

ACA WSO Prudent Reserve Policy

Purpose

The purpose of the Prudent Reserve Policy for ACA WSO is to ensure the stability of the mission, programs, employment, and ongoing operations of the organization. The Prudent 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 staff development, research and development, or investment in infrastructure. Prudent Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap.

It is the intention of ACA WSO for Prudent Reserves to be used and replenished within a reasonably short period of time.

Definitions and Goals

The Prudent Reserve Fund is defined as a designated fund set aside by action of the Board of Trustees. The minimum amount to be designated as Prudent Reserve will be set at an amount sufficient to maintain ongoing operations and programs for a set number of months. The Prudent Reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The Target Minimum is initially set at three months of the monthly average of actual operating costs for the last completed fiscal year. The number of months included in calculating the Target Minimum may be subsequently adjusted to achieve and maintain a prudent reserve. The amount of the Target Minimum will be calculated each year after the budget is adopted based on budgeted operating costs. Each time the Target Minimum is adjusted, the adjustment will be reported by the Finance Committee to the Business Operations Collaboration Committee and the Board of Trustees and will be included in the regular financial reports.

For setting the Target Minimum, only, the calculation of 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 also excludes some expenses such as pass-through programs, one-time or unusual expenses, and capital purchases.

Accounting for Reserves

The Prudent Reserve Fund will be recorded in the financial records as a Board-Designated Prudent Reserve. The Fund will be funded and available in cash or cash equivalent funds. Prudent Reserves will be maintained in a designated bank account or investment fund, in accordance with investment policies.

Funding of Reserves

The Prudent Reserve Fund will be funded with surplus unrestricted operating funds. The Board of Trustees may from time to time direct that a specific source of revenue be set aside for Prudent Reserves. Examples may include one-time gifts or bequests, special grants,

or special appeals.

Use of Reserves

1. Identification of appropriate use of Prudent Reserve funds.

The Finance Committee 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 Prudent Reserves

Authority for use of up to \$30,000 of Prudent Reserves is delegated to the Executive Committee in consultation with the Chair of the Finance Committee. The use of Prudent Reserves will be reported to the Board of Trustees at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Prudent Reserve Fund to the Target Minimum amount. Approval from the Board of Trustees is required for use of Prudent Reserves in excess of \$30,000.

3. Reporting and monitoring.

The Treasurer is responsible for ensuring that the Prudent Reserve Fund is maintained and used only as described in this Policy. Upon approval for the use of Prudent Reserve funds, the Treasurer will maintain records of the use of funds and plan for replenishment. He/she will provide regular reports to the Board of Trustees of progress to restore the Fund to the target minimum amount.

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 Trustees.

[NOTE: The WSO Board of Trustees unanimously passed a motion to adopt this policy, as amended, at its meeting on July 28, 2022.]