



# (HR) Proposal Financial Policy

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**Submitted by:** Audit Committee (Hong Quynh Le, Kevin Liu, and Tien Hung Nguyen)

## CONTEXT

During the previous GMA on 21 September 2023, a proposal on an addition to HR on a change on the profit policy of ABC was rejected by the GMA. The scope of this proposal was as follows:

1. ABC as an association and nonprofit organization, does not aim to make a profit from its Members.
2. ABC Members from different economic backgrounds should be able to participate in ABC events with low barriers.
3. Providing free ABC events should be one of the possibilities to pursue the association's goal: bringing students and young professionals together and having a good time with all the Members.
4. ABC should reinvest in its Members as much as possible.
5. ABC should be transparent about its financial situation towards the Members.

To reiterate the stance of the Audit Committee, our vision fully aligns with the goals this proposal wants to achieve. However, the Audit Committee believes that the proposed additions to HR are unable to achieve these goals and will cause harm to the financial health of ABC in the long term. Our arguments are as follows:

1. The submitter did not manage to provide justifiable calculations to back their €12.000,- (twelve thousand) financial buffer estimate mentioned in Article 9.12. While the Audit Committee agrees on the importance of a financial buffer, to ensure the financial health of ABC in the long run, we believe that the set buffer should be based on actual data and strategies from financial experts. Additionally, the Audit Committee recognizes the damaging impact of inflation and increasing prices on the value of money and puts emphasis on taking this into account in the calculation of a financial buffer.
2. The proposal to not make a profit on member tickets and ABC events in general, with the exception of financial distress or approval of the GMA for a more extensive project (Article 9.13 to Article 9.14), was proposed to ensure accessible ticket prices for members and aligns with ABC's goals to give back to its members.

The Audit Committee recognizes the urge to ensure a more strict policy on profit on ABC events, as (member) prices of events have been pricey and ABC needs to give back more to its members. However, the Audit Committee puts emphasis on the practical implications of this policy. With the experience of past treasurers in the Audit Committee, it recognizes the difficulty of calculating break-even prices for members when the member/non-member ratio varies per event and takes into



account an item for unforeseen expenses, as there have been numerous events in the past that have incurred unexpected high expenses and eventual losses.

The Audit Committee recognizes the need for a more clear financial policy that ensures that ABC will give back to its members but also sees the lack of foundation on actual data, experience, and numbers in the proposed addition to the HR. The Audit Committee therefore would like to suggest a proposal that is based on the experiences of two generations of Treasurers, data, and numbers.

## DEFINITION

“Cash reserves refer to the money a company or individual keeps on hand to meet short-term and emergency funding needs. Firms hold cash reserves to meet all expected and unexpected costs in the short run, as well as to finance potential investments. Needs vary, but, in general, experts recommend that businesses have three to six months of operating expenses tied up in cash or highly liquid assets.”

(Source: Investopedia, 2022)

“An operating expense is an expense that a business incurs through its normal business operations. Often abbreviated as OpEx, operating expenses include rent, equipment, inventory costs, marketing, payroll, insurance, step costs, and funds allocated for research and development.”

(Source: Investopedia, 2023)

By definition, all expenses that ABC incurs are considered as operating expenses as they are incurred as part of the day-to-day activities that are essential for the functioning of ABC. As a non profit organisation, ABC usually does not incur non operating expenses, such as interest payments on loans. Therefore, all expenses will be used in the calculation of the cash reserve for practical reasons.

The cash reserve is calculated by using the cash burning rate of three months multiplied by a percentage of inflation. The cash burning rate is equal to the operating expenses. For example, the cash reserve for the fiscal year 23/24 would therefore be calculated as follows:

$$\text{Expenses FY 22/23} = \text{€}61.568,64$$

$$\text{Expenses per month} = \text{€}61.568,64 / 12 = \text{€}5.130,72$$

$$\text{Cash burning rate (3 months)} = \text{€}5.130,72 * 3 = \text{€}15.392,16$$

$$\text{Cash reserve FY 23/24} = \text{€}15.392,16 * 1,0774\% = \text{€}16.583,77$$

Note: the inflation rate used to calculate the cash reserve is based on the average inflation of the previous fiscal year based on data from Centraal Bureau van Statistiek (CBS).



## PROPOSAL: Addition to the HR

### ARTICLE 9. FINANCES

- 9.12 ABC is required to maintain a minimum cash reserve at the end of the fiscal year. The minimum cash reserve is equal to the cash burning rate of three months multiplied by the average inflation rate of the previous fiscal year based on data from the Centraal Bureau van Statistiek (CBS).
- 9.12.1 The cash burning rate is calculated by taking the average monthly expenses of the previous fully operating fiscal year multiplied by three months. All expenses are considered operating expenses.
- 9.13 The Executive Board, Audit Committee, Supervisory Board, Advisory Board, and all executive Committees are held accountable by the GMA for ensuring that ticket prices for ABC events are offered at the lowest price possible.
- 9.14 At least 75% of the profit of the previous fiscal year is aimed at reinvesting it back into the association and/or to give back to the Members by for instance, and not exclusively, lowering ticket price and/or organising free events.

## PROPOSAL LAST GMA (Rejected)

- 9.12 ABC is required to maintain a financial buffer in the association's bank account with a minimum value of €12.000,- (twelve thousand). Each year, the Executive Board must ensure that there is no less than this amount in the association's bank account. The buffer amount can be revised annually at the GAM upon request.
- 9.13 The executive Board, Audit Committee, Supervisory Board, Advisory Board, and all executive Committees are expected to ensure that ticket prices at ABC events remain as low as possible.
- 9.13.1 No profit should be made on Member tickets for ABC events. The amount a Member pays should only be the cost price of the event.
- 9.13.2 Profit may be made on Non Member tickets, but the amount should be reasonable at all times. Any profit made must be reinvested in the association or other events in the same academic year.
- 9.14 Profit from ABC events is only possible in exceptional circumstances;
- 9.14.1 Making profit on ABC events is possible in case the association is in financial distress. This must be discussed and accounted for at an (emergency) GAM;
- 9.14.2 Making profit on ABC events is possible in case the budget needs to be freed up to achieve a specific savings goal. The savings goal must come with a comprehensive plan explaining why the investment is necessary and must be approved by the GAM. Additionally, a financial plan must be created outlining how much and within what timeframe this goal amount should be realized



## SOURCES

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