

# Guidelines for Fund Balances (Reserves)

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**Responsible Administrator:** Chief Financial Officer and Vice Chancellor, Division of Finance & Administration

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## References / Resources

- UC Planning and Budget Manual, Section 4020, Budgetary Savings

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## A. Purpose and Scope

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This document provides guidelines to all UC Irvine campus units, excluding the medical center, regarding how to consistently and transparently manage and report on fund balances. These guidelines support UC Irvine's commitment to be an accountable and responsible steward of financial resources. There are three main concepts covered in these guidelines:

- The definition and groupings of **funds** at UC Irvine;
- How **fund balances** are defined and established; and
- What levels of reserves and fund balances UC Irvine seeks to maintain.

## B. Funds

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**Funds** are defined as financial resources provided by a specific source to carry out certain activities or attain specific objectives. Funds may be subject to regulations, restrictions, or limitations on their uses. Funds are defined at UC Irvine through unique **fund codes** in the financial system. Any terms and conditions established by the income source must be complied with in making expenditures. Funds can be grouped into **fund types** and **fund categories**, which are described below.

**Fund types** are based on the stipulations for how the funds may be spent. UC Irvine defines its fund types based on the university's accounting policies and generally accepted accounting principles (GAAP). There are two main fund types: **restricted** and **unrestricted** funds.

- **Restricted funds** are subject to externally imposed restrictions. The funds are considered restricted until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact. Examples of restricted funds are contracts and grants, gifts and endowments, and special federal and State appropriations. UC Irvine keeps and tracks restricted funds separately to demonstrate the resources are spent for the intended purpose.

- **Unrestricted funds** are not subject to externally imposed restrictions governing their use.

The Accounting & Fiscal Services department reviews every request for a new fund code to determine whether it should be classified as restricted and flag the fund code accordingly in the financial system. Future changes in GAAP may affect the classifications of these funds.

There are also two **fund categories** that group funds based on how they are managed and administered.

- **Core Campus Support Funds** are an allotment of centrally managed and administered funds which are used to cover the basic activities and operations required by the university to accomplish its missions. Core Campus Support funds comprise the UCOP definition of “core funds” (state general funds, tuition, UC general funds, student services fees, professional degree supplemental tuition, and summer session); they also include a broader definition involving numerous unrestricted fund types, such as indirect cost recovery and investment income.
- **Non-Core Funds** are an allotment of funds which are locally managed and administered by units across UC Irvine. Non-core funds may be associated with any fund type, though they tend to be restricted funds such as grants and contracts and student fees for self-supporting programs.

## C. Fund Balances and Reserves

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A **fund balance** is the net position, or the cumulative revenues (sources) received in excess of expenditures (uses) for a given fund. Fund balances often result from (a) incurring lower expenditures than initially budgeted or (b) differences in the timing of budget appropriations, expenses, and revenues. Fund balances can be measured at any given point in time, and are categorized by **fund type**. UC Irvine also calculates the fund balance for each fund code based on actual expenses and revenues/appropriations during the fiscal year end close process.

Fund balances are related to **carryforward balances** (sometimes called **carryforward funds**), which are the cumulative balance of funds at the end of a fiscal year available for a unit to spend in subsequent fiscal years. Pursuant to UC Irvine’s accounting guidelines, units may carry forward all positive balances into the next fiscal year, with some exceptions based on the fund type and sources of funding.<sup>1</sup>

**Reserves** may be reflected in formal allocations to reserve funds or may remain in fund balances carried forward from one year to the next. UC Irvine establishes reserves based on an evaluation of the appropriate balance needed to:

- Mitigate financial risk and exposure in the case of significant revenue disruptions or cost overruns; and
- Cover cash flow shortages that may result from differences in the timing of revenues and expenses.

There is no single method to determine how much should be set aside for a reserve. UC Irvine can establish reserves at many different levels, including:

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<sup>1</sup> <http://www.accounting.uci.edu/fiscalclose/carry-forward.html>

- **By Individual Units**, such as setting a reserve target for auxiliaries (e.g., housing, bookstores);
- **By Individual Fund**, such as setting a target reserve amount for a specific fund code;
- **By Fund Type**, such as setting a reserve target for unrestricted funds across the university; and
- **By Fund Category**, such as setting a reserve target for all core campus support funds across the university.

## D. Reserve and Fund Balance Guidelines

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UC Irvine has established the following thresholds or target ranges for reserves and fund balances:

- **Campus and Auxiliary Reserves:**
  - **Campus:** UC Irvine will maintain reserve balances in the range of 25%-45% of annual operating expenses across all fund sources. This is equivalent to 3-5 months, or 90-165 days cash on hand. Core campus support balances will be in the range of 10-25% of annual operating expenses.
  - **Auxiliary Units:** Each auxiliary unit will maintain reserve balances to cover, at minimum, 15% of total annual operating expenses, or 60 days cash on hand<sup>2</sup>.

UC Irvine will establish additional reserve thresholds based on the needs of campus stakeholders<sup>3</sup>, and will regularly track reserves in the financial system, evaluate the amount of reserves maintained, confirm that reserve practices are appropriate, and ensure that balances are maintained at an appropriate level.

- **School and Support Unit Fund Balances:**
  - **School/Academic Degree-Granting Units:** Each academic unit will maintain fund balances in the range of 10%-20% of annual operating expenses on core campus support funds.
  - **Support Units:** Each academic support and institutional support unit will maintain fund balances in the range of 5%-15% of annual operating expenses on core campus support funds.

Non-core campus support fund balances for school and support units will be responsibly deployed to support operating needs as appropriate and consistent with fund restrictions.

## E. Commitment Guidelines

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**Commitments** are unrestricted fund balances that UC Irvine has committed for specific purposes and priorities. Commitments are typically established through memoranda, public statements, written

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<sup>2</sup> Each auxiliary subunit at UC Irvine should strive to set aside enough reserves to cover 15% of their annual operating expenses from their unit funds or maintain 60 days' cash on hand; however, the guideline requires that overall auxiliary operations set aside enough reserves to cover at minimum, 15% of their annual operating expenses from their unit funds or maintain 60 days' cash on hand

<sup>3</sup> UC Irvine aims to analyze fund balances and reserves across the institution and establish the target amounts or measurements for reserves (e.g., number of days of operating expenses or percentage of annual expenses), the appropriate level of decision-making authority for reserves (e.g., Chancellor, Provost, Dean, Vice Chancellor or equivalent), and the means of tracking reserves in the financial system (e.g., object codes).

communications, etc. Legal or contractual commitments, also called **encumbrances**, may also be established through formal written agreements.

Appropriate decision-makers at UC Irvine are expected to identify future commitments during the annual budgeting process, and should consider the amount of funds kept in reserves and remaining fund balances when making commitments.