



# Operating Reserve Policy

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## 1. Policy

The general purpose of the Operating Reserve Fund is to ensure the long-term financial stability of the organization and position it to respond to varying economic conditions and changes affecting the organization's financial position and its ability to carry out its mission.

## 2. Purpose

The purpose of the policy is to outline requirements for establishing, operating and maintain an operational reserve that will help ensure that TLC has sufficient cash available to allow the organization to continue to function in the event of unforeseen financial impacts such as a downturn in the economy, a stock market fluctuation, a pandemic or other negative event.

## 3. Scope

This policy and procedures apply to the Board of Directors and employees of TLC.

## 4. Definitions

**Operating Budget** - outlines the expected revenues and expenses to be received/incurred by TLC on annual basis. The Operating Budget is created by the Executive Director and approved by the Board of Directors on an annual basis.

**Operating Accounts** – are bank accounts used for the normal day-to-day activities of TLC.

**Operating Expenses** – are expenses incurred required for the ongoing operations of TLC. Operating expenses exclude expenses incurred for property acquisitions, related acquisition campaigns and/or other expenditures that fall outside of the approved operating budget.

## 5. Responsibilities

- (1) The Accounting employee(s) assigned responsibility for accounting and banking transactions will ensure that:
  - (a) The Executive Director is apprised when there are operating account cash shortfalls requiring the transfer of funds from the Operating Reserve Fund to the General Operating Account(s) to pay any current liability and obtain written approval by the Executive Director for the fund transfer.
  - (b) All required transactions into and out of the Operating Reserve Fund are recorded, reconciled, and retained in TLC's financial records as outlined in the Records Management Policy.
- (2) The Executive Director is responsible for:
  - (a) Ensuring that the Treasurer is apprised of all transactions in and out of the Operating Reserve Fund, including the amounts of transactions, on a quarterly basis.

- (b) Seeking approval of the Board of Directors in advance of any transaction(s) from the Operating Reserve Account that exceed(s) \$5,000 (including purchases for a given good or service processed through multiple invoices) that were unanticipated (not in the approved budget)<sup>1</sup>. The approval may be obtained:
  - i. At the next regularly scheduled Board of Directors meeting; or
  - ii. By convening a special Board of Directors' meeting.

## **6. Procedures**

### **Establishment of the Operating Reserve Fund Account**

- (1) The Operating Reserve Fund Account will be established in accordance with requirements outlined in the Financial Institution Account, Cash & General Revenue Management Policy.

### **Operating Reserve Fund Balance**

- (1) The Operating Reserve Fund Balance shall be set at an amount equalling 6 months of the prior year's annual operating expenditures, excluding expenditures for the year which were paid (and are normally paid) separately and directly from a dedicated endowment fund or other internally or externally restricted account.
- (2) The Operating Reserve Fund must be reviewed within two months of the end of each fiscal year, and the amount of funds held in the account adjusted based on the actual expenses from the prior fiscal year, to ensure that 6 months of operating expenses remains in the Operating Reserve Fund.
- (3) When funds are drawn down or are transferred from the Operating Reserve Fund, they must be replenished to the minimum required fund balance through the diversion of any surplus revenues in operating accounts, at the earliest possible time.

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

- (1) The Executive Director may invest a portion of the Operating Reserve in cashable GICs with staggered maturity dates for durations no longer than 3 months, in amounts no greater than \$100,000 ensuring that a minimum of \$100,000 cash is available for use at any given time. Alternatively, the Executive Director may invest larger amounts in one or more GICs provided that the GICs are cashable and that a minimum of \$100,000 cash is available during the initial period when the GIC(s) are not cashable.

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<sup>1</sup> The Board of Directors must be advised of transactions more than \$5,000 when they have not previously been noted in an approved annual budget, per the Expenditure Policy.

(2) Policies and procedures for handling deposits, reconciling statements, safeguarding access, etc. shall be the same as established from time to time for any of the organization's other bank accounts and investments as outlined in the Expenditure Policy.

### **Operating Reserve Fund – Acceptable Uses**

- (1) Operating Reserve Funds may be used to cover operational shortfalls in the approved budget and/or to pay for unfunded and unexpected organizational needs.
- (2) Operating Reserve Funds must not be used to make up deficiencies in any capital campaigns or property acquisitions.

### **Operational Procedures for Expenditures directly from the Operating Reserve Fund**

- (1) Under normal circumstances, funds from the Operating Reserve Fund will be transferred to general operating accounts prior to making expenditures.
  - (2) In instances where fund transfers are not possible and expenditures must be made directly from the Operating Reserve Fund account, the Executive Director must ensure that the expenditures are aligned with the procedures outlined in the Expenditure Policy.
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