NET ASSET RESERVE POLICY

PURPOSE

To set forth the general policy and criteria for establishing net asset reserves to ensure continued fiscal viability of operations.

I. BACKGROUND & PURPOSE

A. California State University Policy

The Chancellor of the California State University (CSU), on March 6, 2000, issued the Compilation of Policies and Procedures Pertaining to California State University Auxiliary Organizations – Executive Order No. 732, and directed that the Campus Presidents implement these policies.

On the subject of financial standards this policy states: Annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include:

1. A review of the management functions to ensure provisions for adequate professional management (ref: Ed. Code, 89904[b]).
2. An evaluation of the need for reserves in the following areas:
    a. Working capital
    b. Current Operations
    c. Capital Replacement
    d. Planned future operations (including future new business requirements which have been recognized by campus and the auxiliary organization as appropriate and within the educational mission of the campus.)
3. The establishment or revision of reserves and their funding levels in accordance with the above evaluations.
4. The submission of a report annually to the University President which includes a plan to build and maintain appropriate reserves. Such report may be a part of the annual budget submission.

B. Operating Agreement Requirements

The master operating agreement between the CSU Trustees and Cal State East Bay Educational Foundation ("Ed Foundation" or "Foundation") contains the following section on the disposition of net earnings:

> Foundation agrees to comply with CSU and Campus policy on expenditure of funds, including but not limited to CSU guidelines for the disposition of revenue in excess of expenses and CSU policies on maintaining appropriate reserves.

II. POLICY

A. Terms & Definitions

1. Sources of Funds

The Foundation receives its operating capital from the following sources:

a. Gifts
b. Fees for administering endowments
c. Gift fees
d. Investment income

2. Applications of Funds

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

a. Invested in operational assets
b. Interfund/Intrafund loans
c. Held for restricted purposes
d. Designated for specific needs

3. Net Assets

"Net Assets" is the term used to represent the residual amount remaining after liabilities are subtracted from assets. Net assets are classified into the following categories:

a. Unrestricted – All other categories of net assets including net assets designated by the Board or management.
b. Expendable – Net assets subject to externally imposed conditions that can be fulfilled by the actions of the Ed Foundation or by the passage of time.
c. Nonexpendable – Net assets subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity for the purpose of generating investment income to fund the agreed-upon purpose of the donor's gift.

B. Classification of Net Assets

Net Assets of the Foundation shall be classified in accordance with accepted accounting principles established by the Government Accounting Standards Board (GASB).

C. Assignment of Net Assets

Assignment or designation of net earnings shall comply with donor-imposed restrictions, and Board of Director approved policy and budgets.

D. Delegated Authority

The Foundation President has the authority to transfer and assign unappropriated net earnings of the General Fund to Designated funds based on present and anticipated financial requirements, expected total return on future investments, general economic conditions, and programmatic need.

E. Practices

1. Application of Accounting Rules & Standards
   At the close of each fiscal year the net earnings from each function shall be added to separate net classification accounts as required by GASB.

2. Assignment or Designation within Net Assets Classification
   Supplemental assignment or designation of net earnings within the required net assets classifications shall be done as follows:

   a. Unrestricted – The part of net assets that is comprised of unrestricted, non-designated gifts and earned fees and investment. The first priority for use of net earnings shall be to fund investment in operational assets, approved budget appropriations, audit/legal requirement, or specific scholarship/program accounts. These transfers will be automatic, not requiring Board of Director's approval.
   b. The surplus funds available after all of the specified allocations are made will be held in the Unrestricted Fund Balance account or transferred to the Foundation's Working Capital Reserve.

3. Reserve Guidelines
   a. Working Capital/Current Operations – cash or cash equivalents to meet a minimum of six months operating budget
   b. Capital Acquisition/Replacement – as determined by Finance and Investment Committee, when necessary
   c. Planned Future Operations – as determined by Finance and Investment Committee, when necessary

III. IMPLEMENTATION AND REPORTING

Management is authorized to establish written procedures to implement this policy. The board delegates the responsibility for reviewing financial reserves to the Finance and Investment Committee. The Finance and Investment Committee will review reserve adequacy on an annual basis and report to the University President as required by CSU policy.