

Policy and Procedures Manual

SUBJECT: BUDGET AND FINANCE

Policy 205: CSUS Board Reserves Policy

Board Policy

Pursuant to Colorado law, the Board has exclusive control over all funds of and appropriated to any institution that it governs (Colorado Constitution, Article VIII, Section 5; C.R.S. § 23-30-106). This policy sets forth the process, method of calculation, and potential use of certain reserves by the Board, the CSUS and its institutions.

Purpose of the Reserves

The purpose of maintaining reserves is to ensure the financial health and stability of each institution within the CSUS, as well as the CSUS as a whole, and to provide an additional measurement of the fiscal condition of the CSUS and its institutions. Reserve levels beyond that needed to maintain its fiscal condition, as defined by the **Board Reserve Floor**, may be deployed to meet the strategic initiatives of the System. Generally, there are three primary and strategic areas of focus for the utilization of reserves:

1. **Fiscal and Fiduciary Responsibility** – Ensuring the financial integrity of its institutions. Examples include, but are not limited to, addressing revenue shortfalls or extraordinary expenditures.
2. **Enhance the Essentials** – Providing resources to improve existing programs, tools, systems and activities that are essential. Examples include, but are not limited to, start-ups, seed capital, bridge funding to base and reducing outstanding debt; and
3. **Transformational Investments** - To provide resources to invest in opportunities that arise that are transformational. Examples include, but are not limited to, the establishment of a signature program, such as a medical school, or an extraordinary investment in Academy level faculty.

Reserves should not be utilized to backfill expected on-going shortfalls in revenue unless a plan exists to either increase the respective revenue stream or reduce related expenses. The use of reserves is appropriate to assist with timing issues, but should not be relied upon for the support of on-going expenditures. The reserves also provide operational flexibility to allow for strategic-related risks and to respond to changes within the environment. Through these reserves, the CSUS will be able to better manage financial challenges, enhance existing programs and invest in strategic initiatives and opportunities.

Definitions

1. **Maximum Available Unrestricted Nets Assets (MAUNA).** Unrestricted Net Assets as reported within the annual audited financial statements, limited to the General Fund (E&G) for CSU and CSU-Pueblo, adjusted for GASB 68 accruals.
2. **Board Reserve Floor.** The minimum balance that the summation of MAUNA and the Non-E&G Allocated Reserves should not go below.

The Board Reserve Floor (Floor) will be calculated each year following the compilation of the annual audited financial statements for the CSUS. For CSUS, CSU and CSU-Pueblo, the Floor will be equal to 20% of the actual expenditures reported within the Budget Data Book each September. For CSU-Global, the Floor will be equal 40% of their annual actual expenditures adjusted for depreciation.

3. **Non-E&G Allocated Reserves.** Reserves recorded within other fund group types that are internally uncommitted and unrestricted but allocated for specific purposes. These resources could be utilized to support E&G related expenditures if needed. This includes items such as our internal loan fund, academic enrichment program funds, and other related fund balances.
4. **E&G Board Reserves Available for Strategic Deployment (Board Reserves).** Those reserve funds held on behalf of the Board at the System level. The E&G Board Reserves will be recorded in, and transferred to, a separate general ledger account within the CSUS financial accounting system that is labeled as the Board Designated Reserve.

The Board Reserves will be set at an amount equal to MAUNA less CSU-Global's 250 DCOH, the Board Reserve Floor for CSU, CSUP and CSUS, and the 10% Institutional Reserves for CSU, CSUP and the CSUS.

5. **Institutional Reserve.** Those reserve funds that an institution may retain each year to support its operations.

The initial Institutional Reserve (CSU, CSU-Pueblo, and CSUS), will be set at an amount equal to ten percent (10%) of MAUNA as of June 30, 2015. The maximum annual increase to the Institutional Reserve will be equal to ten percent (10%) of the change in MAUNA for each respective fiscal year thereafter for each institution, unless otherwise approved by the Board (example – reserve replenishment), respectively. For CSU-Global, the Institutional Reserve will be set as 250 DCOH. In the event budgeted expenses decline from one year to the next, CSU-Global will be allowed to retain the reserve balance established at the beginning of year (less any amounts utilized), to support future institutional needs as opposed to a lower “reset” of the above due to the lower DCOH calculation. In the event MAUNA is an amount equal to or less than \$0, no Institutional Reserve will be available.

6. **Days Cash on Hand (DCOH).** This represents the number of days of budgeted operating expenses, excluding non-cash expenses, such as depreciation, that could be paid by an institution with its current available cash.

Procedures

1. Within the financial accounting system, each institution may designate internal restrictions on the use of some or all of its Institutional Reserve. For example, an institution may designate internal restrictions for debt service or controlled maintenance, and other such related items. Any such internal restriction may be determined by the President of the institution.
2. On an annual basis, funds will be transferred to the Board Reserves as indicated by the annual calculation noted above.
3. Transfers to or from the Institutional Reserve accounts at the institutions and the Board Reserves account will occur following the issuance of the annual audited financial statements each year.
4. The funds held within the Board Reserves may be segregated by institution. Any Board Reserves that are not internally restricted are designated as unrestricted Board Reserves.
5. The E&G Board Reserve Available for Strategic Deployment may be utilized to support the educational mission of the CSUS and its institutions. It is the Board's policy that it will not utilize the Board Reserves except in the event of compelling and unique circumstances. Any expenditure from the Board Reserves shall be made in consultation with the Chancellor and must be approved by action of the Board.
6. Any utilization of Institutional Reserves shall be determined by the President of the institution in consultation with the Chancellor, and will require notification to the Board, but not Board approval.
7. Information about the Board Reserves and each Institutional Reserve, including the amounts held in those accounts, will be reported to the Board annually at its February meeting.

History: Policy and Procedures Manual effective October 4, 2013 by Board Resolution
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