



Crocker PTA Reserves Policy Presentation

January 11, 2018

What is Crocker's reserve history?

- We haven't always had reserves
- The tides change quickly (ie Spanish was almost cut 2 years ago)
- Last year was the first year we had a significant reserves spend down
- Informal and inconsistent process for reserves
- No formal review process with the principal
- Total reserve balance was unclear
- Non-profit rules for carrying reserves were unclear

Why did we create a Reserve Policy?

Crocker PTA is currently tracking a substantial budget surplus (~50%; approximately \$225k) generally categorized as “reserves” but does not have a formal policy in place to (1) establish a sustainable **operating** reserve as a rainy day fund and (2) establish an **opportunity** reserve that will provide an organized process to fund new programs & projects.

What are we proposing?

Current State No Policy:

2017-2018 Operating Budget	Current Surplus Accumulated over the Years	Operating Reserve	Opportunity Reserve	Undesignated Reserves
\$440,000	\$225,000	Currently does not exist	Currently does not exist	\$225,000
				100%

Future State w/Policy:

2017-2018 Operating Budget	Current Surplus Accumulated over the Years	Operating Reserve	Opportunity Reserve	Undesignated Reserves
\$440,000	\$225,000	\$110,000	\$44,000	\$71,000
		25%	10%	Balance

What's the difference?

OPERATING	OPPORTUNITY
Save	Spend
Rainy Day	Slush Fund
25% (Current Annual Budget)	10% (Current Annual Budget)
As required	2x a Year
<p><i>Examples:</i> Fundraising shortfall Cost overruns Staffing Changes -->More \$</p>	<p><i>Examples:</i> New play structure New event/workshop New BBQ Sun shade Pilot math program Supporting other schools</p>

NOTE: The above does not include things like backfilling OUSD budget cut impacts or multi-year project proposals requiring significant investment (ie capital equipment) that would require additional and/or separate fundraising efforts.

Why have an Operating Reserve?

- **An Operating Reserve is recommended as a best practice for any nonprofit to maintain financial stability**
- Operating Reserve margin is typically set as a % of the annual budget, or a number of months of operation, and the operating reserve is used specifically to backstop the operating budget in the event of an unexpected expense or cash shortfall, e.g.:
 - Economic downturn or major disaster like an earthquake reduces funding capacity
 - Unexpected revenue shortfall, e.g., Walkathon is canceled due to rain
 - Unexpected demand on resources, e.g., OUSD budget cuts create greater need for PTA funding
 - Expected gifts don't materialize
 - Change in direction, shifting needs necessitate seed capital, e.g., relationship with existing vendor sours, and replacement costs 20% more
 - Need for working capital to manage revenue fluctuations

How much should Crocker's Operating Reserve be?

- **Recommendation: 25% which is \$110k based on Crocker's 2017-2018 annual budget**
- 25% is a sustainable operating reserve margin that will provide Crocker PTA with a healthy cushion to weather potential economic challenges
- Risk factors (affecting revenue and/or spending) taken into account when considering an operating reserve:
 - Stability of donated revenue from primary sources
 - Predictability of pledge collections
 - Economic health of the community
 - The extent to which economic downturns or other types of events may affect demand for services, either up or down
 - The extent of funding commitments made for longer than one year
 - Dependency of programs on stable, individual funding streams
 - Ability to downsize operations quickly and still provide services to the community (e.g. staff have more than one essential duty)

How is the Operating Reserve used?

- The Operating Reserve Policy sets forth a clear process for how operating reserve uses are approved
- **The Operating Reserve is strictly used for budget shortfalls, not discretionary spending by the Crocker PTA**
- If a need for Operating Reserve spending is identified, the Executive Board can authorize up to \$750.00 in spending (consistent with Crocker PTA Bylaws). Anything > \$750 must be approved by the Crocker PTA at a general meeting, after approval by the Executive Board

Why have an Opportunity Reserve?

- Pilot new programs or projects
- Expand innovation
- Be organized and disciplined
- Increase Transparency
- Motivate Crocker community & increase participation
- Align spending to our goals/mission
- Provide flexibility to jump on great opportunities

How much should Crocker's Opportunity Reserve be?

- **Recommendation: 10% which is \$44k based on Crocker's 2017-2018 annual budget**
- This amount allows us to be proactive and nimble to fund large to small projects
- Offers a target that allows for us to sustain opportunity reserve projects year over year
- Year over year, the Opportunity Reserve pool will be evaluated alongside the annual budget cycle (March - May)

Opportunity Reserve Process: What's Next?

- PTA President & Exec VP will select a 3-4 person committee, plus Joci, by week of 1/22/18
- Call for proposals will begin the week of 1/16/18
- To be consistent on an ongoing basis, the opportunity Reserve budget for Spring 2018 is \$22k
- Spring proposals will be voted on at the March PTA General Body Meeting, after the Executive Board approves earlier that month

What's Left: Undesignated Reserves

- Any remaining budget surpluses will be categorized as undesignated reserves, essentially a rainy day fund for emergencies
- We already anticipate drawing down these reserves to backfill OUSD budget cuts that will affect the current school year and likely next year as well, with an initial expected drawdown of \$40K
- Based on the current surplus, we expect to have approximately \$70K in undesignated reserves, and it is likely between this year and next that we will spend down this entire amount to backfill OUSD cuts

FAQs

- **What if the total amount of Opportunity Reserve proposals in a funding cycle is > \$22K?**

As noted in the policy and process, single project proposals could be for more than \$22K and the PTA could spend more in one funding cycle than another, e.g., \$32K in Nov., \$10K in Mar. If there are competing viable proposals that add up to more than the funding cycle (or more than the entire 10%), then the Opportunity Reserve Committee will work with the project proponents and school administrators to try to accommodate all of the projects, but ultimately the PTA will have to vote on which projects are funded based on the funding available.

Proposals that are year over year objectives or have already been piloted with opportunity reserve dollars can also be brought to the annual budgeting process and be budgeted as part of operations rather than out of reserves.

- **Why 25% for the Operating Reserve and not 20% or less/more?**

Some of Crocker PTA's largest expenditures are front-loaded in the school year, and we are vulnerable to shortfalls if fundraising efforts come up short, particularly in the event of an economic downturn. Most contractual obligations can be terminated with no notice or penalties, but we would want to provide courtesy notice of 30 or 60 days. 25% provides a cushion to backstop those expenditures and to provide a ramp down in the event budget cuts are needed.

- **Who can submit opportunity reserve proposals?**

Any administrator, teacher, parent or guardian of Crocker Elementary school.

- **Will the Opportunity Reserve Committee pick and choose favorites?**

NO - the role of the committee is not to pick and choose among proposals but to facilitate the proposal process (e.g., encouraging teachers and parents to submit ideas) and to coordinate with Joci and other teachers and administrators to ensure that proposals are both viable and a good fit for what the school needs (ie tie to the school and/or PTA goals, mission, strategies).

- **Why 2 proposal cycles each year, not 3?**

It makes sense based on the school calendar and the PTA meeting schedule per our by-laws. With only 5 general assembly meetings per year our time is limited and splitting up proposals across 3 periods does not allow for an opportunity to compare and prioritize optimally. Finally, let's be realistic and fair to our volunteer committee and our principal.

- **Can project proposals or instruction that occurs during the school day/week/months?**

Possibly, but they need to be vetted with Joci in advance. Please keep in mind that in general, classroom and instruction time is at full capacity.

- **Can we propose capital projects, like a sunshade or new play structure?**

Yes, but Crocker PTA can only fund, not construct, those projects. They would require coordination with OUSD Facilities management. These would be vetted closely by Joci.

- **What if OUSD cuts require further Crocker PTA spending and spend down all of our undesignated reserves?**

If necessary, PTA could reallocate designated reserves to undesignated reserves, as well as conduct additional fundraising.

Reserves 101

- What is a reserve?
 - A distinct pool of liquid net assets that the organization can access either to mitigate the unexpected or to pursue strategic opportunities that may arise
 - Ours is customized from a template provided by the Nonprofit Assistance Fund:
https://nonprofitsassistancefund.org/sites/default/files/publications/nonprofit_operating_reserves_and_policy_examples_2014.pdf
- Is there an IRS or other legal limit on the size of a reserve for a non-profit?
 - **No**, as long as the accumulated assets are being used to further the nonprofit's tax-exempt purpose*
- There are two principal kinds of reserves that make sense for Crocker:
 - Operating Reserve
 - Used for making up revenue shortfalls, or unexpected spending
 - Opportunity Reserve or Fund
 - Used for emergent opportunities like one-time programs, pilots, capital projects

* Source: ("Operating Reserve Policy Toolkit for Nonprofit Organizations," Nonprofit Operating Reserves Initiative Workgroup), available here:
http://www.nccs2.org/wiki/images/b/b4/Operating_Reserves_Policy_Toolkit_1st_Ed_2010-09-16.pdf