

# POLICY ON RESERVES, ASSOCIATED STUDENTS

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## BACKGROUND AND PURPOSE

The Associated Students, Incorporated (ASI) is entrusted with the management and operation of a number of vital student activity and campus service programs. Critical to the management of a comprehensive program like the Associated Students is effective long-term financial planning. At 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 the potential and anticipated business and operational needs of the Associated Students. The evaluation of reserves conducted in connection with the annual budgeting process provides management with the necessary information for ensuring adequate professional management of retained earnings and reserve accounts.

In spring 2014 the student body approved a fee increase referendum placed on the ballot by the Student Fee Advisory Committee. As a condition of authorizing this referendum, the Committee stipulated that the Associated Students revise its Policy on Reserves to correspond to the reserve policies of the University Student Union, where applicable. This policy was revised in spring 2014 to satisfy this stipulation.

## POLICY STATEMENT

It is the policy of the Associated Students, Incorporated to provide adequate reserves for current operations, self-insurance, capital expenditures, catastrophic events, and as needed, future business requirements. The Business and Finance Committee shall establish, review, and approve reserve funding levels annually in accordance with the established budget process and the availability of funds, subject to the approval of the Board of Directors. The Board of Directors reserves the right to establish additional reserves on a case-by-case basis during the budget year. The Executive Director or their designee will submit annually to the Business and Finance Committee proposals for the accumulation and/or use of reserve funds.

## DEFINITIONS

For purposes of this policy, the terms used are defined as follows:

Term	Definition
<b>Working Capital</b>	The assets of a business that can be applied to its operation. The amount of current assets that exceeds current liabilities.
<b>Major Maintenance and Repair/Capital Renovations and Upgrade Reserve (Repair and Replacement Reserve)</b>	Reserves maintained by University on behalf of the USU for the purpose of facility related improvements, repairs, and construction.
<b>Capital Development for New Projects Reserve</b>	Reserves maintained by ASI for the purpose of new future business needs of the organization.
<b>Catastrophic Event Reserve</b>	Reserve maintained by the University on behalf of the University Student Union for the purpose of losses caused by disasters such as earthquakes, floods, high winds, fire, or criminal activities such as bombings or arson.
<b>Minor Capital Outlay Reserve</b>	Reserves maintained by ASI for the purpose of replacing existing equipment and furniture.
<b>Debt Service</b>	The amount of cash required over a period of time to cover repayment of interest and principal on debt.
<b>Retained Earnings</b>	The accumulated net income retained for reinvestment in a business.
<b>Reserve Funding</b>	Funds held for future use by the organization
<b>Local Reserve</b>	Reserves maintained within the financial records and accounts of Associated Students, Incorporated
<b>University-held Reserves</b>	Reserves maintained on behalf of the University Student Union within the financial records and accounts of the university

## STANDARDS AND PROCEDURES

### 1.0 FISCAL VIABILITY REPORT

Pursuant to California State University Policy governing auxiliary organizations, the management of the Associated Students, Incorporated and the Board of Directors will periodically 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.

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#### 1.1 EVALUATION OF NEED FOR RESERVES

In evaluating the need for reserves, ASI 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 precede revenue.
- Current Operations – to determine if the Associated Students 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

This review shall be documented in writing and presented to the AS Board of Directors as part of the annual budget process.

### 2.0 ESTABLISHMENT AND MAINTENANCE OF RESERVES

The establishment and maintenance of fully funded, board-designated operating reserves is a high priority. The purpose of these reserves is to ensure the stability of the mission, programs, employment, and ongoing operations of ASI. The reserves are intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or sudden reductions in enrollment. In determining the amount of funds to be held in reserve, ASI will employ a risk-based approach that examines plausible risks associated with the current operations of the Associated Students. 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 a minimum of three years, with at least one third of the deficit balance being funded in the each of the three subsequent years' operating budgets, until the reserve is restored to the target balance.

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#### 2.1 RESERVE FOR SHORTFALL IN CURRENT ENROLLMENT

The Reserve for Shortfall in Current Enrollment shall be maintained to provide for sudden and/or unanticipated reductions in income resulting from decreases in enrollment. This reserve shall be set at a level of no less than 10% of the total revenue from Associated Students fees as reported in the most recent annual audited financial statements of the Associated Students fund.

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#### 2.2 RESERVE FOR SELF-INSURANCE RETENTION

The Reserve for Self-Insurance Retention will be maintained to satisfy insurance deductibles and retention for possible claims made against the Associated Students. This reserve will be funded at an amount equivalent to the total cost of all specified deductibles and required retentions indicated in the annual "Summary of Insurance".

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### 2.3 RESERVE FOR CAPITAL EXPENDITURES

The Reserve for Capital Expenditures will be maintained to retain and accumulate budgeted capital expenditures not utilized in a given fiscal year (refer to Policy on Capital Expenditures).

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### 2.4 RESERVE FOR FUTURE BUSINESS REQUIREMENTS

The Reserve for Future Business Requirements shall be maintained to provide for future business requirements and/or new requirements for current business that have been recognized by the university and the Associated Students as appropriate and within the educational mission of the university.

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### 2.5 RESERVE FOR LOSS OF EXTERNAL FUNDS

The Reserve for Loss of External Funds will be maintained to provide for the organized transfer or termination of programs funded by multi-year grants and contracts in the event that a grant or contract is eliminated, cancelled, or not renewed. The target level for this reserve will be an amount equivalent to 50% of the total revenue received from all grants and contracts as reported in the most recent annual audited financial statements of the Associated Students fund.

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### 2.6 RESERVE FOR CATASTROPHIC EVENT

The Reserve for Catastrophic Event shall be maintained to pay for any uninsured losses resulting from natural or other disasters such as earthquakes, floods, high winds, fire, or criminal activities such as bombings or arson. The target level for this reserve will be an amount equivalent to 10% of the real property value of facilities owned or leased to Associated Students, excluding the University Student Union and Student Recreation and Wellness Center.

## 3.0 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.

## 4.0 REVIEW OF RESERVE FUNDING

Periodically, following the independent audit, the Executive Director or their designee will submit recommendations for reserve funding and use to the Associated Students Business and Finance Committee for approval.

Upon approval from the Associated Students Board of Directors, the reserves will be recorded into separate accounts on the financial records of the Associated Students.

## 5.0 USE OF RESERVES

The Executive Director or their designee 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.

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#### 5.1 AUTHORITY TO USE RESERVES

The Executive Director, in consultation with the ASI Vice President of Finance and the Business and Finance Committee, is delegated authority to use reserves for emergency projects requiring immediate attention. The use of reserves will be reported to the Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the reserve fund 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.

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#### 5.2 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 or their designee will maintain records of the use of funds and plans for replenishment, if required. He/she will provide regular reports to the Business and Finance Committee 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 every three years, at a minimum, by the Business and Finance Committee, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Business and Finance Committee to the Board of Directors. Any changes to the reserve target levels or to the methods for funding the reserves will require a 2/3 majority vote of the Board of Directors.

### FORMS

There are no forms associated with the execution of this policy.