



www.musica-workshops.com
registered charity no.1150769

Operating Reserve Policy

PURPOSE

The purpose of this Operating Reserve Policy for Musica 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 reserve 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. Operating reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. The organization intends for the operating reserves to be used and replenished within a reasonable period of time. 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.

DEFINITIONS AND GOALS

The Operating Reserve Fund is defined as the designated fund set aside by action of the Board of Directors. The minimum amount to be designated as operating reserve 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.

The target minimum Operating Reserve Fund is equal to around 3 months of average recurring operating costs. Our average monthly operating costs (calculated over the previous four years) are £1573 a month, of which we estimate around 85% to be direct costs (venue hire and fees for sessional workers) and around 15% to be indirect costs (Accounting and legal expenses, Administrative salaries, marketing etc.)

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. These reserves will be reported to the Finance Committee and Board of Directors, and included in the regular financial reports. Our current actual operating reserve, as of the year ended 31 October 2017 is £5,898 and this is within our target of 3 months of operating cost.

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 commingled with the general cash and investment accounts of the organization. **FUNDING OF RESERVES**
The Operating Reserve Fund will be funded with surplus unrestricted operating funds. The Board of Directors 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, special

grants, or special appeals. The Chief Executive Officer and Chief Financial Officer 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

The Chief Executive Officer will submit a request to use operating reserves to the Finance Committee of the Board of Directors. 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 12 months to replenish, the request will be scrutinized more carefully. The Finance Committee will recommend the request to the Board of Directors.

REPORTING AND MONITORING

The Chief Executive Officer and Chief Financial Officer 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 Chief Executive Officer and Chief Financial Officer will maintain records of the use of funds and plan for replenishment. She/he will provide regular annual reports to the Board of Directors of progress to restore the fund to the target minimum amount.

The Chief Executive Officer and/or Chief Financial Officer 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 chartering organizations.

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. This policy, upon every revision hereof, must be distributed to all board members. The Finance Committee (the Committee) is established by Musica's board of directors to recommend financial policies, strategies, and budgets that support the mission, values and strategic plan of the organization. Its purpose is to ensure the financial health and integrity of the organization in pursuit of its mission to provide music workshops mainly for disadvantaged students.