Sample Reserves Policy

Purpose:

* The following policy is to outline the Reserves and Investment policies and procedures adopted by the Board of Directors.
  + The primary purpose of Reserves is to provide short term cash to general operations when general Operating funds reach a level that nears zero1.
  + The secondary purpose is to build Reserves in an amount sufficient to ensure short-term stability and long-term sustainability.
  + The purpose of holding funds in a separate account is to not comingle operating and reserves funds.

Policy:

* ACME Nonprofit will hold all excess cash designated by the Board in an Operating Reserves2 account and classify it as Board Designated Net Assets3.
* Staff will assess twice annually the 12-month cash flow needs to determine if the current year’s Budget to Actual performance allows for a transfer of additional operating cash to reserves. The recommendation will be brought to the Board for approval.
  + The goal for funding reserves annually will be XX% of gross annual income. While this is a goal and not a policy, it is to be taken into consideration when developing Annual Budgets.
* The Board Designated Operating Reserves will hold a minimum of $XX,XXX until such time that the Reserves account reaches [one] month’s average expenditures4. At that time, [one] month’s average expenditures will be the minimum amount to be held in the account. [Adjust to two, three, etc. as reserves strengthen.]
* Board Designated Operating Reserves may only be utilized for short term operating cash flow needs (less than 3 months).
  + For amounts equal to or less than XX payroll cycles, notification of the Treasurer and Board President is required via email and the remainder of the Board is to be notified during its next scheduled meeting. Notification must contain an accompanying plan to repay the short-term transfer. The same notification structure is to occur upon replenishment of the funds.
  + For amounts greater than XX payroll cycles, or an expected repayment period greater than 3 months, a majority vote of the Board is required prior to accessing the funds.
* Board Designated Operating Reserves funds may not be accessed for any purpose other than short term operating cash flow needs without a majority vote of the Board of Directors.
* Staff may also utilize the Operating Reserves account to hold excess operating cash that has not yet been identified as funds available for Board Designation.
* Operating Reserves will be held in an interest-bearing account.
* The Treasurer will, annually, review the status and use of the Operating Reserves account for compliance with the policies and procedures stated above and report the results to the Board of Directors.

Definitions:

1 - “Near zero:” *when operating cash funds are projected to be at zero or within one payroll cycle (currently $XX,XXX as of Month, Year) of zero at any point during a 2-week period of time.*

2 - Operating Reserves: *funds held separately to support operations when excess cash needs arise.*

3 - Board Designated Net Assets: *the GAAP classification for unrestricted funds that have been designated by a Board of Directors for a specific purpose.*

4 - “One month’s average expenditures:” *calculated based on the previous year’s Annual Budget (for the 20XX year the amount is $XX,XXX.)*