I. Introduction

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 operation, capital replacement, and new business ventures.

II. Policy

As part of the annual Budget Request, the University Corporation at Monterey Bay (the “Corporation”) 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. Terms and Definitions

A. 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. Administrative fees charged to programs administered by the Corporation
   5. Enterprise operations, including but not limited to dining, bookstore, summer conference program, and leasing

B. Uses of Funds: The Corporation expends funds for the following purposes:
   1. Housing operations (residence halls and apartments)
   2. Student residential life program
   3. Enterprise 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
   7. Housing buyback (for-sale housing program known as CEHI)
C. Reserves: Reserves are generated from an excess of revenues over expenditures in the Corporation's General Fund. Revenues from cost recovery fees, charges, or investment earnings applicable to programs accounted for by the Corporation in separate restricted or agency funds (i.e., Endowment, Campus Program, Grant/Contract, Scholarship, etc.) are recorded as income in the General Fund and charged to the appropriate agency or restricted fund.

D. Appropriations: Appropriations are annual allocations of Reserves to the following Board-designated provisions:
   1. Working Capital and Current Operations
   2. Capital Replacement
   3. Future Operations
   4. Audit Disallowance
   5. Buyback
   6. Maintenance

IV. 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 provide a cushion of short-term operating cash. The University 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.

The Working Capital and Current Operations Reserve shall be established at a minimum level of $3,500,000 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 $3,500,000 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 Corporation to meet ongoing plant and equipment needs in a systematic way and prevent sudden or large demands on the supply of cash.
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The Capital Replacement Reserve minimum shall be established at a minimum level of $3,000,000. 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.

D. 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 funding to the Corporation.

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. There is no maximum level for this Reserve.

E. Buyback: The intent of the Buyback Reserve is to provide funding to buy back homes from CEHI homeowners who are vacating the premises.

Based upon the average number of CEHI homes historically bought back each year, the Buyback Reserve shall be established at a minimum level of $500,000. Once the minimum Reserve amount has been achieved, each year the prior year’s actual buyback may be added to the Reserve account. There is no maximum level for this reserve.

F. Maintenance: The purpose of the Maintenance Reserve is to provide funding for ongoing maintenance and upkeep of CEHI properties. It will enable CEHI to meet ongoing routine maintenance and equipment needs in a systematic way and prevent sudden or large demands on the supply of cash. Funds are reserved in accordance with a schedule of maintenance
needs approved by the Board. In coordination with the annual budgeting process, management will prepare a three-year forward-looking schedule for maintenance, accompanied by a Maintenance Budget, which enumerates the funding needed to meet the requirements of the schedule and is adjusted annually along with the maintenance schedule.

The Maintenance Reserve shall be established at 33 percent of the maintenance expenditures as set forth in the annually adjusted three-year schedule and the Maintenance Budget approved by the Board.

V. Adoption and Review

A. The Corporation’s Board of Directors adopted the original Reserves Policy on 19 December 2002.

1. The Board adopted revision B on 28 June 2007
2. The Board adopted revision C on 24 September 2009
3. The Board adopted revision D on 24 June 2010
4. The Board adopted revision E on 27 September 2012
5. The Board adopted revision F on 5 December 2013

B. This policy shall be evaluated ten 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 University Corporation or any change required by law or by other governing policy.

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