

**SUBJECT: RESERVE POLICY****I. PURPOSE**

This reserve policy has been adopted by the Board of Directors of APPA to provide broad guidelines for the annual achievement of reserves funds for the long term financial health and stability of APPA as a non-profit going concern.

APPA's reserve funds stem from its Short & Long Term Fund investments (see Investment Policy for more details of these funds and their management). There are two reserve categories: A. Operating Reserve and, B. Capital Renewal Reserve

**II. ACTION PERSONNEL**

The Board of Directors, Executive Committee, Executive Vice President, and the Chief Financial Officer.

**III. GENERAL RESERVE GUIDELINES****A. BUDGET TARGET REQUIREMENT**

- a. It is understood that the reserve amounts are separated from the annual operating budget. However, a budgetary target will be included as a line item in the annual budget goals and reported on the monthly summary of income and expenses statements.
- b. APPA's annual operating budget will target to accrue an amount equal to or more than 3% of the stated operating revenue excluding grants and contracts.

**B. OPERATING RESERVE**

- a. **GOAL:** The total reserve target shall be 25% of the annual operating budget excluding grants and contracts (which would be roughly equivalent to three (3) months of operation).
- b. **METHOD:** At the end of each fiscal year and based upon the year-end financial result and future cash flow commitments, the Executive Vice President will make a recommendation to the Executive Committee for the dollar amount to be set aside in this fund.

**C. CAPITAL RENEWAL RESERVE**

- a. **GOAL:** The total reserve target shall be 10% of the estimated replacement value of real property and greater than 15 year-life equipment.
- b. **METHOD:** At the end of the fiscal year and based upon the year-end result and future cash flow commitments, the Executive Vice President will make a recommendation to the Executive Committee for the dollar amount to be set aside.

**IV. RESPONSIBILITIES (operational and fiduciary)**

- A. **USE of FUNDS:** The Executive Vice President will report the need and make a justification for the use of either of these funds. The Executive Committee shall review and make a recommendation to the Board of Directors who shall authorize expenditures against these funds.

**V. PROCEDURES**

The following procedures will be used to ensure consistent administration of this policy.

- The Executive Vice President will make recommendations to the Executive Committee for the dollar amounts to be set aside annually and potential use of these funds at any given time.
- This reserve policy shall be reviewed annually by the Executive Vice President and the Chief Financial Officer who will recommend any necessary revisions, adjustments, or changes to the Executive Committee/Board of Directors as part of the annual budgeting process.
- The Board of Directors shall approve any changes to the reserve policy.