

## **Financial Reserves Policy Statement**

SIOF maintains two broad categories of funds, Operating Funds and Reserve Funds.

- Operating Funds, like a checking account, support the day-to-day operations of the Society.
- Reserve Funds are held and invested to protect the Society should the Operating Funds become inadequate to support the organization, or to fund activities outside the scope of the annual budget.

This document provides guidance regarding the management and accounting of the Reserve Funds, which are managed by Huntington Financial, in accordance with SIOF's Investment Policy Statement.

SIOF's internal accounting of the Reserve Funds maintains three categories:

1. Contract Liability Reserves
2. Budget-Based Reserves
3. Excess Reserves

### **1. Contract Liability Reserves**

Contracting with meeting venues and related vendors is a tremendous liability for SIOF. Should unforeseen circumstances preclude a scheduled meeting from being held, SIOF could incur significant financial damages while, at the same time, not earning expected revenues. The Contract Liability Reserve mitigates this risk.

#### 1.1 Amount to be held in Contract Liability Reserves

The amount of money to be held in Contract Liability Reserves will be equal to the maximum financial obligation associated with all meeting venues to be utilized in that fiscal year.

#### 1.2 Determining the amount to hold as Contract Liability Reserves

Once the Executive Board approves a budget for a fiscal year (generally in August), the Executive Director (ED) and/or Finance and Operations Manager (FOM) will inform the Financial Officer/Secretary (FO/S) of the maximum financial obligation of contracts relating to venues to be utilized in that fiscal year. The FO/S will then direct the ED and FOM to designate that amount of money as Contract Liability Reserves. The Executive Board will be informed of this amount, but no board action is required.

#### 1.3 Insufficient Contract Liability Reserves

If the total value of all Reserve Funds at the close of the previous FY is less than the amount required for Contract Liability Reserves, the President shall appoint a Task Force, chaired by the FO/S, to review the overall financial status of the Society and return a recommendation to the Executive Board at its next regularly scheduled meeting, or sooner, regarding action(s) necessary to return Reserve Funds to levels that will cover the Contract Liability Reserve amounts. The Executive Board will consider the recommendations and act as necessary and appropriate to improve the financial health of the Society.

#### 1.4 Holding Contract Liability Reserves

Contract Liability Reserves are a part of the overall Reserve Funds. As such, monies held in Contract Liability Reserves will be managed by Huntington Financial according to SIOF's Investment Policy Statement.

#### 1.5 Moving money from Contract Liability Reserves to Operating Funds

SIOF may withdraw from the Contract Liability Reserves under the following circumstances:

- The SIOF Executive Board elects to cancel a contract with a meeting venue, resulting in financial damages from the venue and/or other vendors associated with the meeting.

- SIOP is unable to meet its financial obligations for a held event (e.g., underperformance on a guest room block resulting in attrition damages).

It will be at the discretion of the ED and FOM, in consultation with the FO/S, whether to withdraw funds from Contract Liability Reserves or whether the expenses will be paid from extant Operating Funds. The Executive Board will be informed of withdrawals from the Contract Liability Reserves, but no board action is required, given the withdrawal has occurred either as a direct result of the board's action (e.g., a decision to cancel a contract) or because of a situation about which the board will be briefed through regular financial reporting (e.g., underperformance resulting in attrition damages).

## **2. Budget-Based Reserves**

Budget-Based Reserves backstop the annual budget and day-to-day operations of SIOP. That is, these funds are held in case there are insufficient Operating Funds to cover revenue shortfalls or unexpected expenses that are necessary for the continued operation of the Society and delivery of member services.

### 2.1 Amount to be held in Budget-Based Reserves

The amount of money to be held in Budget-Based Reserves for the fiscal year will be equal to 80% of the current fiscal year's budget line called Total Expense.

### 2.2 Determining the amount to hold as Budget-Based Reserves

Once the Executive Board approves a budget for a fiscal year (generally, in August), the FO/S, ED, and FOM will calculate 80% of Total Expenses and designate that amount of money as Budget-Based Reserves for the current fiscal year. The Executive Board will be informed of this amount, but no board action is required.

### 2.3 Insufficient Budget-Based Reserves

If the total value of all Reserve Funds, less the amount held for conference liability reserve, is not at least 60% of the FY annual budget (i.e., we fall notably short of having a budget-based reserve of 80% of the FY budget), then the President shall appoint a Task Force, chaired by the FO/S, to review the overall financial status of the Society. The task force will return a recommendation to the Executive Board at its next regularly scheduled meeting, or sooner, regarding action(s) necessary to return Reserve Funds to levels that will cover the required Budget-Based Reserve amounts. The Executive Board will consider the recommendations and act as necessary and appropriate to improve the financial health of the Society.

### 2.4 Holding Budget-Based Reserves

Budget-Based Reserves are a part of the overall Reserve Funds. As such, monies held in Budget-Based Reserves will be managed by Huntington Financial according to SIOP's Investment Policy Statement.

### 2.5 Moving money from Budget-Based Reserves to Operating Funds

If, during the fiscal year, there are insufficient Operating Funds to cover revenue shortfalls or unexpected expenses that are necessary for the continued operation of the Society and delivery of member services, the ED and/or FOM will inform the FO/S of the need to access Budget-Based Reserves. The FO/S, in consultation with the President, may authorize up to \$50,000 in disbursement from Budget-Based Reserves to Operating Funds within the fiscal year for such purposes, informing the Executive Board of such action at the EB's next meeting. If the amount needed for disbursement from Budget-Based Reserves exceeds \$50,000 in a fiscal year (whether in a one-time withdrawal or through multiple withdrawals), approval is needed by the Executive Board or Emergency Action Committee for further funding.

## **3. Excess Reserves**

SIOP's money is the members' money. As such, when the amount of Reserve Funds are sufficient to protect the Society from risk, additional funds should be invested back into the organization in accordance with the SIOP Financial Principles and Strategic Plan, rather than simply held in perpetuity. Excess Reserves are

monies in the Reserve Fund that are over and above what is needed for a rainy day (as covered by Contract Liability Reserves and Budget-Based Reserves).

Proposals for the use of these funds, which must come from a member of the Executive Board or the Executive Director and be approved by the Executive Board, must be in support of these objectives:

- Strategic Investment: to provide funding in support of the SIOP strategic goals beyond the means of the annual budget.
- Technology and Equipment: to provide for investment in technology development beyond that which is included in the annual budget.
- Funding the Future: for other mission-advancing uses, such as contribution to the SIOP Foundation to provide funding to support the future of I-O psychology.

### 3.1 Amount available in Excess Reserves

The amount of money to be classified as Excess Reserves in a FY will be determined as follows:

*Value of the Reserves Fund at the close of the previous FY*  
*LESS*  
*the amount needed in this FY for Contract Liability Reserves*  
*LESS*  
*the amount needed in this FY for Budget-Based Reserves*  
*LESS*  
*any Excess Reserve monies categorized in the prior FY as Earmarked or Committed*

Any value greater than zero will be considered Excess Reserves for that fiscal year.

Because this calculation is run every fiscal year, it is possible that, due to year-over-year budget changes, varying contractual obligations, and/or market fluctuations, prior year Excess Reserves not approved for reclassification as Earmarked or Committed during that period may no longer be available as “Excess Reserves” in the subsequent fiscal year(s). Definitions of “Earmarked” and “Committed” are provided in section 3.4.

### 3.2 Determining the amount of Excess Reserves

Once the Executive Board approves a budget for a fiscal year (generally in August), the ED and FOM will inform the FO/S of the value of the Excess Reserves, according to the calculation outlined in 3.1. The FO/S will then direct the ED and FOM to designate that amount of money as Excess Reserves. The Executive Board will be informed of this amount, but no board action is required (until a proposal is submitted).

### 3.3 Insufficient Excess Reserves

It is not an expectation that SIOP will have money available for categorization as Excess Reserves every year. However, if there are no Excess Reserves for three consecutive years, the President shall appoint a Task Force, chaired by the FO/S, to review the overall financial status of the Society and return a recommendation to the Executive Board at its next regularly scheduled meeting, or sooner, regarding action(s) necessary to return Reserve Funds to levels that are more likely to result in Excess Reserves. The Executive Board will consider the recommendations and act as necessary and appropriate to improve the financial health of the Society.

### 3.4 Subcategorizing Excess Reserves to guide how funds are to be held and moved

Internally, SIOP accounting will maintain these sub-categories of Excess Reserve:

- Unallocated
- Earmarked
- Committed

#### 3.4.1 Unallocated Excess Reserves

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*Financial Officer/Secretary*

Unallocated Excess Reserves are funds that the Executive Board has not yet determined how it wants to spend. When funds are first designated as Excess Reserves, they will be categorized as Unallocated until the EB approves one or more proposals to fund. Unallocated Excess Reserves are a part of the overall Reserve Funds. As such, monies held in Unallocated Excess Reserves will be managed by Huntington Financial according to SIOP's Investment Policy Statement.

When the EB approves a proposal for funding with Excess Reserves, the money associated with that proposal will immediately be reclassified as Earmarked or Committed.

#### 3.4.2 Earmarked Excess Reserves

Earmarked Excess Reserves are funds for a project that has been approved by the Executive Board but that are not yet ready to be expended. For example, the Executive Board may approve a project that is to be completed in phases where detailed costs for future phases cannot be accurately estimated. In these cases, the Executive Board could earmark an amount of money for the entirety of the project. Since the expenditure of funds is not imminent, it would be unwise to simply hold those funds in cash and forfeit potential growth. However, the Executive Board has agreed to fund the project for the betterment of SIOP, so some effort should be made to preserve the funds for the intended future use. Thus, Earmarked Excess Reserves are to continue to be managed by Huntington Financial, but removed from the overall Reserves Fund and placed into investment products that are less susceptible to market fluctuations.

#### 3.4.3 Committed Excess Reserves

Committed Excess Reserves are funds that are associated with projects that have been approved by the Executive Board (whether through immediate approval or through first having been categorized as Earmarked) and are ready to be expended in the short-term. A timeline for expending these funds should be developed by the FOM, who will work with Huntington Financial to ensure that the cash is available, in accordance with the expenditure timeline.

#### 3.4 Moving funds between the subcategories

As projects approved for Excess Reserve funding by the Executive Board progress, it will be necessary to move funds from the Earmarked category to the Committed category. This activity can be done based on recommendation of the FOM and approval by the ED, with notification to the FO/S and EB of the financial activity through the existing financial reporting cadence and methods, but no additional approval needed.