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Briefing Document On Agenda Item 3(a):
CAFII Financial Reserves Policy: Options Re Current Reserves Level
June 19, 2014 CAFII EOC Meeting

CAFII's Financial Reserves Policy is to maintain Reserves of approximately six (6) months or 50% of annual operating expenses.

Based on the Association's 2014 Operating Budget (displayed as a column in the Statement of Operations in each month's financial statements), the reserves target is therefore 50% of $414,972 or $207, 486.

As indicated by CAFII's Balance Sheet as at May 31, 2014, the Association's Reserves stand at $330,705 which exceeds the targeted level by $123,219.

On June 17, Brendan Wycks met by teleconference with Vivian Chen, Manager, Audit, Financial Services at KPMG, who worked on CAFII's 2013 audit, to discuss the Association's Financial Reserves Policy and current position; Canada Revenue Agency views on Reserves held by non-profit organizations; and related action options for the Association.

The following insights were generated from that discussion:

-the amount of reserves that has been generated by the Excess of Revenue Over Expenses for the first four months of fiscal 2014 should be factored out of consideration, because it is largely a timing difference. It is reasonable to remove that $42,530 of Excess of Revenue Over Expenses, as temporary, because (i) the Association's 2014 budget calls for a modest deficit of $13K at the end of the year; and (ii) some major project spending has been delayed but is imminent, in particular Towers Watson's invoicing for its services on the Comparative Value of Creditor's Group Insurance Project.

-therefore, a more accurate assessment places CAFII's current level of Reserves at $288,175, which still exceeds the targeted amount of $207,486 by $80,689. CAFII's Reserves therefore currently stand at 69.4% of annual operating expenses, well above the targeted 50% of annual operating expenses.

-With Reserves of $288, 175 (69.4% of annual operating expenses) is CAFII at risk of running afoul of CRA regulations and losing its non-profit status?

Answer: No, certainly not. CRA would not care and would not be bothered at all about Reserves at this level. So long as there is a Reserves Policy that is tied to the organization's Mission and its current and future commitments, and the members are comfortable with that policy, CRA would not be fussed.

Even absent a Reserves Policy, CRA probably would not be concerned at all unless the Reserves were in excess of 200% of annual operating expenses.

-What level of Reserves (ie. what percentage of annual operating expenses) would CAFII have to reach to be at risk of losing its non-profit status?

Answer: CRA doesn't have a specific rule or a yardstick for Reserves held by non-profits. It all depends on the type of organization. It's important to have a Reserves Policy that is tied to Mission and current and future commitments. But after that, it's really just a philosophical question and one that's linked to the comfort of the members.

-Does KPMG regard CAFII's Financial Reserves Policy (50% of annual operating expenses) as prudent, given our size and scope as an Association?

Answer: Given that CAFII is a small Association with a straightforward structure, and it has low debt and a very stable revenue stream, the policy of targeting Reserves at equivalent to six months of annual operating expenses seems very appropriate.

But there are Associations that have policies that target anywhere from three months to two years in financial Reserves. What's appropriate varies widely, based on the mission, structure, and plans of the organization.

-If CAFII chooses to draw down its Reserves to bring them closer to the targeted level, the feasible options would seem to be

> -spend money on one or more major projects that will bring long-term benefit to the members; or
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> -create a budget for a particular fiscal year(s) that calls for lower Revenue by reducing Member Dues by a certain percentage for that year(s). In this way, for one or more years, the Association would have an Operating Budget that calls for a deficit.
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> This budgetary approach to reducing Revenue temporarily, and thereby drawing down Reserves within a specified time period, is a better way to go than the alternative of declaring a Dues Holiday or a Dues Reduction for second instalment dues within an already started fiscal year.
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> Doing this on a well-planned, budgeted basis is cleaner and better from an overall management and reputation management perspectives.

(Vivian Chen also offered to vet these questions/issues with a "non-profit expert" within KPMG, to see if there are any further points of analysis or advice to add; and to get back to Brendan Wycks at her earliest convenience.)