CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION

Liquidity Management Policy

As of May 30, 2019

I. PURPOSE

The liquidity management policy for California State University, Stanislaus Foundation (the "Foundation") was established to document guidelines for managing the Foundation's assets.

This policy serves an important governance function by identifying sources of liquidity and establishing parameters for its liquidity management activities, outlining CSU, Stanislaus Foundation's philosophy on liquidity management, and providing a framework for utilization of short-term debt.

II. SCOPE

Within the context of this document, liquidity is defined as cash and cash equivalents, liquid investment balances, access to cash (e.g., lines of credit, letters of credit), and the convertibility of assets to cash in order to meet financial needs during the operating cycle. The Liquidity Management Policy is meant to work in combination with the Board-approved Investment policy, Reserve policy and other policies that impact financial risk management. This policy explicitly excludes quasi-endowment, endowment funds, and donor restricted funds as these funds are not liquid or not available for operating purposes.

III. OBJECTIVES

The objective of this policy is to provide a framework under which the Foundation strives to achieve its liquidity management goals. Those goals include providing adequate liquidity to support the:

- Cash flow needs of the annual operating cycle
- Define the Foundation's primary objective for liquidity management, and
- Identify a framework for utilization of short-term debt (when applicable)

IV. OVERSIGHT

The office of the Vice President of Business and Finance (VPBF) and Executive Director (ED) are responsible for implementing this policy and all liquidity activity for the Foundation. The VPBF and ED, in conjunction with the Foundation Board of directors (the "board"), are responsible for policy compliance, periodic review, and all liquidity management activities for the Foundation The VPBF, ED and Board are authorized to delegate supervision of these policies, objectives and guidelines the Foundation's Investment Committee. Further, the Board is authorized to delegate certain responsibilities to professional experts in various fields.

These include, but are not limited to: Investment Committee, Management Consultant, Investment Manager, Custodian, and Additional Specialists.

This policy will be approved by the Foundation's Board of Directors.

V. LIQUIDITY MANAGEMENT

The principal objective of liquidity management is to preserve a cash position which allows the Foundation to meet daily financial obligations without incurring costs that may arise from having excess cash.

<u>Liquidity Sources</u>

The Foundation's liquidity sources include:

- Operating and non-operating revenues
- Cash and liquid investment balances (including reserves)
- Gifts, in the form of cash or pledges

<u>Liquidity Uses</u>

Liquidity is used mainly to satisfy (1) operating expenses and (2) non-operating, episodic needs. Operating expenses are paid using the appropriate funds aligned to the Foundation's mission and compliant with the applicable statues and Foundation policies.

<u>Liquidity Measures</u>

The Foundation must balance liquidity requirements with its investment objectives. The Foundation will manage its liquidity needs by considering its entire asset and debt portfolio, rather than managing liquidity solely on an issue-specific basis. This approach permits evaluation of desired liquidity requirements and limits exposure.

<u>Liquidity Targets</u>

Cash on hand (in days) Target >/= 180 days

How long, in days, the organization could meet operating expenses without receiving new income. The foundation strives to maintain at least 90-180 days cash on hand. This figure is calculated as (unrestricted cash and cash equivalents x 365 days) / (total operating expenses – annual depreciation).

<u>Liquidity Risk Management</u>

Liquidity risk is defined as an inability to meet short-term financial demands and the risk that assets may not be convertible into cash when needed. Liquidity risk is categorized into three risk types:

- *Operating liquidity risk* occurs when the Foundation cannot fund its operating expenses due to a lack of liquid cash holdings.
- *Financing liquidity risk* occurs as a result of external financing activities and the potential for those financings to come due before maturity.
- *Market liquidity risk* occurs when the Foundation is unable to convert assets into cash without substantial losses.

Liquidity risk is addressed in part through annual monitoring and reporting of the Foundation Reserve's, which reflects disposable net assets to operating expenses.

The Foundation recognizes that it may be exposed to interest rate, third-party credit and other potential risks in areas other than direct debt (such as counterparty exposure in the investment portfolio) and, therefore, exposures are considered on a comprehensive basis.

Adopted by the California State University, Stanislaus Foundation Board on June 20, 2019