**Strategic Use of Net Assets Outline**

Adopted by Board of Directors: May 2017

* This proposed policy is in lieu of the current policy that states that AEA can’t fund a new Strategic Initiative within a given year, if it causes AEA to have a deficit budget within that given year. The parameters and conditions outlined below, would be tied to Total Net Assets and not the AEA Budget surplus or deficit in a given year.

* At the end of each fiscal year, the Net Asset Reserve Ratio should be calculated.
  + The Net Asset Reserve Ratio is defined by the following:

**Final Current Year Total Net Assets (divided by)**

**Upcoming Fiscal Year Total Budgeted Operating Expenses**

* A minimum Net Asset Reserve Ratio should be established by the AEA Board. Beginning with FY2018, the ratio will be no less than .80 to be revisited no later than budget preparation for FY2020. (This policy would suspend previous policy tests #1, #2. However, the test will remain present in the financial budget preparation in order to continue analysis and comparison.) Wherever the ratio is presented, the calculations will be shown.
* Any amount of strategic funding may be established and utilized by the AEA Board, up to an amount that maintains the established Net Asset Reserve Ratio of 1.10 or greater.
* Strategic Initiatives are to be evaluated and approved by the AEA Board. A series of requirements and KPI’s (Key Performance Indicators) should be created by the Board in order to evaluate whether or not a Strategic Initiative is viable and should be funded.
* No additional Strategic Initiatives may be funded at the end of the fiscal year unless the established Net Asset Reserve Ratio is greater than or equal to the AEA Board approved ratio.
  + The newly calculated ratio needs to include any suggested Strategic Initiatives for the upcoming fiscal year and still be greater than or equal to the AEA Board approved Net Asset Reserve Ratio minimum.
  + No additional Strategic Initiatives may be funded if the ratio falls below the established Net Asset Reserve Ratio, until the ratio returns to the Board established minimum or greater.
* The above suggested procedure will ensure that AEA maintains a healthy Net Asset Reserve Ratio; while allowing the organization to evaluate and fund Strategic Initiatives that will allow AEA to grow and continue to move forward into the future.

**Current Definitions in AEA Policy:**

Net Assets: The Net Assets is an unrestricted fund balance representing those funds available for programs and services. The General Reserve is identified at the beginning of each fiscal year and is defined as subtracting the Operating Reserve from the Net Assets of the Association at the close of the fiscal year. The Board establishes policy that sets parameters on accessing the funds within the General Reserve.

...

Net Assets: Net Assets are the difference between the association’s total financial assets and total financial liabilities (accounts payable and debts). AEA divides its net assets into two categories, the Operating Reserve and the General Reserve.

Operating Reserve: The operating reserve is an unrestricted fund balance set aside to stabilize our finances by providing a cushion against emergencies or large, unexpected fluctuations in income. The Board sets policy that establishes parameters on accessing the funds within the Operating Reserve.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | FY2013 | FY2014 | FY2015 | FY2016 | FY2016 | FY2017 |
|  | Actual | Actual | Actual | Actual | Actual | Budget |
|  | Audited | Audited | Audited | Audited | Un-Audited |  |
|  |  |  |  |  |  |  |
| Operations - Revenue | 1,713,907 | 1,831,371 | 1,983,450 | 1,969,349 | 2,165,791 | 2,397,223 |
|  |  |  |  |  |  |  |
| Operations - Expenses | 1,478,175 | 1,524,116 | 1,713,457 | 1,858,468 | 2,075,549 | 2,384,676 |
|  |  |  |  |  |  |  |
| Net Change in Net Assets - Operations | 235,732 | 307,255 | 269,993 | 110,881 | 90,242 | 12,547 |
|  |  |  |  |  |  |  |
| Non Operations |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Non-Operations Revenue: | 0 | 0 | 86,390 | 59,384 | 31,315 | 430,953 |
|  |  |  |  |  |  |  |
| Non-Operations Expenses: | 0 | 0 | 14,855 | 14,070 | 27,478 | 433,000 |
|  |  |  |  |  |  |  |
| Net Change in Net Assets - Non-Operations | 0 | 0 | 71,536 | 45,314 | 3,838 | (2,047) |
|  |  |  |  |  |  |  |
| Net Change in Net Assets | $235,732 | $307,255 | $341,528 | $156,195 | $94,080 | $10,500 |
|  |  |  |  |  |  |  |
| Total Reserves (Unrestricted Net Assets) | $ 2,203,743 | $ 2,495,117 | $ 2,815,559 | $ 2,945,110 | $3,054,941 | $3,066,441 |
|  |  |  |  |  |  |  |
| Reserves as a % of Total Operating Expenses | 149% | 164% | 164% | 158% | 147% | 129% |
|  |  |  |  |  |  |  |
| The reserves % is calculated by taking Total Reserves (Year-end Unrestricted Net Assets) and dividing it by the association's total operating expenses. Board and Temporarily Restricted Net Assets not reflected in Total Reserves. Prior to FY2014, Non-Operations was not separated from Operating activities. | | | | | | |