



OPERATING RESERVE POLICY

**North
East
Arts
Touring**

Operating Reserve Policy

PURPOSE

The purpose of the Operating Reserve Policy for **North East Arts Touring Ltd** (NEAT) is to ensure the stability of the mission, programs, employment, and ongoing operations of the organisation.

The Operating Reserve 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 uninsured losses. The reserve 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.

Operating reserves are not intended to replace permanent loss of funds or reduce an ongoing budget gap. It is the intention of **NEAT** for Operating Reserves to be used and replenished within a reasonably short period of time.

The Operating Reserve Policy will be implemented in conjunction with the other governance and financial policies and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

DEFINITIONS AND GOALS

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

The target minimum Operating Reserve Fund is equal to 3 months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, office, travel, program and ongoing professional services.

Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average monthly expenses also excludes some expenses, for examples Staff Development and Promoter Training.

The minimum amount of the Operating Reserve Fund will be calculated each year after approval of the Annual Budget.

ACCOUNTING FOR RESERVES

The Operating Reserve Fund will be recorded in the financial records as Operating Reserve.

The Fund will be funded and available in cash or cash equivalent funds. The Operating Reserve Fund will be maintained in a separate bank account.

FUNDING OF RESERVES

The Operating Reserve Fund will be funded with surplus unrestricted earned income. 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 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 & Management Sub Group. The request will include the reason for the request, a risk analysis of the use of funds and plans for replenishment.

The organisation's goal is to replenish the funds used within 12 months to restore the Operating Reserve Fund to the target minimum amount. If the use of Operating Reserves will take longer than 12 months to replenish, the request will be scrutinized further. The Finance & Management Sub Group Committee will make a recommendation to the Board of Directors whether to approve or decline the request.

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.

The Office Manager will provide a monthly report to the Executive Director and the Finance & Management Sub-Group and a quarterly report to the Board of Directors.

RELATIONSHIP TO OTHER POLICIES

NEAT shall maintain the following board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Operating Reserve Fund.

- Financial Payment Policy

REVIEW OF POLICY

This Policy will be reviewed annually by the Finance & Management Sub Group or sooner if warranted by internal or external events or changes.

Changes to the Policy will be recommended by the Finance & Management Sub Group to the Board of Directors.