

ICC Austin

Financial Reserves Policy

As approved by the Executive Director, and incorporating all changes through:

June 1, 2017

Revision History

Date	Author(s)	Summary of Changes
5/31/15	Thogersen; Hill	Policy creation
6/31/16	Thogersen; Hill	Combined renovation and facilities replacement reserves into new Capital Fund; introductory text updated; Net operational cash process added

Review History

Date	Reviewed by
May 2017	Thogersen, Lassiter, Khalil, Hegar

External Cross-references

Section(s)	Policy/Section Referenced

Introduction

The ICC Austin Bylaws call for the creation and maintenance of Development and Long-Term Cash Reserves. Under this operational policy, these are, respectively, the Expansion and Emergency Reserves. In addition to the required Reserves, ICC Austin internally elects to set aside and accumulate a cash portion of income primarily for capital renovations, projects and equipment (collectively referred to as the Capital Funds). It is important to note that Capital Funds are not to be confused with Reserves or other Board-designated funds. The primary intent of setting aside Capital Funds is to save up for projects and renovations over time, rather than finance them as they occur, but there are no internal or external prerogatives that restrict Capital Fund usage. Within the established Board policies, staff determines how Capital Funds are allocated, typically through the budget plan.

Definitions

- Development Reserves – The Bylaw requirement calling for funding a reserve for future co-op development; also known as the Expansion Reserves
- Long-Term Cash Reserves – The Bylaw requirement calling for funding for lender requirements and financial buffer; also known as the Emergency Reserves.
- Membership Fee – The one-time fee charged by ICC Austin to join the organization, currently \$100.
- Operational Cash Threshold – The maximum amount of cash required so that ICC Austin will maintain a positive operating cash level throughout the fiscal year.

Policy

1. Development (Expansion) Reserve and Funding – *Required in Bylaws*

The following contributions are made to the ICC Austin Development (Expansion) Reserves on a quarterly basis:

- ICC Austin Membership Fees, (*per bylaws*); and
- \$5 per member per month

2. Long-Term (Emergency) Reserve and Funding – *Required in Bylaws*

ICC Austin will place 1.5% of gross income into the Long-Term (Emergency) Reserves to be used exclusively for a financial buffer in the case of emergencies and/or to fulfill lender requirements. The Emergency Reserve is capped at 17% of annual gross income for the current year. The 17% represents two months of operations for the entire organization. (Note: This level proved adequate both for the fire losses at Arrakis in 2000 and House of Commons in 2009, as well as the 2003 housing market slump and great recession beginning in 2008.)

Once the reserve fund has reached 17% of annual gross income, excess funds may be allocated at the Executive Director’s discretion to the Expansion Reserve or Capital Fund. Funding is performed quarterly based on budgeted gross income and trued to actual at the completion of the fiscal year-end.

3. Capital Fund

ICC Austin contributes 2.5% of gross income into the Capital Fund to be used for planned renovations, strategic initiatives, urgent capital spending (e.g. emergency repairs and replacement of systems and equipment), and non-emergency operational spending deficits not lasting more than a year.

Reasonable use of Capital Funds must be included the annual budget plan so as to prevent the Capital Fund from being an unallocated “piggy bank”.

4. Cash for Operations

In conjunction with the fiscal year-end close process, ICC Austin staff will review cash levels held for operations (see procedure below). Funds above the Operational Cash threshold shall either be allocated to a Reserve account or added to the Capital Fund. Allocation will be made at the discretion of the Executive Director with priority going to ensure the emergency fund is adequate.

Procedure

5. Funding

Funding for the Reserves and Capital Fund will be designated at least quarterly based on the allocation methods above using budgeted gross income. All reserve accounts will be trued-up based on actual gross revenue in conjunction with the close of the fiscal year-end.

6. Operational Cash Threshold

The Operational Cash threshold will be evaluated as of May 31 each year, in conjunction with the year-end close process. Member security deposits and member pre-payments are segregated from operational cash to monitor the trend of operational cash levels. The evaluation should take into consideration payables / accruals, savings for large annual purchases (e.g. Property Insurance) and other relevant financial conditions that will impact the anticipated threshold for the following fiscal year. The current threshold is \$100,000.