



Operating Reserves Policy

Purpose

The purpose of the Operating Reserve Policy for Health Leadership High School is to ensure the stability of the mission, educational programs, employment, and ongoing operations of the school. The Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. The Operating Reserves in the Operational fund may be divided into two categories: Target Minimum Reserves and Building/Capital Asset & Opportunity Reserves. The Target Minimum is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. In addition to the Target Minimum, Building/Capital Asset & Opportunity Reserves may also be set aside for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, or investment in infrastructure. It is the intention of Health Leadership High School for the Target Minimum Operating Reserves to be used and replenished within a reasonable period of time. The Operating Reserve Policy will be implemented in concert with the other governance and financial policies of Health Leadership High School and is intended to support the goals and strategies of the school.

Definitions and Goals

The Operating Reserve Fund is defined as a designated amount of the Operational Fund set aside by action of the Governing Council. The Target Minimum amount of the Operational Fund to be designated as Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs for a period of four months or one semester. 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 will be calculated as an estimate of the upcoming four months of average operating costs. The calculation of average operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, general supplies and materials, equipment, travel, and ongoing professional services from September through December and January through April, applicable to each semester. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average expenses for each four month period also excludes some expenses, including pass-through expenses that are applicable to local, state, or federal grants, one-time or unusual expenses, and capital purchases. The amount of the Target Minimum Operating Reserve fund will be calculated each year after approval of the annual budget, reviewed and adjusted each semester if necessary. The Target Minimum will be reported to the Finance Committee and the Governing Council, and included in the regular financial reports.

Building/Capital Asset & Opportunity Reserves may be set aside in addition to the Target Minimum Operating Reserves, for anticipated one-time or unusual expenses or capital purchases. This additional amount is optional, has no limitations on amount, may vary, and has no requirements to be restored

within twenty-four months. This additional amount may only be set aside after the Target Minimum has been met. This additional Reserve shall be documented with a project plan or purpose that includes a description or detailed reason, cost, and estimated date of completion or resolution. This additional Reserve will be included in the reports to the Finance Committee and the Governing Council, and in the regular financial reports.

Accounting for Reserves

The Operating Reserve Funds will be recorded in the financial records as Governing Council Designated Operating Reserve. The Fund will be funded and available in cash or cash equivalent funds. Operating Reserves will be maintained and comingled with the general cash of the School, and will be subject to the New Mexico collateralization requirements for public deposits.

Funding of Reserves

The Operating Reserve Fund will be funded with surplus unrestricted Operational Funds. The Governing Council 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, or special appeals. Extreme efforts should be made to replenish the Target Minimum Operating Reserve fund within twenty-four months. The amount reserved for the Building/Capital Asset & Opportunity Reserves is optional, may be variable, has no limitations on amount, and has no requirements to be restored.

Use of Reserves

Use of the Operating Reserves requires three steps:

1. Identification of appropriate use of reserve funds

The Head Administrator and staff will identify the need for access to reserved funds and confirm that the use is consistent with the purpose of the reserves as described in this policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds before using reserves, and evaluation of the time period that the funds will be required, and replenished if needed.

2. Authority to use operating reserves

The Head Administrator will submit a request to use Operating Reserves to the Finance Committee. The request will include the analysis and determination of the use of funds and plans for replenishment. The School's goal is to replenish the funds used within twenty-four months to restore the Operating Reserve Fund to the designated Target Minimum amount. The Finance Committee will approve or modify the request and authorize transfer from the fund, or they may disapprove the request. If the use of Operating Reserves will take longer than 24 months to replenish, the request may meet additional scrutiny and justification requirements, including approval of the full Governing Council.

3. Reporting and monitoring

The Head Administrator is responsible for ensuring that the Operating Reserve Fund is maintained and used only as described in this policy. Upon approval for the use of Operating Reserve funds, the Head Administrator will ensure records are maintained of the use of funds and plans for replenishment. He/she will provide regular reports to the Finance Committee and Governing Council of progress to restore the Fund to the Target Minimum amount.

Review of Policy

This policy will be reviewed as warranted by internal or external events or changes. Changes to the policy will be recommended by the Finance Committee to the Governing Council.

Adopted by the Health Leadership High School Governing Council on 9/19/21