POLICY

Title: FINANCIAL RESERVES	Code: B0102-3
Authority: Wis. Stats. Chapter 38; Wis. Administrative Code, Chapter TCS 7; Board Minutes, 12/17/02	Original Adoption: 12/17/02 Revised/Reviewed: 6/22/04 Effective: 6/23/04

The Milwaukee Area Technical College District Board and administration recognize their fiduciary duties. These fiduciary duties include the establishment of fund equity reservations, designations and other classifications that:

- Reduce or eliminate the need for short-term borrowing;
- Serve as a safeguard against unanticipated expenditures and unrealized revenues;
- Comply with debt covenants;
- Serve as start-up funding for strategic initiatives; and
- Comply with sound risk management principles.

Fund equity shall be considered “reserved” when restricted to a specific future use or is not available for expenditure. Fund equity shall be considered “designated” when segregated based on tentative future spending plans that are subject to change.

The status of the fund equity reservations, designations and other classifications shall be presented to the Board of Directors at least annually in conjunction with presentation of the administrative budget proposal for the next fiscal year. The status shall also be reviewed when other factors, such as economic conditions or cash flow changes, dictate.

Operating (General and Special Revenue) Funds

Fund equity in the operating funds shall be segregated between reserved and unreserved.

Fund equity reservations shall be established as follows:

- Reserved for Prepaids in an amount equal to the value of inventories and unexpended investments in goods and services.
- Reserved for Encumbrances in an amount equal to the value of purchase orders, contracts and other commitments that will be honored in subsequent year(s).
- Reserved for Post-Employment Benefits in an amount equal to funds segregated for the payment of post-retirement benefits, such as health insurances. Funds shall be added to the reserve in an amount equal to the amount that fund equity designated for operations (see below) exceeds its maximum target value.

Fund equity designations shall be established as follows:

- Designated for Operations in an amount targeted to be 10 to 15 percent of fund revenues. If the designation falls below the target minimum, plans shall be developed to return the amount to the target range. If the designation exceeds the target maximum, the excess shall be transferred to the Reserved for Post-Employment Benefits.
- Designated for Subsequent Years in an amount equal to funds tentatively set aside for or anticipated to be spent in future year(s).

Capital Project Funds

Fund equity reservations shall be established as follows:

- Reserved for Encumbrances in an amount equal to the value of purchase orders, contracts and other commitments that will be honored in subsequent year(s).
- Reserved for Capital Projects in an amount equal to unencumbered and unexpended debt proceeds, plus interest that has accumulated on the unexpended debt proceeds.

Debt Service Funds

Fund equity reservations shall be established as follows:

- Reserved for Debt Service in an amount equal to fund equity.

Enterprise Funds

Bookstore:

Fund equity segregations shall be established as follows:

- Contributed capital in an amount at least equal to debt-financed equipment and other assets, net of accumulated depreciation.
- Unrestricted retained earnings in an amount targeted to be 5 to 10 percent of operating expenses, net of cost of goods sold, plus the average value of inventories. If unrestricted retained earnings fall below or rise above the target levels, plans shall be developed to return the amount to the target range.

Child Care:

Fund equity segregations shall be established as follows:

- Unrestricted retained earnings in an amount targeted to be between 5 and 10 percent of operating expenses. If unrestricted retained earnings fall below or rise above the target levels, plans shall be developed to return the amount to the target range.

Food Service:

Fund equity segregations shall be established as follows:

- Contributed capital in an amount at least equal to debt-financed equipment and other assets, net of accumulated depreciation.
- Unrestricted retained earnings in an amount targeted to be between 5 and 10 percent of operating expenses. If unrestricted retained earnings fall below or rise above the target levels, plans shall be developed to return the amount to the target range.

Milwaukee Enterprise Centers:

Fund equity segregations shall be established as follows:

- Unrestricted retained earnings in an amount targeted to be between 15 and 20 percent of rental income. If unrestricted retained earnings fall below or rise above the target levels, plans shall be developed to return the amount to the target range.

Public Television:

Fund equity segregations shall be established as follows:

- Contributed capital in an amount at least equal to debt-financed equipment and other assets, net of accumulated depreciation.
- Restricted retained earnings in an amount equal to unexpended debt proceeds, plus other amounts legally restricted for specific purposes or not currently available.
- Unrestricted retained earnings in an amount targeted to be between 8 and 12 percent of expenses net of depreciation and debt service. If unrestricted retained earnings fall below or rise above the target levels, plans shall be developed to return the amount to the target range.

Unrestricted retained earnings shall be determined by the following formula:

Unrestricted retained earnings = GAAP basis retained earnings + bonds payable.

Internal Service Funds

Fund equity reservations shall be established as follows:

- Restricted retained earnings in an amount targeted to be 15 percent of self-insured costs. If restricted retained earnings fall below or rise above the target levels, plans shall be developed to return the amount to the target range.

Trust and Agency Funds

Fund equity reservations shall be established as follows:

- Reserved for Student Organizations in an amount equal to fund equity held in trust for student organizations.
- Reserved for Student Financial Assistance in an amount equal to fund equity resulting from student financial assistance programs.