



RESERVE POLICY

I. PURPOSE

The purpose of this Operating Reserve Policy for the National Pest Management Association is to build and maintain an adequate level of net assets without donor restrictions to support the organization's day-to-day operations in the event of unforeseen shortfalls. 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 a permanent loss of funds or eliminate an ongoing budget gap. The organization intends for the operating reserves to be used and replenished within a reasonable period of time. This Operating Reserve Policy will be implemented in conjunction with the other financial policies of the organization and is intended to support the goals and strategies contained in those related policies and in strategic and operational plans.

II. DEFINITIONS AND GOALS

The Operating Reserve Fund is defined as the designated fund set aside by action of the Board of Directors. The minimum amount to be designated as operating reserves 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 four months of average budgeted operating costs minus depreciation.

In addition to calculating the actual operating reserve at the fiscal year-end, the operating reserve fund target minimum will be calculated each year after approval of the annual budget. These reserves will be reported to the Board of Directors and included in the regular financial reports.

III. ACCOUNTING FOR RESERVES

The Operating Reserve Fund will be recorded in the accounting system and financial statements as Investments and/or Cash. Operating reserves will be commingled with the general cash and investment accounts of the organization.

IV. FUNDING OF RESERVES

The Operating Reserve Fund will be funded with surplus operating funds without donor restrictions.

The Chief Executive Officer, Chief Operating Officer, and VP Accounting & Administration 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 Operating Reserve Policy. 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.

If the Reserve is and has been less than 75% of the target reserve minimum for two consecutive years, the Board of Directors will adopt an operating budget with a projected surplus sufficient to rebuild the Reserve Fund to its targeted reserve level over a prescribed number of years.

V. AUTHORITY TO USE OPERATING RESERVES

The Chief Executive Officer will submit a request to use operating reserves to the Executive Committee. The request will include the analysis and determination of the use of funds and plans for replenishment. The Executive Committee will either approve or modify the request, with approval of the Board of Directors, and authorize transfer from the Operating Reserve Fund.

VI. REPORTING AND MONITORING

The Chief Executive Officer, Chief Operating Officer and Vice President Accounting & Administration are responsible for ensuring that the Operating Reserve Fund is maintained and used only as described in this Policy. Upon approval of the use of operating reserve funds, the Vice President Accounting & Administration will maintain records of the use of funds and plan for replenishment. She/he will provide regular reports to the Board of Directors of progress to restore the fund to the target minimum amount.

The Chief Executive Officer, Chief Operating Officer, and Vice President Accounting & Administration will annually discuss what additional risk factors might be considered for the organization and the impact of budgeting on operating reserve levels.

VII. RELATIONSHIP TO OTHER POLICIES

The Chief Executive Officer, Chief Operating Officer, and VP Accounting & Administration shall maintain the following board-approved policy, which may contain provisions that affect the creation, sufficiency, and management of the Operating Reserve Fund:

- Investment Policy, including risk tolerance

VIII. REVIEW OF POLICY

This Policy will be reviewed by the Executive Committee every three years at minimum, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Executive Committee to the Board of Directors for approval. This policy, upon every revision hereof, must be distributed by the Vice President of Accounting & Administration to the following individuals/entities: CEO, COO, NPMA Board of Directors, Finance & Audit Committee. The Executive Committee is established by NPMA's Board of Directors to recommend financial policies, strategies, and budgets that support the mission, values, and strategic plan of the organization. Its purpose is to ensure the financial health and integrity of the organization in pursuit of its mission to support members in being professional, knowledgeable, and profitable through education, industry leadership, public policy advocacy, and growth of the market.