

RECOMMENDATION TO THE EXECUTIVE COMMITTEE

FROM:

Arizona REALTORS® Officers and CEO

RECOMMENDATION:

Allocation of 2020 Accumulated Operating Surplus

BACKGROUND:

At the recommendation of the Arizona REALTORS® accounting firm and due to the Association's 501(c)(6) IRS exemption, any accumulated operating surplus beyond the amount required for cash flow purposes or projected needs is allocated to the Arizona REALTORS® Reserve Accounts. Pursuant to the auditors, the accumulated operating surplus in 2020 was \$2,528,112. This recommendation is to allocate these funds to four of the five Arizona REALTORS® Reserve Accounts:

(1) The REALTORS® Issues Mobilization Fund is a reserve fund to support or oppose federal, state and local issues that impact real property and real property owners. Pursuant to the Bylaws, “[a] per member amount of the annual dues may be placed in the fund as determined by the AAR Board of Directors. Said fund shall be placed at interest, with any interest earned credited to the fund. The amount established by the AAR Board of Directors shall be credited to the fund each year until the fund attains a total of ten million dollars (\$10,000,000). If the fund is depleted to less than five million dollars (\$5,000,000), the AAR Board of Directors shall reinstate a per member contribution amount to the fund at the inception of the next fiscal year. Additional contributions to the Issues Mobilization fund may be made from other sources such as operating surplus, at the discretion of the Board of Directors.” The January balance is \$9,068,875 and additional funds are allocated in the 2021 Operating Budget for Issues Mobilization. As a result, we anticipate meeting or exceeding \$10,000,000 in the fund this year. Therefore, we do not recommend any accumulated operating surplus allocation to Issues Mobilization this year.

(2) The Operating Reserve account is for legal, special and unbudgeted operating purposes and allows the Association to sustain financial operations in the event of significant unbudgeted increases in operating expenses, legal expenses, or reductions of operating revenues. Pursuant to the Bylaws, “[t]he Board of Directors shall annually determine an allocation (the “Allocation”) of the annual dues which shall be placed in the Operating Reserve. The Operating Reserve fund balance shall be placed at interest, with any interest earned thereon accruing to the Operating Reserve. The Allocation shall continue each year until the Operating Reserve fund balance exceeds an amount equal to the operating expenses from the previous fiscal year, at which time the Allocation shall cease. Additional contributions to the Operating Reserve may be made from other sources such as operating surplus, at the discretion of the Board of Directors. If the fund is depleted to less than three

million dollars (\$3,000,000), the Allocation shall be reinstated at the inception of the next fiscal year.” There is no Operating Reserve allocation in the 2021 Operating Budget and the January 2021 balance is \$9,851,323.

(3) The Capital Reserve is for capital expenditures including, but not limited to, major repairs, furniture, fixtures, equipment, real property debt retirement, acquisition/investment of real property assets, or major improvements to real property assets. Pursuant to the Bylaws, “AAR’s annual budget shall acknowledge depreciation per Generally Accepted Accounting Principles. The depreciation amount shall be considered as a cash expense credited to the Capital Reserve. Additional contributions to the Capital Reserve may be made from other sources such as operating surplus, at the discretion of the Board of Directors.” The depreciation allocated in the 2021 Operating budget is \$259,128. The January 2021 balance is \$5,600,349.

(4) The Strategic Initiative Fund supports initiatives designed or dedicated to the support of our members’ business practices, such as new member benefits, technology enhancements, communication enhancements, or other efforts that benefit the membership. Pursuant to the Bylaws, contributions to the Strategic Initiative Fund may only be made from the annual operating surplus at the discretion of the Board of Directors. The January 2021 balance is \$2,416,190.

(5) The Arizona Homeownership Alliance funds are used to support or oppose candidates running for elective office or as allowed by state law in corporate independent expenditures, polling, and grassroots activities. Pursuant to the Bylaws, monies placed in this fund may come from a variety of sources including but not limited to AAR’s annual operating surplus, the National Association of REALTORS®, Arizona local associations of REALTORS®, AAR annual budget or by contribution. The January 2021 balance is \$100,594.

BUDGET IMPACT:

None to 2021 Operating

MOTION:

TO RECOMMEND APPROVAL ALLOCATING THE ACCUMULATED OPERATING SURPLUS OF \$2,528,112 AS FOLLOWS:

- 1. \$1,200,000 ALLOCATED TO THE OPERATING RESERVE**
- 2. \$ 500,000 ALLOCATED TO CAPITAL RESERVE**
- 3. \$ 500,000 ALLOCATED TO THE STRATEGIC INITIATIVE FUND**
- 4. \$ 100,000 ALLOCATED TO THE ARIZONA HOMEOWNERSHIP ALLIANCE**

WHICH LEAVES \$228,112 IN UNALLOCATED STATUS FOR CASH FLOW PURPOSES.

FOR MORE INFORMATION CONTACT:

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