

UNIVERSITY CORPORATION AT MONTEREY BAY BOARD POLICY

Policy 201

Reserves Policy

Section: 200- Financial

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1) PURPOSE

The establishment of adequate reserve policies for CSU auxiliaries is required to meet the California State University financial standards established in 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 current operations, capital replacement, and new business requirements.

2) POLICY

As part of the annual budget request, the Corporation will include management's recommendation to fund Reserves with unrestricted net position, indicating the priority in which the Reserves will be funded as well as the degree to which the Reserves will be funded. The first priority for use of unrestricted net position is the debt service coverage currently required by the California State University to be at least a ratio of 1.25 (available for debt service over total debt service). The second priority is the funding of the Reserves designated herein.

a) Terms and Definitions

- i) Sources of Funds: The Corporation receives its operating capital from the following sources:
 - (1) Housing operations (staff, faculty, and student)
 - (2) Grants and Contracts indirect cost recovery
 - (3) Investments
 - (4) Any administrative fees charged to programs administered by the Corporation
 - (5) Enterprise operations, including but not limited to dining, bookstore, summer conference program, and leasing

- ii) Uses of Funds: The Corporation expends funds for the following purposes:
 - (1) Housing operations (student residence halls and apartments)
 - (2) Student residential life program
 - (3) Commercial operations, including dining, bookstore, summer conference program, and leasing
 - (4) General campus support, including outreach, scholarships, and campus event services
 - (5) Corporation administration, including accounting, human resource and payroll activities
 - (6) Gifts, grants, and contracts administration

- iii) Reserves: Reserves are generated from an excess of revenues over expenditures. Revenues from cost recovery fees, charges, or investment earnings applicable to programs accounted for by the Corporation in separate restricted funds (e.g. , Campus Program, Grant/Contract, Gift) are recorded as income and charged to the appropriate restricted fund.

- iv) Appropriations: Appropriations are annual allocations of Reserves to the following Board-designated provisions:
- (a) Working Capital and Current Operations
 - (b) Capital Replacement
 - (c) Capital for Future Operations
 - (d) Audit Disallowance
 - (e) CEHI

b) **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.

- i) Working Capital and Current Operations: The intent of a working capital reserve is to provide of short-term operating cash. The Corporation'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, cash working capital is invested and earns interest income for the organization in periods when it is not needed.
- (1) The Working Capital and Current Operations Reserve shall be established at a minimum level of 6 months of the budgeted operating expenses (excluding depreciation) for the next fiscal year. There is no maximum level for this Reserve.
- ii) Capital Replacement: The purpose of this reserve is to replace fixed assets as needed. It will enable the Corporation to meet ongoing plant and equipment needs in a systematic way and prevent sudden or large demands on the supply of cash.
- (1) The Capital Replacement Reserve shall be established at a minimum level of the sum of \$5,000,000 and the budgeted depreciation of the current fiscal year. There is no maximum level for this Reserve.
- iii) Capital for 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.
- (1) The Capital for Future Operations shall be established at a minimum level of 10% of forecasted future fixed assets. There is no maximum level for this Reserve.
- iv) Audit Disallowance: The purpose of this reserve is to provide funds for any potential audit disallowance as determined by grant and/or contracting agencies that provide external project funding to the Corporation.
- (1) Based upon a risk assessment of the types of grants and contracts administered by the Corporation, the Audit Disallowance Reserve minimum shall be equal to 2.5% of the average actual new awards total as of 30 June for the last three (3) years. This amount was established at \$222,000 in FY07/08. Once the minimum Reserve amount has been achieved, each year 2.5% of the average actual new awards total as of 30 June

for the last three (3) years may be added to the Reserve account.

(i) There is no maximum level for this Reserve.

v) CEHI. This reserve is intended to create and maintain adequate reserves to provide for the timely and orderly repair, restoration, replacement or maintenance of the CEHI common areas.

(1) The target reserve amount shall be established at least every two years by a professional reserve study for the CEHI properties.

c) Accounting For Reserves.

The Reserves will be recorded in the financial records in the unrestricted net position as a designated reserve. The Reserves will be funded and available in cash or cash equivalent and investment funds. Reserves will be commingled with the unrestricted cash and investment accounts. Reserves will be funded with the surplus of net unrestricted position. The amount of a reserve fund target minimum and fiscal viability will be reviewed annually and calculated after approval of the annual budget. The Executive Director may, from time to time, direct that a specific source of revenue be set aside for reserves.

3) RELATED DOCUMENTS

a) None.