

RESOLUTION OF THE BOARD OF DIRECTORS APPROVING AMENDED RESERVES POLICY

WHEREAS, the California State University, Dominguez Hills Foundation is a recognized auxiliary organization of The California State University incorporated as a 501(c)3 non-profit public benefit corporation in April 1968; and

WHEREAS, as an auxiliary organization, the Foundation exists as a separate legal entity that operates pursuant to a Master Operating Agreement with the CSU Board of Trustees governed by Chapter 7, Part 55, Division 8, Title 3 (Sections 89900 et seq.) of the Education Code and Subchapter 6, Article 1, Part V (Sections 42400 et seq.) of Title 5 of the California Code of Regulations (CCR) and is governed by a Board of Directors that is responsible for the administration of the organization; and

WHEREAS, said Master Operating Agreement requires the Foundation to comply with CSU Trustees’ policies on expenditure of funds including, but not limited to, the Trustees’ guidelines for disposition of revenues in excess of expenses (“Net to Reserves”) and guidelines related to the maintenance of appropriate reserves; and

WHEREAS, the Reserve Policy authorizes Foundation management to implement and, as needed, develop acceptable fiscal controls, including adequate reserves within these policies and this policy statement.

THEREFORE, IN CONSIDERATION OF THE FOREGOING, IT IS RESOLVED AS FOLLOWS:

RESOLVED, that the Board of Directors of the Foundation recognizes the above recitals as true and correct and adopts them as findings of fact; and

RESOLVED, that Foundation approves and adopts the California State University Dominguez Hills Foundation Reserves Policy; and

RESOLVED, that the Foundation Executive Director shall be directed to take all actions as may be necessary and proper in connection with the execution and implementation of this resolution.

Adopted this 24th day of March 2022.

Del Huff, Chair
Board of Directors
CSUDH Foundation

Attest: _____
Deborah Wallace
Board of Directors
CSUDH Foundation

Amended Reserves Policy California State University, Dominguez Hills Foundation

PURPOSE

Approval Date:	June 17, 2021 (Board of Directors meeting)
Current Review Date:	March 24, 2022 (Board of Directors meeting)
Proposed Follow-Up Review:	Finance and Investment Committee meeting in November or December 2022

This Reserves Policy is established to ensure the stability of the mission, programs, and ongoing operations of the California State University, Dominguez Hills Foundation (“Foundation”) and to ensure provisions for adequate management of unrestricted net assets.

To operate as an auxiliary of California State University, Dominguez Hills (“University”), the Foundation and the California State University (“CSU”) agreed to a master operating agreement, which requires the Foundation to comply with CSU Trustees’ policies on the expenditure of funds including, but not limited to, the Trustees’ guidelines for the disposition of revenues in excess of expenses (“Net to Reserves”) and guidelines related to the maintenance of appropriate reserves. The operating agreement between the University and the Foundation contains the following section on the disposition of Net to Reserves: “This policy authorizes Foundation management to implement and, as needed, develop acceptable fiscal controls, including adequate reserves within these policies and this policy statement.”

California Education Code sections 89904-89905 and Title 5 of the California Code of Regulations, section 42402, require that auxiliaries comply with CSU financial standards, best practices, and policies in order to ensure that auxiliaries maintain best practices for fiscal controls, fiscal viability, and adequate reserves. The CSU also issued best practices for auxiliary fiscal controls in its Compilation of Policies and Procedures for CSU auxiliaries. The establishment of an adequate reserve policy for CSU auxiliaries is a requirement of California Education Code section 89904(b). This statute states that auxiliaries will implement financial standards which assure their fiscal viability. Such standards shall include proper provisions for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

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

Reserve Amounts

All reserve funding levels, and the source of such funds shall be subject to review and approval by the Finance and Investment Committee:

1. at the time the annual budget is presented for approval and again; and
2. immediately at the next quarterly meeting following the issuance of the audited 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 business uses other than those identified by this policy. Twice each year, upon presentation of the budget for Finance and Investment Committee approval and again immediately at the next quarterly meeting following the issuance of the audited financial statements, management shall provide a report on current requirements and funded levels for each reserve.

Reserve Expenditures

Foundation management may utilize funds from these reserves for the purposes herein defined only upon approval from the Finance and Investment Committee. Under emergency conditions, the Foundation Executive Director and the CFO may utilize funds from these reserves. The Executive Director is required to present all emergency reserve expenditures for approval at the next regularly scheduled Finance and Investment Committee meeting.

Operating Reserves

Foundation shall fund and maintain the following reserves from enterprise and administrative operations only.

1. Current Operating Reserve

Required by the California Education Code, the *Current Operating Reserve* will enable Foundation to pay *non-Sponsored Programs* operating expenses. The target recommendation from the Finance and Investment Committee is 6 months based on the *Auxiliary Enterprise Expense* figures calculated from the most recent audited financial statements.

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 for *Sponsored Programs*. The target recommendation from the Finance and Investment Committee is an industry standard financial metric of total current assets less total current liabilities less the total fiduciary net position using a working capital formula to reflect a working capital ratio of at least 1.5, with the long-term aim for a higher ratio of at least 2.0 based on the audited financial statements.

3. Unplanned Capital Replacement Reserve

Required by the California Education Code, the *Unplanned Capital Replacement Reserve* is intended to provide a ready source of funds for the repair or acquisition of buildings, leaseholds, furniture, fixtures, and equipment or the upgrading of facilities as they age. The target recommendation from the Finance and Investment Committee is set at 100% of total accumulated depreciation and amortization based on the audited financial statements.

4. Venture Capital/Opportunity Reserve

From time-to-time Foundation may consider new programs and ventures. These ventures are likely to require start-up and working capital. Foundation shall seek to fund reserve accounts for such ventures and opportunities at the time the annual budget is presented in order to determine how much can be earmarked for this reserve based on the surplus reflected in the annual budget approved by the Finance and Investment Committee. Once the related year is audited, the actual reserve amount can be calculated using the surplus reported in the audited financial statements, presented for approval to the Finance and Investment Committee, and funded.

5. Post-Retirement Health Insurance Obligation

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

unfunded liability (i.e., the reported ending balance of the *Net OPEB Liability*) as identified in the audited financial statements as a *Noncurrent Liability - Postemployment Benefits Other than Pensions* on the balance sheet. Foundation management and the Board acknowledge that these funds reserved will be deposited annually into the CSU Auxiliaries Multiple Employer Voluntary Employees Beneficiary Association (VEBA) Trust Account in order to reduce its unfunded liability.

6. Undesignated General Reserve

Earned surplus from enterprise and administrative operations is deposited into this account in advance of Finance and Investment Committee approved allocations to other reserves.

Sponsored Programs Reserve

For the following reserve and in consultation with Academic Affairs and the Office of Research and Graduate Studies, Foundation will utilize earned surplus from Sponsored Programs activity:

7. 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 (3%) of prior year expenditures with a minimum required reserve of \$300,000.