

**First Universalist Church of Minneapolis Reserves Policy**  
**Approved: March 17, 2022**

**PURPOSE:** The purpose of the Reserves policy for First Universalist Church of Minneapolis is to ensure the stability of the mission, programs, employment and ongoing operations of the church. The Reserve fund is comprised of two components; 1) Operating Reserve; 2) Building and Capital Asset Reserve. Each component serves a specific purpose as outlined below.

**1) The Operating Reserve** is intended to provide an internal source of funds for normal cash flow needs and other situations resulting in a short term cash flow issue. Examples would be during the slow periods experienced in the summer months. The Operating Reserves may also be used to provide an internal source of funds for situations such as one-time unbudgeted expenses, uninsured losses, significant loss of income, and 3 to 6 months of operating expenses. The Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of First Universalist Church of Minneapolis for Operating Reserves to be used and replenished within the next two fiscal years or, upon Board approval, according to a plan for replenishment over a longer period of time. The Operating Reserve policy will be implemented in concert with the other governance and financial policies of First Universalist Church of Minneapolis and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

**2) Building and Capital Asset Reserve** is intended to provide a ready source of funds for repair or acquisition of buildings, leaseholds, furniture, fixtures, and equipment necessary for the effective operation of the organization and programs. The target amount of the Building and Capital Asset Reserve will be determined as a percentage of annual depreciation and added to the fund each year.

**DEFINITIONS AND GOALS:** The Reserve Fund is defined as the designated fund set aside by action of the Board of Directors. The minimum amount to be designated as Reserve will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The Reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes. The calculation of each component differs and is outlined below:

1) The target minimum Operating Reserve Fund is equal to 3 months of the average monthly expenses. The maximum is 6 months. The calculation of average monthly expenses includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program and ongoing professional services. Depreciation, in-kind, temporarily restricted expenses and other non-cash expenses are not included in the calculation.

2) The target minimum Building and Capital Asset Reserve Fund is 8% of the annual depreciation as calculated by the Finance Manager. The amount of the Building and Capital Asset Reserve Fund target minimum will be calculated each year during the development of the annual budget and included in the regular financial reports.

**ACCOUNTING FOR RESERVES:** The Reserve Funds will be recorded in the financial records as Board-Designated Reserve Funds. The Reserves will be maintained partially in a money market account held at Sunrise Bank and partially in an investment account at Schwab known as the Reserve Account, in accordance with the First Universalist Reserve Funds Investment Policies.

**FUNDING OF RESERVES:** Additions to the Reserve funds will be funded with surplus unrestricted operating funds. When there is a surplus of unrestricted operating funds, 50% of the surplus will be directed for use as income in the next year's operating budget, 25% will go to the Operating Reserve, and 25% will go to the Capital Asset Reserve Fund. The Board of Directors may from time to time direct that a specific source of revenue be set aside for Reserves. Examples may include bequests of less than \$10,000 or 10% of bequests of greater than \$10,000, special grants, etc.

**USE OF RESERVES:** Use of the Reserves requires 3 steps.

1. Identification of appropriate use of reserve funds. The Senior Minister and Accounting Manager will identify the need for access to Reserve Funds and confirm that the use is consistent with the purpose of the reserves as outlined in this policy. This step requires analysis of the reason for the need, the availability of any other sources of funds before using reserves, and evaluation of the time period over which the Reserve funds will be required and replenished.
2. Authority to use Reserves.
  - a. Operating Reserve Fund: Authority for use of the Operating Reserves is delegated to the Senior Minister in consultation with the Accounting Manager. The Board Treasurer should be notified of use of the Operating Reserves as part of the regular monthly financial review, and the Senior Minister should secure prior approval from the Board if replenishment of the Operating Reserves will take longer than 24 months.
  - b. Building and Capital Reserve Fund: Authority for use of the Capital Reserve Fund is delegated to the Senior Minister in consultation with the Accounting Manager and the Board Treasurer. Use of the reserves will be reported to the Board at the next scheduled Board meeting.
3. Reporting and Monitoring. The Senior Minister is responsible for ensuring that the Reserve Funds are maintained and used only as described in this policy. The Senior Minister and Accounting Manager will maintain records of use of the funds and the plan for replenishment. Regular reports will be provided to the Treasurer and the Board of Trustees.