

**CAL POLY POMONA FOUNDATION, INC.**

**POLICIES AND PROCEDURES**  
(Pending Updated Procedure)

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<b>Subject:</b>	<b>Unrestricted Net Assets and Reserves:</b>	<b>Policy No.</b>	<b>172</b>
		<b>Old No.</b>	<b>1995-1</b>
		<b>Date:</b>	<b>04/14/95</b>
<b>Reference:</b>	<b>287-III-A; 300-II-D; 311-II-C; 331-XX-X</b>	<b>Revision:</b>	<b>05/17/98; 12/19/00 02/18/03; 5/24/07</b>

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**PURPOSE**

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.

**I. BACKGROUND AND PURPOSE**

**A. California State University Policy**

The Chancellor of the California State University, on April 7, 1983, issued a policy statement entitled Financial Standards and Fiscal Viability Guidelines for CSU Auxiliary Organizations, and directed that this policy be implemented by the Campus Presidents and each auxiliary governing board. On the subject of reserve requirements this policy statement states:

Annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include:

1. A review of the management functions to ensure provisions for adequate professional management (Reference: Ed. Code, 89904[b]).
2. An evaluation of the need for the use of unrestricted net assets in the following areas:
  - a. Debt Service Coverage
  - b. Working Capital/Current Operations
  - c. Reserves
  - d. Planned future operations (including 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 or revision of the use of unrestricted net assets for the above areas shall be approved by the Board and their funding levels shall be approved by the Board and the President when the annual budget is approved.

B. Disposition of Assets and Earnings

A written agreement on behalf of the State of California by the Chancellor of the California State University and the Foundation is required for the performance of various functions by the Foundation. These agreements each contain a section on the disposition to be made of the Assets and Earnings (other than trust funds) in accordance with Section 42600, Title 5, California Code of Regulations. The disposition of Net Earnings (Net Assets) section states:

“Auxiliary agrees to comply with Trustees policy on expenditure of funds, including but not limited to Trustee guidelines for disposition of revenues in excess of expenses and Trustee policies on maintaining appropriate reserves.”

C. Priority for Use of Unrestricted Net Assets

The first priority for use of unrestricted net assets is the debt service coverage currently required by the California State University to be at least a ratio of 1.25 (available for debt service over total debt service). The second priority is the funding of working capital/current operations, reserves and planned future operations.

The designation of unrestricted net assets, determined to be in excess of debt service coverage, working capital/current operations, reserves and planned future operations shall be approved by the Board..

**II. POLICY**

- A. This Unrestricted Net Assets and Reserves Policy is therefore established to provide the basis for the annual review of fiscal viability, to comply with Board of Trustee’s policies on maintaining appropriate debt service coverage, working capital/current operations, reserves and planned future operations.

**III. TERMS AND DEFINITIONS**

A. Sources of Funds

The Cal Poly Pomona Foundation, Inc. receives its sources of funds from the following sources:

1. Surplus
2. Non-cash transactions
3. Financing
4. Draw down from reserves

B. Use of Funds

The funds received from the above sources are used for the following purposes:

1. Debt Service Obligations
2. Capital Expenditures
3. Reserves
4. Designated Gifts to University

**IV. PROCESS**

- A. Budget and Fiscal Viability - Annually, Foundation Management will prepare an annual budget and long-range cash plan/reserve for the unrestricted funds (currently the general fund, enterprise fund, agricultural-aid-to-instruction fund, continuing education fund and the real estate fund) as required by the Board of Trustees of the California State University policy statement. These reports, after review and approval by the Board of Directors, will be submitted to the President.

These reports will include annual operating and capital budgets by unit and a 10 year long-range cash plan/reserve for each budgeted activity. Foundation management shall plan the annual operating budget to generate unrestricted net assets and those unrestricted net assets shall at least cover the debt service obligation; currently the debt service obligation as required by the California State University shall be at least a ratio of 1.25 (available for debt service over total debt service);

B. Appropriations of Unrestricted Net Assets

At the close of each fiscal year, the unrestricted net assets from each function shall be retained by each project. The appropriation of these unrestricted net asset funds shall be as follows:

1. The first priority for the use of Unrestricted Net Assets shall be the debt service obligation;
2. The second priority for the use of Unrestricted Net Assets shall be working capital/current operations equal to two months of the annual budgeted revenues – less cost of goods sold and depreciation and shall not include the working capital/current operations requirements for sponsored programs;
3. The third priority for the use of Unrestricted Net Assets shall be reserves;
  - a. Capital Reserve – shall be funded by an amount equal to 1.75% of the annual gross revenues of the unrestricted funds (currently the general fund, enterprise fund, agricultural-aid-to-instruction fund, continuing education fund

and the real estate fund) to a maximum of \$6,000,000, exclusive of the Real Estate / Venture Capital Reserve; the Campus Center State account and the Distribution of Los Olivos Surplus policy 171.

- b. Real Estate / Venture Capital Reserve – shall be funded by an amount equal to 1% of the annual gross revenues of the unrestricted funds (currently the general fund, enterprise fund, agricultural-aid-to-instruction fund, continuing education fund and the real estate fund) to a maximum of \$6,000,000, exclusive of the Capital Reserve; the Campus Center State account and Distribution of Los Olivos Surplus policy 171.
- c. Planned future operations –shall be recognized by the campus and the auxiliary organization as appropriate and within the educational mission of the campus and approved by the Board.
- d. The funding from unrestricted net assets for all other reserve policies such as those referenced below shall occur in the same order as stated in this policy, after the debt service obligation (debt service coverage/ratio) and working capital/current operations requirements have been met:
  - Reserve - Indirect Cost Funds (*See Policy 103*)
  - Reserve - Agricultural Program (*See Policy 170*)
  - Distribution of Los Olivos Surplus (*Policy 171*)
  - Reserve - Retiree Medical Benefits (*See Policy 173*)
  - Reserve – Insurance (*See Policy 174*)
  - Reserve – Research & Sponsored Programs (*See Policy 175*)