

# Reserve Policy

## University Operations – Financial Management

### CWU Policy 202-03

**Effective:** December 27, 2022

**Policy Review Date:** YEAR

**Policy Executive:** Senior Vice President – Finance and Administration

**Responsible Office/Unit:** Finance and Business Auxiliaries

#### **Policy Statement:**

#### **Applicability:**

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#### **Content:**

Policy

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#### **(1) Purpose:**

- A. Define the university's reserve philosophy and principles
- B. Clarify what for purposes reserves are held
- C. Describe how reserves are calculated
- D. Delineate method to formally designate reserves for specific purposes
- E. Identify reserve targets for certain funds
- F. Provide transparency to the reserves the university holds.

#### **(2) Background:**

- A. The primary fiscal responsibility and purpose of the university is to gather resources from the State of Washington, students, granting agencies and other sources and expend those resources on the educational mission of the university.
- B. As such, building reserves is not the primary goal of the university. However, reserves are required for responsible fiscal management.

- C. Universities commonly hold unspent assets which have accumulated over periods of time. These reserves represent the net accumulation of assets which can be available, to some extent, to ensure stability in operations, mitigate risk and uncertainty in state funding and student enrollment, advance university priorities, invest in the physical infrastructure, ensure flexible cash-flow and maintain a favorable credit rating.

### **(3) Reserve Principles:**

- A. Reserves should be considered long-term in nature. Without adequate reserves the university could suffer cash flow stress and become distracted from good long-term decision making.
- B. Reserves should be identified and designated for long term planning when there is a reasonable expectation of long term benefit arising from the expenditure, ie: buildings, infrastructure, program development and other improvements.
- C. Reserves should not be used to make up for expected revenue shortfalls unless a near-term plan to make up the revenue or reduce the expenditures is developed.
- D. Undesignated reserves should be used only in emergency situations and should not be viewed as a source of flexible funding for new opportunities that were not anticipated in the budget.

### **(4) Calculation of Reserves:**

- A. The university's accounting and financial reporting is prescribed by the Governmental Accounting Standards Board (GASB). The GASB pronouncements classify net assets as either non spendable or spendable.
- B. Reserves, for the purpose of this policy, consist of the spendable portion of the university's net assets reduced by externally restricted amounts and adjusted for any effect of the GASB 68 pension requirements. For this policy, there are three primary categories: committed, assigned, and unassigned.

### **(5) Designation of Reserves:**

- A. Committed - The amount designated by resolution of the Board of Trustees as an operating reserve and the maximum annual debt service listed in the official statement bond document allocated by responsible fund or operation.
- B. Assigned - Amounts that are constrained by the university's own intent to be used for specific purposes, but are neither restricted nor committed. This type of reserve requires a formal adoption by the designated university committee with operational responsibility for those funds.
- C. Unassigned – All other spendable amounts not committed or designated.

### **(6) Fund Reserve Targets**

- A. Reserve targets for the State/Tuition fund (149) shall be equal to the net tuition revenues for one academic quarter. This is a target, not a requirement, intended to protect the institution from a significant disruption in funding.

## (7) Reporting of Reserves

- A. Annually, and prior to setting the operating budget for the following year, the chief financial officer should present a report to the Finance Committee of the board of trustees describing current reserve levels by fund and any commitments or assignments of those reserves.

## (8) Definitions

- A. GASB is the Governmental Accounting Standards Board
- B. **Net Assets** – GASB 34 definition:
  1. “The difference between a government’s assets and its liabilities is called *net assets*. The name . . . . . reflects its emphasis on what a government would have left over after satisfying its liabilities. Net assets are an indicator of a government’s *financial position*—its financial standing at a given point in time (typically, the end of the fiscal year). Financial position can be tracked over time to assess whether a government’s financial health is improving or deteriorating.”
  2. GASB 54 – “*Summary of Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions* (Issued 02/09) “ <http://www.gasb.org/st/summary/gstsm54.html>
  3. In part: “The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.”
  4. **Restricted** – Amounts restrained by laws, creditors or other influences external to the university.
  5. **Committed** - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the BOT are committed fund balance. Those committed amounts cannot be used for any other purpose unless the BOT removes or changes the specified use by taking the same type of action employed to previously commit those amounts.
  6. **Assigned** - Amounts that are constrained by the university’s own intent to be used for specific purposes, but are neither restricted nor committed. An action of the recognized university committee responsible for operational oversight of the funds or the administrative officer to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
  7. **Unassigned** – All spendable amounts which are not formally committed or assigned.

## History:

*Responsibility: Finance and Administration; Authority: Cabinet/UPAC; Reviewed/Endorsed by: Cabinet/UPAC; Review/Effective Date: 03/02/11, 04/17/17; 12/27/2022; Approved by: A. James Wohlpart, President. Reformatted and Assigned new Policy Number - Previous Policy CWUP 2-10-105, June 2025*