POLICIES AND PROCEDURES

CORPORATE POLICY

Subject: Unrestricted Net Assets and Reserves	Policy No.: 172
	Original Date: 4/14/1995
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A. Purpose

This Unrestricted Net Assets and Reserves Policy is established to provide the basis for the annual review of fiscal viability, to comply with Board of Trustee's policies on maintaining appropriate debt service coverage, working capital/current operations, reserves and planned future operations.

B. Terms and Definitions

1. Sources of Funds

The Cal Poly Pomona Foundation, Inc. receives its sources of funds from the following sources:

a. Surplus
b. Non-cash transactions
c. Financing
d. Draw down from reserves

2. Use of Funds

The funds received from the above sources are used for the following purposes:

a. Debt Service Obligations
b. Working Capital
c. Reserves
d. Capital Expenditures

C. Background and Purpose

1. California State University Policy

The Chancellor of the California State University, on April 7, 1983, issued a policy statement entitled Financial Standards and Fiscal Viability Guidelines for CSU Auxiliary Organizations, and directed that this policy be implemented by the Campus

Presidents and each auxiliary governing board. On the subject of reserve requirements this policy statement states:

Annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include:

a. A review of the management functions to ensure provisions for adequate professional management (Reference: Ed. Code, 89904[b]).

b. An evaluation of the need for the use of unrestricted net assets in the following areas:
   i. Debt Service Coverage
   ii. Working Capital/Current Operations
   iii. Reserves
   iv. Planned future operations (including future new business requirements which have been recognized by the campus and the auxiliary organization as appropriate and within the educational mission of the campus)

c. The establishment or revision of the use of unrestricted net assets for the above areas shall be approved by the Board, and their funding levels shall be approved by the Board when the annual budget is approved.

2. Disposition of Assets and Earnings

A written agreement on behalf of the State of California by the Chancellor of the California State University and the Foundation is required for the performance of various functions by the Foundation. These agreements each contain a section on the disposition to be made of the Assets and Earnings (other than trust funds) in accordance with Section 42600, Title 5, California Code of Regulations. The disposition of Net Earnings (Net Assets) section states:

> "Auxiliary agrees to comply with Trustees policy on expenditure of funds, including but not limited to Trustee guidelines for disposition of revenues in excess of expenses and Trustee policies on maintaining appropriate reserves."

D. Process

1. Debt Service Coverage:

The first priority for the use of Unrestricted Net Assets shall be the debt service obligation. The debt service obligation as required by the California State University shall be at least a ratio of 1.25 (available for debt service over total debt service);

2. Working Capital:

The second priority for the use of Unrestricted Net Assets shall be working capital/current operations equal to three months of the annual budgeted revenues – less cost of goods sold and depreciation and shall not include the working capital/current operations requirements for sponsored programs;

3. Reserves:
    i. **Capital Reserve** – shall be funded by an amount equal to 1.75% of the annual gross revenues of the unrestricted funds (general fund, enterprise fund, agricultural-aid-to-instruction fund, and continuing education fund) to a maximum of the annual deferred maintenance value as outlined in the most recent Facilities Condition Assessment Report minus the value of work completed, not to exceed the total unrestricted net assets after consideration for all unrestricted reserves.
    ii. **Enterprises**:
        a. Dining/ Hospitality – shall be funded by an amount equal to 1% of the annual gross revenues less cost of goods sold to a maximum of $1,000,000 per year.
        b. University Village - shall be funded by an amount equal to 1% of the annual gross revenues of the University Village funds to a maximum of $2,000,000 per year.
        c. Kellogg West – shall be funded by an amount equal to 1% of the annual gross revenues of the Kellogg West fund to a maximum of $1,000,000
        d. Real Estate / Affordable Faculty Staff Housing (AFSH) – shall be funded by an amount equal to 1% of the annual gross revenues of the real estate fund to a maximum of $750,000 per year.
        e. Operating Reserves - shall be funded by an amount equal to 1% of the annual operating surplus after all other reserves have been funded to a maximum of $500,000 per year.
    iii. **Other** - The funding from unrestricted net assets for all other reserve policies such as those referenced below shall occur in the same order as stated in this policy, after the debt service obligation (debt service coverage/ratio) and working capital/current operations requirements have been met:
        a. Reserve – Indirect Cost Funds *(See Policy 103)*
        b. Reserve – Agricultural Program *(See Policy 170)*
        c. Residential Board Meal Surplus Program Reserve *(Policy 171)*
        d. Reserve – Retiree Medical Benefits *(See Policy 173)*
        e. Reserve – Insurance *(See Policy 174)*
        f. Reserve – Research & Sponsored Programs *(See Policy 175*)