

**CALIFORNIA STATE UNIVERSITY, NORTHRIDGE
UNIVERSITY STUDENT UNION**

FISCAL POLICY

SUBJECT: USU Reserves

REFERENCE: CSU Executive Order 994, Financing & Debt Management Policy

DEFINITIONS: **Reserves** – financial resources set aside for future or potential use.

Revenue Fund – a trust fund administered by the campus on behalf of the USU used to deposit, transfer, and/or expend specifically defined monies such as student union fees. The monies are maintained at the University and if any excess funds exist, the University invests them. All revenue fund accounting transactions are recorded on the books of CSU Northridge.

USU Operating Fund – a fund administered directly by the USU. Student union fees are transferred from the revenue fund throughout each fiscal year in order to fund the USU's operating budget. All operating fund accounting transactions are recorded on the books of the USU.

BACKGROUND: The USU has three other funds (in addition to the revenue fund) that are administered by the campus on behalf of the University Student Union. The funding source for these three funds is the revenue fund.

- Repair & Replacement or DBMER¹ Fund – used as a source to pay for major repairs and replacements.
- Interest & Redemption Fund – used as a source to pay for annual debt service² on outstanding 30-year bonds issued to finance construction of all USU buildings and facilities.
- Construction Funds – used as a source for the construction or major renovations of USU facilities. Examples include the Student Recreation Center (SRC); the SRC Recreation Field; East Conference Renovation; and the Wellness Center.

Once the USU's obligations to fund repair and replacement, debt service, and construction have been met, any remaining fees in the revenue fund may be transferred to the USU's operating fund in order to provide services to students and to cover the maintenance and operations of the facilities. The amount of student fees transferred is determined during the annual budget process.

The flow of student fees from the revenue fund to other campus funds and the USU operating fund are illustrated in Appendix 1, the Student Fee Money Flow diagram.

¹ DBMER; Dormitory, Building, Maintenance, and Equipment Replacement Fund

² Principal and interest

POLICY: The USU shall institute standards relating to fiscal viability and the corresponding need for reserves.

The USU Board of Directors shall establish, review, and approve reserve funding levels during the annual budget process based on the availability of funding.

Reserves are intended to provide a funding source for major repairs and replacements, working capital, catastrophic events, and capital development for new projects.

Funding for reserves in the revenue fund will be provided from student fees and interest income. Funding for reserves in the operating fund will be provided by the transfer of student fees from the revenue fund to the operating fund and by internally-generated revenue³.

Approved by the USU BOD on May 5, 2014.

PROCEDURE: Revenue Fund Reserves

The USU will maintain the reserves in the revenue fund and will be accounted for in the long-term financial plan:

1. Major Maintenance & Repair/Capital Renovation and Upgrade⁴
 - a. This reserve will provide a funding source for major planned and preventative maintenance and replacement of major building facility systems (e.g. electrical; plumbing; and heating, ventilation, and air conditioning).
2. Working Capital/Catastrophic Reserve
 - a. This reserve will be utilized to provide funding when annual revenues fail to meet operating expenses in a given year and will be utilized to provide funding for minimal losses resulting from natural, man-made, or economic disasters.

³ Internally-generated revenue is all operating fund revenue exclusive of student fees transferred to the operating fund. Examples of internally-generated revenue are Student Recreation Center membership fees; summer camp; meeting room & equipment rentals; and food service commissions

⁴ "Maintenance & Repair" relates to building facilities systems required for ongoing, routine operations and maintenance of those buildings. "Capital Renovation" is the systematic replacement of major facility building systems and major equipment. Funding amounts will be determined based on formal studies of major facility systems prepared by a consultant.

- b. The working capital/catastrophic reserves are computed by taking 5% of the Ending Net Assets before Working Capital Reserves for that particular fiscal year.
- c. Any working capital/catastrophic reserves not utilized in the current fiscal year will be rolled over to the next fiscal year.

3. Capital Development for new projects

- a. This reserve will be used on an "as needed" basis to provide funding to pay for major renovation projects approved by the USU Board of Directors.
- b. A separate construction fund will be established for major renovation projects approved by the Board of Directors.

Operating Fund Reserves

Reserves in the operating fund will be determined during the annual budget development process. Upon Board approval, reserves will be recorded into separate accounts on the books of the USU at the beginning of the fiscal year.

The Board reserves the right to establish additional reserves on a case-by-case basis during the budget year.

The USU will maintain the following reserves in the operating fund:

1. Working Capital – 3.5% to 5.0% of the total operating fund expenditure budget.
2. Salary & Benefits Pool
 - a. Merit increases
 - b. Bonuses
 - c. Mandatory increases in the minimum wage
 - d. Reclassifications⁵ and equity increases⁶

⁵ A reclassification occurs when there is a major change in the essential duties of an employment position rendering the current job classification obsolete. A reclassification results in an increase in salary.

⁶ An equity increase is where the employee's classification remains the same, but the salary of the employee is increased. For example, a new hire with similar qualifications as a current worker, is appointed to one of those positions at a wage that is higher than what the other employee is compensated. In this case an equity increase might be considered to increase the compensation of the current employee to that of the new employee.

3. Board Designated Reserves

- a. This reserve will provide funding for any other project or purpose designated by the Board of Directors.

Evaluation of Reserves – Revenue Trust Fund

Per EO 994, the campus chief financial officer is responsible for developing and maintaining a campus policy to provide reserves from project revenues. At a minimum of at least once every three years, each campus shall conduct an in depth review to assess the adequacy of reserves and shall make necessary adjustments and changes to account for changing conditions.

The Executive Director/designee is responsible for reviewing the adequacy of reserves in the revenue trust fund in collaboration with the campus Chief Financial Officer (CFO) and FPDC⁷ The source document for reviewing the adequacy of revenue trust fund reserves is the USU's long term financial plan.

Adequacy of all reserves is determined by comparing actual reserves with the projected reserves in the long term financial plan. Adjustments to reserve levels will be made if the actual reserve amount differs from the projected amount in the financial plan.

The Executive Director/designee submits the long term financial plan with the justifications and assumptions for all reserve levels in the financial plan for review and approval by the following officials:

- Associate Vice President, Student Life
- Vice President, Student Affairs & Dean of Students
- Associate Vice President for Facilities Development & Operations
- Vice President, Administration & Finance (campus Chief Financial Officer)
- Campus President

Adjustments in the reserve levels in the long term plan will be made based on input from any of the officials listed above.

The process of evaluating reserves in the revenue trust fund is illustrated in Appendix 2, Revenue Trust Fund – Evaluation of Reserves diagram.

Evaluation of Reserves – Operating Fund

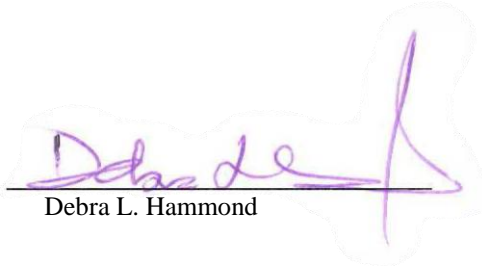
The USU Executive Director/designee (in collaboration with the Finance Committee and Board of Directors) will determine the adequacy of reserves in the operating fund during the annual operating budget process.

⁷ FPDC = Facilities Planning, Design & Construction. FPDC is a department of the campus.

Justification for reserve levels will be included in the annual budget message to the Finance Committee and Board of Directors. The USU will adjust the reserve levels in the proposed operating budget based on input from the Finance Committee as well as the Board of Directors.

The process of evaluating reserves in the operating fund is illustrated in Appendix 3, Operating Fund – Evaluation of Reserves diagram.

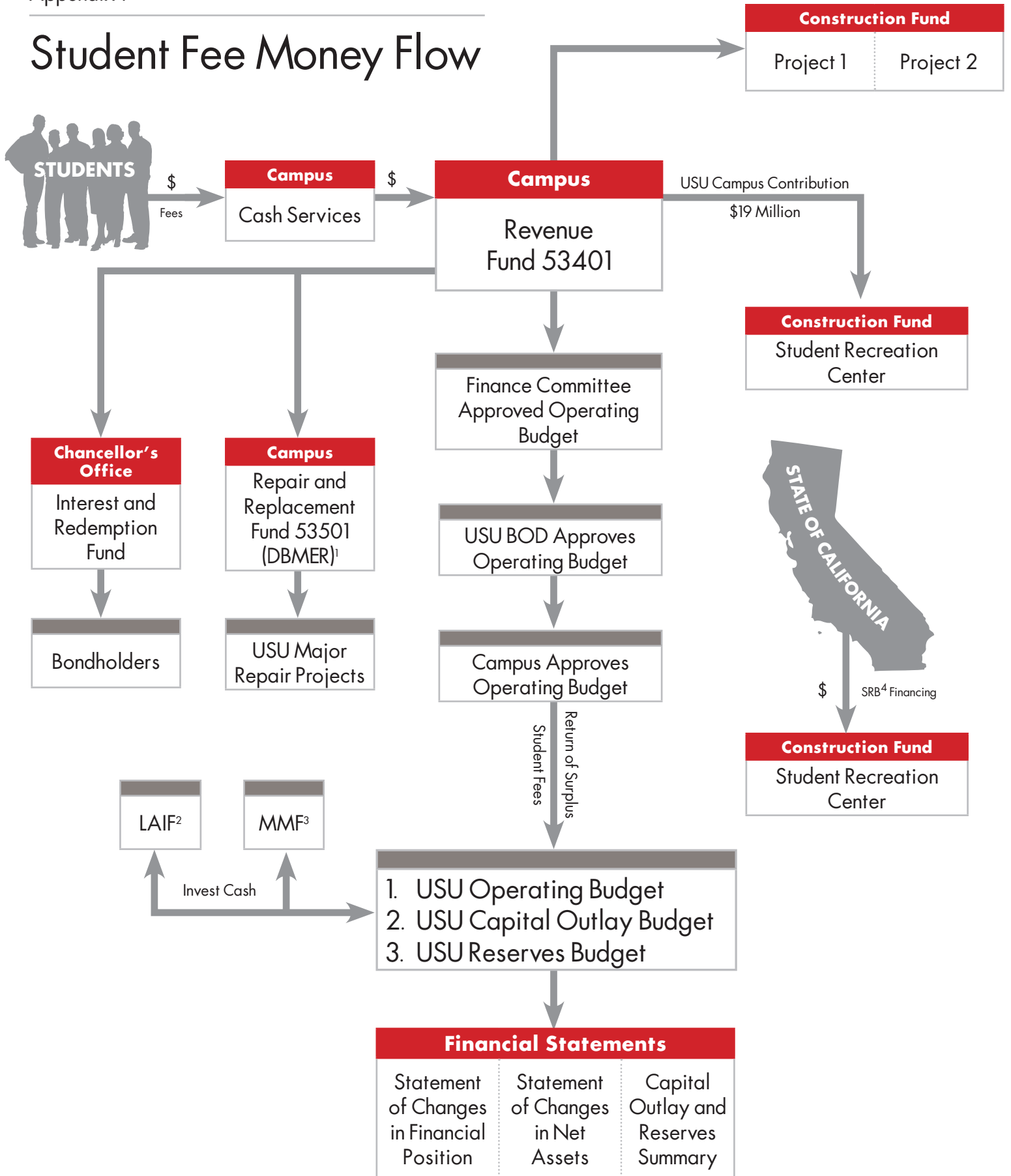
Signed:



Debra L. Hammond

Dated: May 8, 2014

Student Fee Money Flow



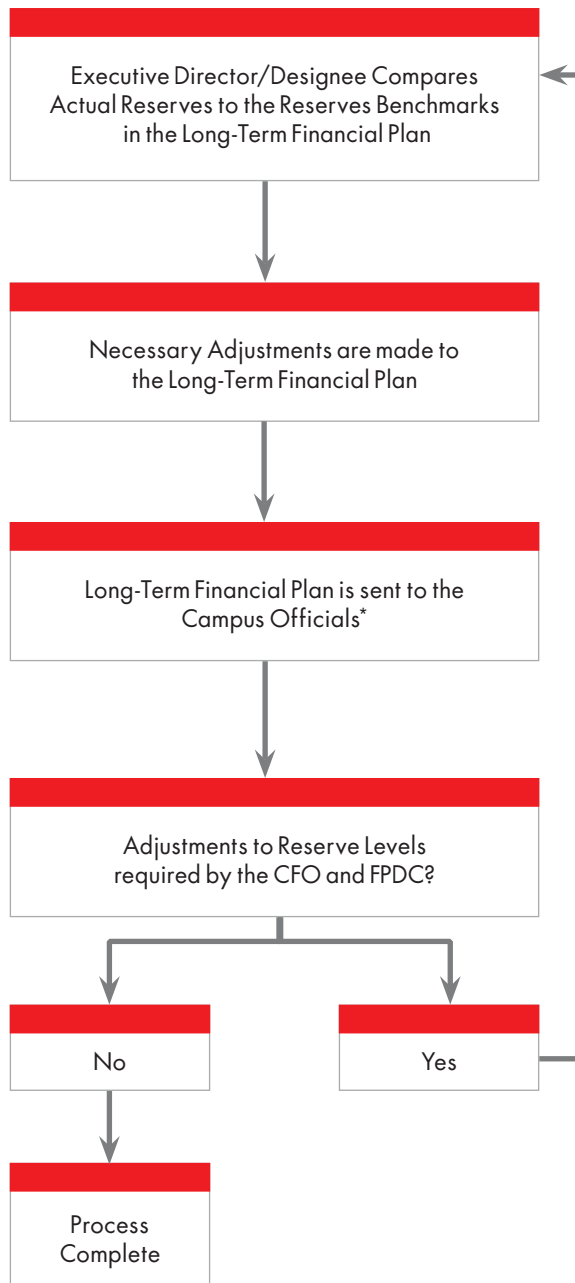
1 – DBMER: Dormitory, Building, Maintenance, and Equipment Replacement Fund
 2 – LAIF: Local Agency Investment Fund
 3 – MMF: Money Market Fund
 4 – Statewide Revenue Bond



Appendix 2 Evaluation of Reserves

University Student Union, Inc.
California State University, Northridge

Revenue Trust Fund



* Associate Vice President, Student Life
Vice President, Student Affairs
Associate Vice President, FPDC
Vice President, Administration & Finance
Campus President



Appendix 3 Evaluation of Reserves

University Student Union, Inc.
California State University, Northridge

Operating Fund

