

RESERVES POLICY

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BACKGROUND AND PURPOSE

The Associated Students (AS) manages and operates a number of vital student programs and services. Ensuring effective, long-term financial stability is critical to the management of a comprehensive auxiliary such as AS. Under the direction of the California State University’s Chancellor, auxiliary organizations are required to establish and maintain adequate reserve funding. These reserves are intended to meet potential and anticipated business and operational needs of AS. The evaluation of reserves by the Associated Students Board of Directors (ASBOD) is conducted in connection with the annual budgeting process and provides management of the necessary process for ensuring adequate reserve levels at all times.

POLICY STATEMENT

It is the policy of AS to identify three reserve accounts to meet the needs for the Children’s Center Building reserves, Capital (Plant) Fund reserves, and Contingency reserves, each at uniquely identified levels. The Associated

Students Board of Directors (ASBOD) shall establish, review, and approve reserve funding levels annually in accordance with the established budget process and the availability of funds. The ASBOD reserves the right to establish additional reserves on a case-by-case basis during the budget year.

APPLICABILITY TO THE POLICY

To ensure the continued operations of AS, Budget Area Administrators, Management Personnel, Supervisors, and Board of Directors should all be familiar with this policy.

DEFINITIONS

Term	Definition
Capital Development for New Projects Reserve	Reserves maintained by AS for the purpose of new and future business needs of the organization.
Debt Service	The amount of cash required over a period of time to cover repayment of interest and principal on debt.
Local Reserves	Reserves maintained within the financial records and accounts of AS.
Major Maintenance and Repair/ Capital Renovations and Upgrade Reserve (Repair and Replacement Reserve)	Reserves maintained by the University on behalf of the CSU for the purpose of facility related improvements, repairs, and construction.
Minor Capital Outlay Reserve	Reserves maintained by AS for the purpose of replacing existing equipment and furniture.
Reserves	Funds that are established by the Board of Directors for future funding of specific uses or unanticipated expenditures.
Reserve Funding	Funds held for future use by the organization.
Retained Earnings	The accumulated net income retained for reinvestment in business.
University-Held Reserves	Reserves maintained on behalf of the University Student Union within the financial records and accounts of the university.

Working Capital	The assets of business that can be applied to its operation. The amount of current assets that exceeds current liabilities.

STANDARDS AND PROCEDURES

Annual Budget Review

Pursuant to the California State University Policy governing auxiliary organizations, the management of AS and the ASBOD will annually review the fiscal viability of the organization, which includes an evaluation of the need for reserves and the establishment or revision of reserves in accordance with this review. This process will take place during the annual budget creation process.

Evaluation of Needs for Reserves

In evaluating the need for reserves, AS management will analyze the following areas:

- Working Capital – to determine if the amount of cash on hand is sufficient to cover operating expenses during those times when expenditures may exceed revenue.
- Current Operations – to determine if AS will be able to cover projected expenses with projected income for the coming year.
- Planned Future Operations – to determine if there are any future business requirements that cannot be funded through the annual operating budget without causing a significant reduction in current programs or services.
- Capital Replacement – analysis that shall determine if AS’s investment in fixed assets and capital improvements is sufficient to maintain facilities at current standards, provide services at current levels, and offset the economic effects of depreciation.

Findings of this review shall be presented to the ASBOD as part of the annual budget process.

ESTABLISHMENT AND MAINTENANCE OF RESERVES

The establishment and maintenance of board-designated reserves is a high priority. The purpose of these reserves is to ensure the stability of the mission, programs, employment, and ongoing operations of AS. The reserves are intended to provide an internal source of funds in unanticipated situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss of funding, sudden reductions in enrollment, or others. In determining the amount of funds to be held in reserve, AS will employ a risk-based approach that examines plausible risks associated with the current operations of AS. These reserves are not intended to replace a permanent loss of funds or to eliminate an ongoing budget gap.

In the event any of the following reserves fall below their targeted reserve levels, the shortfall must be eliminated within maximum of three (3) years.

Contingency Reserve

The Contingency Reserve is established to protect AS in the event of a disruption in receipt of student fees or other revenues, or in the event of emergency expenditures that, if not paid, would endanger the fiscal viability of the corporation. This amount level shall be sufficient to cover all costs of corporate default including, but not limited to: all contractual agreements, estimated fees for dissolution of the corporation, and outstanding bills. This reserve level is 10% of the total annual operating cost. This reserve can only be accessed with the approval of the ASBOD.

Capital Replacement Reserve

The Capital Replacement Reserve reserve is established for the purpose of replacing existing equipment and furniture for the organization. At a minimum, \$15,000 shall be transferred into this reserve annually with a cumulative ceiling of \$200,000 annually. All transfers require the approval of the ASBOD.

Repair and Replacement Reserve (Early Childhood Education Center Building Reserve)

This reserve is established to provide for major and minor improvements and repairs to the Early Childhood Education Centers' building. At a minimum, \$100,000 shall be transferred into this reserve annually. Target balance for this account shall be set to meet 10% value of the building replacement (value to be reviewed once every five years).

FUNDING RESERVES

Funding for reserves will be derived primarily from retained earnings. Should retained earnings be insufficient to fund reserves at the levels prescribed above, an allocation must be included in the following year's operating budget to add to the reserves. As determined appropriate by the Board of Directors, earnings from projected operations, student fees, and interest income may be designated to fund reserves. Allocations from the operating budget to reserves must continue until minimum target levels are reached.

Annually, during the budget process, the AS Executive Director (ED) will submit recommendations for reserves funding and use to the Associated Students Board of Directors. Upon approval, the reserves will be recorded into separate accounts on the financial records of AS at the beginning of each fiscal year.

Expenditures from reserve accounts not identified during the annual budget process require the ASBOD, Budget Review Committee, as well as the campus presidents' approval prior to implementation.

ANNUAL REVIEW OF RESERVE FUNDING

Annually, during the budget review and approval process, the Executive Director will submit recommendations for reserve funding to the ASBOD for approval.

Upon approval from the ASBOD, the reserves will be recorded into separate accounts on the financial records of AS.

USE OF RESERVES

The Executive Director and staff will identify the need for use of reserves and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This will include an analysis of the reason for any shortfall, the availability of any other sources of funds before using reserves, and an evaluation of the time period that the funds will be needed and replenished.

Authority to Use Reserves

The Executive Director is delegated authority to use reserves for emergency projects requiring immediate attention. The use of reserves will be reported to the Board of Directors, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the reserve funds to the target minimum amount. The use of reserves for any other purpose will require the approval of the Board of Directors by a 2/3 majority vote.

Reporting and Monitoring

The Executive Director is responsible for assuring that reserves are maintained and used only as described in this Policy. Upon approval for the use of reserves, the Executive Director will maintain records of the use of funds and plans for replenishment, if required. They will provide regular reports to the ASBOD on the progress made toward restoring reserves to their target minimum amount, if required.

ADMINISTRATION

The Executive Director is responsible for the administration, revision, interpretation, and application of this policy. This Policy will be reviewed as needed, to account for internal or external events or changes. Changes to the Policy will be recommended by the Executive Director to the ASBOD. Any changes to the reserve target levels or to the methods for funding the reserves will require a 2/3 majority vote of the ASBOD.

FORMS

No Forms.

RESERVES POLICY APPROVAL AND REVISION HISTORY

Reserves Policy was Approved by the AS Board of Directors on

04/11/2018