RESERVES POLICY

APPROVED BY VC FOUNDATION BOARD OF DIRECTORS ON JUNE 30, 2021

WHAT ARE RESERVES?

We consider our reserves to be any unrestricted funds held as cash, CDs, bonds, or investments. These funds are liquid enough to be available on short notice and are not restricted by donors. Reserves may be board designated as to purpose, but are not required to be so. Illiquid assets, such as property, plant and equipment or life insurance policies, although they may be unrestricted, are not part of reserves.

FOR WHAT PURPPOSES ARE RESERVES HELD?

Reserves are maintained by not for profits, including the Foundation, for various reasons, including:

1. to enable us to weather a period of decreased revenue, whether that is specific to our business or general to the economy;
2. to mitigate the impact of sudden and unbudgeted financial hardship (eg, fire, litigation, etc.);
3. to plan for the future growth of the Foundation;
4. to save for planned capital purchase;
5. to save for a specified board designated purpose.

In addition, overall, reserves help the Foundation to maintain the trust our donors and beneficiaries have in our organization. If we do not maintain enough in reserves, there is the apparent risk that any minor financial hardship will prevent us from fulfilling our mission. If we maintain too much in reserves, we appear to be hoarding our donors' funds instead of using them to serve our constituents. Appropriate reserves also serve to assist us in fulfilling strategic initiatives and prevent us from having to act rashly due to short term changes in revenue (for instance, they provide us the ability to maintain good employees, rather than have to let them go and hope we can rehire later).

TARGET RESERVE MINIMUM BALANCES

The target balances in our reserves should be reviewed annually, in light of changes in circumstances. As part of the annual budgeting process, Foundation management will present a recommendation for reserve balances to the Finance Committee. Once the Finance Committee has approved, the recommendation will be forwarded to the Executive Committee.

In determining an appropriate level of reserves for the Foundation, management and staff must look at various factors. We must consider the relative risk of our operations. More risk requires more reserves. We currently consider our operations risk to be fairly low, and we carry liability insurance against our greater risks. If factors in our regulatory or other operating areas change, we may consider an increase in our reserves to be necessary. We must also consider the cyclicality of our unrestricted revenue and the potential for an interruption in that revenue.

As the bulk of our unrestricted revenue is generated from the Marketplace, it does not tend to be highly seasonal, but there is a risk of interruption. If the Marketplace is unable to operate, we stand to lose the majority of our operational funding. For this reason, we consider a higher balance in our “risk reserves” to be necessary. Another consideration is our ability to generate future reserves. In a year when the economic outlook is good and we have a budgeted surplus, we have the flexibility to spend down our reserves in anticipation of renewing them.

- **“Working Capital Reserve”-** A minimum amount of funding should be retained in a highly liquid account to carry us through short term, unforeseen circumstances and to ensure that no short term lending would be required to pay our bills. These may be held in our bank account, or in Pool 3. Our goal is to maintain a minimum amount of twelve weeks of operating expenses in these reserves, which will be calculated annually, ideally as part of the budgeting process.
- **“Risk Reserves” –** These reserves are held to mitigate the impact of unbudgeted, undesirable financial events. These reserves are held in a separate pool within our investment accounts, subject to the same long-term growth policy for Pools 1, 4, & 5, and investment performance overseen by the VC Foundation’s Investment Committee. Our goal is to maintain an average of six months of Marketplace revenue in these reserves. The amount will be determined based on the average monthly collection for the prior two years, calculated as of June 30 of each year.
- **“Growth Reserves” –** These funds are held for the express purpose of enabling our organization to grow into the future. They may be used for such costs as adding necessary personnel, office equipment, or software. It is imperative that the Foundation keep an eye on the future in order to continue to grow with and serve our community. These reserves should be calculated annually based on anticipated needs, rather than by formula.
- **“Capital Reserves” –** These would be held in the event that we need to plan for a capital expansion, such as an office or event area. We do not currently have any such plans, and therefore do not have any capital reserves.
- **“Board Designated Reserves” –** These are determined as needed, and approved by board vote.

Any unrestricted cash held in excess of these target balances will be considered available for operations. Foundation management will keep the Finance Committee informed regarding cash balances, and if it appears likely that we will drop below the minimum target balances working capital or risk reserves in the near future, the discussion will be brought to the Finance Committee in advance. If it becomes necessary to use up these reserves below the target balances, a plan will be put into place to restore the balances as soon as is financially feasible.

Growth, capital, and board designated reserves will be held until spent on the intended expenditures.