



## **POLICY STATEMENT – BOARD DESIGNATED FUNDS**

### **OPERATING RESERVE FUND STRATEGIC RESERVES FUND**

**Policy Effective Date:** August 16, 2010  
**(Approved by Trustees)**

**Revision History:** Original

### **INTRODUCTION**

The Board of Trustees of the American Orchid Society (AOS) has determined that establishing reserve funds is important to the operation of the Society for the stability and flexibility they can provide. Adequate reserve levels will sustain AOS through potential economic downturns and unanticipated changes in revenue, expenses, or mission. Reserves will also allow the organization to have the flexibility to consider new mission related programs and investments that will benefit the organization over the long term.

This policy statement establishes two reserve funds:

- Operating Reserve Fund
- Strategic Reserve Fund

These reserve funds will be initially funded with unrestricted net assets. When allowed by donor, the use of temporarily and/or permanently restricted net assets may also become part of these reserve funds. This policy further sets forth the guidelines for the management of these reserves as well as future additions and withdrawals from each fund.

### **OPERATING RESERVE FUND**

#### **Statement of Purpose**

The purpose of the Operating Reserve Fund is to enable AOS to withstand the impact of economic downturns and/or periods of unanticipated decrease in revenue or increase in expenses.

Several non-profit industry surveys and studies have concluded that calculating the appropriate amount for an operating reserve does not lend itself to a formula that can be universally determined and applied. Rather, it is highly dependent upon many factors, which may include the organization's purpose, membership, revenue timing, revenue sources, size of paid staff, mission related programs, and level of fixed and variable expenses.

Accordingly, the AOS governing Board has considered the following factors:

- The Board takes a long-term view toward maintaining the program related services of the organization and its attitude is to be very sure there are always resources available.
- The Board's approach to planning and budgeting is both conservative and prudent.
- AOS has experienced variable revenue streams and extraordinary expenses in the past. As a result the board considers the establishment of a formal Operating Reserve Fund to be a fundamentally sound financial management practice.
- Should any of the current sources of revenue decline, or a significant amount of capital be required for an unanticipated operating expense, there is very limited opportunity to quickly identify backup sources of revenue or expanded revenue from new members.
- The Board wishes to implement policies that will minimize the need for any actions that may impact existing programs and staffing levels.

Taking these factors into consideration and in order for AOS to ensure operational stability, the Board has determined that the organization shall strive to maintain an amount equal to 3 months, or 25% of planned annual operating expenses in an Operating Reserve Fund. This amount may grow up to 50%.

This reserve will allow for continued unencumbered operations as well as allow time for the Board and executive staff to determine and implement a suitable course of action to address any unanticipated circumstances.

### **Operating Reserve Fund Balance**

This policy is being adopted initially during the 2010-11 fiscal year and may be amended by the Board at anytime. The approved annual operating budget for 2010-11 is \$1,700,000. Accordingly, the initial amount of the Operating Reserve Fund will be \$425,000. These funds will be allocated from unrestricted net assets or funds designated for this purpose and placed in a separate account.

At the end of each fiscal year, based upon the budget for the upcoming year, the amount required to be maintained in the Operating Reserve Fund for the following year will be recalculated.

### **Use of the Operating Reserve Fund**

The Operating Reserve Fund is available for use at the discretion of the Chief Operating Officer and the Board to sustain financial operations in the case of any emergency or unanticipated event such as significant economic downturns, unbudgeted increases in operating expenses and/or losses in operating revenue.

## **Management of the Operating Reserve Fund**

The Operating Reserve Fund will be in a separate account and managed in accordance with a Board approved Investment Policy Statement.

If the annual budget is lower in a subsequent fiscal year, the Board will determine if the Operating Reserve Fund balance should be reduced accordingly OR if the Board shall contribute the surplus to the Strategic Reserves Fund OR if the Board should retain the monies as undesignated net assets in the general operating Account.

As part of prudent planning for future increases in annual operating expenses, AOS will retain all investment earnings (interest, dividends, etc) in the Operating Reserve Fund, up to a maximum of 50% of the annual operating budget.

At each year end, the amount required to be maintained in the Operating Reserve Fund is recalculated.

- Any amounts over 50% will be contributed to the Strategic Reserves Fund.
- If the Operating Reserve fund is below 25%, additional contributions from the general operating account unrestricted net assets will be used to raise the level to 25%.
- If there are insufficient funds in the general operating account to meet the 25% level, additional contributions will come from the Strategic Reserves Fund in so far as possible.

As part of prudent planning for future increases in annual operating expenses and reserves, AOS will build an annual contribution to reserves in the annual operating budget. The contribution shall be targeted at 2 1/2% of total annual budget.

At each year end, the Chief Operating Officer will recommend to the Board any amounts available for contribution to reserve funds. Such funds will be used first to fully fund the Operating Reserve Fund and second to provide additional contributions to the Strategic Reserves Fund.

## **Authorization of Expenditures from the Operating Reserve Fund**

Any amounts to be spent from the reserve balance must comply with the Society's Purchasing Policy in effect at the time of that the funds are needed without further Board approval.

## **STRATEGIC RESERVES FUND**

### **Statement of Purpose**

The purpose of the Strategic Reserves Fund is to set aside funds, in excess of the Operating Reserve Fund, on a disciplined basis that will be available for major new initiatives that will further the mission of AOS and/or provide for meeting unforeseen challenges to sustaining the programs and mission of AOS. Responding to these events may require significant development, one-time or start-up costs.

The Board of Trustees has determined that the amount of funding required for this fund cannot be determined by formula.

Accordingly, the AOS Board of Trustees has considered the current mission, strategic plan and potential uses of the Strategic Reserves Fund in determining that the organization shall maintain between 3 months and 12 months of the annual operating budget in a Strategic Reserves Fund.

### **Strategic Initiatives Fund Balance**

This policy is being initially adopted during the 2010-11 fiscal year and may be amended by the Board at anytime. The approved annual operating budget for 2010-11 is \$1,700,000. Accordingly, the initial amount of the Strategic Initiatives Fund shall be \$425,000. These funds will be allocated from existing unrestricted net assets and placed in a separate account.

If unrestricted net asset balances are not sufficient to fully fund the Strategic Reserves Fund at the full recommended minimum level of \$425,000, the Chief Operating Officer shall recommend to the Board the initial funding balance.

### **Use of the Strategic Reserves Fund**

Activities which may require the use of the Strategic Reserves Fund will be in the furtherance of the organizations core mission and may include items such as:

- Special or one-time new membership drives, fundraising initiatives, or fund development efforts.
- New program initiatives or events which may be requested by a Board designated committee. Such request shall clearly describe the proposed new activity, its anticipated one-time or recurring cost. It will also describe the anticipated benefit toward furthering the mission of AOS as justification for the expenditure of strategic reserve funds.
- Development of new or expanded educational materials or programs for the membership and/or public.
- Establishing new programs, intern positions, staff positions, or contract services to promote the value and mission of AOS.
- Major new information technology or website refresh projects which cannot be normally be funded through the annual budgeting process.
- Headquarters office relocation, acquisition, capital improvement, and/or reconfiguration costs.
- Other Board designated initiatives.

### **Management of the Strategic Reserves Fund**

The Strategic Reserves Fund will be in a separate account and managed in accordance with a Board approved Investment Policy Statement.

As part of prudent planning for the future, AOS will retain all investment earnings (interest, dividends, realized gains, unrealized gains, etc) in the Strategic Reserves Fund.

As part of prudent planning for future increases in annual operating expenses and reserves, AOS will build an annual contribution to reserves in the annual operating budget. The contribution shall be targeted at 2 1/2% of total annual budget.

At each year end, the President will recommend to the Board any amounts available for contribution to reserve funds. Such funds will be used first to fully fund the Operating Reserve Fund and second to provide additional contributions to the Strategic Reserves Fund.

#### **Authorization of Expenditures from the Strategic Initiatives Fund**

Any amounts to be spent from the reserve balance must comply with the Society's Purchasing Policy in effect at the time of that the funds are needed without further Board approval.

**Approved by the Board of Trustees**

**August 16, 2010**