



Finances - Operating Reserve Policy

Purpose: To ensure the long-term sustainability of AIA Central Kentucky by maintaining reserves that:

- Keep the component viable and protected if extremely challenging times or shortfalls occur
- Provide a mechanism to invest in the long-term future of the component
- Provide funding for strategic initiatives
- Offer protection from unforeseen shortfalls

Background: A reserve policy is a requirement of the AIA Core Member Services, version 3.0 (2021), which all AIA components are expected to deliver.

Scope and Responsibilities: The board and finance committee, in coordination with the chief staff executive, are responsible for upholding this policy.

Definitions:

- Reserves: Liquid current assets less current liabilities
- Expenditures: All cash payments including operating expenses, capital asset purchases and debt service payments
- Strategic initiative: An action or project designed to achieve annual or multi-year objectives
- Chief Staff Executive: The top-ranked component employee, supervising all other staff

Policy Statement:

AIA Central Kentucky's target range is to maintain sufficient reserves to continue operations for six to nine months. This means that reserves should equal between 75% and 125% of annual operating expenditures. Reserves should not drop below 50% nor exceed 200% of annual operating expenditures. Maintaining the minimum target range is essential should an event or events take place that would have a significant negative financial impact to the component.

The Operating Reserve Fund will be funded and available in cash or cash equivalents.

The finance committee shall strive to create a budget that will allow the organization to maintain sufficient reserves to comply with this policy.

The board should be made aware and separately vote that they are approving a budget that will result in the organization not maintaining reserves that comply with this policy. The finance committee shall

additionally notify the board quarterly if the annual forecast will result in the organization's reserves ending outside the target range.

The treasurer will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves. Determination of need requires analysis of the sufficiency of the current level of reserve funds, the availability of any other sources of funds before using reserves, and evaluation of the time period for which the funds will be required and replenished.

Should reserves exceed 200%, the board may approve spending up to one half of the excess for strategic initiatives.

For Board Adoption January 2023