FOUNDATION
OF CALIFORNIA STATE UNIVERSITY
MONTEREY BAY

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RESERVES POLICY

I. Introduction

The establishment of adequate reserve policies for CSU auxiliaries is required to meet the California State University financial standards established in California Education Code Section 89904(b). This section of the Education Code states that auxiliaries shall implement financial standards that will assure fiscal viability by the establishment of reserve funds for working capital and current operations, capital replacement, and new business ventures.

II. Policy

As part of the annual Budget Request, the Foundation will include a recommendation to fund Reserves with net revenues, indicating the priority in which the Reserves will be funded as well as the degree to which the Reserves will be funded.

III. Process

Excess revenues will be allocated annually to the following reserve categories until such level of funding is attained according to the stated reserve level.

A. Working Capital and Current Operations: The intent of a working capital reserve is to prove a cushion of short-term operating cash. The Foundation's sources of income can be uncertain or variable or payments may need to be made in advance of receiving income. Working capital provides cash flow for the organization and protects current operations in the event of contingencies. If sufficient operating cash is not available, it must be borrowed, resulting in interest expense. Alternatively, working capital cash is invested and earn interest income for the organization in periods when it is not needed.

The Working Capital and Current Operations Reserve shall be established at a minimum level of $15,000 or an amount equal to 20 percent of the budgeted operating expenses (excluding depreciation) for the next fiscal year, whichever is greater. Once the minimum reserve amount has been achieved, each year a minimum of $15,000 or an amount equal to 20 percent of the budgeted operating expenses (excluding depreciation) may be added to the reserve account. There is no maximum level for this reserve.

B. Capital Replacement: The purpose of this reserve is to replace fixed assets as needed. It will enable the Foundation to meet ongoing plant and equipment needs in a systematic way and prevent sudden or large demands on the Foundation's cash supply.

The Capital Replacement Reserve minimum shall be established at a minimum level of $5,000. Once the minimum reserve amount has been achieved, each year the budgeted depreciation of the current fiscal year may be added to the reserve account. There is no maximum level for this reserve.

C. Future Operations: The purpose of this reserve is to provide funding for new operations, campaigns, or development projects specifically adopted by the Board, including the facilities, equipment, staff, or training needed to accomplish them. It is distinct from the Capital Replacement Reserve that is intended to replace already existing assets. Management will present a specific schedule of future needs to the Board with a corresponding expenditure budget so that the funds may be reserved by Board action.

The Future Operations Reserve minimum shall be equal to 25 percent of the planned future operational expenditures approved by the Board. The maximum level for this reserve is when it reaches 100 percent of the planned future operational expenditures approved by the Board.

IV. Adoption and Review

A. The Foundation Board of Directors has adopted this Reserves Policy, dated May 2012

B. The Foundation Board of Directors will review this policy five years from its adoption date to determine its effectiveness and appropriateness. The policy may be evaluated before that time as necessary to reflect substantial organizational, financial, or physical change(s) at the Foundation or any change required by law or by other governing policy.

C. Any proposed amendments or variations of this policy would require a majority approval by the Foundation Board of Directors.