

Potomac Valley Audubon Society

# Reserves Policy

Approved by Board of Directors March 2, 2023

## **Purpose**

The purpose of the Reserves Policy for Potomac Valley Audubon Society 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 organizational 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 Potomac Valley Audubon Society and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

## **Definitions and Goals**

“Reserves” shall refer to all three of the following Reserve Funds:

### **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 PVAS for Operating Reserves to be used and replenished within a reasonably short period of time. The Operating Reserve 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, 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 three 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 such as 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.

## **Capital Reserve**

The Capital Reserve is intended to provide a ready source of funds for repair or acquisition of fixed assets: buildings; leaseholds; furniture; fixtures; equipment necessary for the effective operation of the organization and programs. The target amount of the Capital Reserve will be recommended by The Finance and Executive Committees and approved by the Board of Directors.

## **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. The target amount of the Opportunity Reserve will be determined by the Board of Directors.

## **Accounting for Reserves**

The Reserve Funds will be recorded in the financial records as Board-Designated Operating, Building and Capital Asset, and Opportunity Reserves. The Funds will be funded and available in cash or cash equivalent funds. Reserves 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 by unrestricted liquid assets. The Board of Directors may from time to time direct that a specific source of revenue be set aside for the Capital Reserve and the Opportunity Reserve.

## **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 need, 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.**

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 I recommend the request to the Executive Committee which will, in turn, recommend the request to the Board of Directors.

## **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/they 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**

The Treasurer shall maintain this policy which is incorporated by reference in the Financial 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 for approval.