TITLE: RESERVES POLICY

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.”

The purpose of this policy is to provide management with the information necessary to ensure provisions for adequate professional management of unrestricted net assets and reserves.

Priority

Use of unrestricted net assets is prioritized by the CSU as follows: 1) debt service, 2) working capital/current operations, 3) reserves, and 4) planned future operations.

Reserve Amounts

All reserve funding levels and the source of such funds shall be subject to approval by the President and 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 Director’s 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 Executive Committee. Under emergency conditions, the UEC’s Executive Director and its Treasurer may utilize funds from these reserves and the Executive Director shall be obligated to solicit approval of the Executive Committee at their next regularly scheduled meeting.
UEC shall have the following reserves in order of priority:

**Working Capital/Current Operations Reserve**

UEC seeks to maintain a reserve for working capital for current operations which will enable the corporation to pay operating expenses for thirty-days.

**Capital Replacement Reserve**

UEC seeks to maintain a reserve for replacement of capital equipment that will enable the corporation to replace equipment and upgrade facilities as they age.

**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 toward 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.

**Disallowance & Operational Reserves for Sponsored Programs**

Disallowance Reserves ensure that funds are available to cover funding agency disallowances for non-compliance with terms and conditions of a sponsored program. Operational Reserves are 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. These amounts are established at the time the Sponsored Programs Administration annual budget is presented to the President and the Board of Directors.

**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.