

### What is an operating reserve?

An operating reserve is an unrestricted fund set aside to stabilize an organization's finances by providing a "rainy day savings account" for unexpected cash flow shortages, expense, or losses.

Below are some examples of when an operating reserve might be used:

- ◆ Unexpected
  - ◆ Shortfall in revenue, such as a fundraiser which does not meet its goal (e.g. there was a blizzard the day of the event)
  - ◆ Day-to-day expenses, such as unusually high heating bills due to a significant weather event (such as the blizzard above)
  - ◆ Demands on your resources – for example, a critical incident requires you to respond to hundreds more clients than you anticipated in a short amount of time
  - ◆ Opportunities such as the chance to purchase your own building, however you need a cash match which wasn't budgeted
- ◆ Overly optimistic budgeting of anticipated revenue, such as budgeting for a large grant which is not awarded

### Why have an operating reserve policy?

An operating reserve policy provides standards such as those outlined below:

- ◆ Does the entity want to maintain an operating reserve at a certain level (a specific dollar amount or months of expenses)?
- ◆ Who can authorize use of this reserve and for what purposes?
- ◆ Is the operating reserve available in cash maintained in a segregated bank account or investment fund, or will it be commingled with the general cash and investment accounts of the entity?
- ◆ How often should the operating reserve balance be reviewed and/or reset?
- ◆ How is a shortfall in an operating reserve addressed?

### What operating reserve procedures can be put into place?

There may be procedures for how the approval of use of the operating reserve funds are documented, how to access operating reserve funds, and/or how the operating reserve is monitored and reported to the governing body.

### What is a method for calculating operating reserve?

To calculate a 3-month operating reserve, take the annual operating budget, divide it by 12 months and then multiply by 3. An example of a 3-month operating reserve calculation is:

$$\begin{aligned} \text{Annual operating budget: } & \$750,000/12 \text{ months} = \$62,500/\text{month} \\ \$62,500/\text{month} \times 3 \text{ months} & = \$187,500 \text{ 3-month operating reserve} \end{aligned}$$



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## Feedback Requested

OVC TFMC will continually work to provide resources to support grantees as they successfully manage their OVC financial awards. Your feedback assists us in creating these resources to meet your needs. To help us provide the most useful resources, we would appreciate your feedback on this guide sheet. Please send any comments or suggestions to [Evaluation@OVCTFMC.org](mailto:Evaluation@OVCTFMC.org).

*This product was supported by contract number GS-00F-010CA, awarded by the Office for Victims of Crime, Office of Justice Programs, U.S. Department of Justice. The opinions, findings, and conclusions or recommendations expressed in this product are those of the contributors and do not necessarily represent the official position or policies of the U.S. Department of Justice.*

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