



Policy 109

Net Assets Reserve Policy

Section: 100 – General Administration
Responsible Executive: Lead Financial Administrator
Responsible Department: Business and Finance Office
First Effective Date: December 8, 2000
Last Reviewed: March 2018
Next Scheduled Review: June 2023

1.0 PURPOSE

- 1.1. To provide the general policy and criteria for establishing net asset reserves to ensure continued fiscal viability of operations.

2.0 BACKGROUND

- 2.1. To operate as an auxiliary of California Polytechnic State University (“University”), Cal Poly Corporation (“CPC”) and the CSU agreed to a master operating agreement, which also requires that CPC comply with the CSU Trustees’ policy on expenditure of funds, including, but not limited to, the Trustees’ Guidelines for disposition of revenues in excess of expenses (“Net to Reserves”) and the maintenance of appropriate reserves. The operating agreement between the University and the (required for the performance of functions by the CPC) contains the following section on the disposition of Net to Reserves: “This policy authorizes CPC management to implement and, as needed, develop acceptable fiscal controls, including adequate reserves within these policies and this policy statement.”
- 2.2. The California Education Code §§89904-89905 and Title 5 California Code of Regulations §42402 require that auxiliaries comply with California State University (“CSU”) financial standards, best practices, and policies in order to ensure that auxiliaries maintain best practices for fiscal controls, fiscal viability, and adequate reserves. California State University also issued best practices for auxiliary fiscal controls in its Compilation of Policies and Procedures for California State University Auxiliary.

3.0 POLICY

- 3.1. General. Annually, the CPC governing board shall review the fiscal viability of the auxiliary organization to include:
 - 3.1.1. A review of the management functions to ensure provisions for adequate professional management;
 - 3.1.2. An evaluation of the need for reserves in the following areas:
 - 3.1.2.1. Working Capital,
 - 3.1.2.2. Current Operations,
 - 3.1.2.3. Capital Replacement, and
 - 3.1.2.4. Planned future operations (including future new business requirements which have been recognized by the University and the auxiliary organization as appropriate and within the educational mission of University;
 - 3.1.3. The establishment or revision of reserves and the funding levels in accordance with the above evaluations; and
 - 3.1.4. The submission of a report annually to the University President that includes a plan to build and maintain appropriate reserves.

3.2. Net to Reserves Disposition.

3.2.1. The first priority for use of Net to Reserves is the payment of obligations incurred through CPC functions. The second priority is the funding of equipment and maintenance reserves and working capital in such amounts as shall be deemed necessary by the Lead Financial Administrator in conjunction with the unit directors, for the effective operation of the functions.

3.2.2. The disposition of Net to Reserves will be based on the approved plan to build and maintain reserves, as determined under the Net Asset Funding Guidelines.

3.3. Sources of Funds. The CPC receives its operating capital from the following sources:

3.3.1. Net to Reserves from commercial operations,

3.3.2. Grants/contracts indirect cost recovery,

3.3.3. Fees for administering campus program accounts,

3.3.4. Gifts,

3.3.5. Investment income, and

3.3.6. Administrative costs recovery and fiscal services fees.

3.4. Applications of Funds. The funds received from the above sources are utilized for the following purposes:

3.4.1. Investment in operational assets,

3.4.2. Investment in plant and fixed assets,

3.4.3. Interfund/Intrafund loans,

3.4.4. Held for restricted purposes; and

3.4.5. Designated for specific needs.

3.5. Net Assets. Net Assets are split into three categories: unrestricted, restricted, and invested in capital assets.

3.5.1. Unrestricted Net Assets. The part of Net Assets that is earned from commercial operations, fees, and investment earnings.

3.5.1.1. Operating – Provides unrestricted working capital.

3.5.1.2. Contingency – Established for an event that may occur, but is not likely or intended.

3.5.1.3. Debt Service - A reserve equal to 115% of the succeeding year's debt service payment shall be required.

3.5.1.4. Capital Development for New Projects - Available for new plant or facility projects. These funds are supported by specific capital plans and are not to be spent for operations.

3.5.1.5. Major Maintenance and Repair/Capital Renovation and Upgrade. Available for renewal and replacement of existing facilities and/or equipment.

3.5.1.6. General Capital Outlay – Available for purchase of new equipment, furniture, or fixtures.

- 3.5.2. Restricted Net Assets. The part of the Net Assets resulting from contributions and other inflows of assets, the use of which is limited by restrictions imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.
- 3.5.2.1. Program – Accumulated earnings available for specific purposes or programs.
- 3.5.2.2. Spending – Accumulated amount of investment earnings from permanent and quasi-endowments available to support specific purposes or programs.
- 3.5.2.3. Investment in Tangible Property – Value of donated tangible property that cannot be sold or disposed of.
- 3.5.2.4. Principal – Initial value of gifts received from donors.
- 3.5.3. Investment in Capital Assets. The part of the Net Assets that consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- 3.6. Assignment of Net Assets. Assignment or designation of Net to Reserves shall comply with donor-imposed restrictions, and Board of Director approved policy and budgets.
- 3.6.1. Delegated Authority. The Lead Financial Administrator or his/her designee has the authority to transfer and assign unappropriated Net to Reserves of the General Fund to the Plant Fund and Designated funds based on present and anticipated financial requirements, expected total return on future investments, general economic conditions, and programmatic need.
- 3.7. Application of Accounting Rules & Standards. At the close of each fiscal year the Net to Reserves from each function shall be added to separate Net Asset classification accounts as required.
- 3.7.1. Assignment or Designation within Net Assets Classifications. Supplemental assignment or designation of Net to Reserves within the required Net Assets classifications shall be done as follows:
- 3.7.1.1. The first priority for use of Net to Reserves shall be the assignment of funds as available to match the individual function's actual donor-imposed restriction, investment in operational assets, approved budget appropriation, audit/legal requirement, or specific program account. These transfers will be automatic, not requiring Board of Directors' approval.
- 3.7.1.2. From Net to Reserves of the Bookstore, Campus Dining, and General Investments, an amount equal to these functions' share of the University Services Program commitment for the next fiscal year shall be transferred to the Designated Fund to provide funding for these activities. These transfers have been authorized by the Board of Directors' approval of departmental budgets that state their budgeted contribution to University Services. If funding is inadequate for this purpose, transfers from other available net assets must cover the unfunded portion of the commitment.
- 3.7.1.3. If a balance remains in the Net to Reserves accounts of any commercial operation after the above assignment, these funds shall be transferred to the Plant Fund as Capital Replacement funds.
- 3.7.1.4. If a balance remains in the Net to Reserves accounts of Sponsored Programs Administration after the above appropriations, these funds shall be transferred to a Designated Fund for appropriate allocation by the University President.
- 3.7.1.5. If a balance remains in the Net to Reserves accounts for General Administration and the General Investment Pools after the above appropriations, the funds shall be transferred to the Designated or Plant Fund based on the Lead Financial Administrator's or his/her designee's judgment of programmatic need.

- 3.7.1.6. Specific reserve goals are detailed in the Net Asset Funding Guidelines, which is a supplement to this policy and the annual fiscal viability report.
- 3.7.2. Withdrawal of Reserves. Reserves may be withdrawn based upon Board approved capital expenditures, or transferred between the various types of reserves as required based upon budgets.
- 3.7.3. Inadequate Reserves. If an operating unit does not generate sufficient net reserves to fund their required reserves per the Net Asset Funding Guidelines, then such unit manager will work with the Lead Financial Administrator or his/her designee to develop a plan to reach the required reserve balances within five years.
- 3.8. Annual Report. The Lead Financial Administrator or his/her designee shall annually develop and present to the Board a fiscal viability report and a review of the reserve goals, and shall recommend modifications, as necessary. The approved report shall be forwarded to the University President for consideration and approval as the CPC's plan to build and maintain appropriate reserves.

4.0 DEFINITIONS

- 4.1. Net Assets. Residual value of total assets less total liabilities.
- 4.2. Net to Reserves. Revenues in excess of expenses.

5.0 PROCEDURES, GUIDELINES AND FORMS

- 5.1. The Lead Financial Administrator or his/her designee is charged with the responsibility of implementing this policy through procedures and forms as needed, and including Net Asset Funding Guidelines, with approval of the Chief Executive Officer.

6.0 COMPLIANCE

- 6.1. All auxiliary units, departments and personnel and any authorized personnel with funds held by CPC must comply with this policy.

7.0 REFERENCES AND RELATED POLICY

- 7.1. California Education Code §§89904-89905
- 7.2. Title 5 California Code of Regulations §§42402 et seq.
- 7.3. CSU Compilation of Policies and Procedures for California State University Auxiliary Organizations, issued Sept. 2002, and as otherwise updated (issued through CSU Executive Order 732)
- 7.4. CSU Trustees and CPC Master Operating Agreement

Technical and administrative change updates

7-25-12 for title and organization structure changes.