. Reserves will be accumulated to provide for the purchase, maintenance, replacement or refurbishment of capital equipment and facilities, and to sustain critical expenditures in times of financial or other crisis. The Comptroller is the custodian of reserve accounts.

The University has authority to transfer and assign unrestricted net assets from the general and non-appropriated funds of the Unrestricted Current Fund to the following reserves:

- University Stability Reserve
- Capital Equipment Reserve
- Capital Facilities Reserve
- Insurance Deductible Reserve.

The University has other reserves including the legal reserve, leave payout reserve, and the USDA debt service reserve for the Leon Guerrero Building. The Board authorizes existing reserve accounts to continue as before.

University Stability Reserve (USR)

The Comptroller will maintain a permanent, revolving reserve, called the University Stability Reserve (USR), as a contingency during times of financial crisis. The goal is to maintain an operational reserve of approximately 3% of the most recent general operations appropriation in a cash reserve account. Prior to the utilization of this reserve, the President will document the crisis and the specific critical needs to utilize the USR for funding operational expenditures that are critical to the sustainability or financial stability of the University and that cannot otherwise be funded. Authority for USR use requires Board approval.

Capital Equipment Reserve (CER)

The Comptroller will maintain a permanent, revolving reserve, called the Capital Equipment Reserve (CER), for capital equipment acquisition and replacement. The goal is to build reserves for future capital equipment acquisition and replacement, particularly for the cyclical and recurring capital equipment needs of the Computer Center, Learning Resources and Plant and Facilities in the timeframes needed. Each year the Directors of the Computer Center and Learning Resources and the Chief Plant and Facilities Officer (CPFO) will develop rolling, three-year capital equipment plans that provide objectives, costs estimates and timing for cyclical equipment purchases and one-time project equipment acquisition, which fall within the University's capitalization policy, for approval by the appropriate VP (VP). With approval by the appropriate VP, other units may establish capital equipment reserves for one-time projects as part of the plans submitted by the CPFO. Authority for CER plans and use follows the budget approval process.

Capital Facilities Reserve (CFR)

The Comptroller will maintain a permanent, revolving reserve, called the Capital Facilities Reserve (CFR), for capital facilities renovation and refurbishment. The goal is to build reserves for ongoing deferred maintenance and facilities. Each year the Chief Plant and Facilities Officer (CPFO) working with other units on campus will develop a rolling, three-year facilities plan that provides objectives, costs estimates and timing for facilities-related deferred maintenance, renovation and refurbishment, which fall within the University's capitalization policy, for approval by the appropriate VP. Authority for CFR plans and use follows the budget approval process.

Insurance Deductible Reserve (IDR)

The Comptroller will maintain a permanent, revolving reserve, called the Insurance Deductible Reserve (IDR), for funding of University insurance policy deductibles in the event of insurable property damage that goes beyond the University's ability to fund the deductible from current account revenues and working capital. The goal is to maintain a reserve approximately equal to the property policy deductible. Prior to the utilization of this reserve, the President

will document the crisis and the specific critical needs to utilize the IDR for funding expenditures that are critical to the sustainability or financial stability of the University and that cannot otherwise be funded. Authority for IDR use requires approval of the President.

Restriction on Use of the Capital Equipment Reserve (CER), Capital Facilities Reserve (CFR) and Insurance Deductible Reserve (IDR)

The CER, CFR and IDR will be used only if current year revenues in the primary general or non-appropriated accounts and/or working capital are insufficient to fund the intended transactions, as determined and certified to the President by the Senior VP (SVP) and VP of Finance and Administration (VPAF).

Policy Implementation

Related to this policy, the University will undertake the following:

- i) Establish and fund the reserve accounts as called for in this policy. The Board recognizes the funding goals as targets to be built over time.
- ii) Develop and communicate procedures to create, plan, fund, replenish, monitor and report reserves.
- iii) Establish and manage one or more segregated bank accounts as a cash reserve depository to meet the policy goals, apart from the general bank account. The funds in these accounts will not be included in the cash target for the general bank account, which is herein set at ten (10) days of available cash-on-hand.
- iv) Manage the University's cash position in order to fund and replenish the reserves to the goals established, including:
 - a) The VPAF and Comptroller will develop a rolling multi-year plan, coincident with the annual budget cycle, which identifies strategies for funding and replenishing the reserves to the goals established. The President will approve the plan.
 - b) During the closing of the books each year, the Comptroller may move available funds from the FY08 and subsequent years' Unrestricted Current Fund net asset balance to the USR and IDR to meet the target goals. Available funds may be taken from the balance of any unrestricted general and non-appropriated account, as allowed and after consulting with the administrator of such account.
 - c) Based on approved CER and CFR plans, the Comptroller may transfer FY08 balances and subsequent balances from participating units' unrestricted general and non-appropriated funds into appropriate CER and CFR sub-accounts in sufficient amounts to meet the approved plan objectives within the costs and timeframes presented. Participating units include Computer Center, Learning Resources, Plant and Facilities and other units that establish capital equipment reserves for approved one-time projects.
 - d) The Comptroller may transfer earnings from the Campus Maintenance Fund to the CFR.
 - e) The Comptroller may identify other sources of funding, as allowed.
 - f) If there are insufficient funds to meet the target in any year, then the Comptroller may issue a funding call from the next year's budgets from all allowable sources.
- v) Determine reserve sufficiency at the end of each fiscal year, and provide an annual report to the Board.

**UNRESTRICTED CARRY FORWARD BALANCES POLICY
ATTACHMENT II TO RESOLUTION NO. 08-41,**

Purpose and Overview

Unrestricted carry forward balances will be systematically managed in accordance with University priorities and plans for the purposes of institutional financial stability and long term viability, as reinforced by WASC Standard 3.5. Administrators of non-appropriated and special funds will expend current year revenues in accordance with budgets approved by the Board in the year budgeted, except where authorized by the Unrestricted Fund Reserve Policy or by special, written authorization from two VPs. Nevertheless, carry forward account balances occur. These will be managed as per the provisions of this policy. Professional and International Programs (PIP) and auxiliary units such as the Bookstore, Food Services, Dorms and Field House/ Athletics are expected to generate a surplus during each fiscal year unless otherwise approved by the Board. Carry forward account balances result in the normal course of their operations. These balances will be managed as per the provisions of this policy.

Carry Forward Balances from General, Non-Appropriated and Special Funds

1. Personnel Compensation Balances and Turnover. If a unit has unexpended personnel compensation or turnover in a position during the fiscal year, the surplus will revert to the control of the appropriate VP. After consulting with the administrator of the unit, who will present evidence of the need and priority to continue with the position, the appropriate VP will determine whether the balance and position will remain with the unit or be reallocated.

2. Other Operating Expenses Balances. Except as authorized by the Unrestricted Fund Reserve Policy, if a unit has unexpended, budgeted funds remaining for other operating expenses at fiscal year end, the carry forward of these balances will be handled as follows:

- i) An allocation will be made from the unexpended budget to cover any outstanding encumbrance.
- ii) Should a balance still remain, up to 2% will be authorized to carry forward to the next fiscal year, which will be budgeted for expenditure in that year, following the normal budget approval process.
- iii) Should a unit have plans to spend a special project over a two year period, with approval by the appropriate VP, up to 50% will be authorized to carry forward to the next fiscal year, which will be budgeted for expenditure in that year, following the normal budget approval process.

3. Deficits

If a unit has a deficit in its budget at the end of a fiscal year, it will carry forward to the next fiscal year and be included in the new budget. This will reduce a unit's available budget in that year. If deficits are incurred in more than one fiscal year, the unit administrator will be held accountable and control of that budget will revert to the line VP.

4. Carry Forward Appeals Process

Units may submit to the appropriate VP a carry forward policy appeal to allow for additional carry forward funds over the set 2% or special project 50%, if special circumstances apply. Special circumstances would include situations where purchases were delayed due to situations beyond a unit's control. Higher carry forwards will require approval of two VP's, one of whom will be the line VP.

Carry Forward Balances from Professional and International Programs (PIP) and Auxiliary Funds including the Bookstore, Food Services, Dorms and Field House/ Athletics

If PIP or an auxiliary unit has a fiscal year surplus, the carry forward of these balances will be handled as follows:

- i) An allocation will be made from the unexpended budget to cover any outstanding encumbrance.
- ii) Transfers to general operations will be made as per administratively agreed targets and Board approved budgets.
- iii) Should a surplus still remain, each year the director of the unit will develop a rolling, three-year capital plans as per the CER and CFR policies.

If PIP or an auxiliary unit has a deficit budget balance at the end of a fiscal year, 100% of this deficit balance will carry forward to the next fiscal year and be included in the new budget. In effect, this will reduce a unit's available budget in the following fiscal year. If deficits are incurred beyond more than one fiscal year, the unit administrator will be held accountable and control of that budget will revert to the line VP.