

## **Associated Students, Inc.**

### **Reserve Policy**

#### **Purpose:**

The Associated Students, Incorporated is entrusted with the management and operation of a number of vital student activity and campus service programs. Critical to the management of a comprehensive Corporation like the Associated Students is effective long-term financial planning. At the direction of the California State University's Chancellor, auxiliary organizations are required to establish and maintain adequate reserve funding. Reserves are intended to meet the potential and anticipated business and operational needs of the Associated Students. Reserves are intended to provide the Board of Directors with sufficient funds with which to address contingencies, emergencies, and budgetary impact; and at the same time, to have adequate working capital to maintain programs, meet obligations, and other priorities of the Corporation. The evaluation of reserves conducted in connection with the annual budgeting process provides management with the necessary information for ensuring adequate professional management of retained earnings and reserve accounts.

#### **Policy Statement:**

It is the policy of the Associated Students, Incorporated to provide adequate reserves for current operations, capital replacement, and future business requirements, as needed. The Associated Students, Inc. Finance Committee shall establish, review, and approve the funding levels annually in accordance with the established budget process and the availability of funds, subject to the approval of the Associated Students, Inc. Board of Directors, and the campus president. The Associated Students, Inc. Board of Directors reserves the right to establish additional reserves on a case-by-case basis during the budget year. It shall be the policy of the Associated Students, Inc. that Reserve Funds be established which will maintain funds approximately equal to fifty percent (50%) of the annual income. This amount will be considered a minimum goal. In the event that reserves fall below policy level, five percent (5%) of the annual operating budget will be transferred to the Reserve Fund until such time as the minimum goal is reached. This reserve policy shall pertain only to the funds allocated to Associated Students under the ASI umbrella, and does not include funds for Athletics, Children's Center, Division 1 Athletics, Student Activities Clubs/Orgs, or Antelope Valley Clubs/Orgs which are under the funding umbrella of Associated Students.

#### **Definitions:**

For the purpose of this policy the terms used are defined as follows:

- Retained Earnings: The accumulated net income retained for reinvestment in a business.
- Reserves: Funds held for future use by the organization

#### **Fiscal Viability Report:**

Per California State University Policy governing auxiliary organizations, Associated Students, Inc. management and the Board of Directors will annually review the fiscal viability of the organization, which includes an evaluation of the reserve funds and the establishment or revision of reserves in accordance with this review. The review will take place following winter quarter prior to the annual budgetary process.

### **Evaluation of Need for Reserves:**

In evaluating the need and level of reserves, ASI management will analyze the following areas:

- Working Capital – This analysis will determine if the amount of cash on hand is sufficient to cover operating expenses during those times when expenditures may precede revenue.
- Current Operations – This analysis will determine if the Associated Students, Inc. will be able to cover projected expenses with projected income for the coming year.
- Capital Replacement – This analysis will determine if the ASI investment in fixed assets and capital improvements is sufficient to maintain facilities at current standards, provide services at current levels, and offset the economic effects of depreciation.
- Planned Future Operations – This analysis will shall determine if there are any future business requirements that cannot be funded through the annual operating budget without causing a significant reduction in current programs or services.

This review shall be documented in writing and presented to the ASI Board of Directors as part of the annual budget process.

### **Establishment or Revision of Reserves:**

Based on previous evaluations of need, the Associated Students, Inc. has established the following local reserves and reserve levels.

- Reserve for Economic Uncertainty  
The Reserve for Economic Uncertainty shall be maintained to provide for unanticipated major expenses or reductions in income, resulting from shortfalls in enrollment or business interruptions. This reserve shall be set at a level of no less than 3% or a minimum of \$10,000.00, of the total projected expenditures indicated in the annual operating budget. This reserve will be listed in the annual budget as “Current Year Reserves.”
- Reserve for Capital Enhancement and Replacement  
The reserve for Capital Enhancement and Replacement shall be maintained to provide for the replacement or renovation of existing facilities, and the replacement or purchase of equipment costing \$1,500.00 or more per unit. The level of this reserve

shall be established annually at an amount no less than the total depreciation expense for the prior year.

- Reserve for Future Business Operations  
The Reserve for Future Business Requirements shall be maintained to provide for future business requirements and/or new requirements for current business that have been recognized by the university and the Associated Students, Inc. as appropriate and within the educational mission of the university.
- Contingency Reserve  
The Contingency Reserve shall be established when the minimum reserve funding level is met. The Contingency Reserve shall be derived from retained earnings at the end of each fiscal year. Following the fiscal year independent audit, the Board of Directors may allocate up to eighty percent (80%) of retained earnings into the Contingency Reserve for use during the current fiscal year to increase operations or programs of the Associated Students. The remaining percentage of retained earnings shall be allocated to alternate reserve funds.

### **Funding Reserves**

Funds for reserves shall be derived from retained earnings. As needed, or as determined appropriate by the AS Board of Directors, earnings from projected operations, student fees, and interest income from investments may be designated to fund reserves in order to attain the levels prescribed above.

### **Process**

Annually, prior to the budgetary process, the Board of Directors will review reserve levels and recommendations for reserve category funding. The recommended reserve category funding levels will be listed and approved during the annual budget process.

Annually, following the independent audit, the Board of Directors will review the audit report, specifically retained earnings, and may approve to allocate an amount up to eighty percent (80%) of the retained earnings into the contingency reserve for use during the current fiscal year.

Expenditures from reserve accounts will require a resolution passed by 2/3 affirmative vote of the Associated Students, Inc. Board of Directors. Expenditures from reserve funds, except for Contingency Reserve, must be approved by the University President prior to implementing transactions.

### **Revision to Policy**

This policy may only be amended by a 2/3 affirmative vote of the Associated Students, Inc. Board of Directors.

Passed by the ASI Board of Directors on April 9, 2010. (SB 204)