Information

Financial Liquidity and Reserves

Effective

July 19, 2018

Applicability

This policy applies to University employees (administrators, faculty, and staff).

Administrative Authority

VP for Finance and Chief Financial Officer

Responsible Unit

Controller's Office

Service Complex, Louisville, KY 40292

502-852-6164

controll@louisville.edu

History

Revision Date(s): October 30, 2018 (minor edit)

Reviewed Date(s): October 30, 2018; April 30, 2020

*This policy was approved by the Finance Committee on July 12, 2018 and the Board of Trustees on July 19, 2018.

Categories

Reason for Policy:

The purpose of the policy is to assure that the University maintains sufficient Liquidity and Reserves to meet expected and potential Cash needs over time, react to unforeseen adverse conditions and be able to make necessary strategic investments to further the University's mission.

Statement:

The ability of the University to meet its short and long term financial obligations is paramount to its mission. This policy establishes a formal process to budget, measure and monitor both Liquidity and Reserves of the University.

Definitions:

- Liquidity - the ability of the University to meet its financial obligations when due through the use of its short term assets.
- Reserves - liquid balances and investments held by the University. Unrestricted gift funds held by the Foundation and external lines of credit may also be available to supplement the aforementioned minimum reserves and liquidity amounts.
- Cash - the liquid cash component of the University's balances, which includes cash, overnight, and short-term investments, including cash on deposit with the Commonwealth of Kentucky (subject to KRS 164A.555).
- 6 Month Rolling Average - the days Cash on hand calculation for each day in a six month average on a rolling basis.

Procedures:

Establishing Liquidity and Reserve Targets

A component of the annual budget process will include establishing the appropriate level of Liquidity and Reserve targets to support the proposed operating budget and to position the University for the future. The development of a cash-based budget (including Liquidity and Reserve targets) will be integral to this process and presented annually to the Board of Trustees for approval.

The Liquidity and Reserve target will include Cash and Reserve amounts as defined herein.

For the FY 2019 Budget Year management recommends the following goals:

1. Current Ratio (current assets/current liabilities): minimum of 1:1;
2. Days Cash on Hand: Minimum of 31 days (one month);
3. Minimum Cash Reserve: $20 million (this amount will be internally partitioned off from normal operating funds).

Measurement Tools/Key Indicators

The University Liquidity can vary on a day to day basis. Management may measure Liquidity targets using multiple industry standard tools including, but not limited to:

1. Current Ratio at financial statement time;
2. Days of Cash on Hand (using a 6 Month Rolling Average method to compensate for tuition and fee related fluctuations);
3. Management will review Liquidity and Reserve levels daily. Progress towards or deviations from targets will be reported to the Board of Trustees Finance Committee through the established reporting process unless otherwise requested or deemed necessary. University policies and procedures are periodically audited by Audit Services.

University Approved Strategies to Impact Liquidity and Maintain Reserves

- Establish a balanced (at a minimum) all-funds cash-based budget.
- Timing and alternate procurement strategies for capital projects and equipment expenditures.
- Concentration on receivables and payables management.
- Internal system controls that prevent expenditures of certain items on certain accounts with insufficient Cash balances.
- Use of external lines of credit to compensate for low points.
- Sequencing the use of external foundation funds vs internal funds.

- Closer alignment of the University Budget Office and Financial Reporting functions to better match budget to actual performance on an on-going basis.
- Daily monitoring of Liquidity levels with future period projections will be established with average days Cash on hand serving as the primary measurement tool.