

Policy #: 210.0
Date: September 30, 2004
Last Reviewed: March 15, 2017
Next Review: March 15, 2019

TITLE: RESERVES POLICY

Designating reserves to sustain financial operations in the unanticipated event of significant unbudgeted increases in operating expenses and/or losses in operating revenues is an established prudent business practice for not-for-profit corporations.

Additionally, the California Education Code Section 89904(b) requires that auxiliary organizations provide for the “adequate reserve funds for current operations, capital replacements, and adequate provisions for new business requirements.”

This policy defines the process for establishing individual reserves required by 1) the California Education Code and 2) recommended by prudent business practice. All reserves will have an identified target amount.

Reserve Amounts

All reserve funding levels and the source of such funds shall be subject to review and approval by the Board of Directors at the time the annual budget is presented and again upon review of year-end financial statements.

Separate Accounting & Reserve Balances

Each reserve shall be maintained in a separate account, shall not be commingled with other accounts, and shall be funded with cash not available for corporate uses other than those identified by this policy. Each year, upon presentation of the budget for Board of Directors approval, management shall provide a report on current requirements and funded levels for each reserve.

Reserve Expenditures

UEC management may utilize funds from these reserves for the purposes herein defined only upon approval from the Board of Directors. Under emergency conditions, the UEC Executive Director and the Treasurer may utilize funds from these reserves. The Executive Director is required to present all emergency reserve expenditures for approval at the next regularly scheduled Board of Directors meeting.

UEC shall fund and maintain the following reserves:

1. Current Operations Reserve

Required by the California Education Code, the Current Operations Reserve will enable UEC to pay non-Sponsored Programs operating expenses for 3 months based on the Board approved current year expense budget. Suggested target amount of \$300,000.

2. Working Capital Reserve

Required by the California Education Code, the Working Capital Reserve provides emergency funds for operational commitments as needed, including receivables financing for grants and contracts billed in arrears. Suggested target amount of \$500,000.

3. Unplanned Capital Replacement Reserve

Required by the California Education Code, this reserve covers the replacement of UEC capital equipment and upgrading of facilities as they age. Suggested target amount of \$500,000.

4. Operational Reserve for Sponsored Programs

The Operational Reserve for Sponsored Programs is intended to ensure funds are available to cover Post Award expansion activities and/or appropriate grant-related expenditures that are not covered by a funding agency. Target amount is \$50,000.

5. Disallowance Reserve for Sponsored Programs

The Disallowance Reserve for Sponsored Programs ensures that funds are available to cover funding agency disallowances for non-compliance with terms and/or conditions of a sponsored program. Target amount is one percent (1.00%) of prior year expenditures with a minimum funding level of \$250,000.

6. Future Operations

From time-to-time UEC may consider new programs and ventures. These ventures are likely to require start-up and working capital. UEC shall seek to fund reserve accounts for such ventures at the time the annual budget is presented, as necessary.

7. Retiree Medical/FASB 106 Reserve

The Financial Accounting Standards Board issued FASB 106 that identifies requirements for corporations to meet the on-going costs of health care insurance for employees who have retired from the corporation. It is the intent of the Board of Directors that UEC apply a portion of its net income annually towards these reserves until it has met its

unfunded liability as identified in the operating financial statements. UEC management and the Board acknowledge that these funds must ultimately be deposited into a Trust Account in order to reduce its unfunded liability as established on the balance sheet.

8. Pension Liability/GASB 68 Reserve

The Governmental Accounting Standards Board issued GASB 68 that identifies the requirement for corporations to meet the long-term obligation for pension benefits for employees. It is the intent of the Board of Directors that UEC apply a portion of its net income annually toward these reserves until it has met its unfunded liability as identified in the operating financial statements.

Approval:

Approved by the UEC Board of Directors on March 15th, 2017