



# Operating Reserve Policy

Approved by Board of Directors: 8 August 2023

## Purpose

The purpose of the Operating Reserve Policy for Christians Concerned for the Community (CCC) 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 of funding, or uninsured losses.

The Reserve may also be used for one-time, non-recurring expenses that will build long-term capacity, such as staff development, development of new programs, or investment in infrastructure.

The Reserve is not intended to replace a permanent loss of funds or eliminate a long-term budget gap. It is the intention of CCC for the Operating Reserve to be used and replenished within 1-2 years.

The Operating Reserve Policy will be implemented in concert with the other governance and financial policies of CCC and is intended to support the goals and strategies contained therein.

## Definitions and Goals

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 the 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 annually and adjusted in response to internal and external changes.

The target minimum Operating Reserve is equal to **six months** of average operating costs. Operating costs include all recurring, predictable expenses such as payroll, project expenses, rent, utilities, software subscriptions, vehicle costs, etc. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. Large one-time expenses like the purchase of a new vehicle or office roof are excluded from operating costs.

The target minimum amount of the Operating Reserve will be calculated at the beginning of each year during the annual financial review, and will be included in the Treasurer's financial reports.

## Accounting for Reserves

The Operating Reserve will be recorded in the financial records as total cash balance. **One month** of the Reserve will be maintained in a savings account, **one month** will be maintained in a checking account, and **four months** (as well as any surplus) will be maintained in a brokerage account.



# Funding and Allocation of Reserves

The Operating Reserve will be funded with surplus unrestricted operating funds. The Treasurer will be responsible for apportioning funds between the various accounts, in pursuit of the following two goals:

- **Liquidity.** The highest priority is to maintain ready access to the funds. The accounts should be divided between at least two institutions to guard against loss of access due to technical or regulatory issues. Provision for electronic transfers (ACH) between accounts should be set up in advance.
- **Protection of Principal.** The next priority is to limit investment and interest rate risk over a short investment horizon, while still mitigating losses to inflation. Currently, these goals can best be met by holding extremely safe, federally-secured instruments (federal money market funds, short-term treasuries, series-I savings bonds) at a brokerage or TreasuryDirect.

## Use of Reserves

Use of the Operating Reserve requires three steps:

### 1. Identify and describe an appropriate use

The Executive Director and/or Treasurer will identify the need for access to the Reserve and confirm that the use is consistent with the purpose of the Reserve 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 the Reserve, and evaluation of the time period to use, and to replenish, the funds.



## 2. Request permission

The Executive Director and/or Treasurer will submit a request to use the Operating Reserve to the Board of Directors. The request will include the analysis and determination of the use of funds, as well as solid and achievable plans for replenishment.

CCC's goal is to replenish the funds used within **one year** to restore the Reserve to the target minimum amount. If the use of the Reserve will take longer than that to replenish, the request will be scrutinized more carefully.

The Board of Directors will then vote to approve, modify, or deny the use of funds.

## 3. Monitor and Report

The Executive Director and Treasurer are both responsible for ensuring that the Operating Reserve is maintained and used only as described in this Policy. The Executive Director will maintain records of the use of funds and plan for replenishment, and provide regular reports on both to the Treasurer. The Treasurer will report the status of rebuilding the Reserve to the entire Board on a quarterly basis (at minimum).

## Review of Policy

The Operating Reserve Policy will be reviewed by the Board of Directors **once per year**, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Treasurer to the Board of Directors for approval.

