Sample Reserve Policy #1

1. The fund shall maintain as a goal a minimum of six months’ operating expenses

2. A specific amount, as a forced savings to the Reserve account, shall be built into the annual budget

3. All excess funds at the end of the fiscal year shall be placed in the Reserve account

4. Expenditures from the Reserve account require a ¾ vote of the Board

5. The Reserve account shall include only cash and equivalents and shall not include other investments

Sample Reserve Policy #2

The Association shall establish reserve funds as necessary to ensure the financial health of the organization as well as engage in programs and services to meet the needs of members and the Association. The Association shall maintain two reserve funds:

1. Strategic Reserve Fund
2. Operating Reserve Fund

**Strategic Reserve Fund:**
The goal of the Strategic Reserve Fund shall be to maintain sufficient financial resources to ensure the long term sustainability of the Association. The Strategic Reserve Fund balance shall be a minimum of 18 months of operating expenses for the Association. The Board of Trustees shall reserve the right to determine the exact balance of the Fund, at an amount greater than the minimum, on an annual basis.

Interest earnings and dividends derived from the Strategic Reserve Fund shall be returned to the Strategic Reserve Fund until such a time that the minimum Fund balance is achieved. Once the minimum Fund balance is achieved, interest earnings and dividends from the Strategic Reserve Fund may be allocated to the Operating Reserve Fund.

Spending from the Strategic Reserve Fund requires approval by 2/3 of the voting Board of Trustees present and shall occur under the following circumstances:

- Catastrophic loss of operating revenue that requires the use of Strategic Reserves in order to maintain business operations.
- Unanticipated circumstances that require an extraordinary utilization of Association resources, such as litigation, issues of primary importance to the pharmacy profession, or threats against the Association.

**Operating Reserve Fund:**
The goal of the Operating Reserve Fund shall be to provide financial resources for activities and projects for the benefit of the members and the Association that are in addition to the approved annual operating budget. The Operating Reserve Fund shall not have a minimum balance. Spending from the Operating Reserve Fund requires a majority vote of the Board of Trustees present.
ABC ASSOCIATION
OPERATING RESERVES POLICY

PURPOSE
The purpose of the Operating Reserves policy for the ABC Association (ABC) 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 ABC 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 ABC 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 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 [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 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:

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
ABC shall maintain the following Board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Operating Reserve Fund:

- 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.