

Nevada State Board of Osteopathic Medicine

Policy Title: **Operating Reserve Fund**

Date Originated: 06/12/2018

I. PURPOSE: It is the fiduciary responsibility of the Nevada State Board of Osteopathic Medicine (BOM) to safeguard the administration of the funds collected and expended in providing licensure and regulatory activities of the osteopathic physician and physician assistant professions in the State of Nevada. Maintaining an adequate cash reserves is an important tool in mitigating the risks of significant and unexpected decreases in sources of funds and/or increases in the uses of funds. The benefits include stable funding for services provided by the Board. This policy is written to ensure the ongoing financial integrity of the BOM.

II. POLICY STATEMENT: Reserves provide a gauge of the financial strength of an agency. Reserves, or undesignated fund balances, are those unrestricted assets which are reasonably liquid and not otherwise budgeted for expenditures. The undesignated fund balance will include an Operating Reserve Fund to protect the organization when revenues fall short of expenses. **Most experts agree that if at least one year's operating expenses are "in reserve," the organization is in a strong financial position. To ensure continued and future reliability, this policy proposes to identify a target balance or threshold for the Operating Reserve Fund of about 18 months - in cash holdings and CDs.**

The Executive Director shall notify the Board of the status of reserves at least annually, preferably during the first Board meeting of the fiscal year, i.e. in July, and more often as significant changes occur.

III. PROCEDURE: The Board will establish an operating reserve fund out of the undesignated fund balance in an amount equal to approximately **18 months' operating expenses** of the preceding year's budget or the total amount available, the operating reserve fund shall be used as follows:

Expenses. For the past few years the annual expenses are within the reasonable level of growth. Most of the expenses are predictable and can be budgeted accordingly.

Cash Operating Reserve. It is recommended that Board should have adequate reserves to fund approximately 18 months of operating and maintenance expenses. This will help insulate the Board and its customers from volatility, if any, in operating revenues and expenses, as well as from other unpredictable variables that could interrupt cash flow or impose unforeseen costs.

Debt Service Reserve. Currently the Board does not carry any short or long term debt; hence there is no need to have a debt service reserve. However, if the Board decides to take on any new debt, the reserve policy should be revisited and the sufficient funds should be allocated for the debt service reserve.

Capital Reserve. There is no need to have any capital reserve as there are no significant capital assets on the books. However, if the Board acquires significant capital assets, the reserve policy should be revisited and the funds should be allocated to maintain capital reserves to replace the aging assets.

Risk Management. Cost recovery for events such as employee maliciousness, embezzlement, burglary, robbery, vandalism, insurance deductibles and non-insured events.

Disaster Recovery/Planning. Cost of planning for and implementing a plan to return to at least minimal operations in the event of a natural disaster or an act of terrorism.

Leasehold Improvements. Includes office renovation, relocation expenses, and improvements, to accommodate reorganization or improve customer service.

Legal Contingency. In the ordinary course of its processing and proceedings related to consumer complaints and discipline, the Board occasionally is subjected to litigation. Predicting when such litigation may arise and its potential effect upon the Board's finances is difficult; but, when appropriate, the Board must engage in a

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vigorous defense. Determining such litigation expenses are a challenge to budget for in advance; therefore, the maintenance of a reserve will allow the Board to pursue legally mandated investigations and discipline as needed.

Technology Maintenance/Upgrades. Includes existing database system software and hardware to more efficiently carry out the licensure, renewal and discipline functions of the Board; and, to comply with state or federal reporting requirements.

Liability/Law Suits/Legal Counsel. Costs will ensure the Board retains funds to cover the unexpected legal and liability costs that may be encountered.

IV. REVIEWED BY THE BOARD:

1. The balance in the Operating Reserve Fund will be reviewed annually. The evaluation will determine the appropriate measures to ensure the continued financial efficacy of the Board. The findings of the evaluation will be submitted at the next regularly scheduled Board meeting.

2. The evaluation will include:

- a. An examination of the forces affecting funding including a decrease in the number of licensees, the medical related population, and increased services and programs or changes in the regulatory environment.
- b. A review of expenses to identify if fees/costs should be increased or reduced.
- c. An evaluation of existing and future potential sources of funds.
- d. If the reserve amount has been attained, whether any adjustment to the Board's fees should be made to avoid future accumulation of reserves.

Disclaimer: The Reserve Policy was approved at the June 14, 2022 Board Meeting.