

# Investment Income Recognition and Spending

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## Purpose

Investment of assets generates returns, which include both ordinary income (yield) and appreciation, both realized and unrealized. Recognizing that purchasing power must be protected from erosion attributable to inflation, the amount of return allocated to current needs must be balanced with reinvestment to meet future needs.

## Policy

It is the policy of the Associated Students, Incorporated to recognize income and appreciation in its accounting system in accordance with generally accepted accounting principals. ASI shall use a "total return" spending formula that provides for expending a prudent portion of both the ordinary income from investments and appreciation of the principal.

## Who Should Know This Policy

- |  |  |   |
|--|--|---|
| <input type="checkbox"/> Budget Area Administrators      | <input checked="" type="checkbox"/> Elected/Appointed Officers | <input type="checkbox"/> Grant Recipients |
| <input checked="" type="checkbox"/> Management Personnel | <input type="checkbox"/> Program Advisors                      | <input type="checkbox"/> Staff            |
| <input type="checkbox"/> Supervisors                     | <input type="checkbox"/> Volunteers                            |   |

## Definitions

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

Term	Definition
Capital gain	The amount by which an asset's selling price exceeds its initial purchase price.
Capital loss	The decrease in the value of an investment or asset. Opposite of capital gain.
Ordinary income	The yield from investment, including dividends, interest, net rents, and royalties, but excluding capital gains
Realized gain/loss	The appreciation or depreciation established by the sale of an asset.
Total return	The return on an investment, including income from dividends and interest, as well as appreciation or depreciation in the price of the security, over a given time period, usually a year.
Unrealized gain/loss	The appreciation or depreciation established by the market value of an asset.

## Regulations

### 1.0 Accounting and Reporting

#### 1.1 Ordinary Income

Ordinary income earned shall generally be distributed quarterly in accordance with the terms of the funding source and the prudent return concept. Ordinary income earned, for unrestricted purposes, shall be credited to ASI's investment income account. Ordinary income earned for restricted purposes shall be credited to the designated income accounts or to fund balances as specified by the terms of the gift instrument.

#### 1.2 Capital Gains and Losses

Capital gains and losses shall be accounted for as additions to and deductions from account balances. Any portion of the capital gains that are utilized for current operating purposes shall be reported as a transfer. Distribution (if any) of the realized appreciation shall be determined annually, in arrears, by the ASI Controller in concert with the ASI Executive Director and the Treasurer.

### 2.0 Investment Pool

To the extent legally possible and in compliance with donor intent, ASI shall pool investments for all funds. This practice permits broad diversification with attendant protection of principal and relative stability of revenue. Furthermore, it promotes economics in administration and accounting.

Earnings shall be distributed to pool participants on a pro-rata basis calculated on the average balance of the account. Ordinary income is distributed to pool participants monthly. A prudent amount of appreciation may be distributed annually after the close of the fiscal year, provided the purchasing power of the funds is protected.

A realized gain or loss account shall be used to record the realized appreciation or depreciation of traded securities. The account is charged upon withdrawal of participating funds from the pool and is used to transfer distributions of appreciation to funds under the total return concept.

All expenses related to the investment pools will be netted against the ordinary income of the pools. Expenses include, but are not limited to, fees for Investment Manager and Monitoring Services, brokerage fees, and Associated Students, Incorporated administrative fees. Associated Students, Incorporated administrative fees are 1/12 of 1% of the average monthly market value of the pool calculated in arrears.

### 3.0 Review

These income recognition and spending policy guidelines are to be annually reviewed by the Executive Director, Controller, Treasurer, and Board of Control, and revised as needed.

## Forms

There are no forms associated with the execution of this policy.