

National Assembly of State Arts Agencies Reserve Policy

Purpose

The purpose of NASAA's reserve policy is to maintain guidelines and procedures that will help to ensure the financial stability of the organization and position it to take mission-related risks and respond to temporary changes in its environment or circumstances.

By consciously and proactively upholding these policies, NASAA's staff and board take responsibility for—and promote public, funder and member confidence in—the long-term sustainability of the organization.

Definitions

Net Assets

Net assets consist of NASAA's total assets net of liabilities (excess of assets over liabilities). They are often referred to as equity or net worth. In the nonprofit world, net assets are also called funds. There are three classes of net assets commonly used in financial statements: permanently restricted, temporarily restricted, and unrestricted. This policy document relates exclusively to unrestricted net assets.

Unrestricted Net Assets

These are the portion of net assets that are neither permanently restricted nor temporarily restricted by law, sponsor or donor-imposed stipulations; are not needed to pay liabilities; and are not earmarked for another specific purpose. Accumulated unrestricted net assets that are liquid (as opposed to invested in fixed assets) are *available* for use by the NASAA board for any mission-related purpose it wishes.

NASAA's available unrestricted net assets consist of:

- a **board-designated operating reserve** 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 reserve also may be used for one-time, nonrecurring expenses that will build long-term capacity, such as staff investment, research and development, or investment in infrastructure. These reserves will increase or decrease according to board-approved policy or board action taken in response to a specific circumstance. Board-designated operating reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap.
- **undesignated operating funds** or *working capital*, available for general activities and to support day-to-day changes in normal cash flow activity, fluctuations in income and expenses, and routine capital expenditures. Undesignated operating funds consist of those available unrestricted net assets not part of the board-designated operating reserve. Undesignated operating funds grow or shrink relative to NASAA's net income (revenues/expenses).

Reserve Levels

NASAA shall maintain board-designated operating reserves at a minimum level of 25% of its average core expenses. This reserve level strengthens NASAA's capacity to deliver member

services for a reasonable period of time in the event of a downturn or other unforeseen financial shortages. Furthermore, it enables NASAA to take advantage of unique opportunities or employ timely strategies to advance its mission.

The level of board-designated operating reserves will be reviewed regularly in conjunction with the planning and budgeting process, NASAA's routine financial reports, and the presentation of audited financial statements. The treasurer will report the status of the board-designated operating reserve to the board as part of the regular treasurer's report.

Where reserves are below or in danger of falling below the minimum level, the board may direct staff to take corrective actions to replenish the fund immediately or over a period of time, depending upon the circumstances of the shortfall and the current operating environment.

Funding of Reserve

Funding of the board-designated operating reserve will be maintained through the transfer of surplus undesignated operating funds and/or interest and dividend returns earned on investments. In addition, the board from time to time may direct that a specific source of revenue be used to fund the reserve.

Authority

The **NASAA board** is responsible for approving the use of the board-designated operating reserve. The steps required include analysis of the need for access to the funds, confirmation that the use is consistent with the purposes of the reserves as described in this policy, monitoring the use of the funds and—if required—the plan for replenishment of the fund.

The **chief executive officer** is responsible for ensuring that NASAA's board-designated reserves are maintained and used as described in this policy. This includes reporting on the levels, uses and management of the funds in keeping with board directives.

Authority for use of the undesignated operating funds is delegated to the **chief executive officer, who, in consultation with the treasurer and designated staff**, will utilize the funds to maintain financial operations as necessary, compliant with existing financial management and budget controls.

Investments

The purpose of NASAA's investment policy is to maximize returns on accumulated cash reserves while, at the same time, maintaining a proper and responsible balance among the factors of safety, liquidity and yield.

Board-Designated Operating Reserve

The chief executive officer shall consult with the Executive Committee prior to investing funds in:

- federally insured certificates of deposits
- money market funds
- treasury bills
- bonds

- mutual funds (fixed and equity)
- common and/or preferred stocks
- professionally managed accounts

Undesignated Operating Funds

The chief executive officer shall consult with the Executive Committee prior to investing funds in:

- federally insured certificates of deposit—not to exceed \$100,000 at any one commercial bank or savings and loan institution
- money market funds
- treasury bills

Policies Specific to Investing in Equity Securities

Diversification will be maintained in the selection of various investment instruments. All decisions to invest should be influenced by projections that indicate opportunities to take advantage of market and economic conditions. Additionally:

- No single security or company should comprise more than 5% of the total principal, except for holdings in U.S. government securities, money funds or other federally insured certificates of deposit.
- No investments shall be made in:
 - gold or other commodities
 - real estate or real estate partnerships
 - short sales, trading on margin
 - options including puts or calls
- No investments shall be made using leveraged or borrowed funds.
- No investment shall knowingly be made in any company that has an interest in the sale or manufacture of products inconsistent with good health care, nor in companies known to discriminate against any person on the basis of gender, religion, race, color, age, disability, sexual orientation or national origin.

Implementation

All investments shall be overseen by staff with appropriate internal controls.

The chief executive officer, with the approval of the Executive Committee, should secure the services of a professional investment adviser to assist with financial management and the placement of investments.

Proposed revisions or modifications to this policy that are deemed necessary shall be submitted to the board for review.