

4.900 RCUH Working Capital Reserve

I. Definitions:

The “Working Capital Reserve” is defined as the balance of funds beyond regular annual operational funds that can be utilized to address requirements associated with RCUH core operations, as well as repair and maintenance requirements associated with facilities or one-time investments in either infrastructure, equipment, or programs. The Working Capital Reserve is equivalent to the Unrestricted Net Position in RCUH’s audited financial statements.

“Core Operating Expenditures” are defined as annual expenditures to operate the core Management, Human Resources, Corporate Services and Finance functions for RCUH. The core operating expenditures excludes expenditures made by research projects.

“Average Payroll Expenditures” are defined as total payroll and benefits for all RCUH employees (i.e., research employees and core staff) for one semi-monthly pay period.

“Capital Expenditures” are defined as purchases of Capital Assets and are also referred to as fixed assets, or property, plant and equipment ([RCUH Policy 4.700 Equipment and Property](#)). Capital Assets include significant IT enhancements, improvements or equipment that are amortized or depreciated over its useful life.

II. Policy:

RCUH shall establish and maintain a working capital reserve from its unencumbered balances, the purpose and objective of which shall be to meet needs associated with planned and unplanned non-recurring expenses such as repairs and maintenance, as well as those that may be necessary to assist with operational fluctuations in revenues or expenses that may occur on a year-to-year basis.

RCUH’s Working Capital Reserve includes the Project Contingent Liabilities Reserve. The Project Contingent Liabilities Reserve was established by the RCUH Board of Directors on March 13, 1998, to pay for any unforeseen expenditures made by the RCUH on behalf of projects for which the RCUH has assumed responsibilities.

A. Minimum Working Capital Reserves will include:

1. Project Contingent Liabilities Reserve
2. 5% of Core Operating Expenditures, and
3. The Average Payroll Expenditure

B. Maximum Working Capital Reserves will include:

1. Project Contingent Liabilities Reserve
2. 16% (two months) of Annual Core Operating Expenditures, and
3. The Average Payroll Expenditure, and
4. Planned Capital Expenditures

C. Use of Reserves

1. The operating reserves shall be maintained and managed by the Director of Finance. Use of these reserves to cover expenses other than its intended purpose must be reviewed and approved by the board.
 2. The Working Capital Reserve will be evaluated annually by RCUH's executive team as to its adequacy or surplus. In the event that a significant surplus exists at the end of any given fiscal year, an evaluation will be made whether any portion of the excess surplus should be returned to the University of Hawai'i. Any reimbursement of significant excess surplus will be recommended to the RCUH Board of Directors for their review and approval.
 3. The board shall approve an annual operating budget that shall explicitly show the current and projected balances of working capital reserves for the budget year.
- D. The RCUH Board delegates the responsibility for the implementation of this policy to the Executive Director, in consultation with the Director of Finance.

III. Contact

RCUH Finance Director: (808) 956-0507
rcuhfinance@rcuh.com

IV. Relevant Documents

[Policy 4.700 Equipment and Property](#)

Date Revised: 3/09/2023