

# PMI PHOENIX CHAPTER POLICY STATEMENT

## Reserve Requirements Policy

**Approved by Board of Directors on: 3/25/19**

### **Purpose**

This document defines the policy of the PMI Phoenix Chapter for calculating and maintaining a reserve fund.

### **Reserve Requirements**

The Chapter is required to maintain a “required reserve” that is in an amount determined in accordance with PMI Global and the instructions shown below. The purpose of the reserve is to enable the chapter to remain viable and to provide the funds necessary for continuance when income is not available or is severely diminished from normal levels. It is also established to protect the members of the Chapter’s Board of Directors from personal liability that may accrue to them in the event the chapter is unable to meet its obligations with its normal operating account, and to return member dues in the event the Chapter has to close.

Per the PMI Chapter Leaders’ Guide: Financial Management of PMI Chapters, chapter 5.3, it is recommended that chapters maintain a reserve of 85% of their average annual expense. That is equivalent to ten months of expense. The average is based on fixed expenses, not expenses that generate income. For example, fixed expenses in the Chapter would include the sum of expenses for the following PMI Phoenix teams: Leadership, Communications, Finance, Marketing, Membership, and Operations. Expenses that are not fixed in nature are those incurred by: External Relations, Professional Development, and Programs because they generate income and do not need a reserve. The PMI Phoenix Chapter will abide by the PMI Global recommendation in determining its required reserve of fixed expenses.

The reserve fund should be maintained in an account, or accounts, at a bank or other financial institution(s), separate from the chapter’s checking account. It can only be used at the direction of the Chapter’s Board of Directors as discussed below. The calculation of the required reserve amount should be updated annually.

The Chapter’s average annual expense is calculated by dividing the sum of the Chapter’s fixed expenses for the following periods; the past three years, the past two years and the past year. Then, divide the total of each by the number of months in the period (36, 24, or 12). Select the highest average as your base. Next, multiply the base amount by ten to get your required reserve amount.

The Chapter’s targeted reserve is 100% of the Chapter’s average annual fixed expense. This is a target number only and not a required level. Reserve amounts that exceed the calculated required reserve are called surplus reserves. There is no upper limit on surplus reserves. The Chapter may save as much as the Board deems appropriate.

The Chapter’s annual contribution to the reserve account should be 10% of annual revenue if the balance in the reserve account is less than the Required Reserve amount. If the Required Reserve level is achieved in a given year, the requirement for the annual contribution may be waived. However, the Chapter may, at its discretion, continue to fund a reserve account at levels beyond the required reserve amount.

### **Usage of Funds in the Reserve Account**

Funds in the Chapter’s required reserve account can only be used when the Chapter Board determines that the Chapter has experienced, or is experiencing, an unanticipated major crisis, catastrophic loss or severe economic shortfall and there are no other sources of funds. Use of the funds requires approval of the Chapter’s Board. Funds from the required reserve account are not to be used to fund revenue generating events.

Surplus reserves may be invested or used in a manner that will either enhance the value of the account or that is used to fund grants or investments in new ventures. Any use of surplus funds must be requested by the President of the Chapter with a business plan and must be approved by the Board.

### **Catastrophic Events**

In the event the Chapter has to close its doors, funds in the reserve account may be used for the following purposes:

- To pay outstanding debts and other obligations
- To pay legal fees if necessary
- To reimburse members for membership dues for months in which the Chapter will not exist to provide the services the members paid for. To calculate this possibility, multiply your annual chapter dues by the average number of members over the past 12 months then multiply that by 0.5 in order to recognize the fact that, on average, the chapter will be obligated to pay for 6 months of dues to its members, not a full year's 12 months.