RESERVES POLICY

BACKGROUND AND PURPOSE

The establishment of an adequate reserve policy for CSU auxiliaries is required to meet the California State University financial standards established in Education Code, Section 89904(b). Section 89904(b) states that auxiliaries shall implement financial standards that will assure fiscal viability of the establishment of reserve funds for current operations, capital replacement, and new business ventures. Furthermore, Executive Order 994 (or its successor) requires programs utilizing Systemwide Revenue Bond (SRB) financing to ensure adequate reserves to protect the facilities supported by bond financing.

POLICY

This Reserves Policy was established and is amended to provide the basis for annual review of fiscal viability, to comply with Education Code and Executive Order requirements, and to act as a guide in the annual evaluation of reserve levels.

TERMS AND DEFINITIONS

Programs:
The University Corporation has financial responsibility for several programs under an operating agreement with the CSUSM Campus. Those five programs are:
- University Village Apartments (UVA)
- Clarke Field House
- University Student Union (USU)
- Campus Recreation
- Event and Conference Services

Revenues coming into the University Corporation come primarily from these sources:
- Rental Income from student rents at University Village Apartments
- Operating Revenue transferred to University Corporation from the Student Body Center Fee Revenue fund for the operations of the Clarke Fieldhouse and University Student Union
- Fee revenue transferred to the University Corporation from the Recreation Fee
- Revenue generated by the services provided by Event and Conference Services
- Investment income

Expenditures from the University Corporation reflect the costs associated with:
- The operations of UVA
- Debt Service payments associated with the Bonds for UVA, Clarke Field House and or University Student Union projects
- The management fee associated with management of UVA by Education Realty Trust (EdR)
San Marcos University Corporation

• The operating costs associated with the operation of the Clarke Fieldhouse and University Student Union
• Costs associated with programs provided by Campus Recreation, CFH and USU for students
• Overhead expenses associated with the University Corporation
• Event and Conference Services operational expenses

All expenditures are made in accordance with approved budgets reviewed by the University Corporation Board of Directors on an annual basis.

APPROPRIATIONS TO RESERVES, ANNUAL EVALUATION AND TARGET FUNDING LEVELS

Reserves represent the difference between total revenue and total expenditures when viewed by program. Excess revenues will be allocated annually to the reserve categories for each program until such level of funding is attained according to the following targets:

LOCAL RESERVE

Includes Reserves maintained within the financial records and accounts of each program area under the University Corporation. Three types of appropriations are designated to this type of Reserve holding:

- Working Capital and Current Operations Reserve
  This appropriation will be maintained at a level sufficient to provide for at least four months of operating expenses for each program.

- Maintenance and Repair Reserve
  This appropriation will be maintained at a level sufficient to replace furniture and worn carpet, and to accomplish small projects in properties operated by University Corporation. This reserve category should be tied closely to reserve analysis conducted on a periodic basis on each program’s facilities.

- Catastrophic Reserve
  This appropriation will be maintained at a level sufficient to support the relocation of operations during a catastrophe. At a minimum, this reserve category should be sufficient to cover deductibles for two insurance claims in a given fiscal period at the highest level of deductible.

UNIVERSITY-HELD RESERVE (TRUST FUNDS)

Includes Reserves maintained on behalf of the University Student Union (including the Clarke Field House) within the financial records and accounts of the university. Two types of appropriations are designated to this type of Reserve holding:

- Maintenance and Repair Reserve
  The Reserve for Major Maintenance and Repair/Capital Renovations and Upgrade shall be maintained to provide a funding source for emergency and long-term repairs, deferred maintenance, and possible future expansion of University Student Union facilities, which if entirely funded from an annual operating budget, would result in a significant deficit. Funding to this reserve should be
commensurate with an annual analysis of equipment lifecycle and facility needs (similar to the Reserve Study conducted for UVA).

**Catastrophic Reserve**
This appropriation will be maintained at a level sufficient to support the operations of the University Student Union during a catastrophe. At a minimum, this reserve category should be sufficient to cover deductibles for two property insurance claims in a given fiscal period.

**USES OF RESERVES**

All funding and expenditures from the above appropriations will be reviewed by the University Corporation Board of Directors. Expenditures will be in accordance with the annual budget as approved by the Board. The Board, may at its discretion, approve borrowing between program reserves when it is deemed financially prudent to do so, and with the express approval of the Campus CFO.

**APPROVALS**

Approved by the San Marcos University Corporation Board of Directors at the 10/10/07 meeting.

Revisions recommended at the 10/14/2011 meeting.

Approved by the San Marcos University Corporation Board of Directors at the 4/11/14 meeting.