

## SECTION 6. Finance and Investment

### 6.4 Reserve Policy

#### 6.4.1 Introduction

California State University Board of Trustee guidelines state that auxiliary organizations shall evaluate the need for reserves in the following areas:

- a. Working Capital /Current Operations
- b. Capital Replacement
- c. Planned Future Operation
- d. Unreserved Fund Balance

Having established a reserve policy, the auxiliary's governing Board has the responsibility of reviewing the reserves and their funding levels on an annual basis.

The purpose of reserves is to set aside a portion of Fund Balance (also called Net Assets) corresponding to the portion of an organization's assets that are being used to conduct its business and are therefore not available for spending.

Fund Balance is defined as fund assets minus fund liabilities. It represents the total amount of net income (excess revenues over expenses) which has been accumulating year by year since the fund began operating. In other words, Fund Balance represents the net assets of a fund – the resources on hand and available to operate the activities of the fund. This does not mean that there is "cash" available equal to the Fund Balance. Most Funds need fixed assets (i.e., fixtures and equipment) to carry out the activities of the fund, or some of the fund's resources may be in the form of receivables or inventory. Accordingly, those parts of fund balance that are tied up (invested) in noncash assets are recognized as reservations of Fund Balance; these resources are "reserved" and, thus, not available for spending.

The reserves described below pertain to the General Fund of the University Foundation.

#### 6.4.2 Working Capital/Current Operations Reserve

- a. Description:  
The intent of a working capital reserve is to provide a cushion of short-term operating cash. The General Fund's source of income (e.g., gift revenues, investment income and administrative fee 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 unforeseen 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.

b. Policy:

The Working Capital Reserve shall be established at a minimum level of \$250,000 or an amount equal to 25 percent of the budgeted operating expenses (excluding depreciation) for the next fiscal year, whichever is greater.

### **6.4.3 Capital Replacement Reserve**

a. Description:

The purpose of this reserve is to set aside excess earnings 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 supply of cash. Funds are reserved in accordance with a schedule of capital replacement needs approved by the Board.

b. Policy:

The Reserve shall be equal to the cost of the fund's fixed assets less accumulated depreciation and debt associated with those assets.

### **6.4.4 Reserve for Planned Future Operations**

a. Description:

The purpose of this reserve is to provide funding for new operations, campaigns or development projects specifically adopted by the Board, including facilities, equipment, staff, or training needed to accomplish them. It is distinct from the Capital Replacement Reserve which 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.

b. Policy:

The reserve shall be equal to the planned future operational expenditures approved by the Board.

#### **6.4.5 Unreserved Fund Balance**

a. Description:

The Fund Balance that remains after the Board has established funding levels for each of the organization's reserves shall be designated the Unreserved Fund Balance and is available for spending at the Board's discretion. In accordance with Foundation practice, once funds are allocated by the Board, they will be transferred to and reserved in the Board Designated Fund (as distinct from the General Fund) and dispersed from there. Should they not be needed or utilized for the purpose specified, they may be transferred with board approval back to the Unreserved Fund Balance and again become eligible for allocation.

b. Policy:

The Unreserved Fund Balance is unrestricted and available for spending at the Board's discretion.

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***The Foundation's mission is to support CSU, Chico's strategic plan by raising, investing, and disbursing funds to fuel the growth and excellence of the University.***