

Establishing Your Bar's Reserve Policy

Setting the dollar amount
through evaluation
of risk

What Are Reserves?

Funds set aside for future needs to:

- Sustain the Bar through an unexpected financial crisis
- Purchase facilities and equipment
- Provide start-up funds for new programs and opportunities
- Meet other obligations of the organization
 - Endowment Funds

Should your Bar have a reserve?

A thorough examination of needs will answer that question, along with:

- How much to set aside
- How to access the funds
- How to invest the funds

Which assets are part of your reserves:

Technical Definition of Reserves is
“Net Assets”

Total Assets
minus
Total Liabilities

Purpose of a Reserve Policy

The policy dictates the availability of net assets for various uses.

Elements of a Reserve Policy

- Define Terms (i.e. Available Net Assets)
 - Identify related policies (debt, investment, etc.)
- State the policy review schedule

Elements of a Reserve Policy

For each reserve clearly state:

- Purpose
- Restriction of use and release mechanism
- Define the level of anticipated need

Bringing your Board on Board

Often the greatest challenge is to gain leadership's common understanding of what a reserve truly is and why your organization needs one.

Tools for reaching understanding

- Draft a discussion document outlining key issues
- Agreement on those issues is starting point for drafting a policy

Do you need a reserve?

- State all possible reasons and needs
 - Have leadership sift and winnow
- State all related issues and business implications
- First agreement should be the need for a reserve

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

- 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.
- Purchase facilities and equipment that help staff and volunteers better meet the mission of the organization.
- Provide start-up funds for new programs and business opportunities.

Underlying Assumptions

- Risk Tolerance
- Asset Replacement
- Relationship with Sections
- Expected Business Recovery Time
- Upcoming Opportunities

General Assumptions

- Dues increase vs. reserves
 - Level of Risk tolerance
- Replacement of fixed assets
 - Loans vs. reserves
- Real estate – long-term asset or
cash cow

Impact of Fixed assets

- Value of equipment and real estate on the balance sheet can distort financial condition
 - Generally cannot easily be converted to cash
- Most organizations subtract them from Net Assets to calculate “Available Net Assets”

Available Net Assets

“Available Net
Assets”

Excludes value of
Fixed Assets

Total Assets
minus
Total Liabilities
minus
Fixed Assets

Available Net Assets

Total Assets		9,523,129
Total Liabilities		(2,950,112)
Net Book Value of Real Estate & Equipment		(4,749,572)
Total Available Net Assets		1,823,445

Specific assumptions for your Bar

- Sections
- Separation of Operating Units
 - Member Services
 - Administration
 - Income Producing
 - Other
- Number of months operating expenses on hand (based on expected recovery time) for each

Five Reserve Funds for the State Bar of Wisconsin

- Building & Equipment
- Operations (Rainy Day)
 - Opportunity
- Section Carryforward
- Consumer Protection

Calculating Need

1. Calculate actual dollars to fulfill each reserve - “Full Reserve Needs”
2. Determine the risk of need for each reserve - “Risk Tolerance Percentage”
3. Multiply to reach the “Calculated Reserve Needs”

Buildings & Equipment Language

Level: The Furniture & Equipment Reserve will be equal to an amount deemed sufficient by the Finance Committee to fund equipment needs over the upcoming 5 years within these guidelines:

- Ongoing 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 will be included in those specific proposals rather than as part of the larger organizational replacement and upgrade schedule.
- Administration will be responsible for maintaining a 20-year fixed asset replacement schedule that will be reviewed by the Finance Committee at least once every five years.

Building Replacements

2006

2007

2008

2009

2010

2011

2012

Furniture	51,000	51,000	51,000	13,500	13,500	13,500	
Flooring	38,000	38,000	38,000			30,000	
Compressors	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Parking Lot				25,000			
Roofing							
Dome							
Replacements							
Elevator							40,000
Heat Exchanger							
Outdoor Sign							3,500
Windows							

	2006	2007	2008	2009	2010
Computer Related Hardware	193,402	109,385	87,135	68,406	58,036
Software Replacements & Upgrades	323,292	148,242	169,706	144,477	125,435
Vehicles	68,500	43,500	32,786	26,536	22,369
Equipment	107,833	91,583	40,476	23,830	21,191
Building Components	189,192	102,442	62,013	31,596	21,138
TOTAL	882,218	495,152	392,116	294,845	248,170

Cumulative Reserve Calculation

Prior Year Reserve		882,218	944,470	921,086	851,931
Current Year Reserve		495,152	392,116	294,845	248,170
Prior Year Purchases		(432,900)	(415,500)	(364,000)	(299,500)
Net cumulative Reserve		882,218	944,470	921,086	800,601

Bar's Calculated Needs

			Full Reserve Needs	Risk Tolerance Percentage	Calculated Reserve Needs
Building & Equipment Reserve			882,218	0%	882,218
Operations Reserve					
	Member Service Units (6 months)	2,100,532			
	Production Units (3 months)	815,388			
	G&A Units (6 months)	791,125			
Operations Reserve Total			3,707,045	75%	926,761
Opportunity Reserve			100,000	0%	100,000
Section Carryforward Reserve			257,552	0%	257,552
Consumer Protection Reserve			8,000	0%	8,000
	Totals		4,954,815		2,174,531

Remaining Reserve Needs

<i>Amount Necessary to Reach Current Calculated Reserves</i>		
	Calculated Reserve Needs	2,174,531
	Available Net Assets	1,823,445
	Remaining Reserve Needs	351,086

How to Fund the Reserve

Line item in the budget ensures
funding the reserve

Any excess revenues over
expenses also add to reserves
(deficits decrease the reserve)

A Moving Target

Based on circumstance, the total reserve needs calculation will change constantly but should not change significantly except when:

- one of the “events” you are reserving against occurs
- policy review indicates that the why, not the how much, has changed

Reducing Reserve Funds

Determining the amount of reserve needs
also is the key to knowing when
reserves are too high

When reserves are too high the Bar can
confidently reduce them through
deficit spending

Releasing Reserve Funds

Each has specific “restriction of use” provision

Related Policies

Revise investment and debt policies if necessary to support the reserve policy

Establishing Your Bar's Reserve Policy

By reaching a common understanding of events that would trigger a need for reserves the remaining policy components are more easily defined