

POLICY: RESERVES
SECTION: GENERAL ADMINISTRATION

POLICY #: 120
EFFECTIVE: 01/01/13
HISTORY: REV 12/17/15

PURPOSE

The Reserves Policy is established to ensure the stability of the mission, programs and ongoing operations of ASC and to ensure provisions for adequate management of unrestricted net assets.

BACKGROUND

To operate as an auxiliary of California State University Fullerton (“University”), CSU Fullerton Auxiliary Services Corporation (“ASC”) and the California State University (“CSU”) agreed to a master operating agreement, which requires ASC to comply with CSU Trustees’ policies on expenditure of funds including, but not limited to, the Trustees’ guidelines for disposition of revenues in excess of expenses (“Net to Reserves”) and guidelines related to the maintenance of appropriate reserves. The operating agreement between the University and ASC contains the following section on the disposition of Net to Reserves: “This policy authorizes ASC management to implement and, as needed, develop acceptable fiscal controls, including adequate reserves within these policies and this policy statement.”

California Education Code sections 89904-89905 and Title 5 of the California Code of Regulations, section 42402, require that auxiliaries comply with CSU financial standards, best practices and policies in order to ensure that auxiliaries maintain best practices for fiscal controls, fiscal viability and adequate reserves. The CSU also issued best practices for auxiliary fiscal controls in its Compilation of Policies and Procedures for CSU auxiliaries. The establishment of an adequate reserve policy for CSU auxiliaries is a requirement of California Education Code section 89904(b). This statute states that auxiliaries will implement financial standards which assure their fiscal viability. Such standards shall include proper provisions for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

POLICY

120.1 Working Capital Reserve

Working Capital Reserve is set to support short-term cash flow and expenditure variations and cash balance requirements in covenants to debt services, credit or other agreements. The target limit is set to equal the current portion of long term and non-variable current liabilities. This includes, but is not limited to, the current portion of notes payables, deposits held in custody of others, the current portion of post-retirement benefits, and the current portion of accrued salary and benefit payables.

120.2 Current Operating Reserve

The Current Operating Reserve is intended to provide funds for unanticipated losses in funding or uninsured losses. The minimum amount to be designated as Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs measured for a set period of three months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, program, interest expenses and ongoing professional services. Non-cash expenses are not included in the calculation.

120.3 Capital Replacement Reserve

The Capital Replacement Reserve is intended to provide a ready source of funds for repair or acquisition of buildings, leaseholds, furniture, fixtures and equipment necessary for the effective operation of the organization and programs. The target amount of the Capital Replacement Reserve will be set at 25% of total accumulated depreciation and amortization.

120.4 Venture Capital/Opportunity Reserve

This reserve is intended to provide funds to meet special targets of opportunity or future, new business recognized by the University and ASC as appropriate and within the educational mission of the campus. The Opportunity Reserve is also intended for organizational capacity building such as staff development and investment in infrastructure. The target amount of the Opportunity Reserve will be set at 10% of the unrestricted funds.

120.5 Post-Retirement Medical Benefits Reserve

This reserve consists of retirement medical benefits to be provided to the current employees after retirement. The target reserve amount shall be determined annually, based on the actuarially accrued benefit obligation as determined by the actuarial study. This reserve will be funded in a Voluntary Employees Benefit Association (“VEBA”) trust.

120.6 The University Gables Homeowner’s Association Reserves

This reserve is intended to create and maintain adequate reserves to provide for the timely and orderly repair, restoration, replacement or maintenance of the common area. This reserve will be funded with the surplus of net unrestricted assets of the Gables project account. The target reserve amount shall be determined annually, by a professional reserve study, which determines the percent funded from the University Gables’ unrestricted assets.

120.7 Other Reserves

The Board of Directors may establish other reserves that will be held in a separate fund. Current designations include Grants and Contracts Indirect Cost (IDC) allocations, ASC’s annual contributions to University and other Board designated funds.

ACCOUNTING FOR RESERVES

The Reserve Funds will be recorded in the financial records in the unrestricted net assets general fund as a designated reserve. The reserves will be funded and available in cash or cash equivalent funds. Reserves will be commingled with the general cash and investment accounts, with the exception of the Post-Retirement Medical Benefits Reserve, which will be funded in a VEBA trust account designated specifically for the post retirement benefit expenditure.

FUNDING OF RESERVES

Reserves will be funded with the surplus of net unrestricted assets, with the exception of the University Gable's unrestricted net assets which are used exclusively for the University Gables project. The amount of a reserve fund target minimum and fiscal viability will be reviewed annually and calculated after approval of the annual budget. The Board of Directors may, from time to time, direct that a specific source of revenue be set aside for reserves. The use of reserves will be reported to the Executive Committee/Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds.

APPROVAL

Approved by the ASC Board of Directors on 12/17/15, effective 01/01/16.