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**Reserve Policy and Procedures**

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## **I. Philosophy and Scope**

The Board of Trustees of Frederick Community College recognizes that it is important to maintain the financial reserves of Frederick Community College (“FCC” or the “College”). Reserves ensure the availability of funding in the event of unforeseen expenditures, and protect against unexpected changes in funding. Reserves may also provide a funding source for multi-year initiatives and unfunded mandates from external constituencies.

This Policy and Procedures guides the creation, maintenance, and use of College reserves.

## **II. Contingency Fund Reserve (CFR)**

A. The College will maintain a CFR equal to five (5) percent of the approved annual operating budget. The CFR will be funded from the unrestricted fund balance available at the end of each fiscal year.

Any use or appropriation of the CFR will require approval by the Board of Trustees.

B. The CFR will be used to:

1. Offset unanticipated shortfalls in operating revenue;
2. Fund unforeseen one-time expenses that cannot be funded in the current fiscal year through the operating budget;
3. Provide funding to avoid the need to raise tuition or reduce service levels due to temporary revenue shortfalls; and/or
4. Fund contingencies or emergencies as determined by the Board of Trustees.

C. When the CFR is used, it will be restored by using unspent revenues at the close of the next fiscal year that would normally have been budgeted as prior-year surplus. If there are insufficient unspent revenues at the close of the fiscal year to replenish the CFR to the five (5) percent level, the College will set aside 50% of any unspent revenues at the close of each fiscal year until the CFR is replenished to the five (5) percent level.

## **III. Strategic Fund Balance Reserve (SFBR)**

A. The College may establish an SFBR equal to no more than two (2) percent of the approved annual operating budget. The SFBR will be funded from the unrestricted fund balance available at the end of each fiscal year, after the funding for the CFR has been established.

If sufficient funds are available in the unrestricted fund balance after the funding of the CFR, the College will annually recommend to the Board of Trustees an amount or percentage of the annual operating budget that will not exceed two (2) percent of the approved annual operating budget to set aside into the SFBR.

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B. Any use or appropriation of the SFBR will require approval by the Board of Trustees.

The SFBR may be used to:

1. Fund opportunities as defined by the Board of Trustees that cannot be funded in the current fiscal year through the operating budget;
2. Fund major expenditures that may require more funds than would be available for the specific purpose in a single year;
3. Fund specific operating or capital projects as approved by the Board of Trustees;
4. Fund unforeseen or unpredictable one-time expenses that cannot be funded in the current fiscal year through the operating budget; and/or
5. Support other appropriate uses as determined by the Board of Trustees.

### **IV. Budgeted Annual Operating Reserve (BAOR)**

The College will maintain a BAOR in the annual operating budget of up to one (1) percent of the currently approved operating budget. The BAOR provides a source of funds for unexpected expenses that may occur.

The BAOR will be approved by the Board of Trustees as a part of the annual operating budget.

Any uses of or transfers from the BAOR will require approval by the President, and will be reported to the Board of Trustees for information.