

## **2.11 Operating Reserves**

### Policy:

It is the policy of Licking/Knox Goodwill Industries, Inc. Finance Committee to maintain an Operating Reserve to ensure the stability of its mission, programs, employment, and ongoing operations.

### Procedure:

#### Purpose

The Licking/Knox Goodwill Industries, Inc. Operating Reserve is intended to provide an internal source of funds for unintended expenditures, such as a sudden increase in expenses, an unanticipated loss of funding, or uninsured losses. The Reserve may also be used for one-time, nonrecurring expenses that will enhance long-term capacity such as staff development, research and development, or investment in infrastructure. Operating Reserves are not intended to replace a permanent loss of income or funds, or eliminate an ongoing budget gap. It is the intention of Licking/Knox Goodwill Industries, Inc. that monies disbursed from the Operating Reserve be replenished within a reasonable, short period of time. The Operating Reserve Policy and Procedure will be implemented in concert with other Licking/Knox Goodwill Industries, Inc. governance and financial policies and, is intended to support the organization's stated goals, strategies, and operational plans.

#### Definitions and Goals

The Licking/Knox Goodwill Industries, Inc. Operating Reserve is defined as a designated fund set aside by action of the Board of Trustees. The minimum balance to be designated as Operating Reserves will be the amount of funds needed to sufficiently maintain ongoing operations and programs for a period of six (6) months. The target minimum balance shall include all average monthly operating costs, including recurring, predictable expenses, such as salaries, benefits, occupancy, office expense, travel, program, and ongoing, professional services. Depreciation, in-kind, and other, non-cash expenses will not be included in the calculation. The Operating Reserve minimum balance is dynamic and shall be reviewed and adjusted in response to internal and external changes. The Operating Reserve target, minimum balance will be reviewed annually after approval of the annual budget, reported to the Finance Committee and Board of Trustees, and included in the regular financial reports.

#### Accounting for Reserves

The Operating Reserve fund will be recorded in the financial records as Board-Designated Operating Reserve. The reserve will be funded and available in cash or cash-equivalent funds. Operation Reserves will be commingled with the general cash and investment accounts of the organization.

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Funding of Reserves

The Operating 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 Operating Reserves. Examples include one-time gifts or bequests, special grants, or special appeals.

Use of Reserves

Operating Reserve funds shall be disbursed as follows:

1) Identification of appropriate use of reserve funds.

The CEO/President and appropriate staff shall identify the need for reserve funds and confirm the use is consistent with the purpose of the reserves as described in this policy. The need for reserve funds shall be supported by an analysis of any triggering shortfalls, the availability of other funding resources, period of time the funds will be used, and when the funds will be replenished.

2) Authority to Use Operating Reserves

The CEO/President will submit a request to the Finance Committee of the Board of Trustees. The request will include supporting documentation as defined above. The organization's goal is to replenish Operating Reserve funds to the target, minimum balance within twelve (12) months of disbursement. Disbursements that require longer than twelve months to replenish shall undergo a more scrutinized examination by the Finance Committee. The Finance Committee is charged with either approving or modifying the request and submitting recommendations to the Board of Trustees for final approval.

3) Reporting and Monitoring

The CEO/President is responsible for assuring that the Operating Reserve fund is maintained and used only as mandated by this policy. Upon disbursement approval, the CEO/President will maintain documentation regarding the use and any plans to replenish the funds. He/she will provide regular reports to the Finance Committee and Board of Trustees that will describe any progress made towards restoring the fund to the target minimum amount.

Review of Policy

The Finance Committee will review this policy at least annually. Internal or external events may cause this policy to be reviewed more often. Changes to this policy will be recommended by the Finance Committee to the Board of Trustees.