



Thank you for joining us!

The presentation will begin shortly.



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Maximizing Operating Reserves: Best Practices for Trade and Professional Associations

Tuesday, September 10, 2024



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Meet the instructors



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Housekeeping

Additional Information

Learning Objective To provide attendees with an overview of maximizing operating reserves.	Instructional Delivery Methods Group Internet-based
Recommended CPE 1 CPE Credit	Recommended Fields of Study Specialized Knowledge
Prerequisites None required	Advance Preparation None
Program Level Basic	Course Registration Requirements None
Refund Policy No fee is required to participate in this session.	Cancellation Policy In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.
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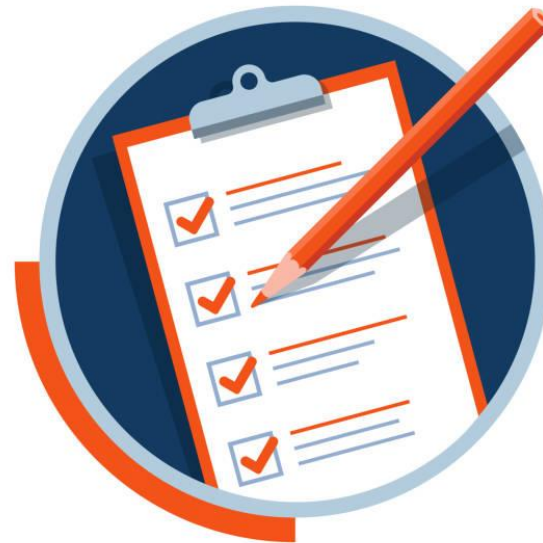
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Agenda

1. Introduction
2. Enterprise Risk Management
3. Targeting Reserves
4. Key Strategies
5. Fireside Chat
6. Q&A



Polling Question #1

What is the biggest challenge your association faces when calculating reserves?

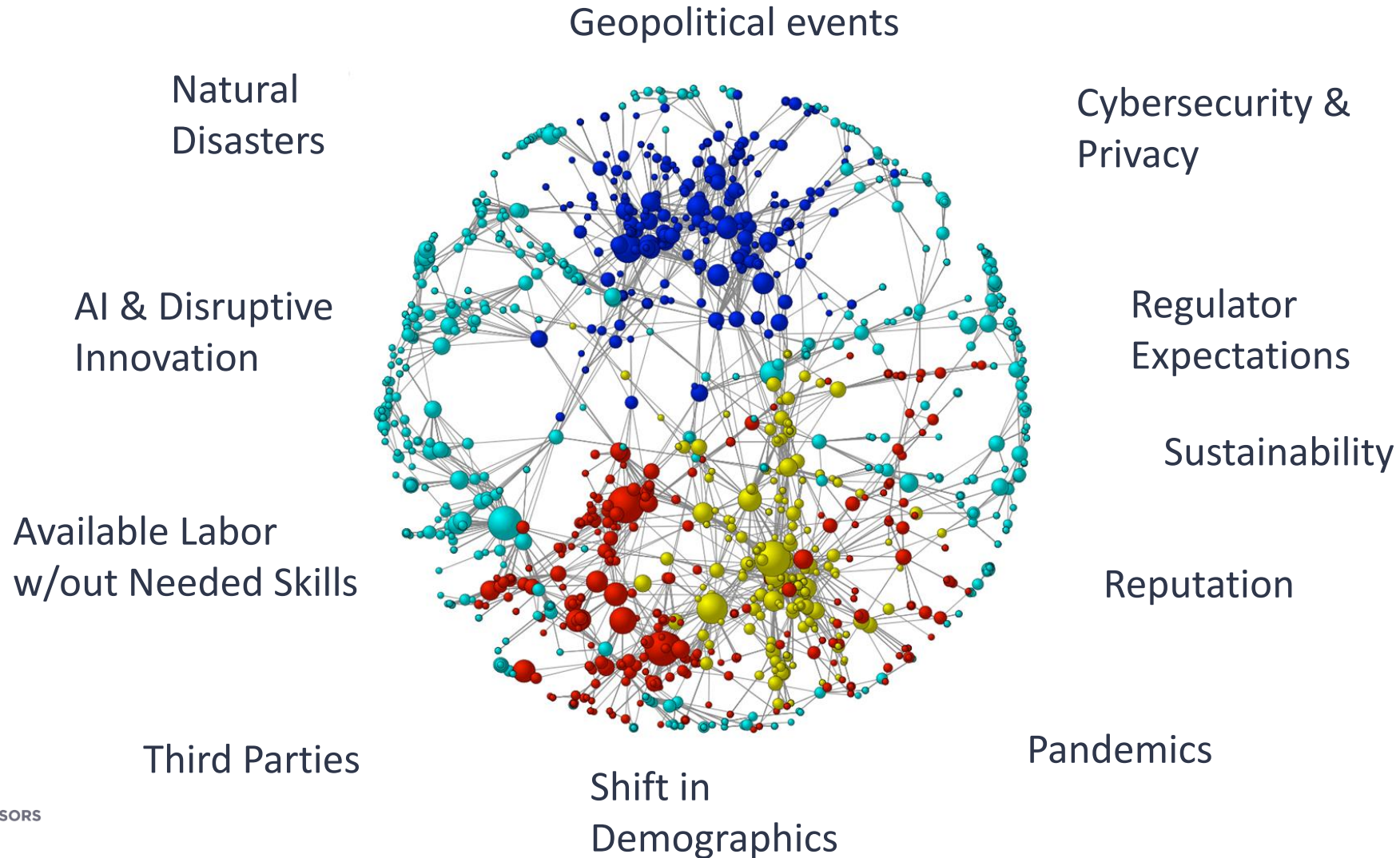
- A. *Estimating long-term costs*
- B. *Managing unexpected risks*
- C. *Allocating sufficient funds*
- D. *Gaining stakeholder buy-in*



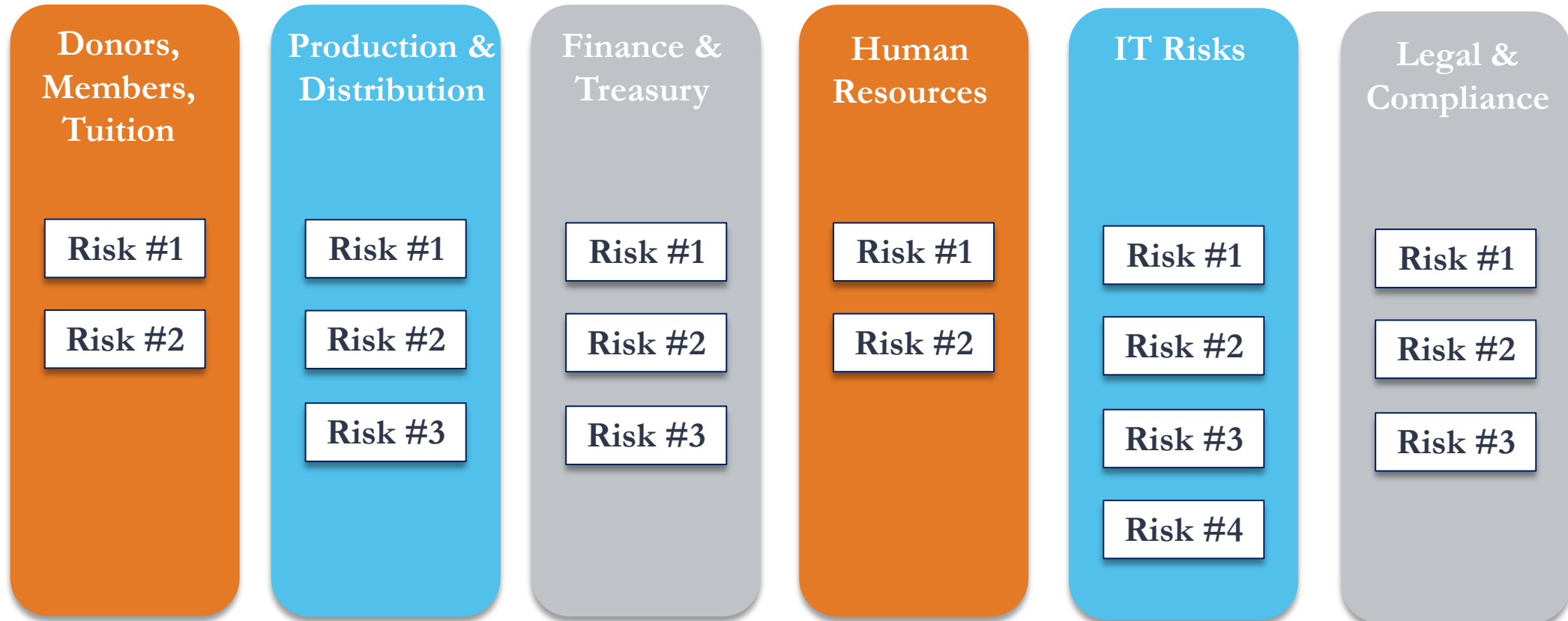
Enterprise Risk Management (ERM)

Understanding the Need for Better Risk Oversight

Today's top threats = Growing Uncertainty



Traditional Approach to Risk Management



“Silo” or “Stove-Pipe” Risk Management



What is a significant Risk to your Organization?

Viewpoints Differ Re: “Significant Risk”

Board member 0

CEOs 13

CFOs 1

CTOs/CIOs 17

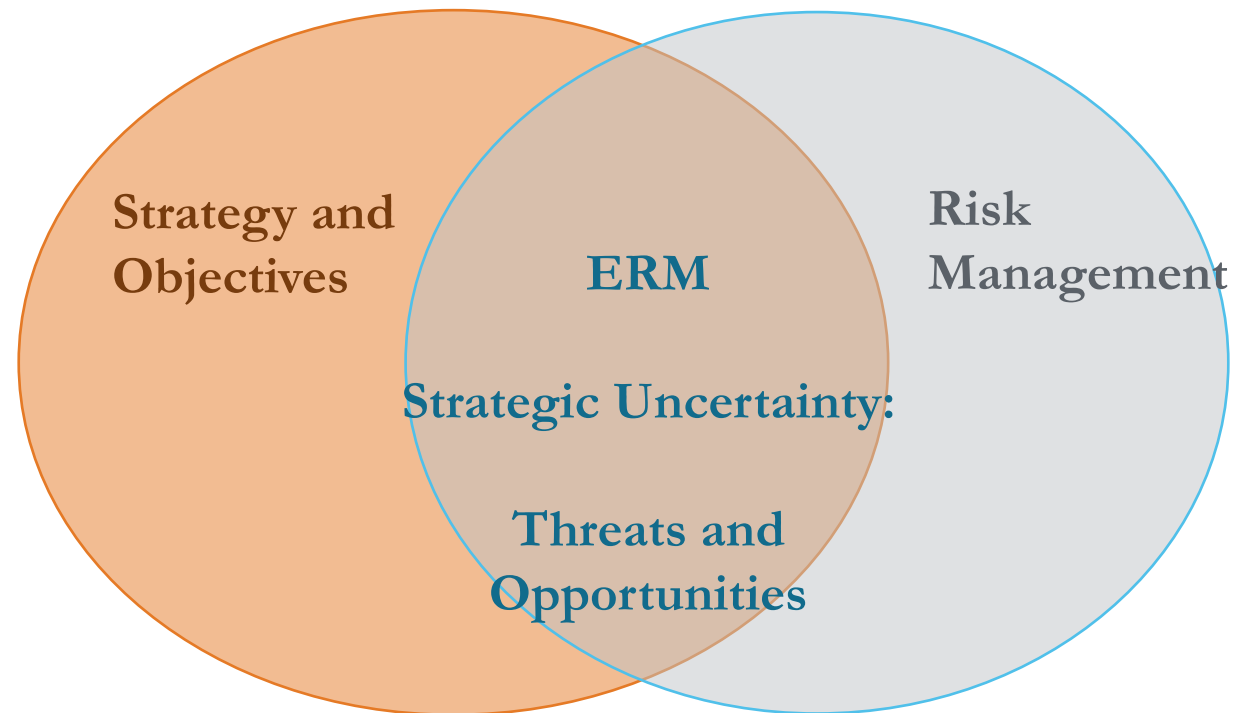
WHO IS CORRECT?



Understanding the Need for Better Risk Oversight

Intersection of Risk and Strategy

ERM integrates **strategic planning** and **risk management** to improve responses to uncertainty, organizational resilience, and mission fulfillment.



Techniques for Identifying Risk

Key Risk Identification Techniques

Objectives
Based

Past
Events

Internal
Analysis
and
Surveys

Process
Flow
Analysis

Scenario
Based

Current
Events

Facilitated
Workshop
and
Interviews



TOP RISKS	STRATEGIC INITIATIVE #1	STRATEGIC INITIATIVE #2	STRATEGIC INITIATIVE #3	STRATEGIC INITIATIVE #4	STRATEGIC INITIATIVE #5
Risk #1	X	X			
Risk #2				X	
Risk #3	X				
Risk #4	X	X	X	X	X
Risk #5	X				
Risk #6		X		X	
Risk #7	X		X		
Risk #8			X		



Risk Oversight Responsibilities



Enterprise Risk Management (ERM)
The Handbook for Association Board Members



- ✓ Understand risk management process and how it ties into strategy.
- ✓ Recognize key risks and corresponding mitigation strategies.
- ✓ Ensure budgets and reserves account for risks and opportunities.
- ✓ Approve the organization's risk appetite.



Polling Question #2

Does your organization have a written reserves policy approved by the board?

- A. *Yes*
- B. *No*
- C. *Unsure*

Targeting Reserves



Targeting Reserves Using ERM

- ERM can be used to develop a defensible reserves target. Benchmarking against other organizations is fine but is not nearly as precise.
- Associations can develop a reserve target using ERM and then formalize it in a written policy in conjunction with the risk assessment process.



Level Setting for our Discussion

Q: What do we mean by “Reserves”?

A: Net assets without donor restrictions, which should be designated by the board for use as Reserves and can be invested in a separate account.

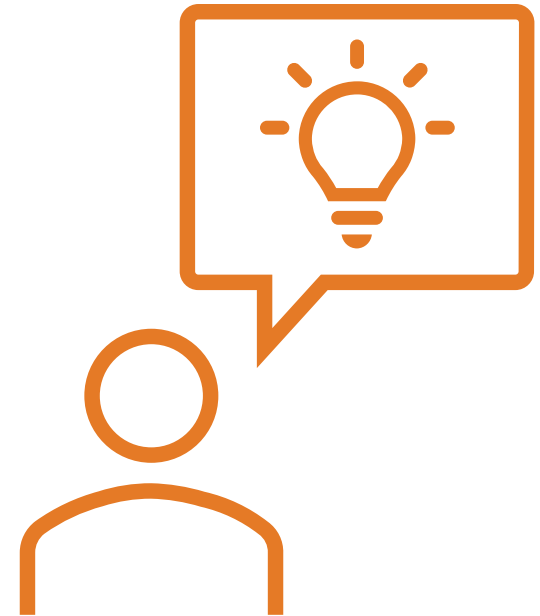
Reserves can also be held in cash depending upon liquidity needs.

- Benchmarking is not the starting point for determining a solid and defensible target for reserves.
- Benchmarking is a good check to see how your reserve target lines up against other similar organizations.



Risks and Opportunities

- ✓ Develop a list of Risks and Opportunities (Events)
- ✓ Rank the Events in a heat map or other ranking mechanism
- ✓ Narrow the list of Events down to the most significant
- ✓ Obtain agreement among stakeholders of which Events require a response
- ✓ Determine a response to the Events



Examples of Heat Maps



Likelihood	V High	Green	Yellow	Brown	Brown	Brown
	High	Green	Yellow	Brown	Brown	Brown
	Med	Green	Green	Yellow	Yellow	Brown
	Low	Green	Green	Green	Yellow	Yellow
	V Low	Green	Green	Green	Green	Green
		V Low	Low	Med	High	V High
		Impact				

Three risks are marked on the matrix:

- Risk 1: Located in the V High Likelihood / High Impact cell (Brown).
- Risk 2: Located in the High Likelihood / Low-Med Impact cell (Yellow).
- Risk 3: Located in the Low Likelihood / Med Impact cell (Green).



Determine the Response to Events

- ✓ Reduce/Mitigate
- ✓ Eliminate/Avoid
- ✓ Transfer
- ✓ Accept
- ✓ Exploit



Photo credit to NC State

- ❖ Averse
- ❖ Cautious
- ❖ Exploratory
- ❖ Flexible
- ❖ Open



Assign Dollar Estimates to Events

Risk/Opportunity	Use of Reserves	Probability Factor	Reserve Amount
Uninsured Cancellation of Conference/Trade Show	\$ 10,000,000	35%	\$ 3,500,000
Cybersecurity Breach	\$ 500,000	90%	\$ 450,000
Legal Settlement and Related Legal Fees	\$ 2,000,000	25%	\$ 500,000
New Program Opportunity	\$ 5,000,000	75%	\$ 3,750,000
Implementation of New Technology	\$ 1,000,000	90%	\$ 900,000
			\$ 9,100,000

The reserves ratio would be \$9.1 million over total operating expenses. If total operating expenses are \$30 million, then the reserves ratio would be 30%.

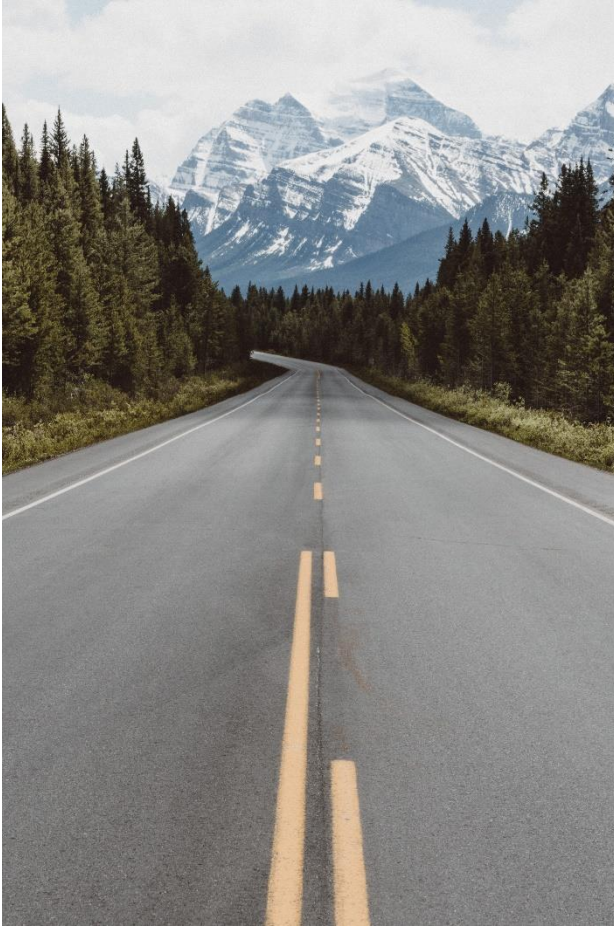


Develop Written Policies

- After the Reserve Target is determined and the majority of stakeholders agree with it, the Reserve Target amount should be established by a formal motion of the board of directors as a designated fund in net assets without donor restrictions.
- A formal written reserve policy should be drafted and implemented by management.
- Also, the investment policy should be drafted (or revised) to address the amount held in reserves and how the Association plans to invest those assets (i.e., how liquid do they need to be).
- For Associations with a high level of reserves, a written reserves policy with a specific and defensible reserves target, keeps stakeholders from asking why you are sitting on so much cash while not giving them a dues holiday or adding a new program.



Determining A Reserves Target is an Art



- Similar to building a budget, determining a Reserves Target is chock full of estimation.
- Also similar to budgeting, the assumptions used in the Reserves Target should be based on historical experience or what you think may happen in the future.
- There is no precise calculation method. However, you can make your Reserves Target unique to the Association.
- If you document the estimates and assumptions made in your calculation, a defensible Reserves Target will emerge.



Polling Question #3

Are you happy that school is back in session?

A. *Yes*

B. *No*

Let's Cover The Basics

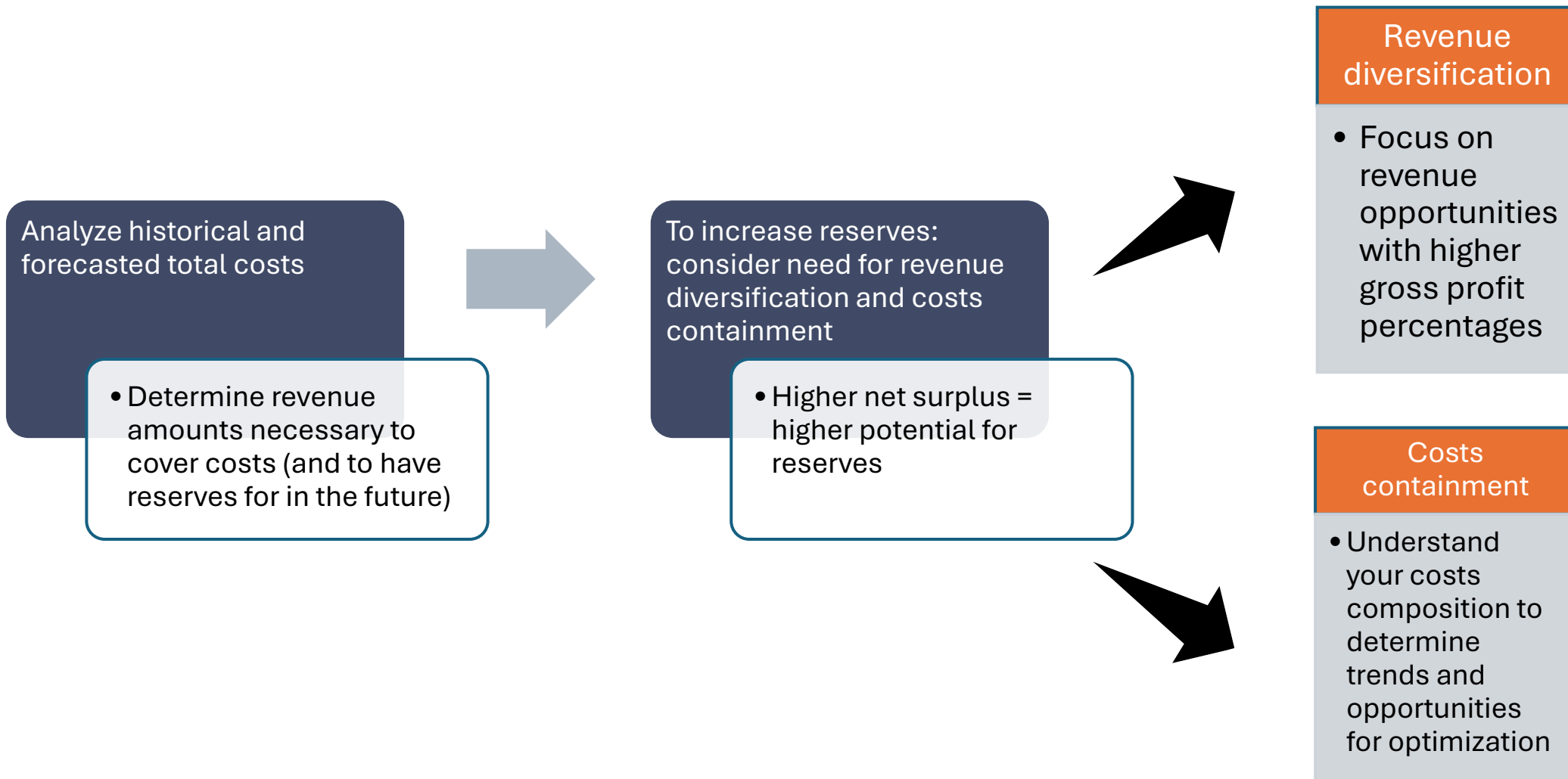


Basic Principles

- Principle #1
 - Revenues – expenses = net surplus (*hopefully*)
- Principle #2
 - Net surplus \neq reserves
- Principle #3
 - As net surpluses increase, potential for reserves increases



Reserve Maximization Framework



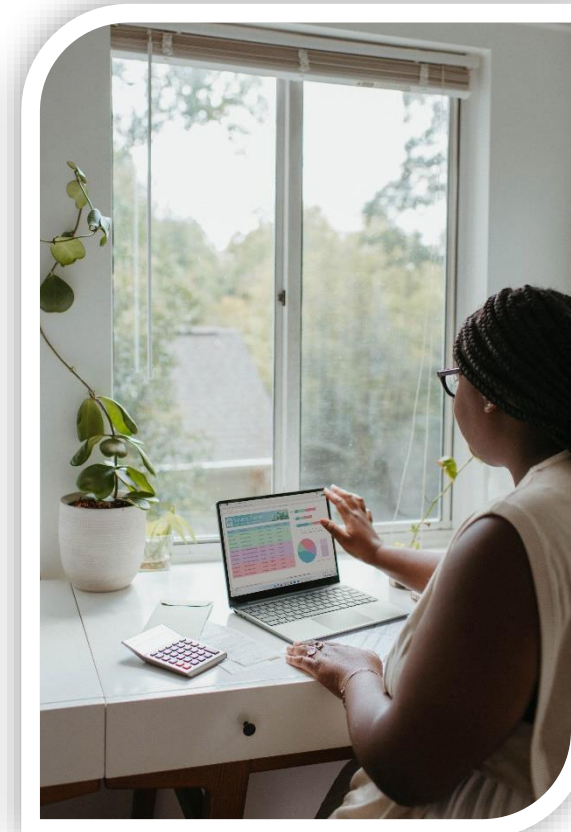
Setting a Policy

- Ready to give it a shot?
 - Remember this is art and science
 - No two organizations are alike
 - Example Policy



Costs Analysis

- Historical
 - Cyclicalities
 - Capital vs. operating costs
 - One-off, non-recurring costs
 - Strategic initiatives during the time period
- Forecasted
 - Assumptions and estimates
 - External market conditions
 - Risk considerations



Revenue Diversification Strategies

- Consider/reconsider membership tiers and related dues pricing
- Partnerships with accreditation bodies to offer continuing education courses for a fee
- Industry-specific consulting services like strategic planning, regulatory compliance, and operational efficiency consulting using insights gained from anonymized member data



Cost Containment Strategies

- Operational efficiency reviews
 - Use of technology to automate processes and reduce overhead costs
- Maximizing use of in-kind contributions
 - Including volunteers to offset labor costs
- Outsourcing/offshoring non-core functions
 - Focusing on those with least impact on member experience and value
- Recurring (every 2-3 years) reviews of vendor contracts
 - To ensure most competitive rates
- Sound financial management
 - Zero-based budgeting
 - Regular reviews of budget-vs-actual reports by budget “owners”



Fireside Chat

with Michael Johnson, President
& CEO of the National Stone,
Sand, and Gravel Association



Michael Johnson
NSSGA



Tricia Katebini
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Questions?

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