YOUNG & HEALTHY

Board POLICY

Title: Operating Reserve Policy

Date of Approval: 02-04-2015

Young & Healthy
Policy Statement – Board-Designated Funds
Operating Reserve Funds

PURPOSE

The purpose of the Operating Reserve Policy for ***Young & Healthy*** is to ensure the stability of the mission, programs, employment, and ongoing operations of the organization. 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, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, and investment in infrastructure. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of ***Young & Healthy*** for Operating Reserves to be used and replenished within a reasonably short period of time. The Operating Reserve Policy will be implemented in concert with the other governance and financial polices of ***Young & Healthy*** 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 **six months** of average cash 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 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. Operating Reserves will be maintained in a segregated bank account or 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.

In order to grow the Operating Reserve, beginning fiscal year 2015-2016 a reserve line will be added to the budget equaling 5% of the total expense budget.

USE OF RESERVES

Use of the Operating Reserves requires three steps:

1. Identification of appropriate use of reserve funds.

The Executive Director and staff 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 Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds before using reserves, and evaluation of the time period that the funds will be required and replenished.

2. 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 as soon as possible to restore the Operating Reserve Fund to the target minimum amount. The Finance Committee will approve or modify the request and authorize transfer from the fund.

3. Reporting and monitoring.

The Executive Director is responsible for ensuring that the Operating Reserve Fund is maintained and used only as described in this Policy. Upon approval for the use of

Operating Reserve funds, the Executive Director will maintain records of the use of funds and plan for replenishment. He/she will provide regular reports to the Finance

Committee/Board of Directors of progress to restore the Fund to the target minimum amount.

REVIEW OF POLICY

This Policy will be reviewed every other year, at minimum, by the Finance Committee, 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.