NC AWWA-WEA
POLICIES AND PROCEDURES
RESERVE FUND

Date: November 15, 2009
Approved By: Board of Trustees
Policy Title: NC AWWA-WEA RESERVE FUND POLICY
Number:
Revisions: November 13, 2016

PURPOSE

One of the Financial Goals of NC AWWA-WEA is to maintain a Reserve Fund at or above a target amount of 50% of its annual operating expense budget, excluding expenses that result from payment of restricted income received from designated programs or committees (i.e. Endowment and Water for People). Reserve monies shall be invested to maximize interest return without jeopardizing principal. The Reserve Fund shall be defined as NC AWWA-WEA’s total current assets, exclusive of designated accounts (e.g., the Carol Bond Scholarship account and the NC Outreach account). Total current assets are defined to include checking accounts, certificate of deposits, money market accounts, and other short-term investments. This reserve amount shall be calculated and reviewed annually based on the audited combined financial statements of NC AWWA-WEA for the year ending December 31.

The Board of Trustees of the NC AWWA-WEA [hereinafter the ‘Association’] establishes this reserve policy for the purpose of maintaining a balance between operating income and expenses and in order to provide a necessary cushion for the survival of the organization.

It is the intent of this policy to provide broad guidelines for the Board in setting aside appropriate levels of funds and in determining what potential uses may be made of the reserve funds.

In general, reserves are unrestricted funds which are set aside to provide stability during periods when revenue does not meet obligations or when unexpected events arise which drain the Association’s funds.

The following purposes for retention of reserve funds and as possible uses are hereby established:

1. Cash flow
2. Survival in periods of unbudgeted shortfall
3. Liability protection
4. Renewal and replacement of fixed assets, which are to be programmed and budgeted annually, with a designated line in the reserve fund.
5. Financing of growth or expansion of an existing program
6. Seed or venture capital for development of new programs

PROCEDURE

An annual target for reserve funds should be established by the Board as part of the budgetary planning and approval process.

The following factors should be evaluated in determining the annual target reserve goal.

1. Cash Flow – In general, because reserves include checking account funds on hand, cash flow needs are met in this manner. However, the budget process should annually include an assessment of anticipated cash flow needs, and it is expected that minimum reserve levels may be reduced at times of the year when cash flow demand it at its peak.

Delayed payments, timing of grants, or seasonal cash swings can cause a cash shortage for a nonprofit. Reserves should be set aside and are to be used to cover these short-term cash flow requirements, which are defined as predictable, seasonable variations in revenue flow, such as a period immediately prior to a large, reliable revenue stream from an annual conference.

However, reserves should not be used to make up for income shortfalls, unless the Association has a plan to replace the income or reduce expenses in the near-term future. Reserves should be used to solve timing problems, not deficit problems.

2. Survival in periods of unbudgeted shortfall

Reserves can also be used to pay unexpected and unbudgeted expenses like equipment repairs or unexpected but essential technology upgrades; or for increases in budgeted costs like utilities or insurance. In general, it is the intent of the association to “pay as we go” and determine if a transfer from invested funds is needed at the end of the budget cycle.

3. Liability Protection

Almost all insurance policies have some deductible. Reserves levels should take into account, potential need for funds to cover the deductible amounts on insurance policies. Additionally, reserves should be sufficient to permit the Association to engage legal counsel or other expert counsel necessary to manage risk and provide the Association with professional expertise as needed.

There is a predictable cost in terminating the existence of the corporate entity and reserves should never fall below that predetermined cost.
4. Replacement and Renewal

Fixed assets are likely to require periodic renewal and replacement. Reserve funds should be accumulated as fixed assets age to that replacement and repairs can be funded. A schedule of renewal and replacement for fixed assets should be maintained so that the annual budget can be adjusted over a period of years.

This will allow the accumulation of sufficient funds in the reserve as a designated fund within the reserve appropriation to permit orderly anticipated renewal and replacement of fixed assets, which should include computers and other electronic equipment and software necessary for operation of the equipment.

5. Financing Growth and Expansion of An Existing Program

In general, growth and expansion of existing programs of work should be included as part of the annual budget cycle. However, on occasion, expansion of an existing program may be necessary and/or appropriate outside of the normal budget cycle. For example, new legislation might necessitate new, different or expanded training, which might require investment in trainers or education materials that represent an unbudgeted cost. In determining whether or not to fund such an expenditure the Board should take into account the potential long-term impacts to the Association of making the investment and not making the investment. If the change is likely to cause continued impact on the usual budget, long-term changes in revenue should be planned so that the impact to reserve funds will not extend beyond the current fiscal year.

Prior to the approval of an appropriation of reserve funds for growth and expansion of existing programs, the Board shall consider and account for administrative cost impacts which shall include staff costs.

6. Seed or Venture Capital for Development of New Programs

While strategic planning should provide the Association with the opportunity to plan and budget for most new programs within the normal annual budget cycle, occasional opportunities may present themselves, which, if not funded in the current cycle, may damage the Association, or represent a significant potential loss to the Association. Use of reserve funds to self-finance investment in a new program creates flexibility and avoids finance costs and risks. Maintenance of a sufficient reserve to permit such flexibility should be part of the annual evaluation and determination of reserve goals.

Prior to the approval of an appropriation of reserve funds for development of new programs, the Board shall consider and account for administrative cost impacts which shall include staff costs.
7. Establishing An Annual Reserve Goal

The amount of funds established as the year-end goal or target will be dependent on the estimated reliability of income and upon the Strategic Plan adopted by the Board. In general, a higher target reserve goal should be established if income is deemed to be less predictable, and a lesser target goal may be acceptable if income projections are deemed to be more predictable.

Overall, absent a projection that indicates higher risks, reduced predictability or pending liabilities and/or opportunities, a sum equivalent to 50% of the next fiscal year’s operating budget is an appropriate objective.

8. Managing Operating Reserves

Reserves should be placed in financial institutions that provide both security for the principal and maximize returns, and only sums that exceed the amount equivalent to 50% of the next fiscal year’s operating budget plus anticipated liability, renewal and replacement and venture capital fund levels in the next twelve-month period should be invested in financial instruments with terms longer than twelve months.

9. Education of Membership on Reserve Purpose

It is the responsibility of the Board to educate the membership on the need and purpose of reserves.