Section: Policy Statement – Fiscal
Subject: Reserves Policy

Purpose: It is the goal of University Center to maintain adequate reserves and working capital, and to promote the University Center's role in assisting the University in meeting both its current and long-range goals.

New/Revised: April 2017 (rev.)

Board Adoption Date: May 4, 2017 (supersedes November 12, 2002)

A. Background

California State University Policy

The establishment of adequate reserve policies for California State University (CSU) auxiliaries is required to meet CSU financial standards established in the California Education Code, Section 89904(b).

CSU Board of Trustees guidelines stipulate that auxiliary organizations shall evaluate the need for reserves in the following areas:

- Working capital
- Current operations
- Capital replacement
- Planned future operations

B. University Center Policy Statement

It is the policy of the University Center Board of Directors to maintain adequate financial reserves to cover working capital requirements, current operation protection for short-term revenue shortfalls, capital asset replacement, and planned future operations.

C. Reserve Policy Guidelines

It is the goal of the University Center to work towards funding the reserves at the following levels:
**Working Capital Reserves:** The intent of a working capital reserve is to provide support for short-term cash flow and expenditure variations. The funding target will be equal to 60 days of the budgeted annual operating expenses, less cost of goods sold and depreciation.

**Current Operating Reserves (Economic Uncertainty):** The intent of a current operating reserve is to provide protection against critical operating budget circumstances such as unanticipated losses of revenue or unforeseen costs. The funding target will be equal to 90 days of the budgeted annual operating expenses, less cost of goods sold and depreciation. As stipulated in the CSU Campus Reserves Policy 2001.00, funds may establish and maintain reserves for economic uncertainties that do not exceed more than one-half of the projected annual operating budgets.

**Capital Replacement Reserve:** This reserve is 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. As deemed necessary and in accordance with the annual budgeting process, management staff will prepare a plan for replacing capital items which, if entirely funded from an annual operating budget, would result in a significant deficit position.

**Planned Future Operations:** This reserve is to provide funds to meet special targets of opportunity or future, new business recognized by the University and the University Center as appropriate and within the educational mission of the campus. This reserve is also intended for organizational capacity building such as investment in infrastructure. This reserve is optional and may be funded at the discretion of the Board of Directors.

**Reserves held by University:** Reserves are held and maintained by the campus for the following funds as stipulated in the CSU Campus Reserves Policy 2001.00:

- Fund 534 Campus Union Operations: reserves held for debt service payments and economic uncertainties.
- Fund 535 Campus Union Capital Improvements: reserves held for facilities maintenance and repair.
- Fund 536 Campus Union Maintenance and Repair: reserves held for specific capital projects and renovation.

**D. Appropriations of Unrestricted Net Assets**

At the close of each fiscal year, the appropriation of unrestricted net asset funds shall be as follows:
The first priority for use of unrestricted net assets shall be the funding of working capital.

The second priority for use of unrestricted net assets shall be the funding of current operating reserves.

The third priority for the use of unrestricted net assets shall be funding reserves for capital replacement and planned future operations as deemed appropriate by UC Management.

UC Management will review the reserves funding with the Finance Committee during the annual review of the Financial Audit.

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