

# *Connect for Health Colorado*

## *Reserve Policy*

### I. PURPOSE

The purpose of this Reserve Policy is to build and maintain an adequate level of unrestricted net assets to support the organization's day-to-day operations in the event of unforeseen shortfalls. The reserves may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, or investment in infrastructure. They can also serve as cash on hand to fund new activities and provide the financial flexibility and ability to take advantage of strategic opportunities. This Reserve Policy will be implemented in conjunction with the other financial policies of the organization and is intended to support the goals and strategies contained in those related policies and in strategic and operational plans.

### II. DEFINITIONS

Amounts held in reserve will be kept in two categories:

a. Operating – The Operating Reserve is intended to provide an internal source of funds for situations such as for nonrecurring or unforeseen needs that arise during a fiscal year and new obligations created by Federal and State law or new health coverage needs or requirements that have been identified after the budget process has occurred. It is the intention for Operating Reserves, when used, to be replenished within a reasonable period of time. The target balance to be designated will be established in an amount for a set period of time, measured in monthly operating expenses.

b. Capital – The Capital Reserve is intended to provide a ready source of funds for repair, acquisition, or development of IT, buildings, furniture, fixtures and equipment necessary for the effective operation of the organization and programs.

### III. CALCULATION OF RESERVES

The Operating Reserve target will be computed using a risk based approach that takes into account both revenue and expense risks that may materially affect the organizations bottom line in the future. The computation will be reviewed by the Finance and Operations Committee in conjunction with the annual budget process. Adequacy of the operating reserve target will be reviewed quarterly by staff. Any in year adjustments to reserves will be reviewed by the Finance and Operations Committee.

Capital Reserves will be calculated based on projected long-term capital expenditures and reviewed by the Finance and Operations Committee in conjunction with the annual budget process.

### IV. FUNDING OF RESERVES

The Operating Reserve will be funded with available unassigned operating funds. The Capital Reserve will be funded with available unassigned operating funds and designated after the Operating Reserve is 100% funded and projected working capital needs are met.

The organization's goal is to replenish the Operating Reserve to the target level within 12 months of the use of the funds. The organization's goal is to replenish the Capital Reserve based on availability of funds and a fully funded Operating Reserve.

### V. AUTHORITY TO USE RESERVES

Authority for use of reserves is delegated to the Chief Executive Officer and/or Chief Financial Officer subject to the monetary limits and required approvals established in the Procurement Policy. The use of reserve funds for purchases should be designated as part of the procurement approval process.

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### VI. ACCOUNTING, REPORTING AND MONITORING

The reserve funds will be recorded in the financial records and will be funded and available in cash or cash equivalent funds. Operating and Capital Reserves shall be maintained in an interest bearing bank or investment account in accordance with the organizations Investment Policy.

The Chief Executive Officer and/or Chief Financial Officer is responsible for ensuring that reserves are maintained and used only as described in this Policy. The Chief Financial Officer will maintain records of the use of funds and plans for replenishment. She/he will provide regular reports to the Finance Committee on the use of reserves and the replenishment of reserves.

### VII. RELATIONSHIP TO OTHER POLICIES

The organization shall maintain the following board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of reserves:

- Investment Policy, including risk tolerance
- Procurement Policy
- Financial Policy including authorization matrix

### VIII. REVIEW OF POLICY

This Policy will be reviewed by the Finance Committee every year at minimum, 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.