

East Central Area Literacy Council

Operating Reserve Policy

I. Purpose:

The purpose of the Operating Reserve Policy for the East Central Area Literacy Council 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 sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The reserve may also be used for onetime, non-recurring expenses that will build long-term capacity such as staff development, research and development or investment in infrastructure. Operating reserved are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of the East Central Area Literacy Council for operating reserved 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 East Central Area Literacy Council and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

II. 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 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 month 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 pass-through grants and 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 board of directors and included in the regular financial reports.

III. 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 Reserved will be commingled with the general cash and investment accounts of the organization.

IV. Use of Reserves

Use of the Operating Reserves requires three steps:

- a. Identification of the 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.

- b. Authority to use operating reserves.

The Executive Director will submit a request to use Operating Reserves to 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 Board of Directors will approve or modify the request and authorize the release of funds.

- c. 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 Board of Directors of progress to restore the funds to the target minimum amount.

V. Relationship to Other Policies:

The East Central Area Literacy Council shall maintain the following board-approved policies, which may contain provisions that affect the creation, sufficiency and management of the Operating Reserve Fund:

- a. Gift Acceptance Policy
- b. Ethics Policy

VI. Review of Policy

This Policy will be reviewed every other year, at minimum, by the Board of Directors, or sooner if warranted by internal or external events or changes.