

Chapter: Fiscal and Business Services

Modification No. 002Subject: **Maintenance of Undesignated Reserve Fund Balance****I. Fund Balance Policy Philosophy**

It is the College's policy to maintain undesignated reserve fund balances at a level sufficient for financial liquidity to meet normal operating and contingency obligations, temporary financing of unforeseen needs of an emergency nature, adverse changes to the economic environment and to facilitate the orderly adjustment to changes resulting from possible declines in revenue sources. This fund balance policy is intended to provide for unanticipated expenditures or revenue shortfalls of a non-recurring nature. Recurring problems will require long-term solutions, which reflect a basic reconsideration of revenue streams and expenditure levels.

II. Definition

Fund balance is the difference between the value of a fund's assets and the value of the liabilities within a fund or fund group. Fund balance is not the cash balance, nor is it the difference between revenues and expenditures in a given year. It is, however, the cumulative difference of all revenues and expenditures since the existence of the institution or fund.

III. Policy Statement

In order to protect the financial stability and integrity of Montgomery College, to provide sufficient liquidity required for daily operations and to address unplanned needs, the College shall maintain adequate undesignated reserve fund balances for the following funds:

- A. Operating
- B. Auxiliary Enterprises
- C. Workforce Development and Continuing Education
- D. Montgomery College Cable TV
- E. Emergency Plant Maintenance

IV. The President is authorized and directed to establish procedures necessary to implement this policy.

Board Approval: July 9, 2001; October 17, 2016.

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Montgomery College recognizes the enterprise nature of higher education institutions and understands that the maintenance of undesignated reserve fund balances will provide the institution with the opportunity to manage its resources more effectively.

The practice of establishing and maintaining undesignated reserve fund balances makes good business and operational sense. Undesignated reserve fund balances serve to:

- 1) Guard against unanticipated revenue shortfalls; and
- 2) Minimize the impact on the operation of the College when revenue shortfalls or unexpected significant expenses occur.

Examples of such an activity are the sudden revenue reduction which can occur with the loss of State Aid or a County Savings Plan, or when enrollment proves to be lower than the budget was predicated. Maintaining undesignated reserve fund balances will guard against these unanticipated significant actions and provide a mechanism for better financial management throughout the fiscal year.

An adequate level of undesignated reserve fund balance also indicates fiscal stability which is an important factor considered by credit rating agencies in the evaluation of the credit worthiness of institutions.

II. Institutional Procedures**A. Operating Fund**

The operating fund supports the primary activities of the institution. The College offers multi-campus diversified post-secondary career and transfer education programs, career training and support services to the residents, businesses and other organizations within Montgomery County. The operating fund provides for the majority of the credit course offerings of the institution. Primary funding sources are county support, state support, student tuition and fees, and interest income. The undesignated reserve fund balance in the operating fund should be sufficient to:

1. Fund contingencies or emergencies as defined by the College.
2. Permit the College to plan for major expenditures that may require more funds than would be available for the specific purpose in a single year.

It is expected that the College will maintain an undesignated reserve operating fund balance of 3 to 5 percent of budgeted resources minus the annual contribution from the county.

B. Workforce Development & Continuing Education Fund

The Workforce Development & Continuing Education fund is a self-supporting fund which administers non-credit offerings. The non-credit program includes courses, activities, and programs of a post-secondary nature as well as youth programs which are non-traditional in structure and are responsive to community needs. Primary funding sources are tuition and fee revenues, state support, and interest income.

The undesignated reserve fund balance in the Workforce Development & Continuing Education Fund should be sufficient to:

1. Defray unanticipated emergency expenditures
2. Fund equipment replacement through a designation each year of an appropriate percent of the current replacement value that is related to the useful life of the unit's equipment
3. Fund research and development projects
4. Fund a percentage of the annual operating budget as a contingency to provide fiscal stability in the event of unfavorable economic conditions

It is anticipated that an acceptable level of undesignated reserve fund balance should be 25 percent of the Workforce Development & Continuing Education operating expenditures. The fund balance in this unit may vary significantly dependent on the annual funding requirements of the unit.

C. Auxiliary Enterprises Fund

An auxiliary enterprise is an activity that exists predominantly to furnish goods or services to students, faculty, staff and the community which charges a fee or service charge related to the cost of the goods or services. These activities are operated and administered as self-supporting, centralized units of the College. Primary funding sources are fees for services, retail sales revenue, interest, and rental revenue.

The undesignated reserve fund balance in auxiliary enterprises should be sufficient to:

1. Fund equipment replacement through a designation each year of an appropriate percent of the current replacement value that is related to the useful life of the equipment;
2. Fund research and development projects;
3. Fund a percentage of the annual operating budget as a contingency to provide fiscal stability in the event of unfavorable economic conditions.

It is anticipated that an acceptable level of undesignated reserve fund balance should be 25 percent of the Auxiliary Enterprises' operating expenditures. Fund balances in this operation may also vary significantly dependent on the annual funding requirement of this unit.

D. Cable TV Fund

The cable TV fund provides video productions services to Montgomery College, its faculty, staff and partners. Primary funding sources are county support and grant funding. The undesignated reserve fund balance in the cable TV fund should be sufficient to fund contingencies and emergencies as defined by the College.

The College shall maintain an undesignated reserve fund balance of 5 percent of the cable TV's operating expenditures.

E. Emergency Plant Maintenance & Repair Fund

The emergency plant maintenance and repair fund (EPMRF) is a spending affordability fund. The purpose of the fund is to support the College's emergency maintenance needs. Primary funding source is from the county.

The College shall maintain an undesignated reserve fund balance of at least 1 percent of the replacement value of the College's physical plant (excluding equipment).

- III. Compliance with the required undesignated reserve fund balances set forth above shall be reviewed as part of the annual close of the fiscal year.

Administrative Approval: July 9, 2001; October 18, 2016.