



Massachusetts Water Works Association, Inc.
Policy Regarding Operating Reserves
(Adopted February 2, 2017)
(Amended December 2, 2021)

Purpose: The purpose of the Operating Reserves policy of Massachusetts Water Works Association (MWWA) is to ensure the stability of the mission, programs, employment and ongoing operations of the association. The Operating Reserve 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. The Operating 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. The Operating Reserve Policy will be implemented in concert with the other governance and financial policies of MWWA and is intended to support the goals and strategies contained in these 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 12 months of prior year's average operating expenses. The calculation of the average monthly operating costs includes all recurring, predictable expenses such as salaries, office, program and on-going professional services. Depreciation, in-kind, and other non-cash expenses are not included in this calculation.

Accounting for Reserves: The Operating Reserve Fund will not be recorded on the financial records. The Fund will be funded through available in cash or cash equivalent funds. Operating Reserves will be commingled with the general cash and investment accounts of the association.

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, bequests, special grants or special appeals.

Use of the Reserves:

1. **Identification of appropriate use of reserve funds:** The Executive Director, Treasurer and Finance Committee will identify the need for access to reserve funds and confirm 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 or identified need, 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.
2. **Authority to use operating reserves:** The Executive Director and Finance Committee will submit a request to use Operating Reserves to the Board of Directors. The request will include analysis and determination of the use of the funds and plans for replenishment.
3. **Reporting and Monitoring:** The Executive Director, Treasurer and Finance Committee 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 Executive Director will maintain records for the use of the funds and any plan for replenishment. S/he will provide regular reports to the Finance Committee and Board of Directors of progress to restore the fund to the target minimum amount.

Review of the Policy: This Policy will be reviewed every other year, at a minimum, by the Finance Committee, 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.
