



## RESERVES POLICY

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### **PURPOSE:**

This policy establishes the criteria for net asset reserves to ensure fiscal viability of on-going operations and programs.

### **SCOPE:**

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 that 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:**

The Board delegates the responsibility for the review of the CSUSM Corporation's financial reserves and conformance with policy and guidelines to the Finance and Operations Committee. The Finance and Operations Committee will review the adequacy of the reserves and will report to the Board of Directors. Once approved by the Board, the plan will be submitted to the University President during the annual budget process, as required under CSU Auxiliary Policy.

### **APPROPRIATION TO RESERVES:**

At the end of each fiscal year, the annual unrestricted net revenue will be allocated to unrestricted net asset reserves in accordance with the following guidelines.

#### **I. Working Capital and Current Operating Reserves**

Working Capital and Operating Reserves are set up to cover all cash balance requirements in covenants to debt services, credit or other agreements; and provides for ongoing liquidity and unexpected business interruptions. The funding target for current operating reserves will be a minimum of 3 months operating expenses.

## **RESERVES POLICY**

### **2. Capital Replacement Reserve**

Capital Replacement Reserves are set up to provide a ready source of funds for repair of buildings components/systems, leaseholds, furniture, fixtures and equipment necessary for the effective operation of the Corporation's programs and facilities. Amounts for this reserve will be based upon a Facility Condition Assessment and/or reserve study to be performed at a frequency defined by the Board.

### **3. Venture Capital/Opportunity Reserve**

Opportunity Reserves are set up to provide a sufficient amount of funds to meet new business plan objectives, acquisitions, and capital development projects recognized by the University and CSUSM Corporation as appropriate and within the educational mission of the university. The Opportunity Reserve is also intended for organizational capacity building such as staff development and investment in infrastructure.

### **4. Other Reserves**

The Board of Directors may establish other reserves that will be held in a separate fund.