



## OPERATING RESERVE POLICY

The purpose of the Operating Reserve Policy is to ensure the stability of The Collective for Hope's mission, programs, employment, and ongoing operations. The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The Reserve may also be used for one-time, highly unusual and/or urgent needs to ensure uninterrupted operations of The Collective for Hope. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of The Collective for Hope that Operating Reserves to be used and replenished within 12 months of withdrawal from the Operating Reserve Fund. The Operating Reserve Policy will be implemented in concert with the other governance and financial policies of the organization and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

### **Definitions and Goals**

The Operating Reserve Fund is defined as a 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 3 months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average monthly expenses also excludes some expenses (such as one-time or unusual capital purchases). The amount of the Operating Reserve Fund target minimum will be calculated each year after approval of the annual budget, reported to the Finance Committee/Board of Directors, and included in the regular financial reports.

### **Accounting for Reserves**

The Operating Reserve Fund will be recorded in the financial records as Board-Designated Operating Reserve. The Fund will be funded and available in cash or cash equivalent funds. Operating Reserves may be maintained in a segregated bank account or investment fund, in accordance with investment policies OR commingled with the general cash and investment accounts of the organization.

### **Funding of Reserves**

The Operating Reserve Fund will be funded annually with surplus unrestricted operating funds to ensure the total Fund amount represents at a minimum three months of normal operating expenses. 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.

### **Use of Reserves**

Use of the Operating Reserves requires the following:

**1. Request to use operating reserves**

The CEO 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 twelve months to restore the Operating Reserve Fund to the target minimum amount. If the use of Operating Reserves will take longer than 12 months to replenish, the request will be scrutinized more carefully. The Finance Committee will recommend the request to the Board of Directors.

**2. Board Approval**

To require a 2/3 vote of the current roster for the board of directors.