

SAMPLE DEVELOPING A BOARD-RESTRICTED CASH RESERVE POLICY

Outline for Development of a Written Board-Restricted Reserve Policy with Example Language

NAME OF ORGANIZATION

POLICY STATEMENT
BOARD-RESTRICTED CASH RESERVE

I. Statement of Purpose

→ Define the purpose(s) and objective(s) of this organization's board-restricted cash reserve.

[Example:]

The ORG Board of Directors designated a BOARD-RESTRICTED CASH RESERVE by resolution at its DATE Board meeting. The general purpose of the fund is to help to ensure the long-term financial stability of the organization and position it to respond to varying economic conditions and changes affecting the organization's financial position and the ability of the organization to continuously carry out its mission.

ORG will maintain a BOARD-RESTRICTED CASH RESERVE to achieve the following objective(s):

- 1. To enable the organization to sustain operations through delays in payments of committed funding and to accept reimbursable contracts and grants without jeopardizing ongoing operations;*
- 2. To promote public and funder confidence in the long-term sustainability of the organization by preventing chronic cash flow crises that can diminish its reputation and force its leaders to make expensive short-term, crisis-based decisions; and*
- 3. To create an internal line of credit to manage cash flow and maintain financial flexibility.*

II. BOARD-RESTRICTED CASH RESERVE FUND BALANCE

→ Describe the establishment of the fund. Include such details as:

- The ultimate goal amount for the fund and method / rationale for determining the amount.
- Current reserve fund balance, if any, or amount of existing funds to be designated.
- Planned additions to the reserve using identified grant money and, if applicable, whether any required matching money is to be designated as part of the reserve fund.
- The timeline and incremental plan for reaching the desired ultimate fund balance, if applicable.

[Example:]

The target amount to be attained and maintained for the BOARD-RESTRICTED CASH RESERVE is \$200,000, representing approximately 25% of annual operating expenses of \$800,000, or about 3 months of expenses on average. To establish the Reserve Fund, the ORG Board of Directors has designated \$20,000 of existing accumulated liquid net assets as the beginning balance of the fund. The next \$60,000 is to be funded by a special one-time grant from AGENCY NAME of \$30,000, along with the required 1-1 match of new or increased donations committed during the 20XX fiscal year. The remaining \$120,000 is to be funded over the next XX fiscal years in increments of \$XX, 000, through funding strategies incorporated into ORG's annual fundraising plan and capital budget.

III. USE OF THE BOARD-RESTRICTED CASH RESERVE

→ Describe terms and use of the fund. Include such details as:

- Who may access the fund?
- What authorization is given or required?
- What communication methods are acceptable?
- The threshold (time and/or amount) requiring a higher level of authorization.
- The standard expectation for repayment of accessed funds.
- The notifications required regarding the status of repayments, including frequency and recipient(s) of the notifications.
- Describe the relationship between the reserve and a commercial line of credit (if applicable) i.e., which should be used first, etc. The choice of hierarchy of use depends on the particular circumstances of the organization.

[Example:]

The Executive Director may access up to \$XX,000 for purposes as outlined above, as long as sufficient accounts or grants receivable are available to repay such usage within three months time. The Executive Director will notify the Treasurer in writing, and usage will be acknowledged in writing by the Treasurer. E-mail or fax shall be acceptable forms of notification and acknowledgement.

Any funds borrowed from the reserve for greater than \$XX, 000 and/or for longer than 90 days will be paid back through a prescribed repayment schedule/method. Approval of any such usage and the proposed repayment schedule shall be requested by the Executive Director from either the Board or the Executive Committee. If approved by the Executive Committee, such disbursement shall be reported at the next full Board meeting. At any time that a borrowing from the fund is outstanding, the status of the borrowing and payments made against the proposed repayment schedule will be reviewed at the regularly scheduled Board meetings.

[Examples for use of reserve relative to commercial line of credit:]

- A. *Use of the Reserve Fund will be subsequent to fully depleting any existing commercial lines of credit.*
- OR
- B. *The Reserve Fund will be fully depleted before use of the commercial line of credit*

[Note: management procedures, authorizations, etc. must be consistent with the choice of hierarchy.]

IV. MANAGEMENT OF THE BOARD-RESTRICTED CASH RESERVE

→ Describe the management of the fund. Include such details as:

- Who is responsible for managing the fund?
- Who may open and/or monitor bank accounts?
- Whether a separate bank account is required.
- Accounting procedures, reporting requirements, and disposition of any interest income.
- Liquidity requirements for funds comprising the reserve, and whether and how they can be invested.
- Which assets will be included or excluded in the formula for monitoring the reserve balance. For instance, excluding non-liquid or non-current line items such as prepaid expenses, inventories, and long-term

receivables and deposits held by others produces a more conservative reading. The example below refers to a fund that is cash only.

[Example:]

Under the direction of the Treasurer or the Finance Committee, the Executive Director will establish a separate bank account for the Board-Restricted Cash Reserve. Policies and procedures for handling deposits, reconciling statements, safeguarding access, etc. will be the same as established from time to time for any of the organization's other bank accounts. If feasible, the funds will be invested according to the guidelines set in the Reserve Investment Policy.

The Reserve will be listed separately in the net assets section of the organization's statement of financial position as "Board-Restricted Cash Reserve" and longer-term borrowings from the reserve will be shown as a liability – "Due to the Reserve" – in internal financial reports.

V. Authorization of Draw-Down* from the BOARD-RESTRICTED CASH RESERVE

→ Define the terms and conditions for drawing down the fund for operating purposes in the case of a financial emergency, including procedures for replenishment. (See also: "**Reserve Shortfalls**" below.)

[Example:]

A draw-down from the fund for established purposes identified in "Use of the BOARD-RESTRICTED CASH RESERVE" above, must be approved by a majority of the Board, either by a majority of the votes of a quorum present at a regular Board meeting, or by a 2/3 majority of the Board if such vote is conducted by other means. A plan for replenishing the funds including key activities and procedures for monitoring the implementation of the plan will be included in the Board approval of the draw-down. A record of any such action will be maintained and be made a part of the Board meeting minutes. Any such action would remove the Board designation of "reserves" from these funds.

VI. BOARD-RESTRICTED CASH RESERVE SHORTFALLS

→ Describe the Board's policy for restoring its *BOARD-RESTRICTED CASH RESERVE* to target level (once achieved) if the fund has been depleted to below the target level. Include time and amount thresholds for which the replenishment policy will become applicable.

[Example 1:]

If the reserve is and has been less than 75% of the targeted reserve level for two consecutive years, the Board of Directors, in the absence of any extraordinary circumstances, will adopt an operational budget that includes a projected surplus sufficient to rebuild the Reserve to its targeted reserve level over the following two years.

[Example 2:]

If the reserve is less than 50% of the targeted reserve level for two consecutive years, the Board of Directors will adopt an operational budget with a projected surplus to rebuild the reserves over the following two-four years back to its targeted reserve level.

[Example 3:]

In the event the reserves are less than the targeted reserve levels, this deficit must be eliminated in a minimum of three years, with one third of the deficit balance being required to be funded in the current operating budget, until the reserve is restored to the target balance.

VII. Responsibilities of the Finance Committee

- Describe the responsibilities of the Finance Committee with regard to the reserve and other board-designated funds oversight. How will the committee monitor the activity in the funds? How often and in what manner will they report to the Board about funds activity? How often will the Reserve Policy be reviewed and updated?

[Example:]

The Finance Committee will receive reports on the BOARD-RESTRICTED CASH RESERVE at its regular meetings and shall be charged with assuring that the funds are invested prudently in accordance with the guidelines stated above and that the organization receives a reasonable rate of return considering the size of the reserve fund, the instruments in which it is invested and other relevant factors.

The Treasurer will report the status of the BOARD-RESTRICTED CASH RESERVE to the Board as part of the regular Treasurer's report.

The Finance Committee will review the Reserve Policy every three years, or sooner if conditions warrant, and put forward any necessary changes for Board approval.

OPTIONAL:

Funds Designated for Other Special Purposes

- Per the above outline, describe the policy and process the Board will follow to create/designate other special purpose funds relevant to identified objectives of a strategic plan, etc., for example, Equipment Maintenance & Replacement, Human Resource Capacity Building, New Program Initiative, pursuit of unforeseen opportunities, etc.