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Chapter Financial Management and Administration Policy Overview

December 6, 2016

- On November 18, 2016, the Board of Directors approved the Chapter Financial Management and Administration Policy
 - Outlines responsibilities, guidelines and expectations for chapters and national finance department
 - Policy is effective immediately, with implementation over the next calendar year
 - Enables sun-setting the Appraisal Institute Chapter Finance Review Policy and Procedures
 - Target date for completion of implementation is January 1, 2018
- 2017 devoted to a collaborative development and execution of an implementation plan

- **Under Policy, Chapter retains all decision making responsibilities over use of financial resources within Chapter**
- Roles and responsibilities of chapter leadership:
 - Chapter Board of Directors
 - Chapter Finance Committee
 - Chapter Treasurer
- National to provide accounting and administrative services

Chapter Responsibilities

- Establish and approve an annual budget
- Select and maintain vendor relationships
- Authorize disbursement of payments
- Authorize use of reserves held by chapters
- Determine expenditures from restricted funds
- Establish compensation package for Chapter staff

What this Policy is NOT

- Policy does NOT impact education
- Policy does NOT impact Chapters' responsibility to set dues and fees
- Policy does NOT impact other chapter revenue sources

- Chapter accounting to be transitioned to a uniform accounting system
 - Software to enable integration with other systems and eliminate manual data entry
 - Consistent recording of transactions
 - Accrual method of accounting
 - Upon full implementation, QuickBooks will no longer be used
 - Process to retain access to QBO data and how much data will be transferred to the new system will be determined during implementation

- Chapter financial information and reports to be available online to authorized chapter representatives 24/7
 - Standard list of reports will be developed and available to chapters
 - Goal is to have transparent data available to enable chapters to perform unique analysis or reporting if they wish to do so
 - Chapters to follow existing reporting process to the Chapter Board

Vendor Relationships

- Chapters to continue being responsible for vendor relationships:
 - vendor selection
 - payment/fee negotiation
 - secure contracts with necessary approvals
 - ensuring service and/or items have been received
 - obtaining invoices and other IRS required documentation
 - submission of invoices for payment processing
 - authorization of the payment
 - dispute resolution

Vendor Relationships

- Vendor payments, expense reimbursements and check requests will be processed by AI Finance Department
 - Chapter Treasurer or President **must** approve all payments **before** they will be processed
 - ACH/EFT payment availability
- AI's online invoice processing system to be launched for chapters
 - Chapters to submit invoice for payment via email
 - Authorized chapter representative to receive notification of new invoice being available for approval
 - Chapter representative to approve payment virtually

Payment Processing Options

- Payment will be processed within a maximum of **10 business days of approval.**
 - Standard processing days are Tuesdays and Thursdays.
- Process to be determined for payments which either cannot be anticipated 10 business days in advance or when a payment amount is unknown prior to the event (ex. board dinner). Possible options include:
 - Use of credit card
 - Wire payments
 - Rush payments

Payment Processing Software Features



- Payment system's other functionality:
 - Authorized chapter representatives will be able to view chapter's historical invoices 24/7
 - Each invoice, check request and expense report will include detailed information of when it was paid, how (ACH or check), the check/ACH number, who approved it, when, etc.
 - Easy and convenient access to chapter invoice and payment records

Payment Processing – Forms 1099

- Form 1099 Compliance
 - Chapters will be responsible for obtaining W-9 forms and providing them to national finance department
 - National will issue Forms 1099 in accordance with IRS guidelines to all vendors who meet the IRS reporting requirements

Banking - Overview

- Designated checking account for each chapter
- Enhanced security over banking transactions
- Authorized signers on checking accounts maintained on behalf of chapters shall be identified within the Appraisal Institute
Authorized Signer Policy
 - Currently the CEO, CFO, General Counsel and Director of HR
- Designated chapter representative(s) could have view-only access to an online bank portal

Reserves - Overview

- Under Policy, Chapter Board of Directors to continue to approve use of reserves it holds
- To increase return potential, Chapter excess cash will be consolidated with AI's Reserve Portfolio
 - Excess cash is defined as any cash or investment balances above three months of average operating expenses
- All Reserve Portfolio deposits will be tracked separately
- The Reserve Portfolio to be managed in accordance with the Reserve Investment Policy as approved by National Board of Directors
- Net investment return to be allocated proportionately to all deposits within the Reserve Portfolio during that quarter

Reserves – Benefits to Chapters

- Expose investment vehicles that are otherwise unavailable to chapters
- Increase return potential for assets currently held by chapters
- Allow for professional oversight and investment advice for millions of corporate assets
 - Limit investment risks
- Reduce corporate risk as the AI Reserve Portfolio has several layers of controls
- Eliminate inefficiencies created by holding assets in multiple accounts and/or banks

Reserves – Initial Deposit Example

Chapter A's reserves held in trust total \$80,000

Chapter A's average annual operating budget is \$120,000
(\$10,000/mo.)

Initial Deposit to the Reserve Fund would be \$50,000

$$\$80,000 - (3 \times \$10,000)$$

Reserves - Administration

- Chapter deposits within the AI Reserve Portfolio will be accounted for separately, but the assets will be part of a comingled pool
- Transfers to/from the portfolio to be processed at the beginning of each quarter
- Net investment return to be allocated proportionately to all holding funds within the Reserve Portfolio during that quarter
 - Allocation to be adjusted for any new capital infusions or withdrawals

Reserves – Example of Income Allocation



	Balance 1/1/2018	Proportionate Allocation of Net Investment Return Q1 2018	Deposits from Chapters A and B on 4/1/2018	Adjusted Allocation of Net Investment Return Effective Q2 2018	Transfer from Chapter C on 7/1/2018	Adjusted Allocation of Net Investment Return Effective Q3 2018
National	\$1,000,000	100%	\$1,000,000	74.1%	\$1,000,000	66.6%
Chapter A			\$250,000	18.5%	\$250,000	16.7%
Chapter B			\$100,000	7.4%	\$100,000	6.7%
Chapter C					\$150,000	10%
Portfolio Total	\$1,000,000	100%	\$1,350,000	100%	\$1,500,000	100%

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Of course, all Bylaws, Regulations and policies are subject to change by the national Board of Directors.

Reserves - Use

- Chapters operating surplus to be transferred to Reserve Portfolio annually
- In years in which a chapter incurs an operating deficit, such amount to be transferred out of reserves and into the checking account designated for that chapter
- Under Policy, use of Reserve Funds held by Chapters must be authorized by Chapter Board of Directors

Restricted Funds



- Some Chapters have restricted funds for scholarships, board designated projects, and government relations purposes
- Unless a legal, contractual or other requirement exists to keep the funds in a separate bank account, restricted funds will be comingled within checking accounts and/or the Reserve Fund Portfolio
 - The restricted fund balance will be accounted for separately
- Chapter Board of Directors will approve disbursements out of restricted funds either in the annual budget as a non-operating expense or via a motion

Audit and Tax

- Chapter financial records to be reviewed as part of AI's annual audit providing a higher level of assurance than the current Chapter Reviews
- AI Finance Department to file IRS Form 990 on behalf of Chapters

Chapter Minimum Criteria

Criteria	Due Date	Status After Plan's Implementation
Budget	January 31	Remains
Internal Control Policy	January 31	Eliminated
Financial Statements	February 28	Eliminated
Annual Audit / Agreed-Upon Procedures	April 30 & July 15	Eliminated
Federal Tax Return	May 15th	Eliminated
State Tax Return	May 15th	Remains

Dues will no longer be withheld for these requirements.

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Chapter Costs Eliminated by Policy

- QuickBooks subscription fees (~\$500)
- Annual Financial Review fees (up to \$1,800 starting 2017)
- Tax preparation / CPA fees
- Bookkeeping fees
- Bank fees, check stock, etc.

Additionally, some independent contractors retained by Chapters who no longer have certain financial responsibilities may no longer need insurance bonds

Policy Fees

- 100% of implementation costs to be paid by national
- Chapters to pay an annual fee for services
- The fee includes
 - National Finance Department services
 - Bank fees
 - Audit fees
 - Form 990 filing fees
 - Technology fees (accounting and payment processing software)
- Timing of when the chapter fee will begin to be charged is **TBD**
 - Fees in 2017 would be minimal, if any

Policy Fees

- An annual fee for management and administrative services to be paid by chapters calculated as:

Base Fee + Variable Fee

- Initial Base Fee is estimated at \$750
- Initial Variable Fee is estimated at 1.5% of annual expenses
- Estimated Fees based on 2015 chapter expenses
 - Lowest fee = \$950
 - Highest fee = \$13,550
 - Average fee = \$2,650

Policy Fees - Examples

Annual Operating Budget	Estimated Monthly Fee
<\$25,000	< \$100
\$25,001 - \$50,000	< \$150
\$50,001 - \$100,000	< \$200
\$100,001 - \$200,000	< \$325

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What's Next?



- A detailed implementation plan will be developed and executed in collaboration with chapters
 - Input from stakeholders will be actively solicited and incorporated into the implementation
 - As with any implementation plan, details will arise during implementation which may require adjustment(s)
 - Implementation anticipated to last at least a year and include:
 - Beta-group
 - Staged transition
- Ramp up of implementation activities anticipated in March 2017
- Beta-group program will likely begin in latter part of 2nd quarter 2017

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What is being asked of Chapters?

- Keep Informed!
- Don't assume!
- Ask questions!
- Continue performing all current responsibilities - there are no immediate changes in process

QUESTIONS

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Chapter Financial Management and Administration Policy (CFMAP)

Update

May 29, 2018

- 22 chapters have joined for CFMAP Program
 - 19 using the system
 - 3 will transition in the future
- Program continues to be open to volunteers
- Program fees will be charged effective July 1st

	Chapters	
Using CFMAP	Arkansas Central California Central Texas Delaware East Florida Greater Tennessee Hoosier State Keystone Metro New Jersey Mississippi	Nebraska North Carolina North Star Northeast Florida Sacramento Sierra South Carolina Virginia Commonwealth West Virginia Wyoming and Western South Dakota
Future Launch Dates	Hawaii Kansas City	Northeast New Jersey

- Vendor payment processing
 - 376 payments processed as of May 22nd
 - 92.5% of payments issued within 5 business days of approval
 - Average time between approval and payment being issued is 2.67 business days
- 5 chapters have elected to invest in AI Pooled Reserve Portfolio
- Corporate credit cards issued to interested

chapters