CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.
Reserve Policy

Each California State University auxiliary organization is required to conform to policies of the Board of Trustees and the campus (ref: Ed. Code, 89900(c)). Each campus President is responsible to require that auxiliary organizations operate in conformity with these policies (ref: Title 5, 42402).

The Chancellor's Office is required to implement financial standards applicable to all California State University auxiliary organizations to assure their fiscal viability (ref: Ed. Code, 89904 (b)) and to implement policies for the uses of indirect costs (ref. Ed Code 89904 (d)). These guidelines for fiscal viability, use, and division of indirect costs are to be consistent with the educational mission of the campus and are to be implemented by the Board of Trustees before July 1, 1983 (ref: Ed. Code, 89904, 89905).

Each auxiliary governing board has authority and responsibility for the organization's affairs within the context of policies of the Board of Trustees and the campus. The following guidelines are policy of the Board of Trustees and, therefore, shall be implemented by the campus President and the auxiliary governing board.

<u>Annually</u> each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include:

1. A review of management functions to ensure provisions for adequate professional management (ref: Ed. Code, 89904(b)).

2. An evaluation of the need to establish reserves in the following areas:

   (a) Working Capital for Operations

   (b) Capital Replacement/planned future operations (including capital improvements and future new business requirements which have been recognized by the campus and the auxiliary organization as appropriate and within the educational mission of the campus)

3. The establishment and/or revision of reserves and their funding levels in accordance with the above evaluations.

4. The submission of a report annually through the Association Board to the President which includes a plan to build and maintain appropriate reserves. A Report on Net Assets is prepared annually after the completion of the annual external audit. Such report may be a part of the annual budget submission.

Annually, the California State University, Fresno Association, Inc., presents to the Audit Committee, the Board of Directors, and the University CFO fund balances for each reserve which is included in the Report on Net Assets. The Report on Net Assets includes the Board established minimum reserve limits as well as the methodology used to determine adequate reserve levels as compared to annual operating expenditures. During management's presentation of this Report, both the Audit Committee and the Board evaluate the type of reserve accounts required and funding levels of each reserve. Expenditures cannot be made out of reserves without Board approval.

The Association Board of Directors has approved the establishment of the following reserves:

A. Working Capital/Current Operations Reserve for Commercial Operations
B. Working Capital/Current Operations Reserve for University Courtyard
C. Working Capital/Current Operations Reserve for University Student Union
D. Working Capital/Current Operations Reserve for Student Recreation Center.

WORKING CAPITAL RESERVE FOR COMMERCIAL OPERATIONS

a. **Business Objective**

Maintain reserves that will assure the financial viability of the Association, as well as comply with the legal obligations of donors, bondholders and other third party entities.

b. **Minimum Reserve Requirement**

The minimum limit for this reserve is $4,000,000 or an amount equal to 20 percent of the budgeted operating expenses (excluding depreciation) for the next fiscal year, whichever is greater[1].

c. **Contribution Method**

Annually, any surplus funds generated from commercial operations will be transferred to this fund. Commercial operations are defined as the Kennel Bookstore, University Dining Services, and Administration. The Board of Directors may transfer funds from this reserve for operations if required.

d. **Reserve Fund Balance**

The balance available in this fund on June 30, 2008 was $7,937,961.

Cash	$9,177,139
Accounts Receivable	1,931,509
Inventories	1,664,265
Prepaid Expenses	58,348
Investments	1,986,451
	12,831,261
Less: Current/Long-Term Liabilities	(4,893,300)
Total:	$7,937,961

[1] *2008-09 budgeted operating expenses, net of depreciation, is $18,322,400. Twenty percent of this amount is $3,664,480.*

WORKING CAPITAL RESERVE FOR UNIVERSITY COURTYARD

a. **Business Objective**

Maintain reserves that will assure the financial viability of the University Courtyard. University Courtyard must have funds available to meet essential operating requirements, capital repair and replacement needs, and bond covenants.

b. **Minimum Reserve Requirement**

The minimum limit of this fund is an amount equal to 20 percent of the budgeted operating expenses (excluding depreciation) for the next fiscal year. (Note 1. below).

c. **Contribution Method**

Annually, surplus funds generated by University Courtyard operations will be transferred to this fund.

d. **Reserve Fund Balance**

The balance of this reserve fund on June 30, 2008 was $1,241,235.

Cash	$ 2,379,080
Accounts Receivable	202,333
Prepaid Expenses	6,219
	$2,587,632
Less: Current/Long-Term Liabilities	(1,346,397)
Total	$1,241,235

[1] *2008-09 budgeted operating expenses, net of depreciation is $4,435,600. 20% of this amount is $887,120.*

WORKING CAPITAL/LOCAL RESERVE FOR UNIVERSITY STUDENT UNION

a. **Business Objective**

The University Student Union (USU) must have a reserve of sufficient size to cover operating expenses until such time as student fee revenue is received from University.

b. **Minimum Reserve Requirement**

The USU should maintain a minimum reserve equal to 35% of current year operating expenditures.[1]

c. **Contribution Method**

Annually, any surplus funds generated by the University Student Union and the Satellite Student Union will be transferred to this fund.

d. **Reserve Fund Balance**

The balance of this fund on June 30, 2008 was $1,127,178.

Cash	$1,415,659
Accounts Receivable	25,638
Inventory	16,802
	1,458,099
Less: Current Liabilities	(330,921)
Total:	$1,127,178

[1] *35% of 2008-09 budgeted operating expenses is $928,935.*

WORKING CAPITAL/LOCAL RESERVE FOR STUDENT RECREATION CENTER

a. **Business Objective**

The Student Recreation Center (SRC) must have a reserve of sufficient size to cover operating expenses until such time as student fee revenue is received from University.

b. **Minimum Reserve Requirement**

After five (5) years of operation (2011), the SRC minimum reserve amount should equal 35% of current year operating expenditures.[1]

c. **Contribution Method**

Annually, any surplus funds from Student Recreation Center operations will be transferred to this fund.

d. **Reserve Fund Balance**

The balance of this reserve fund on June 30, 2008 was $99,343.

Cash	$258,280
Accounts Receivable	828
	259,108
Less: Current Liabilities	(159,765)
Total	$99,343

[1] *35% of 2008-09 budgeted operating expenses is $473,060.*

WORKING CAPITAL RESERVE FOR SAVE MART CENTER

a. **Business Objective**

This fund balance accounts only for activity relating to the Save Mart Center in accordance with the 2002 Bond Indenture and Official Statement and CSU System-wide Revenue Bond (SRB) Program Requirements.

b. **Minimum Reserve Requirement**

No reserve has been established for the Save Mart Center Refer to Justification below.

c. Justification

The financing plan for the original bonds for this project was approved by the CSU Board of Trustees at their March 2001 meeting. That financial plan assumed per the Bond Official Statement and Proforma that the operation of the building (Event related revenues minus Event related expenses) was always expected and projected to lose approximately $1 million per year, but on a cash flow basis the COIs (contractually obligated income streams) were to cover both the operating deficit and the bond/capital lease payments.

In addition, when the original 2002 series bonds were refinanced into the Systemwide Revenue Bond Program in April 2005 the capital lease obligation became a general obligation of the Association not based strictly on Save Mart Center revenues. The original 2002 series bonds which will not be defeased until 2012 were revenue bonds based strictly on SMC revenues. Association management, together with SMG, who operates and manages the facility for the Association has been able to successfully manage the cash flow needs of this facility even without the projected ground lease rent from the Campus Pointe project which the first phase of housing is expected to be completed in summer 2009. This has been accomplished primarily due to operating deficits in early years (2003, 2004, 2005) being less than projected.

A key issue is the financial statement presentation which is why the Association regularly reviews with the Board of Directors, campus president, and the University CFO the cash flow projections vs. only reviewing the FASB financial statement which requires inclusion of non-cash expenditures such as depreciation and inclusion of the original senior and subordinate bonds (even though they have been fully funded for defeasance through 2012 - FASB 140 and those funds are on deposit with US Bank as the Bond Trustees) and having to include the annual SRB capital lease payment to the University.