

Reserves for the State Bar of Wisconsin

Discussion Document of Assumptions

October 1, 2004

It is critically important for the State Bar of Wisconsin to accumulate and maintain financial reserves that are sufficient to:

1. Sustain the organization through an unexpected financial crisis. Reserves can be considered as self-insurance against disaster – whether that is loss of key personnel, a change in politics that mandates the Bar’s existence or economic upheaval that impacts either revenues or expenses.
2. Purchase facilities and equipment that help staff and volunteers better meet the mission of the organization.
3. Provide start-up funds for new programs and business opportunities.

Technically, reserves are defined as assets in excess of liabilities (also known as equity). That is, any asset that is not necessary to “pay off” a debt could be used to fund any of the events noted above. Reserve policies dictate the availability of those funds for various uses and the related liquidity of those funds at any time.

In December of 2003, the Finance Committee was presented with a chart of various types of reserves the Bar should consider building. Attached is a proposed reserve policy for the Bar based on several assumptions. Below are several key issues to discuss regarding those assumptions and their impact on which reserves are included as part of the Bar’s policy and the methodology for calculating the level of need. The attached draft policy will be amended to reflect the consensus reached on these discussion items.

- Dues increases vs. reserves
 - The attached policy assumes that it is better for the membership if the organization is forward thinking and builds reserves to fund both anticipated programs and equipment replacement from current dues and operations as well as to guard against sudden changes in the operating environment of the Bar. This will minimize the impact of these events on future dues rates and ensures that the assets used to generate today’s products and services are replaced by those members that are receiving those benefits today.
- Section fund balances
 - The attached policy assumes that those excess funds accumulated by sections should be held in a liquid reserve at all times. This ensures funds for the possible scenario of Sections choosing to use those unspent funds in any current fiscal period.
- Risk tolerance
 - The attached policy assumes that the Bar is a risk-averse organization and that it is in the best interest of the membership to reduce risk of financial hardship to the members.

Comment [LT1]: The committee agreed that developing a reserve policy to fund future program and equipment expenses is preferred over abrupt dues increases. .

Comment [LT2]: The committee agreed that the policy should treat section funds as a separate, fully funded item.

Comment [LT3]: The committee agreed to discuss this at a later time.

- Real estate ownership
 - The attached policy assumes that the real estate owned by the Bar is held as a long-term investment of the organization and is not available for sale in order to satisfy cash flow needs. The policy also assumes that since the building is a long-term investment and represents nearly 65% of the Bar's current equity, it is available as collateral for loans when conditions of the Debt policy are met.
- Replacement Assets
 - The attached policy assumes that the accumulated depreciation of non-real estate fixed assets is an adequate basis for estimating replacement cost of those assets. It also assumes a need for fixed asset growth and price increases equal to 10% of the accumulated depreciation.
- Policy for releasing funds from the Long-term investment account
 - The attached policy assumes that the current policy that requires a 75% vote of all board members to release funds will be rescinded and replaced by the requirements of the attached reserve policy. It also assumes the language will be removed from the proposed rules and bylaws.
- Contingency Fund in the operating budget
 - The attached policy assumes that the practice of including a contingency fund line-item in each current operating budget will be necessary only to accumulate and maintain target levels of the reserves.
- Reserve funds in the operating budget
 - The attached policy assumes that the practice of including a reserve fund line-item in each current operating budget will be necessary only to accumulate and maintain target levels of the reserves.
- Separation of Services and Products
 - The attached policy assumes that the functions of the Bar can be split into two distinct groups.
 - Service to members. These are functions that are considered essential to the mission of the Bar and would be continued long-term, even in the event of economic or political adversity.
 - Products of the Bar. These are functions of the Bar that would most likely be discontinued in the event that revenues were no longer sufficient to absorb the resources necessary to produce the products.
- Number of months operating expenses on hand – Service to Members
 - The attached policy assumes that 6 months is a reasonable recovery and adjustment period. This timeframe is set to allow senior management and volunteers to determine which programs and services are essential to the continued operations of the organization, assess the factors that necessitated the use of the reserve funds and make plans to operate within any new parameters of the organization and its environment.

Comment [LT4]: The committee agreed that the sale of the building is not an option, but it could be used as collateral for a loan.

Comment [LT5]: The committee discussed the best way to estimate the expected costs of replacing fixed assets. They agreed that the accumulated depreciation balance does not accurately reflect that need. They asked staff to build a more realistic projection of replacement needs

Comment [LT6]: The committee agreed to modify the proposed bylaws if necessary based on any policy adopted that may conflict with the current bylaws proposal.

Comment [LT7]: The committee agreed that the contingency fund still needs to exist, although possibly for a smaller amount. The purpose of future funding needs will determine if it should be funded by the contingency fund or reserve.

Comment [LT8]: The committee agreed to add a \$100,000 each year to the reserve through the operating budget until a more accurate reserve target balance is determined. Thereafter, the reserve will be funded as part of the annual operating budget.

Comment [LT9]: The committee agreed that the policy should distinguish a separation between State Bar products and services.

Comment [LT10]: The committee agreed to six months

- Number of months operating expenses on hand – Products
 - The attached policy assumes that 3 months is a reasonable recovery and adjustment period. This timeframe is set to allow senior management and volunteers to determine which products are essential to the continued operations of the organization, assess the factors that necessitated the use of the reserve funds and to either generate sufficient revenues or discontinue the product **line**.

Comment [LT11]: The Committee agreed that 3 months sounds reasonable

- Equipment replacement schedule
 - The attached policy assumes that:
 - Equipment replacements will be scheduled at regular intervals to minimize the impact on cash flow while preserving the organization’s need for updated technology and physical plant.
 - Equipment needs specific to new product development and delivery are to be included in those specific proposals rather than as part of the larger organizational replacement and upgrade schedule.
 - Depreciation of assets can be a relevant indicator, but is not necessarily the best calculation of the projected cost of new **assets**.

Comment [LT12]: The committee determined the Bar should have a separate, disciplined fund for all real estate and equipment replacement/upgrades

- Evaluation tools
 - The attached policy assumes that adequate evaluation tools will be implemented, for both products and services, to aid the decision making process in order to minimize **risk**.

Comment [LT13]: The committee agreed the measurement tools should be consistent with the strategic plan

- Upcoming Opportunities
 - The attached policy assumes that a base of \$250,000 should be available to the organization so that it can take advantage of emergent opportunities in products and **services**.

Comment [LT14]: The committee agreed that these funds are needed, but has yet to determine what that amount should be. Approval will need to come from the BOG

- Loans as capital for new products or services
 - The attached policy assumes that the cost of interest on loans is to be factored into the evaluation of the profitability of any new product **proposal**.

Comment [LT15]: Committee agrees.

- Current ratio
 - The attached policy assumes that the Bar will maintain, through cash flow budgeting and cash management, a current ratio of at least 1.15 and that reserve liquidity measurements will be based on that ratio. It also assumes that the Finance Committee will set a target current ratio each year taking into consideration the level of and composition of reserves on **hand**.

Comment [LT16]: The committee amended the minimum current ratio be set at 1.0, but that a target current ratio will be set each year. Scenario planning will validate the ratio which can change from year-to-year.

- Prior Reserve Accounts and Policies
 - The attached policy assumes that all previous reserves and related policies, except the Consumer Protection Reserve, will be replaced by the new **policy**.

Comment [LT17]: The committee agrees that a new policy should supersede all previous policies.