

OPERATIONAL RESERVE POLICY



Policy Type:	General & Administration	Policy Number:	GA003
Latest revision:	January 2023	Review Schedule:	Biennial
Approved by Board:	January 26, 2023	Version:	1

1. PURPOSE

The purpose of the Operating Reserve Policy for Lift Community Services 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 an 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 Lift Community Services of qathet 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 and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

2. POLICY

2.1 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 three (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, and ongoing program 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 pass-through programs, one-time expenses or capital expenses.

The amount of the Operating Reserve Fund target minimum will be calculated each year after approval of the annual budget, on the recommendation of the Finance Committee to the Board of Directors, and included in the regular financial reports.

2.2 Accounting for Reserves

The Operating Reserve Fund will be recorded in the financial records as Operating Reserve. The Fund will be funded and available within a time restriction of no more than ninety (90) days, in cash or cash equivalent funds. Operating Reserves will be commingled with the general cash and investment accounts of the organization.

2.3 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.

2.4 Use of Reserves

Use of the Operating Reserves requires three steps:

1. Identification of appropriate use of reserve funds.

The Executive Director and staff or the Board of Directors 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 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 with modifications as necessary. The Executive Director must receive prior approval from the Board of Directors for use of Operating Reserves. Approval can be obtained in accordance with Lift Community Services of qathet's Board of Director's policy.



3. REFERENCES

- GA002 – Investment Policy



OPERATIONAL RESERVE – PROCEDURES & GUIDELINES

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1. Reporting and monitoring

The Board Treasurer 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 in conjunction with the Finance Committee. They will provide regular reports to the Board of Directors of progress to restore the Fund to the target minimum amount.