

FRENCH HERITAGE SOCIETY, INC.

Operating Reserve Policy

PURPOSE

The purpose of this Operating Reserve Policy of FRENCH HERITAGE SOCIETY, INC. is to ensure the stability of the mission, programs, employment, and ongoing operations of the organization through the establishment of an operating reserve fund (the “Operating Reserve Fund”). The Operating Reserve Fund 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 cancellation of a fundraising event, or uninsured losses. The Operating Reserve Fund 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. The Operating Reserve Fund is not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. In the event that the all or a portion of the Operating Reserve Fund is used, it is intended that the amount used be replenished within a reasonably short period of time.

DEFINITIONS AND GOALS

The Operating Reserve Fund is defined as a designated fund set aside by action of the Board of Directors. The targeted amount to be designated as the Operating Reserve Fund will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The amount of the Operating Reserve Fund will be reviewed and adjusted from time to time in response to internal and external changes.

The initial targeted Operating Reserve Fund was equal to \$200,000 or approximately two months of average operating costs with the understanding that the full funding of such targeted amount would take place over a period of four years. Following the funding of the initial \$200,000, the Board of Directors voted to increase the targeted Operating Reserve Fund to \$500,000, or approximately 5 months pf average operating costs, with the understanding that the full funding of such new targeted amount would take place over an additional six years. The calculation of average monthly 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 amount of the Operating Reserve Fund target and the amount to be funded in a fiscal year will be: calculated each year in connection with the approval of the annual budget by the Finance Committee; reported to, and reviewed and approved by, the Board of Directors; and included in the regular financial reports of the organization.

The initial amount funded to the Operating Reserve Fund as of December 31, 2015 was \$50,000 and the amount funded in 2016, 2017 and 2018 was an additional \$50,000 in each of such years. The amount to be funded in each of the six years, 2019 through 2024, shall be \$50,000 subject to adjustment and the approvals of the Finance Committee and the Board of Directors as contemplated in the preceding paragraph.

ACCOUNTING FOR RESERVES

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

FUNDING OF RESERVES

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

USE OF RESERVES

Use of all or any portion of the Operating Reserves requires three steps:

1. Identification of appropriate use of reserve funds.

The Executive Director and staff 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 operating reserves.

The Executive Director will submit a request to use Operating Reserves to the Finance Committee of the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. The organization's goal is to replenish the funds used within twelve months to the Operating Reserve Fund. If the use of Operating Reserves will take longer than 12 months to replenish, the request will be scrutinized more carefully. The Finance Committee will approve or modify the request and recommend the request to the Executive Committee or the Board of Directors for final approval.

3. Reporting and monitoring.

The Executive Director is responsible for ensuring that the Operating Reserve Fund is maintained and used only as described in this Policy. Upon approval for the use of Operating Reserve funds, the Executive Director will maintain records of the use of funds and plan for replenishment and will provide regular reports to the Finance Committee and the Board of Directors of progress to replenish the funds used.

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 Directors.

Date of initial approval and adoption by the Executive Committee: June 2, 2016. Date of approval of increase in the targeted Operating Reserve Fund by the Board of Directors: May 13, 2019.