

Policy Title:	Budgeted Operations Fund Balances
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Governing Body:	Southern Oregon University	Policy Number:	FAD.048
Policy Contact:	Vice President for Finance & Administration	Date Revised:	July 2016
Custodial Office:	Finance & Administration	Date Approved:	July 2016
Approved By:	President	Next Review:	July 2019
Related Policy:			

Revision History

Revision Number:	Change:	Date:
-	Initial version	July 2015
1	Revision	July 2016

A. Purpose

This policy codifies and revises as Southern Oregon University Policy the rule previously adopted by the State Board of Higher Education concerning this topic and transferred to SOU by operation of law on July 1, 2015.

B. Definitions

**1. Fund Balance:** Fund balance is defined as the difference between the assets and liabilities of a fund. Given this definition, fund balance can be described as the available resources of the fund, which can be significantly different than cash balances due to accrual accounting. For instance, at June 30 of each fiscal year, campuses have received payments for summer session tuition and fees. Since summer session activity occurs predominantly in July, these receipts are recorded as a liability (deferred revenue) at June 30 to comport with accounting rules. As a result, cash balances may be higher than fund balances. As noted above, fund balance is the difference between the assets and liabilities of a fund. Generally Accepted Accounting Principles (GAAP), promulgated by independent standards-setting groups, set forth rules for the proper recording and valuation of assets and liabilities. Each public university in Oregon is required to follow GAAP, resulting in a consistent definition of fund balance.

**2. Institution Fund Balance Commitments:** Higher education institutions operate in a fiscal environment and on a business cycle that does not tightly correlate with the biennial budget process. As a result, institution management may make certain internal budgetary commitments against their fund balances. Among other reasons, these internal budgetary commitments are necessary in order to help maintain continuity of programs and provide funds for entrepreneurial activities and/or to provide incentives for certain desired outcomes. Examples of these budgetary

commitments include, but are not limited to, commitments to maintain balances for certain departments, commitments to fund certain future actions, or contractual commitments to provide funding for program startup. Generally Accepted Accounting Principles do not call for such commitments to be recorded in the accounting records and, therefore, they do not impact fund balance. In the event of an emergency these internal budgetary commitments could be funded from future resources (revenue increases or expenditure decreases), modified, or eliminated in order to meet the short-term need. Therefore, internal fund balance commitments support a balance within the policy range, but do not reduce the fund balance. Up-to-date figures on SOU's internal budgetary commitments against its Education and General funds can be found at [www.sou.\\_\\_\\_\\_\\_](http://www.sou._____).

## C. Policy Statement

### **1. Background**

Responsible fiscal management requires adequate reserves, or fund balances, to mitigate current and future risks. Adequate fund balances are essential to offsetting cyclical variations in revenues and expenditures and to protect against 1) catastrophic events, 2) unforeseen revenue declines and expenditure gaps, 3) unexpected legal obligations, and 4) failures and health/safety/code issues in infrastructure or major business systems.

The focus of this policy is fund balances within the budgeted operations funds, which are the primary operating funds through which all basic instruction and institution administration occur. Budgeted operations funds include state General Funds and Other Funds Limited, made up principally of student tuition and fees and also including educational department sales and services, indirect cost recovery, and other operating revenues.

For the purpose of gauging their relative value, budgeted operations fund balances can be expressed either as a percentage of annual budgeted operating revenues or as operating expenditures sufficient to fund a specified period. The Government Finance Officers Association, for example, recommends that fund balances be maintained at a level that represents 5 to 15 percent of operating revenues, or is sufficient to fund no less than one to two months of operating expenditures.

Obviously, the level of budgeted operations fund balance should be related to the likelihood of need. Given the timing of tuition assessments, revenue cycles at universities tend to spike quarterly while expenditures remain relatively flat. When combined with the volatility of state funding over the past several biennia - as well as fluctuations in enrollment and tuition dollars - the need to maintain fund balances sufficient to stabilize the operating revenue stream for short periods is clearly imperative. Universities, for example, are particularly vulnerable to shortfalls in revenue collections during the first quarter of each biennium.

Responsible fiscal policy, then, suggests that universities should maintain ending biennial budgeted operations fund balances sufficient to stabilize the operating revenue stream and cover unforeseen contingencies equal to approximately one month's operating expenditures, or about 10 percent of their annual budgeted operations revenues.

At the same time, because of the funding mix of state General Funds and student tuition and fees, any excess balances could be interpreted to represent unwarranted tuition and fee rates. Consequently, ending biennial budgeted operations fund balances should not exceed approximately two months of budgeted operations expenditures, or about 15 percent of annual budgeted operations revenues.

## **2. Budgeted Operations Fund Balances Policy Proposal**

SOU shall develop a budget that targets an ending biennial budgeted operations fund balance of approximately 10 percent of annual budgeted operations revenues. For purposes of this policy, budgeted operations funds are defined as all funds included in Fund Type 11 (Education and General) in SOU's accounting records. Budget operations fund balances will be monitored as part of the quarterly projections included in the Managerial Reports provided to the Board of Trustees; and the university president shall advise the Board of Trustees in the event projected or actual ending balances for the biennium either fall below 5 percent or rise above 15 percent of revenues. Included in the information provided by the university president will be an explanation for the variance and a plan to rebalance the budgeted operations fund balances over time to approximately 10 percent of annual budgeted operations revenues.

This policy may be revised at any time without notice. All revisions supersede prior policy and are effective immediately upon approval.

### **D. Policy Consultation**

This policy was transferred to SOU by operation of law on July 1, 2015 from the State Board of Higher Education Board Policy Manual. Revisions to the text of the policy were posted for campus comment on June 21, 2016.

### **E. Other Information**

The Policy Contact, defined above, will write and maintain the procedures related to this policy and these procedures will be made available within the Custodial Office.