

AMERICAN PUBLIC WORKS ASSOCIATION

OPERATING POLICY

NO. B2.2A

TITLE: **Association Reserves**

EFFECTIVE DATE: June 23, 2017, Revised May 9, 2019, Revised June 7, 2019, November 16, 2021, June 2, 2022

CATEGORY: Board of Directors

PURPOSE

The purpose of this APWA Reserve Policy is to both maintain an adequate level of reserves to support the financial security of the organization and to fund new initiatives that further the strategic goals of APWA.

DEFINITIONS AND GOALS

Reserve Target: The target for total Reserves is 150% of APWA's annual operating budget ***(less non-cash expenses such as depreciation)*** unless modified by the Board of Directors. The Reserve target amount will be calculated each year as part of the annual budget process. These reserve amounts will be reported to the Finance Committee and Board of Directors in the regular financial reports.

The three components of APWA's Reserves are as follows:

Operating Reserve Fund: The purpose of the Operating Reserve Fund is to provide APWA with a means to maintain the budgeted level of operations in the event of an unplanned shortfall, disruption in one or more of its major revenue sources, an unbudgeted expense in a given fiscal year, or a capital or special project that requires an outlay of over \$100,000. The target goal for the Operating Reserve is set at 80% of the annual Operating Budget. The Association shall set aside a minimum of \$250,000 annually, if possible, to meet the Operating Reserve goal. Once 80% is achieved, the Association shall annually contribute funds to maintain 80% of the annual operating budget recognizing that the operating budget amount could change from year to year.

New Initiative Fund: The purpose of the New Initiative Fund is to fund new initiatives that align with the Board-approved strategic plan. Projects will be approved by the New Initiatives Committee. The target goal for the New Initiative Fund is set at 15% of the annual operating budget. The Association shall set aside a minimum of \$175,000 annually, if possible, to meet the New Initiative goal. Once 15% of the operating budget is achieved, the Association shall annually contribute funds to maintain the 15% of the operating budget recognizing that the operating budget amount could change from year to year.

Based on a recommendation by the Finance Committee, the Board shall approve through the budget process a designated dollar amount, not to exceed \$75,000 each fiscal year, to be available to fund new initiatives proposals through the New Initiative Committee process.

Meeting Event Cancellation Reserve Fund: The purpose of the Meeting Event Cancellation Reserve Fund is to self-insure against the potential cancellation of APWA's North American Snow Conference and PWX, over a three-year period. It has been determined that Meeting Event Cancellation Insurance premiums have become cost prohibitive and no longer provides the level of insurance coverage needed to protect APWA's revenue losses due to unforeseen Conference cancellations.

The Meeting Event Cancellation Reserve Fund will be built up gradually over 8 years. The initial year has been funded at the level of \$2,599,107, by moving 50% of the FY22 undesignated reserves into this fund. Beginning in FY23, and every year through FY29, APWA would contribute a minimum of \$400,000 (depending upon financial conditions at the time) from the undesignated reserve and \$50,000 that would have been spent on meeting event cancellation insurance premiums. By FY30, the fund is predicted to reach \$7.5M. This funding mechanism would cover lost surpluses (based on historical average surplus) if up to six events were cancelled (three North American Snow Conferences and three PWX Conferences). This fund only covers lost surplus and does not take into account cancellation fees or various related expenses.

FUNDING OF RESERVES

The Reserves will be funded annually with surplus unrestricted operating funds. The order in which reserves will be funded is as follows: 1) Meeting Event Cancellation Fund, 2) Operating Reserves, and 3) New Initiatives Fund. In the event the minimum target Reserve fund goals are not maintained, due to unforeseen financial circumstances, the Board of Directors shall adopt an operating budget that includes a projected surplus reflected as a contribution to Reserves sufficient to replenish each of the reserves to the targeted reserve levels over the following two fiscal years.

AUTHORITY TO USE RESERVES

Any Reserve Fund may be expended for any purpose with a majority approval of the Board of Directors. This should only be done in extreme financial or special circumstances,

otherwise each fund should continue to be used for its intended purpose.