

November 9, 2020

**TO:** Board of Directors

**FROM:** Mike Cooper, Chair; Lisa Gaffney, Vice President; Molly Myers, Treasurer

**RE:** Reserve Policy Update

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**Background:**

On June 15, 2017, ArtStream’s Board selected District Capital Management to manage its invested funds. District Capital prepared a proposed Investment Policy Statement for ArtStream, dated July 25, 2017, that the Board approved on September 6, 2017. In this statement District Capital recommended that 50% to 70% of ArtStream’s invested assets be allocated to “growth and high income assets (including U.S. and global stocks, global bonds, high yield bonds), and 30%-50% [to] low-volatility assets (including U.S. core bonds and cash).” According to the statement, ArtStream’s investment policy was ‘to be reviewed on an annual basis, and on a more frequent basis should [ArtStream’s] specific situation change.’ ArtStream deposited \$150,000 in its account with District Management in August 2017 and \$38,000 in October 2017.

On November 16, 2017, the Board approved a Reserve Policy, a copy of which accompanies this memo. The policy calls for three separate funded reserves to deal separately with short-term cash flow needs, “material shortfall[s] caused by cutback or cancellation of revenue raising programs”, and “funds to meet grant or project timing differences.” While each of the funds was to provide separate investment strategies, only one of the proposed reserves had a procedure for the withdrawal of funds.

At the May 21, 2018 Board meeting, “[a] motion was made to work toward a reserve fund of \$150,000 (3 months of expenses), as finances allow. The motion carried without dissent.” The minutes go on to say (1) that \$63,000 is already invested by District Capital “and can be set aside as the Revenue Shortfall Reserve Fund” and (2) “[a]n additional \$83,000 will be gradually re-invested by District Capital as the Short-Term Reserve Fund.” This re-investment process to increase liquidity did not occur. It appears that nothing was done to implement the Board’s motion based on the following:

- a) ArtStream’s Balance Sheet does not appear to show any funded reserve reflecting the Policy;
- b) ArtStream’s Income and Expense Statement does not show any excess funds distributed to a balance sheet funded reserve;
- c) District Capital’s statements do not show any separate reserves; and
- d) It does not appear that ArtStream has formally taken any steps in accordance with the Reserve Policy before using funds.

In sum, although ArtStream adopted a reserve policy in November 2017, the policy has never been effectively implemented. So, the question is what changes need to be made to the existing Reserve Policy and what implementation steps need to be taken?

**Proposal:**

ArtStream's September 2020 Balance Sheet shows \$149,369.33 in its operating account at Capital Bank. Capital One Bank holds \$13,626.97 in a checking account and \$140,600.34 in a savings account. The District Capital investment account has a value of approximately \$185,000.

Because the Board has not revisited the July 25, 2017 Investment Policy since its approval by the Board and the November 16, 2017 Reserve Policy has not been implemented as contemplated, we propose a Task Force to examine and provide recommendations regarding ArtStream's Investment Policy and Reserve Policies.

The present liquidity condition of ArtStream strongly indicates that this is a propitious time for this type of review.

We further propose that ArtStream's Treasurer chair the Task Force, with the Board Chair and Vice President, together with two other Board members willing and able to serve.

The Task Force will be required to report to the Board at the January Board meeting with its recommendations, or if it is not yet ready to make its recommendations, with a status report.

**Rationale:**

According to *BoardSource*,

Financial reserves act as a safeguard for rainy days and permit an organization to adjust to seasonal variances in expenses and income. Market forces, economic downturns, natural disasters, or other unexpected expenses cannot be controlled by nonprofit managers, but expenses related to them can — and should — be managed. Reserve funds allow an organization to continue activity when income falls unexpectedly, such as when clients are unable to pay their bills on time, when contributions decline substantially, or when a significant grant is not realized. These funds also allow an organization to seize an unprecedented opportunity, such as financing a new venture, making an advantageous capital purchase, or expanding a program at an opportune time.

Reserve funds usually come from the accumulated surpluses of the organization over time. The board, with input from staff, should establish a reserve policy that maintains an appropriate level for the organization, given its mission. Reserve funds are usually designated or allocated by the board as a way to ensure the long-term financial stability of the organization.

The *MD Nonprofits Standards for Excellence* recommendations include:

**An organization should have 90 to 180 days of expendable net assets (reserves).** If your organization lost all of its funding tomorrow, there should be enough in reserve to continue program operations for three to six months. Organizations also risk having reserves that are

too large. Nonprofits are in the business to deliver services in furtherance of their mission, not to accumulate wealth.

**Any decrease in unrestricted net assets should amount to no more than 20% of the net asset amount at the beginning of the fiscal year.** Larger amounts indicate that the organization failed to react to shortfalls in revenue or overspending in a timely manner.

The Board has a responsibility to set policies ensuring that the organization's assets are protected. These policies, which are all required by the *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector* include but are not limited to:

- **Investment policies** that provide risk guidelines for the investment of the organization's funds and establish a process for reviewing investment performance.
- **Cash reserves** (unrestricted current net assets) that ensure that the organization will meet its financial obligations in a timely manner.

Attachments:

- a. Current Reserve Policy
- b. District Capital Management Investment Policy Statement
- c. *Propel* Reserve Policy Template

**ArtStream**  
**RESERVE POLICY**  
**Approved 11/16/17**

**I. A. SHORT TERM RESERVE FUND**

**Purpose**

To provide funds to support short-term cash flow needs due to fluctuations in monthly revenue and expense patterns.

**Amount**

The amount of the Short Term Reserve Fund should be established by the Board annually. The Board will review monthly revenue and expense fluctuations for the previous two-year operating cycle. The Board will determine the amount to maintain in this reserve for the next 12-month period. The maximum amount to be placed in reserve is nine months of the current year budgeted expenses.

**Investment Strategy**

The Short Term Reserve Fund should have maximum liquidity and be subject to minimal market risk. Typical investment strategies are money market accounts, penalty free certificates of deposit and short-term bond mutual funds.

**Fund Withdrawals**

The Board shall monitor use of reserve funds from the Short Term Reserve Fund to meet budgeted expenses. The Executive Director shall notify the Board two weeks prior to withdrawing reserve funds.

**B. REVENUE SHORTFALL RESERVE FUND**

**Purpose**

To provide funds needed to support operations due to a material shortfall in revenue caused by cutback or cancellation of revenue-raising programs.

**Amount**

The amount of the Shortfall Reserve Fund should be established by the Board annually. The amount should be based generally on 10 percent of the projected budgeted expenses for the current fiscal year and no more than 9 months of the current year budgeted expense. The Board will review this amount annually and make a recommendation to the Board on the current year's reserve funding.

**Investment Strategy**

The Shortfall Reserve Fund should have moderate liquidity. Investment strategies would include a significant weighting toward income producing securities, but this fund need not be exclusively cash or cash equivalents, which are provided for in the Short Term Reserve Fund. This fund is not prohibited from investing in equity securities and equity-based mutual funds.

## II. FUND RESERVE (EXISTING GENERAL OPERATING ACCOUNT BALANCE)

### A. Purpose

To provide funds to meet grant or project timing differences, (on a year-to-year, not month-to-month basis).

### Amount

Cumulative, unexpended funds from the General Operating Account.

### Investment Strategy

This reserve is a result of higher revenue at certain times of the year, typically in the first quarter of the Fiscal Year. These funds should have maximum liquidity and be subject to minimal market risk. Typical investment strategies are money market accounts or penalty-free certificates of deposit.



# **Investment Policy Statement**

**ArtStream**

**July 25, 2017**

# Summary Profile

Name	ArtStream
Type of Account	Non-Profit Organization
Account Type	Taxable
Financial Objective	Moderate Capital Appreciation & Preservation
Time Horizon	10 or more years

## Purpose

The purpose of this Investment Policy Statement is to establish a clear understanding between the client and the investment advisor as to the investment objectives and policies applicable to the client’s portfolio under District Capital Management (DCM)’s discretionary management. This Investment Policy Statement is to be reviewed and updated on an annual basis, and on a more frequent basis should the client’s specific situation change. It is the client’s responsibility to inform the investment advisor of any changes to her or his specific situation.

## Objective

ArtStream’s assets serve as the organization’s cash reserves. The Board may choose to use part of its reserves to fund projects or activities it may deem strategic.

## Time Horizon

The time horizon for the assets is 10 or more years, with the possibility of using some before 10 years.

## Risk and Liquidity

ArtStream anticipates that current and future spending needs will be met from existing and future grants. However, ArtStream may have cash flow needs from this portfolio in the near or medium-term future.



ArtStream's financial situation indicates an average ability to assume risk.

ArtStream expressed an average willingness to take risk.

## **Asset Allocation**

District Capital Management recommends a strategic asset allocation plan of 50%-70% growth and high income assets (including U.S. and global stocks, global bonds, high-yield bonds), and 30%-50% low-volatility assets (including U.S. core bonds and cash).

## **Rebalancing Guidelines**

DCM will rebalance at least annually back to the target strategic asset allocation if any asset deviates more than 5% from the target allocation and transaction costs are less than 50bps per annum.

## **Tax Consideration**

While ArtStream has assets in a taxable account, it is a non-profit organization and is tax-exempt.

*This investment plan has been prepared based upon the information and data which you have provided. The estimates, projections, and illustrations incorporated in this report are only approximations based upon mathematical computations. They should not be considered an absolute representation of the actual future performance of any investment, asset, group of assets, or tax planning technique. Rather, these projections represent our best effort to provide you with general guidelines adapted to your financial situation. While this report can be a valuable aid to you for articulating and organizing your financial affairs, it is only the starting point and does not represent the end of the process. Investment planning is an ongoing series of decisions made on your part, based on interaction between you and your advisors. Since it is not a static occurrence, periodic review and modification is necessary. We are pleased to offer these and other services to you as your requirements change in the future. We would emphasize the importance of having other advisors. We are not practicing accountants or attorneys. Some of the material in this report may be directly or indirectly based upon generally accepted tax principles. These underlying premises are always subject to change. For these reasons independent tax counsel is suggested. IRS CIRCULAR 230 NOTICE: To the extent that this message or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law.*



Asset Class	Fund	Purpose	Amount
US Bonds – Inflation Protected	Vanguard Inflation-Protected (VAIPX)	Stability, Income	\$ 18,836
US High Quality Bonds	Vanguard Total Bond Market Index (BND)	Stability, Income	\$ 18,832
	Vanguard Short-Term Bond (BSV)	Stability, Income	\$ 13,170
Floating Rate Bonds	Loomis Sayles Floating Rate (LSFYX)	Income	Now overpriced, will no longer buy
Global/Emerging Market Bonds	Templeton Global Income (GIM)	Income	\$ 55,906
US Stocks	SPDR S&P 500 ETF (SPY)	Growth	To be deployed in next 2 months^
U.S. & International Stocks (Developed)	Vanguard Developed Stocks (VEA)	Growth	To be deployed in next 2 months^
	Artisan Global Value Investor (ARTGX)	Growth	To be deployed in next 2 months^
	Northern Global Sustainability Index	Growth	\$ 9,225
International Stocks (Small)	Vanguard Ex-US Small Cap ETF (VSS)	Growth	To be deployed in next 2 months^
Emerging Market Stocks	Vanguard Emerging Markets (VWO)	Growth	To be deployed in next 2 months^
Cash			\$33,400 (to be deployed soon)
<b>TOTAL*</b>			<b>\$ 149,369</b>

\*ArtStream to transfer \$38,000 to investment account as soon as revenue permits.

^For investments whose price is currently not optimal (stocks), we stagger the purchase (dollar cost averaging) to reduce the risk.

# Nonprofit Operating Reserves and Policy Examples



A nonprofit may set aside a cash reserve to provide a cushion for planned or unplanned future needs. This resource includes considerations for reserve planning and two sample policies.

## Operating Reserves

An operating reserve is an unrestricted fund balance set aside to stabilize a nonprofit's finances by providing a cushion against unexpected events, losses of income, and large unbudgeted expenses. The most common trigger for use of operating reserves is on the income side, such as when a previously reliable source is reduced or withdrawn. Since operating reserves are most valuable if they are reliable, an important factor in using reserves is also having a realistic plan to replenish them. Operating reserves should not be used to cover a long-term or permanent income shortfall. Reserves can allow an organization to weather serious bumps in the road by buying time to implement new strategies. To be prudent, reserves should be used to solve temporary problems, not structural financial problems. In the worst case scenario, reserves can be used for an orderly shut down of the organization.

Operating reserves may be a part of the organization's unrestricted cash or working capital. Every nonprofit needs to have sufficient cash flow coming in from various income sources and going out to pay expenses and other obligations when they are due. Some organizations create reserves by setting aside cash in addition to the regular bank fund balances for use when regular cash flow is disrupted.

Reserves are also different from restricted funds. Restricted funds are grants and contributions that have been received for specific programs or projects. These funds are "restricted" for use according to the grant agreement or donor's instructions.

Sometimes this means that restricted funds sit idle in the bank for a while and the nonprofit cannot use those funds for some other purpose.

Reserves, on the other hand, are "unrestricted" funds that can be used in any way that the nonprofit's management and board chooses.

## Where do Reserves Come From?

Occasionally, a nonprofit will receive a grant or contribution to create or add to an operating reserve fund. Usually, though, reserves are built up over time by generating an unrestricted surplus and intentionally designating a portion of the excess cash as a reserve fund. Some organizations include a line item in the budget to add to reserves.

## How Much Should We Have?

While there are general guidelines for setting operating reserve goals, they should always be accompanied by "it depends." Most standards are based on a formula to have enough unrestricted cash to cover operating expenses for a number of months. A commonly used reserve goal is three to six months' expenses. At the high end, reserves should not exceed the amount of two years' budget. At the low end, reserves should be enough to cover at least one full payroll including taxes. Keep in mind that generic target amounts for reserves don't take some important variables into account, such as the stability of the nonprofit's cash receipts. Organizations that have contracts or fees with regular and reliable payments don't need as much in reserves as organizations that rely on periodic grants, fund-raising events or campaigns, or seasonal activities. Factor in these considerations when setting an operating reserve target. The goal for operating reserves will change, too, when income or expenses become less reliable or predictable because of internal or external changes.

## Why Policies Matter

To be a viable operating reserve, there should be a board agreement and policy about the purpose and use of operating reserves. The purpose of the policy is to define and set goals for reserve funds,

clearly describe authorization for use of reserves, and outline requirements for reporting and monitoring. Without a policy and procedure, reserve funds tend to be gradually spent down over time and then are not available the next time the funds are really needed. When developing the policy, be sure to allow for some flexibility and ease of access. Reserves are there to help the organization operate programs and services, not to create an untouchable bank balance to admire. Two examples of policies are included at the end of this article.

### **Other Kinds of Reserves**

This discussion has been focused on operating reserves designated to manage cash flow or short-term cash shortfalls and unexpected expenses. There are other kinds of reserve funds that can be established to build up cash balances for specific purposes such as building repair and replacement reserves, program reserves to support program continuation if income is uncertain, and opportunity reserves to allow the nonprofit to provide seed funding for a new idea or innovation. Each type of reserve needs the same kind of planning and policy as described for operating reserves.

### **Developing an Operating Reserve Policy**

Developing and adopting a written policy regarding a nonprofit's operating reserves is a valuable practice for any organization. The policy may be contained within the financial policies or may stand alone. Having a written and approved policy on operating reserves will help to ensure that the board of directors and staff leadership use consistent definitions and calculations and that the authority and operational guidelines for using funds in reserve are clear to all. In the absence of an adopted policy, staff and board members may have different assumptions that may or not be accurate or productive. If the idea of creating an operating reserve policy seems daunting, this basic example and guideline for policy development can be helpful.

### **Five Essentials for Policies**

The intent of the operating reserve policy is to describe and document the purpose, goals, and mechanics for maintaining and using operating reserve funds. In order to accomplish this, the operating reserve policy needs to address five areas:

1. Purpose of building and maintaining reserves
2. Definitions of the types of reserves, intended use, and calculation of target amounts
3. Assignment of authority for making use of each type of reserve fund, which may include delegation of some authority to staff leaders
4. Responsibilities for reporting reserve fund amounts and use of reserve funds
5. Any specific policies, if needed, about investment of reserve funds

### **Developing and Approving a Policy**

This article includes two examples of reserve policies. The first is for operating reserves only and will be useful for nonprofits with a single cash reserve that is primarily used for occasional unexpected shortfalls. The second policy example expands to include other types of reserves, such as building reserves. This example requires more discussion and customization for the nonprofit's particular situation and plans. Both of the example policies include a variety of components that may or may not fit the needs of any individual nonprofit organization. These examples are a starting point intended to help you address the essential questions and decisions. Some nonprofits develop more comprehensive and detailed policies that incorporate more specific responsibilities and add much more detail. The most important action is to create and adopt a policy that meets your organization's needs.

### **Considerations When You Start with a Policy Template**

We offer these example reserve policies to get you started, but keep in mind that no example will be an exact fit for your organization. Never adopt a policy without a thorough review and consideration of the risks, operations, and structure of the organization. In the example policies included here, some areas require customization. Bold, bracketed text should be customized to meet your needs. We have included some options to assist you. Be sure to review these parts carefully to create the right policy for your organization. Visit [propelnonprofits.org](http://propelnonprofits.org) to download these example policies as a Word document.

# Sample Reserve Policy: Operating Reserve



## Purpose

The purpose of the Operating Reserve Policy for **[NAME]** 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, or 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 **[NAME]** 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 policies of **[NAME]** 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 **[one/two/three/six]** 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 **[CUSTOMIZE: examples are pass-through programs, 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 **[CUSTOMIZE: will be maintained in a segregated bank account or investment fund, in accordance with investment policies OR will be commingled with the general cash and investment accounts of the organization]**.

## 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.

## Use of Reserves

Use of the Operating Reserves requires three steps:

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## 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

**CUSTOMIZE:** This section must be customized to reflect the authority and process selected by the organization. Several possible approaches are included as examples.

- **Approach A:** 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 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 approve or modify the request and authorize transfer from the fund. (OR, the Finance Committee will recommend the request to the Executive Committee or the Board of Directors).
- **Approach B:** Authority for use of Operating Reserves is delegated to the Executive Director in consultation with the Treasurer and/ or Chair of the Finance Committee. The use of Operating Reserves will be reported to the Executive Committee/ Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Operating Reserve Fund to the target minimum amount. The Executive Director must receive prior approval from the Executive Committee/Board of Directors if the Operating Reserves will take longer than 12 months to replenish.

- **Approach C:** Authority for use [of up to \$xx-,xxx] of Operating Reserves is delegated to the Executive Director in consultation with the Treasurer and/ or Chair of the Finance Committee. The use of Operating Reserves will be reported to the Executive Committee/Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Operating Reserve Fund to the target minimum amount. The Executive Director must receive prior approval from the Executive Committee/Board of Directors for use of Operating Reserves in excess of [ \$xx,xxx].

## 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.

### Relationship to Other Policies

[NAME] shall maintain the following board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Operating Reserve Fund.

#### CUSTOMIZE:

- Financial Policy
- Budget Policy
- Contingency or Disaster Preparedness Plan
- Investment Policy

### 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.

# Sample Reserve Policy: Multiple Reserves



## Purpose

The purpose of the Reserves Policy for **[NAME]** is to ensure the stability of the mission, programs, employment, and ongoing operations of the organization and to provide a source of internal funds for organization- al priorities such as building repair and improvement, program opportunity, and capacity building.

The Reserves Policy will be implemented in concert with the other governance and financial policies of **[NAME]** and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

## Definitions and Goals

### Operating Reserve

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. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of **[NAME]** for Operating Reserves to be used and replenished within a reasonably short period of time. 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 measured 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 both internal and external changes.

The target minimum Operating Reserve Fund is equal to **[one/two/three/six]** 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 **[CUSTOMIZE: examples are pass-through programs, 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.

### Building and Capital Asset Reserve

The Building and Capital Asset Reserve is intended to provide a ready source of funds for repair or acquisition of buildings, leaseholds, furniture, fixtures, and equipment necessary for the effective operation of the organization and programs.

The target amount of the Building and Capital Asset Reserve will be determined by **[CUSTOMIZE]**.

### Opportunity Reserve

The Opportunity Reserve is intended to provide funds to meet special targets of opportunity or need that further the mission of the organization which may or may not have specific expectation of incremental or long-term increased income. The Opportunity Reserve is also intended as a source of internal funds for organizational capacity building such as staff development, research and development, or investment in infrastructure that will build long-term capacity.

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The target amount of the Opportunity Reserve will be determined by [CUSTOMIZE].

## Accounting for Reserves

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

## Funding of Reserves

The Operating Reserve 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 could include one-time gifts or bequests, special grants, or special appeals.

The Building and Capital Assets Reserve will be funded by [CUSTOMIZE: setting aside funds received from any capital campaigns or similar appeals (OR) setting aside the equivalent amount of cash equal to XX% of depreciation in the annual budget (OR) other calculations].

The Opportunity Reserve will be funded with occasional special designations made by the Board of Directors.

## Use of Reserves

Use of the 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 needed and replenished.

### 2. Authority to use reserves.

**CUSTOMIZE:** This section must be customized to

reflect the authority and process selected by the organization. Each type of reserve may require a different structure and process for authorization. Several possible approaches are included as examples.

- **Approach A:** The Executive Director will submit a request to use 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 Reserve Fund to the target minimum amount. If the use of Reserves will take longer than 12 months to replenish, the request will be scrutinized more carefully. The Finance Committee will approve or modify the request and authorize transfer from the fund. (OR, the Finance Committee will recommend the request to the Executive Committee or the Board.
- **Approach B:** Authority for use of Reserves is delegated to the Executive Director in consultation with the Treasurer and/or Chair of the Finance Committee. The use of Reserves will be reported to the Executive Committee/Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Reserve Fund to the target minimum amount. The Executive Director must receive prior approval from the Executive Committee/ Board of Directors if the Reserves will take longer than 12 months to replenish.
- **Approach C:** Authority for use [of up to \$xx-,xxx] of Reserves is delegated to the Executive Director in consultation with the Treasurer and/or Chair of the Finance Committee. The use of Reserves will be reported to the Executive Committee/ Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Reserve Fund to the target minimum amount. The Executive Director must receive prior approval from the Executive Committee/Board for use of Reserves in excess of [\$xx,xxx].

### 3. Reporting and monitoring.

The Executive Director is responsible for ensuring that the Reserve Funds are maintained and used only as described in this Policy. Upon approval for the use of Reserve Funds, the Executive Director will maintain records of the use of funds and plan for replenishment, if required. He/she will provide regular reports to the Finance Committee/Board of Directors of progress to restore the Fund to the target minimum amount, if required.

#### Relationship to Other Policies

[NAME] shall maintain the following board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Reserve Fund.

#### CUSTOMIZE:

- Financial Policy
- Budget Policy
- Contingency or Disaster Preparedness Plan
- Investment Policy

#### 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.