

Youth On Their Own Financial Reserve Policy

The purpose of this policy is to articulate guidelines for the use of cash reserves to ensure the stability of the mission, programs, employment, and ongoing operations of Youth On Their Own, and to provide a source of internal funds for organizational priorities such as building repair and improvement, program opportunity, capacity building, and strategic planning initiatives.

1. Definitions and Goals

Youth On Their Own will maintain three types of reserve funds: Operating Reserve, Capital Reserve, and a Quasi-Endowment.

i) Operating Reserve:

The Operating Reserve is comprised of YOTO's unrestricted investments and cash on hand (including all cash held in bank accounts and cash held in unrestricted investment accounts). It 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. Operating reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of Youth On Their Own for the Operating Reserve to be used and replenished within a reasonably short period of time (6-9 months). The minimum amount to be designated as Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs measured for a set period of time, measured in months. The Operating Reserve serves a dynamic role and will be reviewed and adjusted during the annual budgeting process in response to both internal and external changes. Maintaining the Operating Reserve is the first priority for surplus unrestricted donations.

Operating Reserve Target Range:

MINIMUM	AVERAGE	MAXIMUM
9 months	12 months	15 months

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 calculation of average monthly expenses may also exclude other expenses such as pass-through programs/funding, one-time or unusual expenses, and capital purchases.

The target minimum Operating Reserve is equal to 9 months of average operating costs. If the Operating Reserve dips below 9 months, the YOTO Board of Directors will review a plan presented by the CEO to replenish the fund, which may include reducing planned expenses or allocation of an expected unrestricted donation to the fund.

The target average Operating Reserve is equal to 12 months of average operating costs. The Board of Directors and CEO will strive to maintain a reserve of 12 months at all times.

The maximum Operating Reserve is equal to 15 months of average operating costs. If the Operating Reserve exceeds 15 months, the Board of Directors will review a plan presented by the CEO to utilize the funding to support program activities when possible, or the Board of Directors will approve allocation of excess funds to the Capital Reserve or Quasi-Endowment.

The amount of the Operating Reserve target range will be calculated each year after approval of the annual budget, reported to the Finance Committee and Board of Directors, and included in the regular financial reports ("Burn Rate / Reserve Report").

At least 2 months average operating costs must be maintained in local, demand banking accounts. Reserve balances above 2 months may be transferred to YOTO's investment brokerage firm. The amount and timing of the transfer is at the discretion of the CEO and Finance Director in consultation with the Finance Committee.

ii) Capital Reserve:

The Building and Capital Asset Reserve ("Capital Reserve") is intended to provide a ready source of funds for repair or renovation of buildings, leaseholds, furniture, fixtures, and equipment necessary for the effective operation of the organization and programs.

The target amount for the Capital Reserve is determined through the creation of a multi-year operating plan that includes anticipated repairs and replacement of equipment at YOTO's properties.

iii) Quasi-Endowment:

After setting aside funds for the Operating Reserve and Capital Reserve, the Board of Directors may opt to establish/increase funding for a quasi-endowment. The quasi-endowment functions like a true endowment in which a donor makes a gift that must be preserved and only the investment earnings may be spent. However, a quasi-endowment does not have a requirement to preserve principal. Principal funds may be redirected to any purpose at the Board's discretion. As such, a quasi-endowment is typically intended to provide funds to meet special targets of opportunity or need that further the mission of the organization and which may or may not have specific expectation of incremental or long-term increased income. It is also a source of internal funds for organizational capacity building such as staff development, research and development, or investment in infrastructure that will build long-term capacity. The quasi-endowment is intended to be invested over a long period of time to maximize the potential for long-term gains and increase the organization's sustainability.

2. Funding of Reserves

- The Operating Reserve will primarily be funded with surplus unrestricted operating funds. The Board of Directors may also direct that a specific source of revenue be set aside for the Operating Reserve (example: one-time gifts or bequests, special grants, or special appeals).
- The Capital Reserve may be funded by a capital campaign or similar restricted appeals. The Board of Directors may also direct surplus funds from the Operating Reserve to the Capital Reserve.
- The Quasi-Endowment will be funded with occasional special designations made by the Board of Directors.

3. Use of Reserves

The CEO 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 process 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 needed and replenished.

Authority for use of Reserves is delegated to the CEO in consultation with the Treasurer and Finance Committee. The use of Reserves will be reported to the Board of Directors at a regularly scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the reserve fund to the target minimum amount. The CEO must receive prior approval from the Board of Directors for use of Operating Reserves if it will take longer than 12 months to replenish to target levels.

4. Reporting

The CEO and Finance Director are responsible for ensuring that the Reserve Funds are maintained and used only as described in this Policy. Upon approval for the use of Reserve Funds, the Finance Director will maintain records of the use of funds and plan for replenishment, if required. The Finance Director will provide regular reports to the Finance Committee and Board of Directors of progress to restore the reserve fund to the target minimum amount, if required.

5. Review of Policy

This Policy will be reviewed every two years, 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.