

Knoxville Campus Policy: FI00005-K Procedures - University Reserves	
Version 1	Effective Date: 01/01/2024

Objective

This procedure establishes guidelines for university reserve funds, including size, oversight, and reporting requirements.

Scope

This procedure applies to Renewal & Replacement Funds and Retirement of Indebtedness Funds.

Definitions

Renewal and Replacement Funds – Unrestricted funds accrued as one-time monies to cover both anticipated and unanticipated long-term needs. The funds allow each institution to meet a wide variety of needs and provide reserves for the full operating budget.

Retirement of Indebtedness Funds – Committed funds held to cover debt service obligations.

Days Cash on Hand – This represents the number of days of annual operating expenses, excluding non-cash expenses, such as depreciation, that could be paid by an institution with its current available cash.

Obligated Classification Category – Balances held to cover a legal liability/binding agreement with a party external to the University.

Planned Classification Category – Balances held for a specific purpose as approved by an appropriate University official (president, vice presidents, chancellors, vice chancellors, deans, directors, or designees in accordance with institutional policies or practices). Planned is a broad category that can include funds committed {but not yet encumbered} for expenditure in the following fiscal year or for longer-term initiatives. The purpose for which funds are held can range in degree of specificity from a narrowly defined purpose, such as "replacement of the ERP system," to a broad category, such as "future technology needs."

Reserves Classification Category – Balances purposefully held for contingencies that must be addressed to ensure the continuation of operations. Reserves are not held to fund known future expenses, but rather to mitigate risks that may result from unexpected funding shortfalls or unanticipated needs.

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Discretionary Classification Category - Balances, with no funding source requirements, held to take advantage of strategic opportunities that emerge during the year.

Procedure

L. **Acceptable Reserve Range**

- A. Units are encouraged to maintain 90 days of cash on hand within Renewal & Replacement Funds but must not exceed 150 days without additional approval as described in the Corrective Action section below.
- B. An acceptable range of one to three years of annual debt service liability may be held in the fiscal year-end balance of Retirement of Indebtedness Funds.

II. **Annual Review Process**

- A. Days cash on hand will be calculated after closing the fiscal year and reviewed for compliance with the acceptable reserve range.
- B. Renewal & Replacement funds will be classified into the following four categories to better convey their purpose and reflect their commitments: Obligated, Planned, Discretionary, Reserves.
- C. Retirement of Indebtedness funds will be compared to the latest debt service schedules to determine the number payments which can be supported by the balance.

III. **Corrective Action.**

- A. Units must illustrate acceptable planned use of excess funds for Executive Budget Committee approval.
 - i. Campus approved project planning documents for capital projects.
 - ii. Description and budget for a major initiative per the strategic plan.
 - iii. Balances without an acceptable plan for spending excess funds will

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work with the Executive Budget Committee to develop a plan to redirect spending to allowable university activities.

- B. Excess differential tuition (DT) funds will be transferred to the applicable college DT scholarship fund.

Campus Responsible Official & Additional Contacts

Subject Matter	Office Name	Telephone Number (xxx) xxx-xxxx	Email/Web Address
Policy Clarification and Interpretation	AVC,F&A	(865) 974-1000	avcfinadmin.utk.edu
Policy Training	AVC,F&A	(865) 974-1000	avcfinadmin.utk.edu