



The purpose of the Financial Reserves Best Practice is to ensure the stability of the Region's missions, programs, and organizational priorities. This Best Practice is for Region financial guidance and is to enable Region Commanders and Finance Committees to properly budget and effectively utilize Region funds. It is not intended to limit control or authority from the region but rather to act as a guide to fiscal efficiency and responsibility.

The Financial Reserves Best Practice will be implemented in concert with all existing financial regulations set forth in CAPR 173-1, 173-3, 173-4, and 174-1 and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

**1. Financial Reserve Defined**

- a. The Financial Reserve is defined as a designated fund of Corporate Dollars set aside by action of the Finance Committee. The Financial Reserve is intended to provide an internal source of funds for situations such as sudden increases in expenses, one-time unbudgeted expenses, or unanticipated loss in funding. Financial Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention for Financial Reserves to be used and replenished within a reasonable period of time. The minimum amount to be designated as Financial Reserve will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The Financial Reserve serves a dynamic role and will be reviewed and adjusted in response to both internal and external changes approved through the Finance Committee.
- b. The target minimum Financial Reserve is recommended to be equal to 12 months of average operating expense with a maximum Financial Reserve of 18 months. When computing the average operating expense, the prior three years' expenses should be used. This calculation does not include pass-through expenses or the expenses associated with "self-funded activities."

**2. Amount of Reserve**

- a. The amount of the Financial Reserve will be based upon the plan developed by the Region Commander and will take into consideration the number of months of average operating expenses, how the reserve will be funded (pulled from existing corporate funds, investments, dues increase, etc.) and how the fund will be maintained and replenished, if necessary. Excess reserves may be transferred to investments with a 5-year plan of utilization.
- b. The Financial Reserves Plan will be reviewed annually by the Region Finance Committee as part of the regular budgeting process and forwarded to CAP FM for approval. The Plan and the reserve amount may be maintained, increased or decreased as recommended by the Region Commander, reported to and approved by the Finance Committee, and included in

the Finance Committee meeting minutes. Plan amendments must also be reviewed and approved by the CAP FM.

3. **Use of Financial Reserves**

- a. The Region Finance Committee will identify the need for access to the reserve fund and confirm that the use is consistent with the purpose of the reserve as described in this Best Practice.
- b. The authority to use these reserve funds will require the approval of the Region Finance Committee.

4. **Replenishment of Expended Financial Reserves**

- a. Replenishment of expended Financial Reserves will be reviewed at the next scheduled meeting of the Finance Committee following the expenditure and a course of action to replenish the Reserves determined.
- b. Recognizing that extraordinary circumstances would have had to occur to force the use of the Financial Reserve Fund, the Finance Committee should examine the overall financial climate and condition of the Region when setting this course of action. The intent of the Financial Reserve is to provide a safety net, not hamper the day-to-day operation of the Region.

5. **Vanguard Funds**

- a. In order to be eligible to receive Vanguard Funds, the Region must have an approved Financial Reserve Plan in place. Regions choosing not to have an approved Financial Reserve Plan will not receive Vanguard funds from CAP.