

RESERVE POLICY AND INDIRECT COST ALLOCATION POLICY

REVISED:

Revised from December 12, 2002 Version

EFFECTIVE DATE:

December 15, 2005

POLICY REVIEW:

This Reserve Policy will be reviewed at least annually to ensure it's consistency with the Foundation's objectives of growth, income and safety, and with any changes in applicable laws and external financial trends.

Any proposed amendments or variations to this policy will require a majority approval by the HSU Sponsored Programs Foundation Board of Directors

PURPOSE:

It is a goal of HSU Sponsored Programs Foundation to maintain adequate reserves and working capital and promote the Foundation's role in assisting the University in meeting both its current and long-range goals.

BACKGROUND:

California State University Board of Trustee guidelines state that auxiliary organizations shall evaluate the need for reserves in the following areas:

- A. Working capital
- B. Current operations
- C. Capital replacement
- 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).

Having established a reserve policy, the Foundation's Board Of Directors have the responsibility for reviewing the reserves and their funding levels on an annual basis and to set aside a portion of net assets to fund reserves. Net assets are defined as fund assets minus fund liabilities. It represents the total amount of net income (excess revenues over expenses) that have been accumulating from year to year since the fund began operating.

The HSU Sponsored Programs Foundation receives, as its main source of revenue, indirect cost recovery from administering sponsored programs (grants and contracts). Other sources of revenue include; indirect cost recovery from administering campus programs and investment revenue. These funds are used to support expenses incurred by the General Operations fund. The funding of the Foundation's General Operations fund is the first priority for the use of indirect cost recovery. The funding of indirect cost allocations will be the second priority. The sources and uses of these funds are reflected on the financial statements as Unrestricted - General Fund. Reserve categories will be established and recognized on the financial statements as Unrestricted Net Assets - General Fund.

USE OF INDIRECT COST ALLOCATION REVENUES

1. The Foundation's General Operations expenditures are covered in the first allocation of indirect cost recovery.
2. In the second allocation of indirect cost recovery, funds are returned to Principal Investigators, Departments and Colleges according to the following formula:
 - a. When indirect cost recovery awarded on a single grant or contract is less than 15% of total direct costs, none of the indirect cost recovery is returned to the principal investigator, department, or college. 100% of that indirect cost recovery is retained by the Foundation to meet General Operations expenditures.
 - b. When indirect cost recovery on a single grant or contract is or exceeds 15% of total direct costs, 90% of the indirect cost recovery is retained by the Foundation to meet General Operations expenditures. 10% of the indirect cost recovery is returned back to the university using the following formula: 50% is returned to the Principal Investigator, 25% returned to the Principal Investigator's home department, and 25% returned to the Principal Investigator's college.

After the Foundation's General Operations expenses and indirect cost recovery allocations are made as described in a. and b. above, any indirect cost recovery remaining will be distributed as follows:

All succeeding fiscal years ending June 30 2005:
30% to fund Foundation reserve categories
15% to fund HSUF trust "President's Special Projects"
15% to fund HSUF trust "Executive Committee Trust"
30% to fund HSUF trust "Research and Graduate Studies Trust"
10% to fund each HSU college Dean, Vice President or supervising administrative unit that generated indirect cost recovery proportional to that fiscal year's total indirect cost recovery from grants and contracts awarded.

RESERVE CATEGORIES

Reserve categories will be established to provide for sufficient levels of working capital (current assets minus current liabilities) and to maintain current operating expenditures for at least sixty days (based on a three-year trailing average) for all areas of operations. The goal for reserve categories A, B and C shall be a cumulative amount of two million dollars (\$2,000,000). When the goal of two million dollars has been achieved for categories A, B and C allocations will begin for category D.

Reserve levels will be subject to annual review by the Foundation's Board of Directors. The reserve categories will be adjusted annually to meet the required amount. Allocations will be made until the level of funding is attained according to the stated reserve levels. Authority for expenditures from reserve categories will be with the Foundation's Board of Directors upon the recommendation of the Finance Committee. Any changes in the stated goals of the reserve categories will require the same procedures. In any year in which there might be an operating loss, the loss shall be distributed, pro rata, to all reserve accounts after taking into consideration the components of that loss that need to be allocated to specific reserve categories.

A. CURRENT OPERATIONS/WORKING CAPITAL RESERVE

This category will be used to:

1. Cover all normal expenditures incurred by all areas of operations (all funds that are administered by the Foundation).
2. Maintain sufficient working capital (current assets minus current liabilities) for all funds administered by the Foundation.

3. Cover any agency or audit dis-allowances resulting from revenue received or expenditure incurred for all areas of operations of the Foundation (all funds that are administered by the Foundation).
4. Cover any specific expenditures resulting in unexpected cash outlays incurred by all areas of operations (all funds that are administered by the Foundation), subject to the approval of the Board of Directors.

B. CAPITAL REPLACEMENT RESERVE

This category will be used to provide for the replacement of fixed assets as needed. As deemed necessary and in accordance with the annual budgeting process, Management will prepare a plan for replacing capital items, accompanied by a capital expenditure budget, that enumerates the funding needed to meet the plan. All plans will be subject to approval by the Board of Directors. Funding will be adjusted as needed on an annual basis.

C. CONTINGENT LIABILITY RESERVE

This category will be used to provide any financial requirements, beyond and outside of insurance coverage that may arise from legal claims.

D. PLANNED FUTURE OPERATIONS

This category will be used to provide for business requirements for planned future operations. As necessary, management will prepare a plan that enumerates the funding needed to meet the plan. All plans will be subject to approval by the Board of Directors. Funding will be adjusted if needed on an annual basis.

