

## II.b. – Equipment Reserve

### Philosophy

1. The establishment and maintenance of a funded Equipment Reserve policy is a high priority. This will enable Methow Recycles to support strategic business practices and to:
  - a. Provide equipment (and facilities) necessary to support operations,
  - b. Minimize the need for working capital borrowing,
  - c. Meet commitments, obligations or other contingencies, and
  - d. Generate investment income.

### Policy

1. The purpose of this policy is to establish and maintain a funded Equipment Reserve, unencumbered and uncommitted.
2. The Equipment Reserve is intended to serve a dynamic role and is available to be used as needed rather than being static, devoted only to generating interest income.

### Definitions

1. **Equipment:** any capitalized fixed asset on the balance sheet.
2. **Equipment Reserve:** Amounts reported in the Unrestricted Net Assets section of the balance sheet and identified as Equipment Reserve.
3. **Costs of replacement or major repair of equipment:** This policy applies to equipment replacement or repair whose value exceeds \$3,000.
4. **Funded Equipment Reserve:** A fund consisting of semi-liquid assets and investments accounted for separately from Operations Funds in the assets section of a balance sheet.
5. **Semi-liquid assets:** Assets that are not necessarily held as cash, but that may be readily converted to cash with nominal or no penalty. It is not required that Equipment Reserve be physically segregated in a separate account although the Board of Directors may decide to do so.

## **Strategies and Procedures**

1. Equipment Reserve shall be accounted for separate and apart from Operating Funds.
2. The Finance Committee shall have the responsibility for developing and recommending policies and guidelines for the investment of the Equipment Reserve assets and the Board of Directors shall review and approve such policies and guidelines.
3. The Equipment Reserve goal shall be to achieve and maintain between \$40,000 and \$80,000 of funds to be available for replacement or major repair of equipment as defined in Definitions section above.

## **Sources**

1. Assets for the Equipment Reserve accounts will come from operations, the Annual Campaign, unrestricted Legacies/Bequests/Memorials, earnings on investments, Special Grants and other sources the Board of Directors may deem to be appropriate.

## **Uses**

1. Internal line of credit to provide funds to meet unfunded and unexpected equipment purchase or maintenance needs.

## **Governance**

1. The procedure for approving use of the Equipment Reserve Funds shall be as follows:
  - a) Request submitted to Finance Committee by the Executive Director or an individual board member.
  - b) Recommendation by Finance Committee to the board of directors.
  - c) Review, discussion and approval or rejection by the Board of Directors.

## **Maintenance**

1. The Equipment Reserve shall have an initial funding of \$40,000.
2. Each year the depreciation value of all assets shall be added to the Equipment Reserve. This funding of the Equipment Reserve shall occur in quarterly increments equal to the depreciation that quarter.
3. The status of the Equipment Reserve shall be determined annually during the development of the annual budget.

4. In years that the operations have a negative cash flow, the Equipment Reserve shall be funded from undesignated cash on hand. The funding of the Equipment Reserve shall have priority over other expenses, except the Operations Reserve, unless the Board of Directors chooses otherwise.
5. For very large equipment purchases such as a new baler, Methow Recycles could consider funding part from the Equipment Reserve and part through a loan.
6. The minimum Equipment Reserve balance is \$25,000 and shall be reserved for major equipment repair or equipment replacement. Board action is required to go below this minimum. If the Equipment Reserve balance falls below this \$25,000 minimum, Methow Recycles shall adopt a budgeted line item in the operational budget that replenishes the Equipment Reserve to a level of \$40,000 in two years.
7. The Equipment Reserve fund shall be accounted for in the assets section of the balance sheet.
8. The Treasurer shall report the status of the Equipment Reserve to the Board as part of the regular Treasurer's report at least quarterly.

### **Policy Review**

1. This policy shall be reviewed every three years by the Finance Committee or sooner if conditions warrant. Any changes thereto shall be reviewed and approved by the Board of Directors.