



# PMIEF Reserve Policy

PMI Educational Foundation      Level: #1

Effective Date: 20 September      Responsibility Of: **PMI VP-Finance**  
2018

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Effective Date: 20 September 2018 Responsibility Of: **PMI VP-Finance**

## 1. Purpose

This policy outlines reserves to be set aside by the Project Management Institute Educational Foundation (PMIEF) to create an internal source of capital for security and change:

- Situations in which PMIEF has experienced, or is experiencing, an unanticipated major crisis, catastrophic loss, or economic shortfall and no other sources of funds are available. An Operating Reserve will be established, funded, and maintained to sustain crucial operations and to offset the negative impact of such financial shortfalls.
- Situations in which a business opportunity or need is presented that warrants capital that goes beyond normal, planned and budgeted current programming and growth. An Opportunity Reserve will be established, funded, and maintained to build PMIEF's capacity to fund innovative growth and expansion in a way that does not create large disruptions in normal operating budgets.

Section 1 of this policy addresses the establishment, funding, use, authorizations, and monitoring requirements of the Operating Reserve.

Section 2 of this policy addresses the same elements for the Opportunity Reserve.

## 2. Policy Statement



PMIEF Reserve  
Policy\_Approved\_20'

## 3. Policy Distribution

**Internal:** PMIEF Board, PMIEF COO, PMIEF and PMI Executive Staff as needed, PMIEF and PMI finance and accounting staff as needed, PMIEF independent financial auditor as needed, and investment consultant and others as needed.

**External:** Posted on PMIEF website



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PMI Educational Foundation Level: #1

Effective Date: 20 September 2018 Responsibility Of: **PMI VP-Finance**

## 4. Related Documents

Document Name	Document Type (Procedure, Form, User Guide, etc.)

## 5. Revision History

Action (Creation, Revision, Review)	Effective Date	Changes/Approvals
Creation	20 September 2018	Original PMIEF Reserve Policy

## 6. Glossary

Term	Definition
Operating Reserve	A fund established to reduce the Foundation's risk that a financial shortfall could endanger the existence of the Foundation, or its ability to fulfill its commitments to grantees and donors.
Opportunity Reserve	A fund established, if desired by the PMIEF Board and after assuring that an Operating Reserve is fully funded, to provide additional funds for unexpected opportunities to build the Foundation's reputation or capability to deliver its mission.
Targeted Reserve	The calculated amount that must be funded in the Operating Reserve. This amount must be funded over time, and maintained at this level once it is fully funded.
Reserve Balance	The current funding level of the Reserve, whether the Operating Reserve or the Opportunity Reserve

# **PMIEF Reserve Policy (approved 20 September 2018)**

## **Statement of Purpose**

This policy outlines reserves to be set aside by the Project Management Institute Educational Foundation (PMIEF) to create an internal source of capital for security and change:

- Situations in which PMIEF has experienced, or is experiencing, an unanticipated major crisis, catastrophic loss, or economic shortfall and no other sources of funds are available. An Operating Reserve will be established, funded, and maintained to sustain crucial operations and to offset the negative impact of such financial shortfalls.
- Situations in which a business opportunity or need is presented that warrants capital that goes beyond normal, planned and budgeted current programming and growth. An Opportunity Reserve will be established, funded, and maintained to build PMIEF's capacity to fund innovative growth and expansion in a way that does not create large disruptions in normal operating budgets.

Section 1 of this policy addresses the establishment, funding, use, authorizations, and monitoring requirements of the Operating Reserve.

Section 2 of this policy addresses the same elements for the Opportunity Reserve.

## **Section 1: PMIEF Operating Reserve**

### **1.1 Purposes and Use of the Operating Reserve**

The PMIEF Operating Reserve is intended to be used in situations of financial shortfall, such as these:

- When shortfalls in donor funding occur, such as:
  - Unexpected reduction in funding from PMI
  - Uncollectible donor pledge(s) which fund specific and committed programs
- When market fluctuations impact endowment fund earnings, causing an inability to pay out endowed scholarships
- When market disruptions in approved Board designated strategy require a rapid response to shift activities or strategy, and budgeted funds cannot cover the shortfall.

This list is representative of the types of situations in which the Reserve would most likely be accessed, but is not intended to be all-inclusive.

### **1.2 Operating Reserve Funding Level**

The Operating Reserve is targeted to supply funding for up to one year of ongoing operation of the Foundation, particularly to assure that the Foundation can meet its outstanding grant commitments and commitments to the funders of endowed scholarships. It is intended to cover the basic functioning of the Foundation during times of financial shortfall, although at a limited level of operation.

A Targeted Reserve amount will be maintained in the Operating Reserve, representing three years' average operating expenses, augmented by anticipated budget growth. For purposes of computing the Targeted Reserve, the three year average operating expenses shall be comprised of the previous two year actual operating expenses and the current year operating expense budget.

Expenses included in the three-year average are all operating expenses, **minus** those expenses covered by PMI allocations, and those expenses that would be curtailed in a severe financial shortfall. It specifically includes the current committed grant debt load and committed endowment scholarship payouts.

The Targeted Reserve amount is calculated as the three-year average of:

- 13% of total expenses, plus
- Total grant debt.

The above three-year average is then augmented by a 10%/year anticipated growth in total expenses.

The basis for the level of total expense coverage is detailed in Appendix A.

The Targeted Reserve amount will be adjusted each year in May, in order to include audited results from the prior year.

### **1.3 Operating Reserve Funding**

The Operating Reserve will receive initial funding by the transfer of the then-current balance in the General Investment Fund.

The Reserve will be fully funded to its Targeted Reserve amount in a period not to exceed 15 years, beginning 1 January 2019.

In the first two years of funding (2019 and 2020), additions to the Reserve will be limited to amounts set aside in budgets already presented to the PMIEF and PMI Boards. In 2021, the PMIEF budget will set aside US\$200,000 to be added to the Reserve. Thereafter, until fully funded, the Reserve will be funded by an amount equal to the previous year contribution increased by 5%.

Timing of contributions to the Reserve during the year is at the discretion of the PMIEF Executive Director in consultation with accounting staff.

Additional contributions to the Reserve may be made at any time to bring it to its Targeted Reserve amount in fewer than 15 years.

If, during the initial funding period, financial conditions indicate that planned contributions will not be sufficient to fully fund the reserve by the end of its 15-year funding period, adjustments in contribution levels will be made to assure the Reserve will be fully funded by the end of the funding period.

Once the Reserve has reached its Targeted Reserve amount, the Reserve Balance will be maintained at a constant balance equaling the Targeted Reserve amount, and additional contributions will normally be waived. If, because of favorable investment earnings, the Reserve Balance experiences an overage of funding beyond the Targeted Reserve, that overage could compensate for anticipated increases in the

Targeted Reserve amount as years progress. Alternatively, the PMIEF Board may consider other uses for the excess funds, such as additions to the Opportunity Reserve. The Finance Committee will prepare a recommendation to the Board for usage of any overage in the Operating Reserve.

If the Reserve Balance is less than the Targeted Reserve amount in any given year, a plan will be recommended by staff and presented to the Finance Committee for Board approval to bring the fund up to the required levels.

#### **1.4 Accounting Treatment of the Operating Reserve**

The Operating Reserve will be maintained in a separate investment account, governed by specific language in the Investment and Spending Policy related to this Reserve. Because the Reserve is intended to cover emergencies, its investment profile will be conservative.

The Operating Reserve will be recorded in the accounting system and financial statements as Board Designated Operating Reserve Fund, following accounting guidance for quasi-endowments. Contributions to the Reserve will be designated as a separate line item in the PMIEF budget.

Investment earnings (including interest, dividends, realized and unrealized gains/losses, etc.) will be maintained within the Operating Reserve Fund and be available for use as determined by the guidance in this policy.

#### **1.5 Use of the Board-Designated Operating Reserve**

The Reserve may be used to cover approved expenses in approved situations, as identified in this policy, with the following authorizations.

The Executive Director, with the approval of the Chief Operating Officer, may access funds in amounts up to \$100,000. The Executive Director must immediately report to the Finance Committee the amount, intended use, and circumstances requiring use of the Operating Reserve.

For amounts exceeding \$100,000, the Executive Director will prepare a business case for use of funds, to be presented to the Finance Committee for review. If the Finance Committee believes an authorization is warranted, the Committee will recommend to the Board of Directors the use of funds.

Proposals for the Board's consideration of the use of Operating Reserve funds may be submitted at any regularly scheduled meeting of the Board, or at a special meeting called for considering the proposed use of funds. Proposals must follow required notices to the Board, using required Agenda Topic guidelines.

In the event funds from the Operating Reserve are used, the Reserve Balance will be brought back to its Targeted Reserve amount according to the following schedule:

<b>Amount accessed</b>	<b>Replenishment of Reserve</b>
\$1 - \$200,000	Before the end of the first calendar year after funds are accessed

\$200,001 - \$500,000	Before the end of the second calendar year after funds are accessed
\$500,001 - \$1,000,000	Before the end of the third calendar year after funds are accessed
\$1,000,001+	Determined via a proposal submitted to the Finance Committee, and upon the Committee's review and agreement, submitted to the Board for approval.

**1.6 Monitoring and Reporting on the Operating Reserve**

The Executive Director will monitor the Operating Reserve Fund to ensure it is being maintained and used only as per this policy. Accounting staff will provide quarterly reports to the Executive Director and Finance Committee on the status of the Operating Reserve. The Finance Committee will be responsible for assuring that all aspects of this Reserve Policy are being properly carried out.

The Finance Committee will review the Reserve Policy annually to determine if any changes are needed, after reviewing the current fundraising scenario, any new or additional risk factors to be considered (coordinated with the Risk Policy), the impact on funding the reserve on the budget, and any other relevant information

During the funding period, the Finance Committee will particularly monitor performance against the elements of the Target Reserve formula, to assure the ability to fund the Reserve to its Targeted Reserve amount within 15 years:

- the adequacy of the 13% of total expenses to fully fund the Operating Reserve to an amount representing expenses as outlined in Appendix A.
- any trends in grant debt that would jeopardize the ability of a three-year average to fund committed debt in the event of a financial shortfall, specifically monitoring grant debt as part of annual and 3-year budget reviews.

When new grants are being considered by the Program Committee or the Board, part of the due diligence reported to the Program Committee and/or Board will be contribution to total grant debt and its potential to impact reserve funding.

Progress on funding, maintaining, and (if applicable) replenishment of the Operating Reserve will be monitored as part of the quarterly accounting reporting provided to the Executive Director and Finance Committee.

**Section 2: PMIEF Opportunity Reserve**

**2.1 Purposes and Use of the Opportunity Reserve**

The PMIEF Opportunity Reserve is intended to be used to:

- provide an accessible source of capital for unique opportunities, unanticipated in the budget, that are time-sensitive and cannot easily be planned into the future as part of the Foundation's overall operating plan and budget cycle
- provide a means to fund research and development to test potential strategies or programs
- provide a source of capital to allow for innovative growth and expansion in a way that does not create large disruptions in normal operating budgets.

Any use of the Reserve must be fully consistent with and help to advance the Board's current strategic plan.

Examples of the types of situations which might warrant use of the Opportunity Reserve include:

- A donor offers matching funds for development of a planned program in a time frame that cannot be accommodated in normal plans.
- A foundation offers to partner with PMIEF to extend and expand strategic goals of the Foundation in a shorter time frame than anticipated in the operating plan and budget.
- A research effort or pilot project would help the Foundation to determine the viability of entering a new market or pursuing an expansion of its current programming.
- The Operating Reserve needs to be replenished following a financial crisis, and the Board wishes to replenish it in a shorter time frame than anticipated in Section 1.5 of this Policy.

## **2.2 Opportunity Reserve Funding Level**

No specific funding level is required for the Opportunity Reserve. However, practicality dictates that to be of use, the fund should ultimately be maintained at a level of at least \$500,000.

## **2.3 Opportunity Reserve Funding**

The Opportunity Reserve will initially be funded by re-characterizing the funds currently maintained in the 'quasi-endowment' fund as the Board-Designated Opportunity Reserve.

No further funding of the Reserve will be made until the Operating Reserve is fully funded.

Once the Operating Reserve is fully funded, the PMIEF Board may request that additional funds be added to the Opportunity Reserve on a one-time or ongoing basis, consistent with the three-year budget projection required by the PMI Board.

If the fund at any time exceeds an amount equal to 20% of the current year operating budget, no further funding will be authorized without a full review of the purpose and use of the fund, and an accompanying update to this policy as warranted.

## **2.4 Accounting Treatment of the Opportunity Reserve**

The Opportunity Reserve will be tracked and invested as part of the Endowment Fund until such time as further funding begins, at which point it will be maintained in a separate investment account, governed by specific direction to be created at that time in the Investment and Spending Policy.

The Opportunity Reserve will be recorded in the accounting system and financial statements as Board Designated Opportunity Reserve Fund, following accounting guidance for quasi-endowments. Contributions to the Reserve will be designated as a separate line item in the PMIEF budget.

Investment earnings (including interest, dividends, realized and unrealized gains/losses, etc.) will be maintained within the Opportunity Reserve Fund and be available for use as determined by the guidance in this policy.

## **2.5 Use of the Board-Designated Opportunity Reserve**

To access funds in the Opportunity Reserve, the Executive Director will prepare a business case for use of funds, to be presented to the Finance Committee for review. If the Finance Committee believes an authorization is warranted, the Committee will recommend to the Board of Directors the use of funds.

Proposals for the Board's consideration of the use of Opportunity Reserve funds may be submitted at any regularly scheduled meeting of the Board, or at a special meeting called for considering the proposed use of funds. Proposals must follow required notices to the Board, using required Agenda Topic guidelines.

If funds are used, there will be no specific requirement to replenish the funds. However, the Board may wish to establish a plan for replenishing the Reserve as part of its authorization for use of funds.

## **2.6 Monitoring and Reporting on the Opportunity Reserve**

The Executive Director will monitor the Opportunity Reserve to ensure it is being maintained and used only as per this policy. Accounting staff will provide quarterly reports to the Executive Director and Finance Committee on the status of the Opportunity Reserve. The Finance Committee will be responsible for assuring that all aspects of this Reserve Policy are being properly carried out.

The Finance Committee will review the Reserve Policy annually to determine if any changes are needed, after reviewing competitive information, and any other relevant information.

Progress on funding, maintaining, and (if applicable) replenishment of the Opportunity Reserve will be monitored as part of the quarterly accounting reporting provided to the Executive Director and Finance Committee.

## Glossary of Terms

**Operating Reserve** – a fund established to reduce the Foundation’s risk that a financial shortfall could endanger the existence of the Foundation, or its ability to fulfill its commitments to grantees and donors.

**Opportunity Reserve** – a fund established, if desired by the PMIEF Board and after assuring that an Operating Reserve is fully funded, to provide additional funds for unexpected opportunities to build the Foundation’s reputation or capability to deliver its mission.

**Targeted Reserve** – the calculated amount that must be funded in the Operating Reserve. This amount must be funded over time, and maintained at this level once it is fully funded.

**Reserve Balance** – the current funding level of the Reserve, whether the Operating Reserve or the Opportunity Reserve.

## Appendix A – Basis for Determining Targeted Reserve Calculation

The calculation of the necessary expenses to sustain the foundation at a limited operating level for one year was determined to be approximately 13% of total expenses. The 13% figure is based on total expenses, but **excludes or reduces** these budget line item expenses. Percentages indicate the percent of normal expenses **excluded** from the calculation. Where not noted by exception as a reduction, the entire expense is **excluded**. All expense line items not named are **included** in the calculation.

### Development Expenses

- Development salaries, payroll taxes, and benefits - including PMI allocation
- EMEA Congress & Global Conference - Development Expense
- Travel - 50% of three year average
- Website / Donor Page Revision / Maintenance
- Development Consulting and Annual Campaign - 75% of three year average

### Program Expenses

- Program salaries, payroll taxes, and benefits - including PMI allocation
- Program Development - Design & General Expense
- Program Development - Marketing
- Program Development - Capable Nonprofits
- Program Development - Ready Workforce
- Ready Workforce - In-Kind
- Ready Workforce - Pass Thru Scholarships
- Ready Workforce - Grant / Doctoral Research Grant
- Travel - 75% of three year average
- Awards (All Awards) - reduced to \$15,000 in awards plus travel
- EMEA Congress & Global Conference - Program Expenses
- Vendors - Scholarships, CRM - leave \$250,000 for basic support
- PMI PM Knowledgeable Youth - Contractor(s)
- PMI PM Knowledgeable Youth - Research, Partner Outreach, Focus Groups - 75% of three year average
- PMI PM Knowledgeable Youth - Grants
- PMI PM Knowledgeable Youth - Materials, Programs & Marketing - 75% of three-year average
- Program Sponsorships

### Administrative & Board Expenses

- Administrative salaries, payroll taxes, and benefits - including PMI allocation
- Facilities / IT / HR (PMI-GOC)
- Incremental - Strategic Planning Consulting
- Board Onsite Meeting - 65% of three year average
- Depreciation Expense