



Reserve Accounts for the AWA

26 March 2014

Purpose of Today



- “ Discuss the need and opportunity to create an Operating Reserve Account and a Property, Maintenance and Technology Reserve Account
- “ Determine whether we support the idea
- “ If yes, then bring forward a motion to then take the Reserves to the general membership

Situation Summary

“ Now is the perfect time to discuss Reserves, as the AWA:

- . Has excess funds currently available from the sale of our Monticello office
- . Has a dearth of formal structure to ensure the long-term health of the organization
- . Is currently operating at a loss . and membership numbers have been less predictable as of late
- . Has a brand-new office that needs to be maintained
- . Has a Board of Directors with the opportunity to avoid putting future Boards in the difficult position of possibly choosing between maintaining the office and funding the regular operations of the AWA

“ A reserve isō

- . %An account set aside by an individual or business to meet any unexpected costs that may arise in the future as well as the future costs of upkeep. In most cases, the fund is simply a savings account or another highly liquid asset, as it is impossible to predict when an unexpected cost may arise. However, if the fund is set up to meet the costs of scheduled upgrades, less liquid assets may be used.+– *Investopedia*
- . A classic Operating Reserve will ensure we can cover a several monthsqworth of expenses in case of emergency
- . A second reserve will be focused more on the upkeep and scheduled costs, so that they do not have to come from regular budgeted funds

“ Reserves are maintained by most organizations

- . For-profit corporations, non-profit organizations, even animals all maintain reserves
- . The amount in the reserve and the use of the funds will vary; in some cases they cover a few months of operational expenses (similar to Contingency Funds) or emergency expenditures

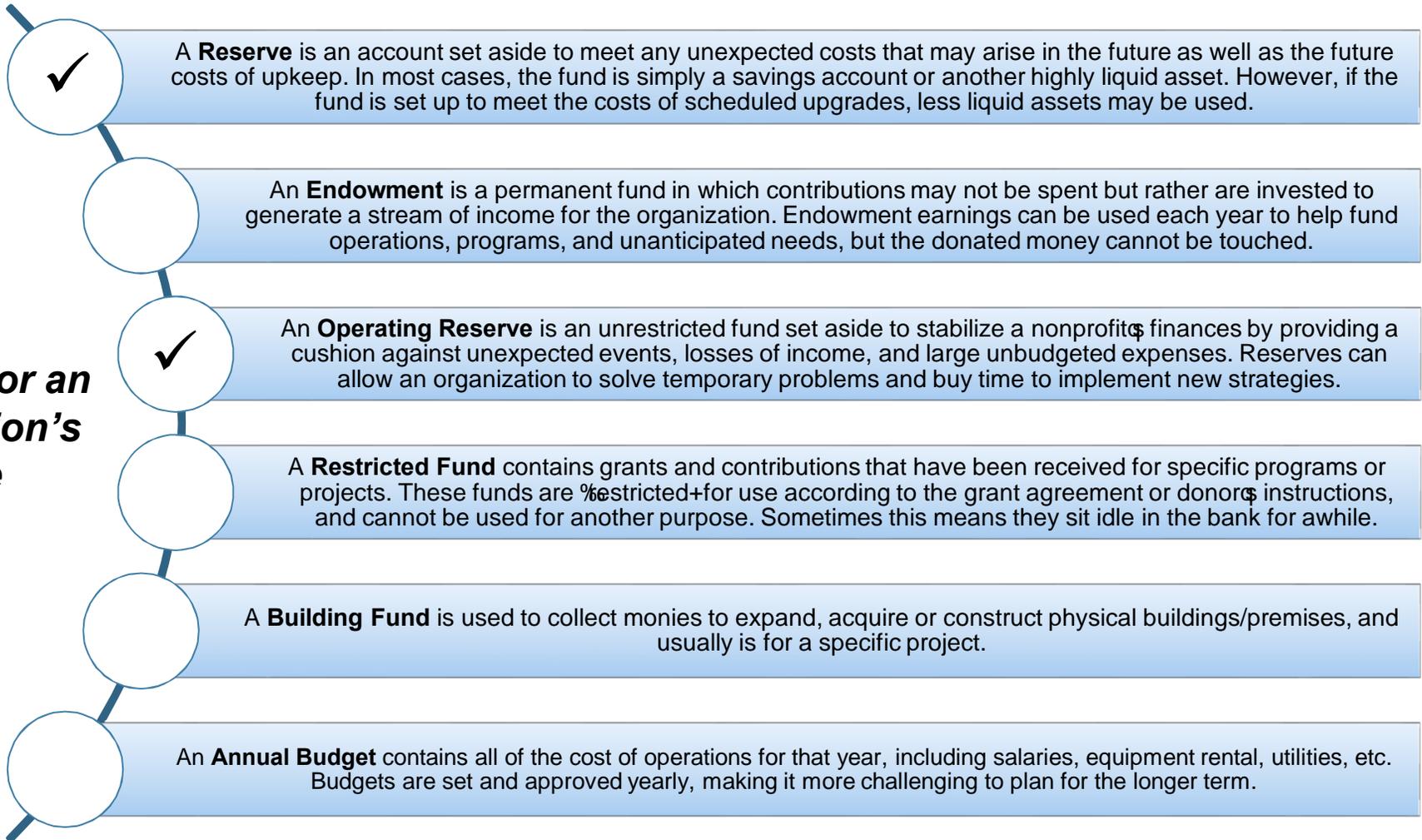


A Reserve fund let's us save for a rainy day...at the AWA office

There are many types of Accounts, but an Operating Reserve and a Reserve best serve the AWA's needs



Planning for an organization's future



We need both an operating reserve and a basic reserve that is focused more on the upkeep and scheduled costs, so that they do not have to come from regular budgeted funds



Operating Reserve

An Operating Reserve will formalize the emergency funds put aside and ensure the AWA's short-term financial health

- “ An Operating Reserve is:
 - . Designed to provide a cushion against unexpected events, losses of income, and large unbudgeted expenses
 - . Can allow an organization to solve temporary problems and buy time to implement new strategies
 - . Not a substitute for effective operations
 - . Usually holds 6-12 months operating expenses
- “ This year's Board voted to hold a portion of proceeds from the sale of the Monticello office to serve this purpose; an Operating Reserve would formalize this action
 - . Pros:
 - “ Ensures the AWA has funds available should some emergency occur
 - “ Buys the AWA time to make different decision and take action to remedy the issue(s)
 - “ Uses funds earned from a previous long-term investment (the office) for another forward-thinking action (the reserve)
 - . Cons:
 - “ Ties up funds that some members may want to use elsewhere
 - “ Is based on today's knowledge of the AWA's operating costs; it may not be enough
 - “ Once spent, an Operating Reserve must be rebuilt or funded again
- “ Our monthly operating costs run HK\$90,000 on average (salaries, insurance, equipment, rates, management, audit, utilities, etc.)
 - . Operating costs do not include costs for Fundraising, Tours, etc.; only things to keep the lights on



To establish a 12-month Operating Reserve, we need HK\$1.08 million, which is slightly more than we earmarked earlier this year for emergencies



Property, Maintenance and Technology Reserve

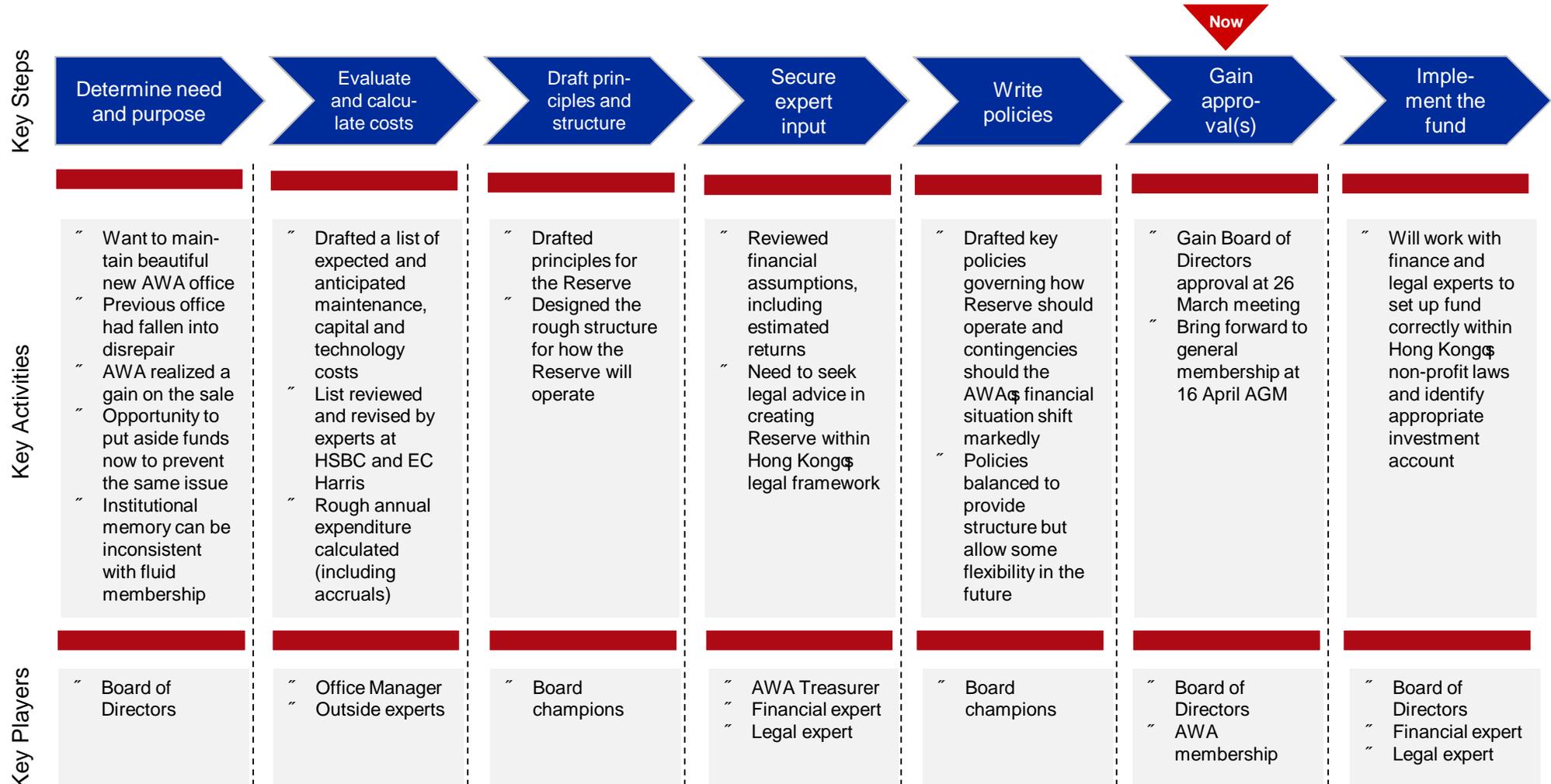
A Property, Maintenance and Tech Reserve maintains the AWA office and operations through planning today



“ A reserve will allow us to take care of our new office by:

- . Accounting for upkeep and maintenance ensures we account for these expenditures in a timely fashion, instead of letting them go+until a more expensive repair is needed
- . Putting aside funds for annual maintenance costs associated with the general upkeep of the office
- . Accrue funds for the larger, but less frequent, maintenance and repair expenditures
- . Accrue funds for any anticipated capital expenditures related to the office
- . Accrue funds to upgrade our technology/website
- . Accrue funds to remodel office in 25 years (every 20 years is standard)
- . Ensuring we are financially responsible as an organization

Establishing a Reserve requires expertise from several areas and in-depth consideration



Construction of the Reserve is critical

Purpose of the Reserve

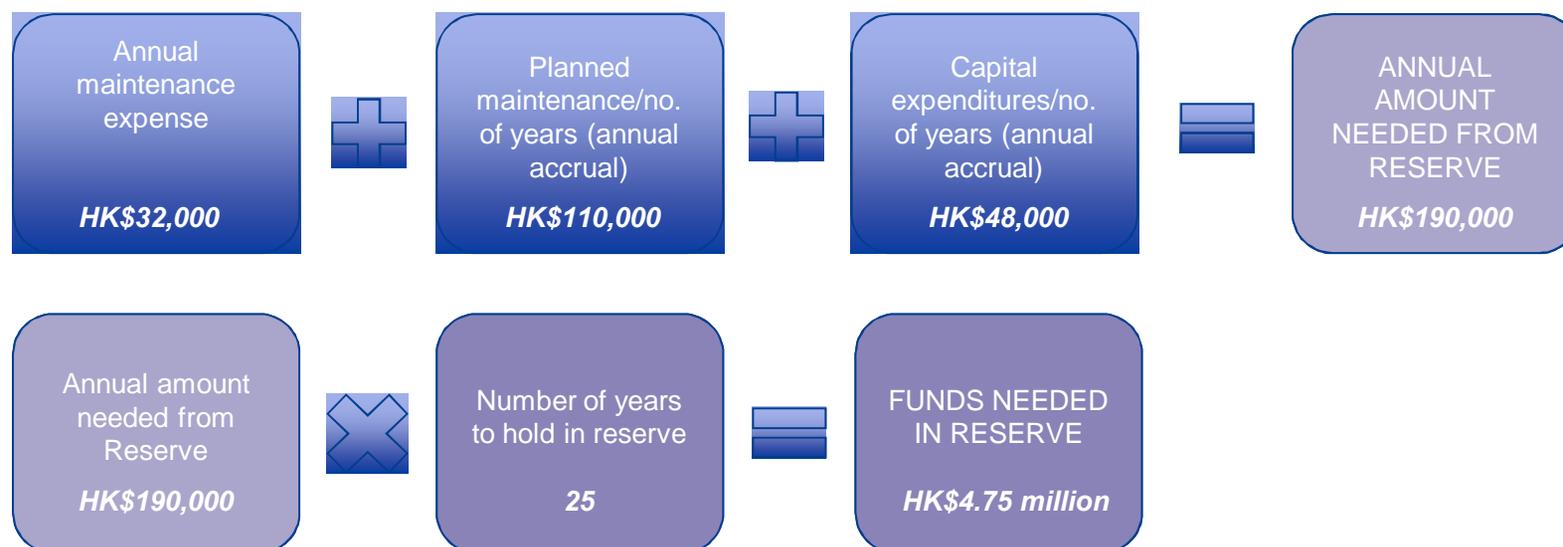
- “ To ensure the AWA’s key physical asset is kept in good repair for perpetuity
- “ To ensure the AWA’s technology backbone is kept up to date
- “ To be financially responsible in planning for the future
- “ To accrue costs so that the financial impact is spread out across the years, instead of hitting one year’s budget
- “ To ease the burden on future Boards of Directors and give them peace in knowing these funds have been earmarked and costs (which can be significant) are covered

Principles of the Reserve

- “ Covers anticipated annual maintenance expenditures
- “ Annual accruals will be made to pay for planned maintenance and capital expenditures (including a refit the end of the standard useful life)
- “ The total annual expenditures and annual accruals amount will be funded for 25 years by the Reserve
- “ Future Boards of Directors will need to determine how to maintain 20 years of funding in the Reserve
- “ Calculations do not account for inflation (currently 4.3%), interest (0.25%) or compounding, so they must be reviewed as below
- “ Calculations and estimates will be reviewed and revised as needed every three years, at a minimum
- “ The AWA will carry insurance to cover expenses associated with catastrophes
- “ The policies governing the Reserve should be written to ensure financial responsibility yet flexibility to reflect the current needs of the AWA in the years to come
- “ If the AWA should be nearly bankrupt, the AWA Board of Directors may vote to use part of the Reserve temporarily, but will then need to determine how to replace the funds

How much should we have in our reserve?

- “ Ideal reserve would have a base amount of money, known as the principal
 - . Expenditures would be funded from the interest earned off the principal, but the principal would remain untouched (thereby ensuring that the office could be maintained in perpetuity)
 - . Different than with the Operating Reserve because these expenses are ongoing, not a one-off
 - . Low interest rates mean the principal would have to be huge; instead we recommend funding 25 yearsq worth of property, maintenance and technology expenses
- “ The two basic calculations are:



Our current realized gain is HK\$6.2 million; we can fund both Reserves and maintain cash needed on hand...but only for 25 years; future Boards will need to raise funds for the years beyond 25

Key Policy Points for the Reserve



- “ The purpose of the Property, Maintenance and Technology Reserve is to fund the upkeep and maintenance of the American Women’s Association of Hong Kong Ltd’s office (currently at Office No. 5, 11th floor, Arion Commercial Centre, 2-12 Queen’s Road West, Hong Kong) and its related technology
- “ The Reserve must hold at least 20 years worth of expenses
- “ The Reserve should be held in a low-risk, interest-bearing (where possible) account
- “ Boards of Directors must review the estimates and assumptions of the Reserve at least every three years (with the first review in 2016-17)
 - . They must make plans to fund any shortfalls in the Reserve
- “ The Reserve funding level may be adjusted to reflect changes in the AWA’s property holdings, interest rates, etc.
- “ The Reserve may only be used for the purposes outlined unless the AWA is nearly bankrupt
 - . The Board of Directors may then release
- “ Should the AWA be dissolved, the Reserve shall become part of the general assets to be disposed of as outlined

The final policies will be constructed in conjunction with legal counsel

FAQs



Question	Answer
<p>What if we do not have enough money to fully fund the Reserve now?</p>	<ul style="list-style-type: none"> “ We can currently fund the Operating Reserve in full and the Property, Maintenance and Technology Reserve for 25 years “ The Property, Maintenance and Technology Reserve needs to have at least 20 yearsworth of funds on an ongoing basis “ While we will set up the reserve based on the best information available now, future Boards of Directors may find that additional funding of the reserve will be required
<p>What if there is an excess of money left after we fund the Reserve?</p>	<ul style="list-style-type: none"> “ That is not currently the case; however, should circumstances and estimates change and there becomes an excess in the Reserve, it will be up to the Board of Directors to determine how to handle the excess
<p>Who has control over the Reserve?</p>	<ul style="list-style-type: none"> “ The Reserve is governed by the policies that we set when establishing the Reserve “ Operational control is handled by the Treasurer
<p>Can the Reserve be %aided+to fund shortfalls in AWA operations?</p>	<ul style="list-style-type: none"> “ Generally no. Neither Reserve is to compensate for inefficient or poor operations “ However, it would also be irresponsible to allow the AWA to teeter on the verge of bankruptcy with a sizable reserve locked away. In that extreme case, the Board of Directors will be allowed to release some funds; we will need to consult legal counsel in designing this
<p>What happens to the money if it the AWA goes bankrupt or falls on hard times?</p>	<ul style="list-style-type: none"> “ It will be designed that the money will eventually become part of the general assets of the AWA to be disposed of in the manner outlined in our Bylaws if the AWA is dissolved
<p>What if the AWA no longer owns its own office?</p>	<ul style="list-style-type: none"> “ There will still be a need for a maintenance fund that covers the office fit out, equipment, etc., on a rental property, but there may be a change in how the reserve is structured “ If the AWA no longer maintains an office, the Board of Directors in office at that time will be able to take the appropriate action
<p>Is there a drawback to establishing the Reserves?</p>	<ul style="list-style-type: none"> “ We open ourselves to possible public scrutiny. We have an obligation to have financial security while also managing the public’s perception of our accumulated wealth. There is a fine line between having the right amount of cash in reserve (to survive when it is time to add new programs or sites, face a crisis or engage in a capital improvement) and having the nonprofit appear to be inappropriately stockpiling too much capital “ It takes the funds %out of circulation+so they cannot be used for other AWA purposes



Board Action and Next Steps

Summary, Action and Next Steps



- “ Are there any questions?

- “ Is there a motion to approve the Operating Reserve:
 - . I move that The American Women’s Association of Hong Kong Ltd establish an Operating Reserve with HK\$1.08 million from the sale of the Monticello office. This Reserve will be an unrestricted fund but intended to be used to cover operating expenses in case of an emergency.

- “ Is there a motion to approve the Property, Maintenance and Technology Reserve:
 - . I move that The American Women’s Association of Hong Kong Ltd establish a Property, Maintenance and Technology Reserve of HK\$4.75 million in 2014 dollars. The Reserve is expected to fund 25 years' worth of expenses, and at least 20 years' worth of expenses shall be maintained in the fund. The AWA Board of Directors shall review the Reserve calculations and estimates at least every three years.

- “ Should the motions be supported by the Board, then it will go through legal review and then be brought forward to the AWA membership
 - . The membership must approve any expenditure of more than HK\$100,000



Appendix

Detailed annual expenditure

Ongoing office maintenance costs (projections at 2014 prices)			
	single cost	frequency	annual cost
Maintenance costs			
Waxing and polishing of wooden floor	2,500	2x/year	5,000
Window washing	4,000	3x/year	12,000
Pest control	800	2x/year	1,600
Carpet deep clean	300	1x/ year	300
a/c annual service and clean	4,500	2x/year	9,000
repaint walls	11,000	1x/3 years	3,667
replace wallpaper	7,000	1x/10 years	700
Upgrades			
Microsoft Office (5No. Licenses)	8,500	1x/3 years	2,834
MYOB	2,300	1x/3 years	767
Norton antivirus	550	1x/year	550
Replacement			
Roller blinds	30,000	1x/10 years	300
Sofa	12,000	1x/10 years	1,200
Chair upholstery	18,000	1x/5 years	3,600
Conference tables (7)	37,000	1x/10 years	3,700
Seating area tables (3)	14,100	1x/10 years	1,410
General chairs (28)	52,780	1x/10 years	5,278
Arm chair (2)	3,600	1x/10 years	360
Office chair (4)	7,600	1x/10 years	760
foldable chairs (20)	3,040	1x/10 years	304
carpet	16,000	1x/10 years	1,600
rug	6,533	1x/10 years	653
freestanding lamps	2,760	1x/10 years	276
TV	6,300	1x/5 years	1,260
fridges	20,000	1x/10 years	2,000
microwave	640	1x/10 years	64
laptop	12,000	1x/5 years	2,400
conf. room presentation equipment (projector, amplifier, speakers)	70,000	1x/10 years	7,000
servers	31,500	1x/10 years	3,150
desktop printer (2No.)	5,000	1x/10 years	500
PC's (4No.)	12,800	1x/5 years	2,560
Monitors (4No.)	2,400	1x/10 years	480
router	1,990	1x/5 years	398
ad hoc repairs		as needed	5,000
technology and website	320,000	1x/5 years	64,000
office fit out	1,200,000	1x/25 years	48,000
		annual cost	192,671