



## **RESERVE POLICY**

### **PURPOSE**

The purpose of this Operating Reserve Policy for Common Threads is to build and maintain an adequate level of unrestricted net assets to support the organization's day-to-day operations in the event of unforeseen shortfalls. The reserve may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, or investment in infrastructure. Operating reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. The organization intends for the operating reserves to be used and replenished within a reasonable period of time. This Operating Reserve Policy will be implemented in conjunction with the other financial policies of the organization and is intended to support the goals and strategies contained in those related policies and in strategic and operational plans.

### **DEFINITION AND GOALS**

The Operating Reserve Fund is defined as the designated fund set aside by action of the Board of Directors. The minimum amount to be designated as operating reserve will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The operating reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The target minimum Operating Reserve Fund is equal to 6 months of average recurring operating costs. This 6 month average will be calculated once a year after approval of the annual budget.

In addition to calculating the actual operating reserve at the fiscal year-end, the operating reserve fund target minimum will be calculated each year after approval of the

annual budget. These reserves will be reported to the Finance Committee and Board of Directors, and included in the regular financial reports.

## **ACCOUNTING FOR RESERVES**

The Operating Reserve Fund will be recorded in the accounting system and financial statements as Board Designated Operating Reserve. The Operating Reserve Fund will be funded and available in cash, cash equivalents, or short-term investments. Operating reserves will be maintained in a segregated bank account or cash equivalent investment fund, in accordance with investment policies.

## **FUNDING OF RESERVES**

The Operating Reserve Fund will be funded with surplus unrestricted operating funds. The Board of Directors may, from time to time, direct that a specific source of revenue be set aside for operating reserves. Examples may include one-time gifts or bequests, special grants, or special appeals.

The Executive Director in consultation with the Treasurer will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Operating Reserve Policy. Determination of need requires analysis of the sufficiency of the current level of reserve funds, the availability of any other sources of funds before using reserves, and evaluation of the time period for which the funds will be required and replenished.

## **AUTHORITY TO USE OPERATING RESERVES**

The Executive Director will submit a request to use operating reserves to the Finance Committee of the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. The organization's goal is to replenish the funds used within 6 months to restore the Operating Reserve Fund to the target minimum amount. If the use of operating reserves will take longer than 6 months to replenish, the request will be scrutinized more carefully. The Finance Committee will either (1) approve or modify the request and authorize transfer from the Operating Reserve Fund or (2) the Finance Committee will submit the request to the Board of Directors for further discussion.

## **REPORTING AND MONITORING**

The Executive Director and Financial Committee are responsible for ensuring that the Operating Reserve Fund is maintained and used only as described in this Policy. Upon approval of the use of operating reserve funds, the Executive Director and Treasurer will maintain records of the use of funds and plan for replenishment. They will provide monthly reports to the Finance Committee and/or Board of Directors of progress to restore the fund to the target minimum amount.

The Executive Director and Treasurer will annually discuss what additional risk factors might be considered for the organization, the impact of budgeting on operating reserve levels, and any requirements with funders or chartering organizations.

## **RELATIONSHIP TO OTHER POLICIES**

The Executive Director and Finance Committee shall develop and maintain the following board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Operating Reserve Fund:

- Investment Policy, including risk tolerance
- Risk Management related policies and tools to diminish risk, including Contingency or Disaster Preparedness Plan
- Policies related to Operating and Capital Budgeting
- Fund Development Policies

## **REVIEW OF POLICY**

This Policy will be reviewed by the Finance Committee once a year at minimum, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Finance Committee to the Board of Directors.

Adopted by the Common Threads board 10/3/2019

Reviewed and revised most recently on 7/23/2020

Next review July 2021