System-wide Policy: FI0800 - Fund Balance and Fiscal Reserves	
Version: 1	Effective Date: 08/10/2026

SECTION 1. Policy Statement

I. **Introduction**

A. The Tennessee General Assembly requires the University to provide a report that discloses the University's fund balances annually, as part of the state's budget process. Because the University is a single legal entity, the University System reports its fund balances as a single institution.

B. For purposes of this policy, the University classifies its year-end funds in 2 categories:

1. Part A: funds that are part of each annual operating budget; or
2. Part B: funds that are carried over from previous fiscal years.

C. Each campus and institute may issue procedures under this policy which provide further guidance, establish reporting requirements or deadlines, etc.

II. Part A: Annual Operating Budget

A. The University itemizes the following 6 funds in its annual operating budget:

1. <u>Working Capital</u>: Required by statute and consists of petty cash, receivables, and inventories.
2. <u>Revolving Funds</u>: Dedicated to support self-sustaining activities, such as service centers.
3. <u>Encumbrances</u>: Committed cover purchased goods and services to be received and paid for in the new fiscal year.
4. <u>Reappropriations</u>: Committed to cover allocations for specific future projects and activities.
5. <u>Unallocated Auxiliaries</u>: Reserved to provide a "rainy day" fund for auxiliary operations.
6. <u>Unallocated Education and General</u>: Reserved to provide a "rainy day" fund of 2% to 5% for annual operations.

B. Each campus and institute will propose a budget with current year-end unrestricted balances of 3% to 5% to ensure annual reserves for fluctuations during the year.

C. Actual current year-end balances above 5% will be transferred to carry forward fund accounts.

D. In case of extenuating circumstances, chief business officers may request an exception from the UT System chief financial officer.

III. Part B: Year-End Carry Forward Fund Balances

A. When unrestricted revenue exceeds expenses, campuses or institutes may carry forward operating revenue and accumulate it from year-to-year for long-term needs and to serve as a reserve for University operations.

B. There are 4 funds outside the annual operating budget containing year-end carry forward money:

1. <u>Unexpended Plant Funds</u>: Committed funds are held for approved capital projects.

2. Debt Service: Committed funds to cover debt-service obligations
3. Quasi-Endowments: Committed funds are held as quasi-endowments on behalf of institutions.
4. Renewal and Replacement: 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.

C. Each campus and institute, and the University System as a whole, will attempt to maintain between 25% and 50% of expenses in unrestricted cash, to help ensure that the cash is available as a flexible reserve for unforeseen expenses. For clarity, the 25-50% range is a guideline and is not intended to be a mandatory range.
   1. If a campus or institute is below 25%, the Chief Business Officer will work with the Chief Financial Officer to develop a plan to reach the 25% minimum reserve.
   2. If a campus or institute is above the 50% target, the Chief Business Officer will submit a plan to the Chief Financial Officer detailing the planned long-term use of funds focusing on the amount above 50%.

D. Unrestricted funds that are obligated or committed to expenses, or funds planned for expenditure in the reporting fiscal year, must not be considered in calculating unrestricted reserve funds. Obligated and committed funds include:
   1. Unexpended Plant Funds. Money may only be transferred to Plant Funds for projects that have been approved in an annual state budget, by the State Building Commission, or have University planning authorization.
   2. Debt Service Reserve. A reserve fund equal to one-year of debt service. This does not include annual debt service payments in the current year's operating budget.
   3. Quasi-Endowments. While Fiscal Policy F10340 permits institutional funds to be transferred to quasi-endowments, the investments are intended to be long-term. Requests to transfer of surplus Educational and General funds will be given careful consideration. Quasi-endowments are not considered when calculating days cash for reserves.

E. Renewal and Replacement Funds:
   1. Each University department may carry forward year-end funds placed in specific Renewal and Replacement accounts.
   2. Each fiscal year, beginning in fiscal year 2026-27, each campus and institute will provide information about year-end funds to the Board of Trustees through the Office of the Chief Financial Officer.
   3. Strategic management of Renewal and Replacement funds plays a critical role in overall responsible fiscal management. Renewal and Replacement funds are expended in the current fiscal year and held for investment in future years.

F. At the close of each fiscal year, the System office and each campus and institute will report total carry-forward funds.

G. The Chief Financial Officer will report the fund balances and reserve fund ratios to the board of trustees.

IV. **Methodology for Calculating Reserves**

A. The chart below illustrates the methodology for calculating reserves.

B. The data reflected in the chart below is based on hypothetical figures.

Cash Reserves Target Range		
EXAMPLE		
Institution		
Fiscal Year 2026-27		
Renewal and Replacement Total		
Calculating Reserve Percent Range		
FY2026-27 Budgeted Education and General Expenses		$ 350,000,000
FY2026-27 Budgeted Auxiliary Expenses		$ 25,000,000
Total Unrestricted Expenses		$ 375,000,000
	25%	$ 93,750,000
	50%	$ 187,500,000
Uncommitted Renewal & Replacement Calculation		
Total R&R Funds		$ 100,000,000
Less Obligated Expenditures		$ (10,000,000)
Less Committed Expenditrues		$ (17,000,000)
Uncommitted Funds Planned for future years (non-obligated)		$ 73,000,000
Calculating Cash Reserves		
Uncommitted R&R Funds		$ 73,000,000
Unallocated Current Year Budget		$ 18,750,000
FY2026-27 Estimated Debt Service (Reserve)		$ 21,000,000
Total Cash Reserves		$ 112,750,000
Total Reserve % of Budgeted Total Unrestricted Expenses		30%

SECTION 2. Reason for the Policy

This policy establishes the University's reserve funds guidelines.

SECTION 3. Scope and Application

This policy applies to all employees.

SECTION 4. Procedures

The University has not adopted systemwide procedures for this policy.

SECTION 5. Definitions

Unrestricted carry forward funds – Year-end Education and General and Auxiliary fund balances carried forward into the next fiscal year.

Obligated funds – Carry-forward funds held to cover a legal liability/binding agreement with a party external to the University.

Examples:

- Contract for services with an external agency or business
- Purchase order or invoice
- Contract for an employee for whom recurring resources are not currently available
- Awarded scholarships
- Statutory mandate

Committed funds – Carry forward funds held for a specific purpose and expense in the current fiscal year. Planned expenditures from carry-forward funds must be documented at the beginning of the fiscal year by the appropriate department.

Examples:

- Required cash deposit for a capital project

- Purchase of equipment
- Operational maintenance
- Funds for institutional cost-sharing
- Financial aid funding that has not yet been awarded
- Expenditures to launch or to support academic programs or student programs for which recurring resources are not currently available.

SECTION 6. Responsible Official & Additional Contacts

Responsible Official and Contacts may have responsibilities that include monitoring compliance with the policy, accuracy of policy subject matter, organizing policy training, and updating the policy.

For additional information, please contact System Senior Vice President and Chief Financial Officer David Miller. davidmiller@tennessee.edu

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SECTION 7. Related Policies/Guidance Documents

FI0110 – Budgets
FI0112 – Budgeting Current Unrestricted Funds
