

MGA Discussion on Geo Unit Reserve Sharing

Region Meeting Discussion Topic

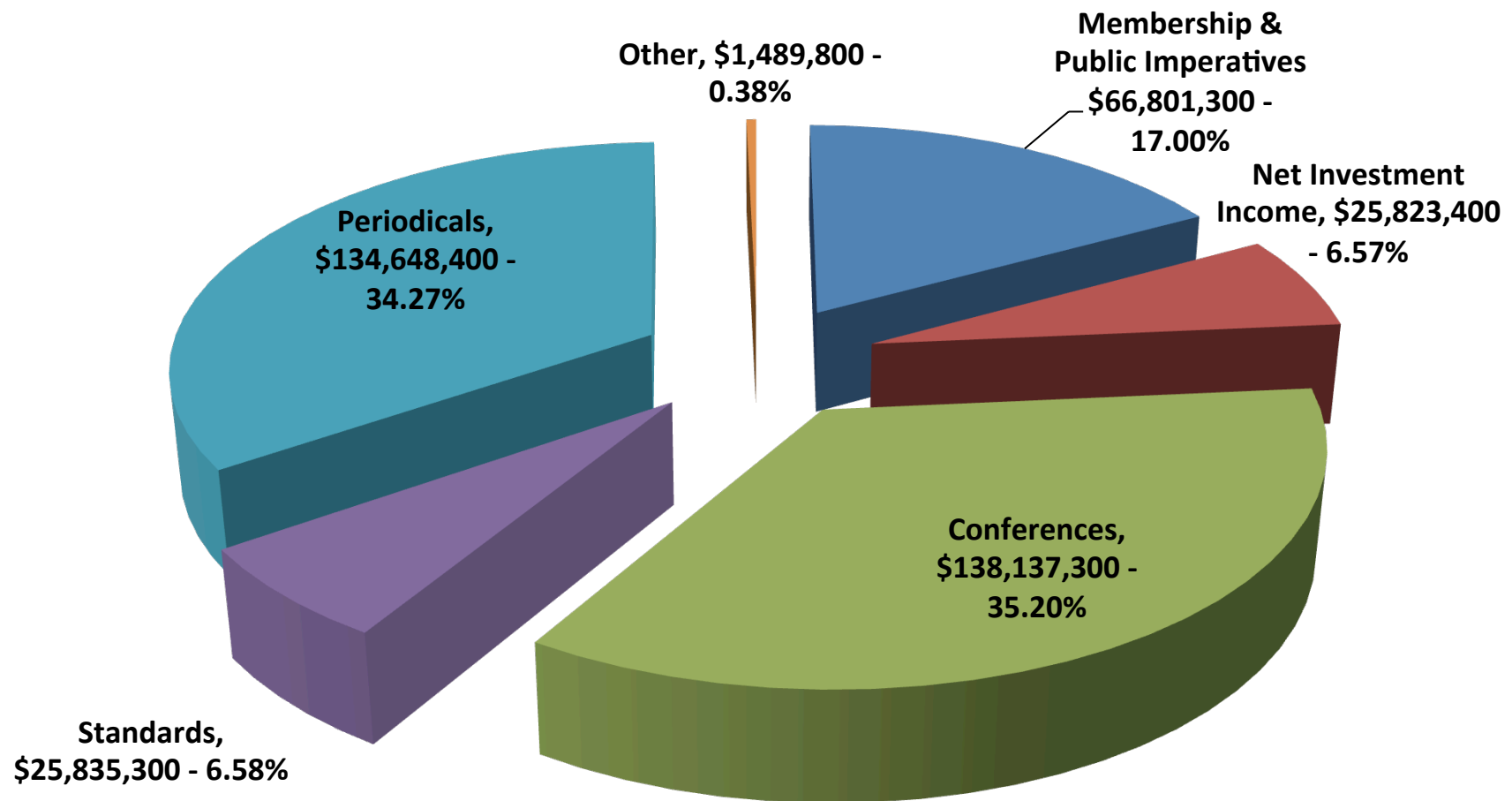
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Agenda

- IEEE Reserves and Reserve Sharing
- Implementation of Reserve Sharing for Geo Units
- Estimates for 2011

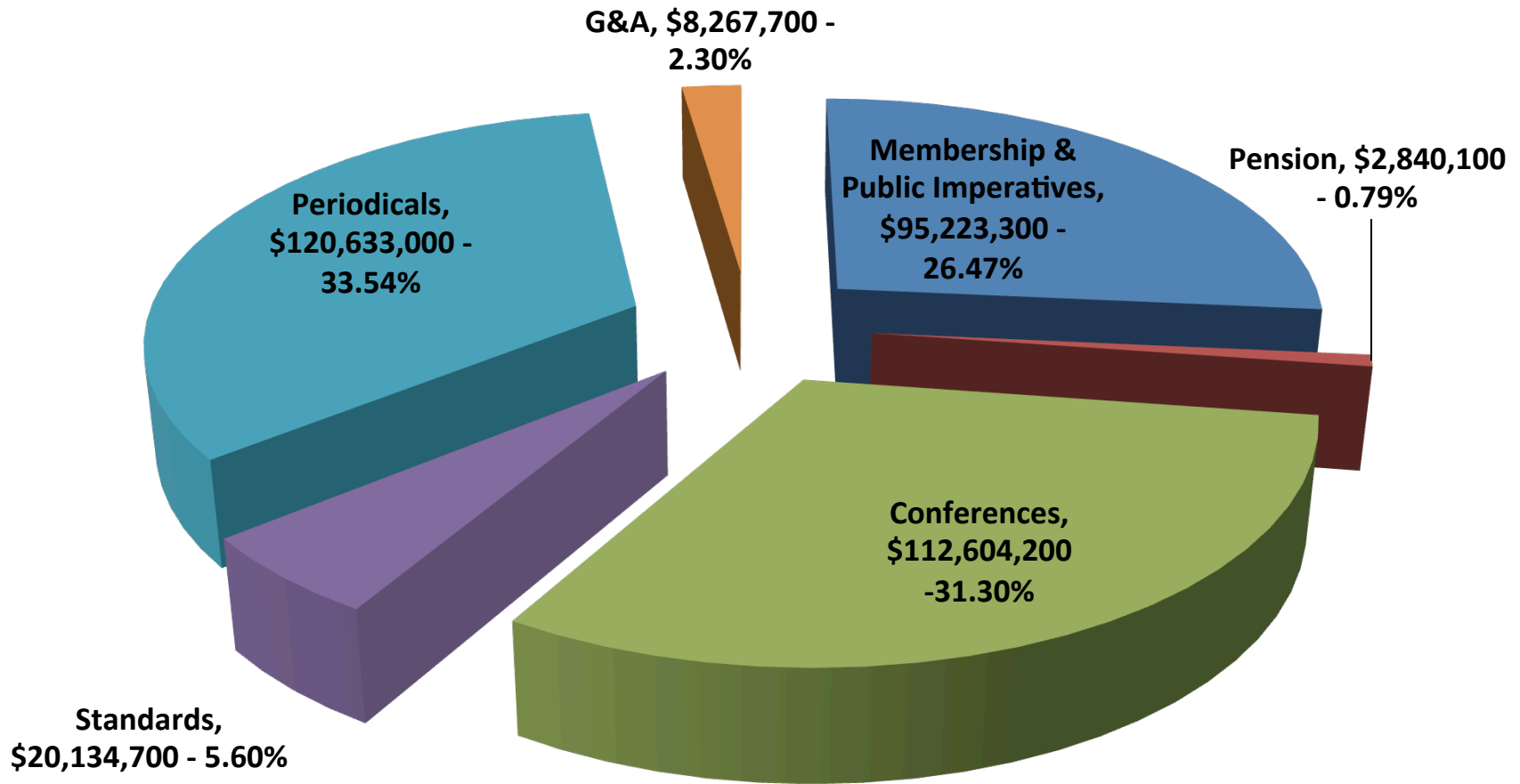
IEEE Lines of Operations Revenue

Total Revenue = \$392,915,500
2010 Audited Financial Statements



IEEE Lines of Operations Expenses

Total Expenses = \$359,703,000
2010 Audited Financial Statements



Reserves in General

- Net Assets are Reserves And Reserves = Assets – Liabilities accumulated over time
- IEEE Reserves
 - Total unrestricted accumulated surpluses of all IEEE Organizational Units.
 - Each IEEE OU that generates revenue may have custodial responsibility for a portion of IEEE reserves to the extent determined by the IEEE BoD.
 - References: *IEEE Policies 2012*, Section 11.4; *IEEE Financial Operations Manual* contains additional information
- IEEE Reserves currently at \$262.4M
 - Approximately \$33M added to overall reserves after 2010.
 - \$393M Revenue less \$360M Expenses = \$33M Net.
- Geo Unit Reserves are part of the IEEE Reserves
 - MGA and Geo Unit annual operating results contributed to the \$33M and are included in the \$262.4M total IEEE Reserves.

Reserve Sharing

- IEEE distributes the costs of the Foundation, new initiatives, pension and investment gains and losses to all major Organizational Units.
- The Technical Activities Board (TAB) shares with each Society based on Society reserve balances
- MGA has historically absorbed costs associated with Geo Unit reserves regardless of the total Geo Unit Reserve balances
 - Note: MGA shares in the investment gain or loss. The Geo Units do not share in investment gain or loss as they hold their own investments in the LTI fund.

Reserve Sharing due to Pension Plan

- In years where there is a Pension gain, the share that was reflected as a loss to a unit will be returned as a gain, based on the same % at which the loss was calculated
- When the Pension Plan is fully terminated, Reserve Sharing will only be based on the Spending Rule

Total IEEE Reserves - 2010

2010 Reserve Sharing Data							
Organizational Unit	Pre 2010 Reserve Share (\$000's)	% of Total	Investment Gain (Loss) (\$000's)	Spend Rule: NIT's & Fnd. (\$000's)	Pension Gain (Loss) (\$000's)	Region Net After Allocation (TBD) (\$000's)	
Corporate	18,912	7.69%	2,386	(799)	(243)	20,256	
Standards	20,147	8.19%	2,253	(751)	(236)	21,413	
Standards Development	1,990	0.81%	0	(74)	(23)	1,893	
MGA	2,420	0.98%	232	(990)	(311)	1,351	
Geo Units	25,895	10.53%	0	0	0	25,895	
EAB	833	0.34%	29	0	0	862	
IEEE USA	997	0.41%	16	0	0	1,013	
TA	2,161	0.88%	52	(17)	(6)	2,190	
Societies	<u>172,590</u>	<u>70.17%</u>	<u>19,142</u>	<u>(6,373)</u>	<u>(2,010)</u>	<u>183,349</u>	
TOTALS	<u>245,945</u>	<u>100.00%</u>	<u>24,110</u>	<u>(9,004)</u>	<u>(2,829)</u>	<u>258,222</u>	
Restricted Reserves						<u>4,147</u>	
Grand Total:						<u>262,369</u>	
NOTES:							
Spending Rule: MGA Covered \$913k for Geo Units							
Pension: MGA covered \$287k for Geo Units							
Geo Units have not shared in Inv Losses, thus do not share in Gains							

Geo Unit Reserve Totals

<u>Net Assets:</u> (Per Annual L 50 Reports)	<u>Geo Unit Totals:</u> (\$'000's)	
<u>2007</u>		
<i>Regions</i>	\$ 4,816	
<i>Sections</i>	\$ 18,975	
<i>Total:</i>	<u>\$ 23,791</u>	
<u>2008</u>		
<i>Regions</i>	\$ 4,030	
<i>Sections</i>	\$ 17,397	
<i>Total:</i>	<u>\$ 21,427</u>	
<u>2009</u>		
<i>Regions</i>	\$ 4,178	
<i>Sections</i>	\$ 19,287	
<i>Total:</i>	<u>\$ 23,465</u>	
<u>2010</u>		
<i>Regions</i>	\$ 4,054	
<i>Sections</i>	\$ 20,487	
<i>Total:</i>	<u>\$ 24,541</u>	

Historical Impact of IEEE Reserve Sharing for MGA

- 2008: MGA absorbed \$2.2M of Geo Unit Reserve share
 - MGA reserves were depleted to \$23K in 2008
- 2009: Share gains were re-distributed to MGA (but not to Geo Units)
- 2010: MGA absorbed \$1.2M of Geo Unit Reserve share
- 2011 Estimates: MGA share is \$250K and Geo Unit share is \$2.0M
 - IEEE Reserves: MGA is 1% and Geo Units are 9.8%
 - MGA does not have reserves to cover the almost \$2.0M total

Implementation of Reserve Sharing for Geo Units

Reserve Sharing Criteria Approved by MGA

- Units with 200% reserve to expense ratio and at least \$20K USD in all their accounts based on a 3-year average are subject to the Sharing
 - Reserve to Expense ratio = $\text{Total yearend reserves} / \text{yearend expenses}$
 - Results from 2009, 2010 and 2011 (L 50 financial data) will be used for the 3-year average calculation
- In year 1, MGA will cover the share for Units not meeting the criteria. In year 2, the formula will be reviewed.

What Are Section (Geo Unit) Reserves

- Geo Unit Reserves = The total account balances held in the Geo Unit name less Liabilities.
- Accounts included in reserves:
 1. Concentration Banking
 2. Custody
 3. Local Bank Accounts
 4. Long Term Investment Fund
 5. Accounts designated for conferences, awards and scholarships

Notes:

- All funds set aside by units for annual scholarships, conferences, awards, etc. will be reviewed prior to any impact to Geo Units.
- Student Branches are excluded

Applying the Criteria

- MGA will apply the approved criteria and identify qualifying units and share amounts sometime in April 2012
- Information needed to apply criteria
 - Total IEEE Reserves at end of 2011
 - Geo Unit Reserve balances after L50 consolidation
 - Spending Rule and final Pension adjustments
- ▣ Geo Units Included: Sections with Chapters that are consolidated and Chapters that report separately

Communication

- MGA will communicate the amount of share assigned to each Geo Unit
- A final schedule showing balances before and after the sharing will be distributed.
- Units will be advised of their Net Asset position after the sharing and what that means to them with respect to Cash (Reserve) Balances

Implementation

- Geo Unit officers will receive a communication from MGA advising if their unit met the criteria and if so, the share will be noted.
- An entry equal to the amount of the share will be booked to the Unit's Financial Statement in NetSuite AFTER the share amount is communicated.
- The posted entry is a Liability which reflects a reduction of cash balances. No cash will actually be taken from the unit at this time.
- **Ex: A unit with \$50K reserves and a \$3.5K share should assume that it may only spend up to \$46.5K in 2012. This will be communicated and distributed in the schedule noted above.**

Estimated Impact for 2011

Example: A Geo Unit with \$50k in 2007

Reserve Share:

- Foundation & New Initiatives costs shared through reserves since 2008 (Spending Rule). Pension gain/loss shared since 2007
- A Unit with \$50K in Net Asset (Reserves) when sharing began would have \$38K in Net Assets today (not including any Operational Income added during that time). If funds also held in L/T Inv Fund, it would have earned \$10K over 4 years. Total reserves = \$48K
 - 2007 was a gain
 - 2008 was a large loss due to Pension
 - 2009 was Flat – Pension Gain offset Spending Rule = \$0
 - 2010 was a loss due to both Pension & Spending Rule
 - 2011 estimate is a loss similar to 2010.

Long Term Investment Fund:

- Earned an average 5% annually.
- 5 year growth on \$50k = +\$10k for A/C Balance of \$60k.

2011 Estimates using 2010 %'s Before the Results of Annual Operations

2011 Estimates based on 2010 %'s					
<u>Unit</u>	<u>% to Unit</u>	<u>Spending Rule</u>	<u>Pension</u>	<u>Investment Share</u>	<u>Totals</u>
		\$6.9m	\$13.8m	\$4.5m	
MGA	1.0%	\$69,000	\$138,000	\$45,000	\$252,000
SECTIONS	8.0%	\$552,000	\$1,104,000	\$0	\$1,656,000
REGIONS	1.8%	<u>\$124,000</u>	<u>\$248,000</u>	<u>\$0</u>	<u>\$372,000</u>
Totals:		<u>\$745,000</u>	<u>\$1,490,000</u>	<u>\$45,000</u>	<u>\$2,280,000</u>

Why We Are Implementing for 2011

- For 2011, approximately \$25.2M USD in Pension, Foundation and New Initiatives will be shared with all OU's
 - MGA's share will be approximately \$250K
 - Geo Unit share will be approximately \$2.0M--\$1.6M to Sections/ Chapters and \$400K to Regions
- If we do not share now for 2011
 - MGA's reserves will be depleted and be negative by approximately \$700K to \$800K
 - Geo Units will remain healthy at approximately \$23M - \$25M
- MGA reserves have been used to support Sections Congress, for special projects and Geo Unit support as needed
 - This support could now be jeopardized.
- With reserve sharing, the \$2.0M for the Geo Units will be distributed across many units; MGA absorb its share of \$250K.

Questions

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