

NEW ALIPORE PRAAJAK DEVELOPMENT SOCIETY

OPERATING RESERVE POLICY

I. PURPOSE

The purpose of this Operating Reserve Policy for NEW ALIPORE PRAAJAK DEVELOPMENT SOCIETY is to build and maintain an adequate level of net assets without donor restrictions to support the organization's day-to-day operations in the event of unforeseen shortfalls, as also contribute to the financial sustainability of the organization.

The reserve may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, investment in infrastructure, or for any unforeseen situation, that may not be donor supported.

Operating reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap in financial projections, and ongoing project resources.

The organization intends for the operating reserves to be used and replenished within a reasonable period of time. This will be yearly maintained, and used as per need.

This Operating 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 AND GOALS

The Operating Reserve Fund is defined as the designated fund set aside by action of the governing body. The minimum amount to be designated as operating reserves will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The operating reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

Normally Praajak receives conditional grants as a project grant. These are for specific heads, as well as time periods. If at any given time the project grant is withdrawn by the funding agency, then Praajak will use the reserve fund for three months to be spent on the staff salary and administration.

The target minimum Operating Reserve Fund is equal to Six months of average recurring operating costs. The actual average recurring operating costs is Rs. 2lakh every month. Therefor Praajak wishes to generate the reserve fund of Rs. 12 lakh.

In addition to calculating the actual operating reserve at the fiscal year-end, the operating reserve fund target minimum will be calculated each year after approval of the annual budget. It is expected that the target will align with the average of six months costs. The highest six months of the project, in terms of costs will be used as the base. However, if this amount is not met, efforts will be made to reduce any reserve fund expenditure during the year, and enhance the fund in the year after.

These reserves will be reported to Governing Body and included in the regular financial reports and/or dashboards.

III. ACCOUNTING FOR RESERVES

The Operating Reserve Fund will be recorded in the accounting system and financial statements as Board Designated Operating Reserve. The Operating Reserve Fund will be funded and available in cash or cash equivalents. Operating reserves will be maintained in a segregated bank account and/ or investment fund. The ratios of investment will be decided on based on exiting investment opportunities, as well as safety of investments.

IV. FUNDING OF RESERVES

The Operating Reserve Fund will be funded with surplus operating funds without donor restrictions from Indian Funds only, and not from foreign funds. Interest accrued on Indian Funds provided by donors may be included in the Operating Reserve Fund subject to donor approval only. Donors may include individuals, organizations and corporate entities.

The governing board may, from time to time, direct that a specific source of revenue be set aside for operating reserves. Examples may include one-time gifts or bequests, property sales, special grants, or special appeals.

The Director will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Operating Reserve Policy. Determination of need requires analysis of the sufficiency of the current level of reserve funds, the availability of any other sources of funds before using reserves, and evaluation of the time period for which the funds will be required and replenished.

AUTHORITY TO USE OPERATING RESERVES

- a. Approach A: The Director will submit a request to use operating reserves to the Governing Body. The request will include the analysis and determination of the use of funds and plans for replenishment. The organization's goal is to replenish the funds used within 6 months to restore the Operating Reserve Fund to the target minimum amount. If the use of operating reserves will take longer than 6 months to replenish, the request will be scrutinized more carefully. The Governing Body will [either (1) approve or modify the request and authorize transfer from the Operating Reserve Fund or (2) the Finance Committee will recommend the request to the governing body].
- b. Approach B: Authority for the use of operating reserves is delegated to the Director in consultation with the Secretary of the Governing Body. The use of operating reserves will be reported to the governing board at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds, and plans for replenishment to restore the Operating Reserve Fund to the target minimum amount. The Director must receive prior approval from the governing board if the operating reserves will take longer than 6 months to replenish.

V. REPORTING AND MONITORING

The Director is responsible for ensuring that the Operating Reserve Fund is maintained and used only as described in this Policy. Upon approval of the use of operating reserve funds, the Director will maintain records of the use of funds and plan for replenishment.

She/he will provide regular 3 monthly reports to the Finance Committee and/or governing board of progress to restore the fund to the target minimum amount.

The Director will annually discuss what additional risk factors might be considered for the organization, the impact of budgeting on operating reserve levels, and any requirements with funders or partner organizations.

VI. RELATIONSHIP TO OTHER POLICIES

The Director shall maintain the following board-approved procedures within the Finance Policy, which may contain provisions that affect the creation, sufficiency, and management of the Operating Reserve Fund. These include:

- Risk Management related policies and tools to diminish risk, including Contingency or Disaster Preparedness Plan
- Policies related to Operating and Capital Budgeting
- Fund Development Policies

VII. REVIEW OF POLICY

This Policy will be reviewed by the governing body if warranted by internal or external events or changes. Changes to the Policy will be recommended by the governing body for approval on a three year basis.

This policy, upon every revision hereof, must be distributed by the Director to all staff.

This reserve policy is intended to serve the organization, and inform its stakeholders of its financial practices in a transparent and systematic manner.