

Club Reserves: Their Purpose and How Much

by David B. Waller

To answer the question, what is the purpose of reserves and how much should be retained in reserves? it will be important to understand the general rules for operating a business and where those rules reside. Most people would agree that no matter the designation, a non-profit organization or mutual benefit corporation is a business; it is recognized by the state as a business, it is required to report its income and, in some cases, pay taxes on that income, and it has all the liabilities associated with being a business. Consequently, a Club like the Poway Stamp Club, must meet the requirements of the state to be permitted to conduct its business in that jurisdiction. This means following the rules enumerated in its corporate documents (*i.e.*, the Articles of Incorporation and Bylaws). Part of those requirements is the installation of a Board of Directors to manage the everyday needs and requirements of the organization. As such they are held accountable for the operation of the business according to those rules and can be held liable for actions taken outside the scope of their corporate authority. Each of the individuals on the Board has a fiduciary duty to the members of the Club as a whole. More specifically, they have a legal and ethical requirement to act, at all times, for the sole benefit and interest of the membership.

Typically, and as part of its Fiduciary duty, the Board of any business or Non-Profit organization must recognize how critical it is to maintain reserve funds in the event of an unexpected expenses, e.g., the repair of an important piece of equipment as well as an increase in the cost of materials or services. The reserves should also address general expenses when the economy declines or when income does not meet expected forecasts. Without reserves the Club could find itself in a financial crisis similar to the many that recently went bankrupt.

To comply with their fiduciary duties, the Board of the Poway Stamp Club has begun preparing for these potential unexpected events by maintaining reserves. The PSC has only recently reached a point in its growth where the need for reserves can no longer be overlooked and that we have an obligation to consider building these reserves for unexpected expenses. The primary issue is how much should be maintained in the reserves, and what defines “adequate” ?

There are many factors involved to answer this question. Many corporations use a numerical factor that they multiply by their annual expenses to arrive at a reserve amount. The amount is believed to be sufficient to allow the company to survive an unexpected crisis. Prior to the year 2000, this factor was 2 to 2.5 times the annual expenses. Today that number is 2.5 to 3.0 due to increased costs of business-related expenses.

For the Poway Stamp Club, the annual expenses include a budget that is calculated from its historical data. However, expenses should also take into account the items that the club does not currently pay for but may have to in the future if the expenses are no longer provided as donations from its members. For example, the Club does not pay for its website or its maintenance. (*i.e.*, this service is being provided by one of its members at no cost to the Club). Consequently, in determining the anticipated reserve amount, the general costs for establishing, maintaining, and upgrading a website should be included. In 2022, the Poway Stamp Club had an annual expenditure of approximately \$6,650, which was an increase of about 26% over the previous year. At an estimated growth of 10-15% in 2023 and 2024, the expenses would be expected to rise to about \$7,700 - \$8,400. Using the factors of 2.5 to 3.0 the reserve amount should range from \$19,250 - \$25,200. This number would have to be increased to cover the Club's publishing costs and internet presence. The cost for establishing, upgrading, and/or maintaining the Club's website is about \$3,000-\$5,000, which would decrease in the preceding years to about \$500-\$1,000/year. That would increase the Club's prospective reserves to \$22,250 - \$30,200. Averaging these two values would give \$26,125. Currently the Poway Stamp Club maintains a reserve amount of approximately \$22,000. **Note:** This reserve amount does not consider the cost of paying rent if the Club needed to move for any reason. The reserve would need to be adjusted to cover the cost of rent, liability insurance, security deposits, if any, and other related expenses associated with a new facility/location.

The following section outlines the club's income and expenses. FYI, the Poway Stamp Club Board of Directors are doing an excellent job of securing the financial resources needed to maintain an appropriate reserve while simultaneously optimizing the benefits to its members (see Table 1).

Table 1: (Historical Income and Expense Information)

Membership Benefits/costs	Estimated Expense	
	2022	2023
Membership Fee (nominal)	104	121
Membership Badge/~\$10.00	\$155	~\$170
Holiday Dinner/\$30.00	\$1,547	\$1,900
San Diego Stamp Show Attendance Voucher/\$20.00	None Issued	\$860
San Diego Stamp Show Volunteer Voucher/\$10.00	None Issued	\$400
Road Trip SESCOAL Free Road Trips	\$1689	No Trips
San Diego Stamp Show Donation	None Given	\$600
Philatelic Library Donation for Meeting Room/~\$61.00/meeting Free Bimonthly Meetings	\$1287	\$1,287

Opportunity Table Purchases from Members	None Purchased	\$625
Free Access to Club's Website	Donated	Donated
Free Monthly Newsletter	Donated	Donated
Books/Catalogs Purchases	\$987	\$919
Free Access to Ref. Materials		
Stamp and Book Sale Boards	Time donated	Time donated
Club Voice Sales		
Club Member Voice Sales (10%)	Unknown	TBD

Table 2:

Expenses (approximated from Audited Final Budgets, includes donation to SDPL of ~\$1,287/annum)	
Year	Amount
2018	~\$3,260
2019	~\$3,440
2020	~\$2,530 (Pandemic effected accounting)
2021	~\$4,900
2022	~\$6,650
2023	~\$7,300

Since the Poway Stamp Club is a non-profit organization, isn't it required to distribute excess financial resources to other organizations that support the Club's mission statement? To answer this question, one must understand the Club's tax-exempt status. The Poway Stamp Club is not a 501(c)3 but a 501(c)7 and as such "does not have to be charitable, but it must be social or recreational and non-profitable" So, what does "non-profitable" mean in this context? A non-profit organization does not exist solely for the purpose of generating a profit and no part of its income may simply be distributed to its members, directors, or officers. Consequently, the Poway Stamp Club is not required to divest itself of any amounts it retains in bank accounts to other non-profit organizations, even if they comply with the Club's mission statement. Simply put, the Club is required to spend its income for the benefit of its membership. Currently this includes catalogs, journals, field trips, stamps and stamp paraphernalia (Vouchers), rentals, holiday meals, lectures or presentations about stamps to name a few. Here again, the Poway Stamp Club has been exemplary in securing the financial resources needed to maintain an appropriate reserve while optimizing the benefits to its members.

Some might argue that the Poway Stamp Club is not required to distribute its financial reserves to other non-profit organizations. While this is true, our Club in fact does. Currently the Club donates resources to organizations that support philately and each year in January the Club's Treasurer presents a proposed budget for the upcoming year outlining all projected

anticipated expenses, including donations to other organizations i.e. San Diego Show, and the San Diego Philatelic Council (Library). A vote is then taken of the members in attendance to approve the proposed budget.

In 2023, the Club supported the San Diego Stamp Show by providing not only financial but also many volunteer resources and has budgeted to do so again in 2024. This organization has a mission statement that mirrors the Poway Stamp Club's, and the show has been touted to be "an APS World Series of Philately National Level Show with 20+ stamp dealers - nationwide participation and 150+ competitive exhibit frames" .

"San Diego Stamp Show, Inc. is a non-profit 501(c)3 corporation. Its main purpose is to extend and enrich the pursuit of knowledge and enjoyment of all aspects of stamp collecting and postal history for public benefit.

Specific purposes:

- (1) promote philately as a hobby to the public, with particular focus in Southern California;
- (2) propagate philatelic knowledge and research to the public; and
- (3) support similar activities by other corporations or organizations in California, the United States, or the world in the dissemination of philatelic knowledge, literature, ideas, and techniques.

To achieve its purposes, San Diego Stamp Show Inc. shall:

- (1) promote, organize and hold public philatelic exhibitions and/or philatelic displays including the history and development of postal systems, customs and stamp duty systems, and transportation systems, as well as thematic displays covering a wide range of educational and cultural topics;
- (2) invite and sponsor educational displays by individuals, philatelic societies, postal administrations or other entities;
- (3) provide docent-led guided public tours of such philatelic exhibits or displays;
- (4) publish information, articles or books which propagate philatelic knowledge and research;
- (5) provide public meeting space for philatelic society seminars and meetings;
- (6) provide youth programs to teach young people history and geography, using philately as a medium;
- (7) extend support to other organizations promoting philately and postal history; and
- (8) do any other activities to promote philately in a manner not inconsistent with its character as a public benefit nonprofit corporation."

In addition, the Poway Stamp Club donated \$1,287 in 2023 to the San Diego Philatelic Library. Another organization with a mission statement that compliments the Club's philatelic objectives. This organization has graciously opened their facility conference room to the Club for its monthly meetings.

The Poway Stamp Club donated \$600 to the San Diego Stamp Show in 2023. Why this amount and not more? What about donating more in 2024? The Club can do that. However,

the Bylaws limit the amount the Board of Directors can approve to \$1,000 or less (Article 2 of the Bylaws). Amounts greater than this must be approved by the membership. Approval of membership requires a simple majority vote of the members in attendance at any one of the Club's General Meetings (Article IX of the Bylaws). To approve a donation that is greater than \$1,000, a request may be submitted to the Board of Directors to place the motion on the General Meeting's agenda for a discussion and a vote of the membership. Alternatively, a special meeting may be requested by petition, signed by 10 members, submitted to the Board of Directors (Article IV, Section 3). A special meeting requires thirty percent of the total membership, in good standing, to constitute a quorum for a proper vote (Article VIII, Section 1).

As members of the Poway Stamp Club it is our obligation to know, understand, and abide by the Bylaws, Articles of Incorporation and, above all, the mission statement of the Club, which is "to promote a closer relationship among stamp collectors of Poway, San Diego and vicinity and to assist in spreading the knowledge of stamps and the pleasures derived from stamp collecting to those interested in philately" (Article 2 of the Constitution, also known as the Articles of Incorporation). It is also our obligation to attend the Poway Stamp Club January meeting to discuss the proposed expenditures and to present our questions and/or concerns at that time prior to approval of the budget for the upcoming year. If you are unable to attend, then you may have another member present your questions on your behalf or you may forward an e-mail to the President containing your questions to be addressed at the meeting. Every member has the right to be heard and an obligation to abide by the decisions approved by a majority of the membership.

I remember receiving my first stamp book, catalog, and stamps for Christmas in the early 1960's and the amazement I experienced looking at all the stamps that needed to be identified and placed in my new album. I felt that same excitement when attending my first meeting of the Poway Stamp Club. Since that time, I have gained a better appreciation for my collection, met many new friends with a common interest, and continue to learn about stamps and philately at every meeting. It is an honor to be a member of a Club that respects and supports its members and whose Board of Directors donate so much of their time to assure that our Club will be financially secure for future members.