



Federal Bar Association

Policy No. 2-8: Reserves and Special Purpose Funds

Approved By: Board of Directors

Date Approved: March 28, 2014

Date Effective: March 28, 2014

Policy:

Reserves Objectives

The primary objective is to ensure the stability of the mission, programs, employment, and ongoing operations of the Federal Bar Association. Reserves are intended to provide an internal source of funds for situations such as sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in revenue, or uninsured losses. Reserves may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as investment in infrastructure, staff development, or program development. Reserves are not intended to replace a permanent loss of revenue or eliminate an ongoing budget gap. It is the intention for Reserves to be used and replenished within a reasonably short period of time. This policy is implemented in concert with 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

Operating Reserves

The Operating Reserves Fund is defined as a designated fund set aside by action of the Board of Directors. The target minimum Operating Reserves Fund is equal to three 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 one-time or unusual expenses or capital purchases. The amount of the Operating Reserves Fund target minimum will be calculated each year after the approval of the annual budget and any subsequent budget reforecast and reported to the Budget and Finance Committee.

The Operating Reserves Fund will be recorded in the financial records as board-designated Operating Reserves. The fund will be comingled with the general investment accounts of the Association in accordance with the investment policy.

The Board of Directors shall fund the Operating Reserves Fund with surplus unrestricted operating funds. The Operating Reserves Fund shall not exceed one-half of the

Association's annual operating budget. The Operating Reserves Fund serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The Executive Director will identify the needs for access to Operating Reserves Fund and confirm that the use is consistent with the purpose of the Operating Reserves Fund as described in this policy. Authority for use of the Operating Reserves Fund is delegated to the Executive Director, subject to approval by the Executive Committee if in excess of \$25,000. The use of Operating Reserves Fund will be reported to the Board of Directors at their next scheduled meeting, accompanied by a description of determination of the use of funds and plans for replenishment to restore the Operating Reserves Fund to the target minimum amount.

Capital Expenditures Reserves

The Capital Expenditures Reserves Fund is defined as a designated fund set aside by action of the Board of Directors. Capital purchases comprise of furniture, fixture, equipment, software, etc. and have a useful life of more than one year and cost more than \$1,000. The Executive Director shall update a Capital Budget each year in conjunction with the annual budget and shall maintain a list of fixed assets and a schedule of depreciation of the assets.

The Capital Expenditures Reserves Fund will be recorded in the financial records as board-designated Capital Expenditures Reserves. The fund will be comingled with the general investment accounts of the Association in accordance with the investment policy.

The Capital Expenditures Reserves Fund shall not be replenished once all monies are depleted in accordance with this fund's purpose. Capital expenditures shall be funded through the Operating Reserves Fund once the Capital Expenditures Reserves Fund is expended.

Future Activity Reserves

The Future Activity Fund is defined as a designated fund set aside by action of the Board of Directors. The Future Activity Fund shall be used for expenses incurred for the Association's Centennial Celebration in 2020.

The Future Activity Reserves Fund will be recorded in the financial records as board-designated Future Activity. The fund will be comingled with the general investment accounts of the Association in accordance with the investment policy.

The Future Activity Reserves Fund shall not be replenished once all monies are depleted in accordance with this fund's purpose.

Special Purpose Funds

Chapter Assistance

The Chapter Assistance Fund is a special purpose fund and defined as a designated fund set aside by action of the Board of Directors. The Chapter Assistance Fund shall be used for expenses incurred in the administration of the Chapter Activity Fund.

The Chapter Assistance Fund will be recorded in the financial records as board-designated Chapter Assistance. The fund will be comingled with the general investment accounts of the Association in accordance with the investment policy.

The Chapter Assistance Fund shall not be replenished once all monies are depleted in accordance with this fund's purpose. The Board of Directors shall continue to designate funds for the Chapter Activity Fund as part of the annual operating budget once the Chapter Assistance Fund is expended.

Sections and Divisions

The Sections and Divisions Fund is a special purpose fund and defined as a designated fund set aside by action of the Board of Directors. The Sections and Divisions Fund consists of accumulated surplus (Sections and Divisions Dues and Programming Revenue minus Sections and Divisions Activity Expenses) designated by the Board of Directors and allocated to Sections and Divisions respectively for the use by the Association's Sections and Divisions in accordance with Association policies. Any accumulated surplus of Divisions that are funded by the Association (*i.e.* Division does not charge dues) shall not be designated by the Board of Directors to this fund. These funds shall remain in the Association's administrative operating account.

The Sections and Divisions Fund will be recorded in the financial records as board-designated Sections and Divisions. Each Section and Division shall have its respective portion of the fund recorded in the financial records. The fund will be comingled with the general investment accounts of the Association in accordance with the investment policy.

Should the activity and administration expenses of a Section and Division deplete its respective portion of the fund, the monies shall not be replenished. Use of this fund is governed by Association policies and individual Sections' and Divisions' bylaws.

Authority of Executive Director

The day-to-day management of Reserves and Special Purpose Funds shall be vested in the Executive Director of the FBA, subject to supervision by the Budget and Finance Committee and the Board of Directors. The Executive Director will identify the needs for access to Reserves and confirm that the use is consistent with the purpose of the Reserves as described in this policy. Authority for use of Reserves is delegated to the Executive Director, subject to approval by the Executive Committee if in excess of \$25,000. The use of Reserves will be reported to the Board of Directors at their next scheduled meeting, accompanied by a description of determination of the use of funds and plans for replenishment to restore the Reserves, if required by this policy. The Executive Director is authorized and directed to deposit or transfer funds between authorized operating and investment accounts of the FBA in accordance with Association policy.

Authority of the Budget and Finance Committee

The Budget and Finance Committee shall on an annual basis review the level of fund Reserves and any expenditures that have been made from the Reserves or appear to be

warranted. The Budget and Finance Committee shall review this policy at least every two years, at a minimum, or sooner if warranted by internal or external events or changes. Changes to this policy shall be recommended by the Budget and Finance Committee to the Board of Directors for its approval.

Authority of the Board of Directors

Subject to this policy, the Board of Directors shall have full authority over the uses and administration of the Reserves and Special Purpose Funds. The Board of Directors may undesignate Reserves or Special Purpose Funds by Board action if there is no longer a need to set aside funds for a specific purpose. Not less than once a year, the Board of Directors shall:

- 1) review all expenditures (if any) made from the Reserves and Special Purpose Funds since the preceding Board of Directors review;
- 2) consider and direct any additional appropriate expenditures from the Reserves and Special Purpose Funds (if any); and
- 3) set and communicate goals and policies to the Budget and Finance Committee and Executive Director concerning an appropriate level of Reserves to be achieved or maintained.

Relationship to Other Policies

The Board of Directors shall maintain a board-approved Investment Policy that contains provisions that affect the management of the cash assets of the FBA. The Sections and Divisions Fund is subject to board-approved policies regarding the financial management of Sections and Divisions as well as board-approved Sections' and Divisions' bylaws.

Purpose:

The purpose of this policy is to provide guidelines for the management of the board-designated Reserves and Special Purpose Funds of the Federal Bar Association.

Change Notice: Policy was adopted by the Board of Directors on March 28, 2014 as Policy 2-8: Reserves and Investments. The policy was amended and divided into two policies on March 20, 2019 (Policy 2-8: Reserves and Special Purpose Funds and Policy 2-9: Investments). Amended 3/27/15.