



# Operating Standard

**Title:** Management of Financial Reserves

**Number:** A5000.60

**Type:** Administrative

**Responsible:** Vice President of Admin Services

**Related Policies:** B3006 Financial Condition  
A5100 Budget Excellence

**Linked Procedures:** A5000.00...A5000.125

**Related Laws:** ILCS 805/3-20

**Related Standards:** GASB Statement No. 54, GFOA Guidance, Moody's Investor Service  
"Scorecard" Rating System 2014

**HLC Criterion:** 5B

## Statement

In keeping with recommendations from the Government Finance Officers Association (GFOA) and National Advisory Council on State and Local Budgeting (NACSLB), this policy establishes parameters that guide the management of financial reserves, which are to be maintained as "financing bridges." Further, this policy prescribes how fund balances are to be used and replenished.

Fund balances maintained at levels prescribed in this policy protect taxpayers and employees from unexpected changes in financial condition, protect the college against financial instability and help in meeting future needs. To those ends, the following factors are considered:

1. The predictability of revenues and the volatility of expenditures;
2. The perceived exposure to significant one-time outlays (i.e., disasters, one-time capital facility needs, capital equipment, state budget cuts);
3. Potential drain upon general fund resources from other funds, as well as availability of resources in other funds;
4. Liquidity of funds;
5. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds; and
6. Commitments and assignments of funds for other purposes.

The Vice President of Finance and Operations is responsible for monitoring reserve levels and reporting current and projected reserves annually in the budget document. The Vice President of Finance and Operations shall report whether considerations have been identified that would warrant consideration of a change in recommended fund balance threshold(s).

<b>Fund</b>	<b>Minimum Threshold</b>	<b>Maximum Threshold</b>
Operating	Four (4) Months Operating Expenditures	Eight (8) Months Operating Expenditures
Working Cash	Three (3) Months Operating Expenditures	Six (6) Months Operating Expenditures
Liability, Protection & Settlement	Six (6) Months of Fund Expenditures	Twelve (12) Months of Fund Expenditures
Capital Projects	\$500,000	No Maximum

**Prioritization in Use of Fund Balance**

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) funds are available, the College will use restricted funds first, unless determined otherwise in the professional judgment of the Vice President for Financial and College Operations.

**Use of Funds**

Fund balance in excess of the levels set in policy may be used to create and/or fund reserves established by the Board of Trustees for specifically identified uses (i.e. capital investment in facilities, retirement of debt, liability accruals, etc.). Excess unrestricted fund balance may also be used to replenish other funds which may be below established policy parameters. These include, but are not limited to, Capital Project funds. Further, fund balance may be used to pay operating expenditures when necessary to maintain the quality or a defined level of services.

**Replenishment of Funds**

If a particular fund, or series of funds, is predicted to fall below the parameters established in this policy, within six months of budget adoption, the President shall present a plan to the Board of Trustees that will replenish fund balance(s) to the policy level within three (3) years, depending upon the economic realities at the time. Factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets;
2. Recovering from an extreme event;
3. Political continuity;
4. Financial planning time horizons;
5. Long-term forecasts and economic conditions;
6. External financing expectations.

Resources to be used for replenishment include nonrecurring revenues, budget surpluses, and excess revenues from other sources in other funds (if legally

permissible and there is defensible rationale). Year-end surpluses are an appropriate source for replenishing fund balance.

<b>Change Log</b>		
<b>Date</b>	<b>Description of Change</b>	<b>Governance Unit</b>
04.05.21	Initial Adoption	VP of Admin Services
06.13.24	Converted to new template	