

TEXAS HOSPITAL ASSOCIATION
RESERVE FUND POLICY
(Adopted September 14, 1991)

PURPOSE

The THA Board of Trustees establishes Association reserve funds for the following purposes:

- To provide protection against expected or unexpected reductions in revenue or additional expense spending resulting in cash requirements beyond available operating funds.
- To provide funds for large capital expenditures that are unable to be funded by annual depreciation expense.
- To provide funds for potential investment in new business ventures.
- To provide funds to bridge financial needs during catastrophes, acts of God, etc.
- To serve as source from which operating funds could be borrowed on a short-term basis.
- To ensure continuous financial support of litigation the Association has entered into under the Association's Litigation Policy on behalf of its membership in an amount of up to \$250,000 annually. The Reserve Fund is to be utilized only after the funds provided in the annual budget approved by the THA Board of Trustees for that specific litigation and for general litigation contingencies have been exhausted.

FUNDING GOAL

The Association will have as a continuing reserves goal an amount equal to three to six months average operating expenses based on the most recent annual budget approved by the THA Board of Trustees. As a part of the Association's annual budget process, the Board of Trustees will specify the appropriate number of months to be utilized to determine the Reserve Fund goal.

FUNDING METHOD

Annual contributions shall be determined as a part of the Association's annual budget procedure. Upon the THA Treasurer's recommendation, the THA Board of Trustees may transfer additional surplus operating monies to the Reserve Fund.

Interest earned on all Reserve Fund monies shall be retained in the Reserve Fund.

WITHDRAWAL OF FUNDS

Short-term borrowing

Should the Association require short-term borrowing to meet operating requirements, designated members of THA's executive staff may authorize utilization of up to three months average operating funds, as determined by the annual budget approved by the THA Board of Trustees, from the Reserve Fund. Such short-term borrowing requires the unanimous approval of the President/Chief Executive Officer, the Executive Vice President/Chief Operating Officer, and the Senior Vice President/Chief Financial Officer. Any such short-term borrowing must address the source of repayment of the Reserve Fund. The Fund should be reimbursed for the principal amount borrowed plus interest at the current prime rate. The THA Board of Trustees shall be notified of any such short-term borrowing, the reason the transfer was required, the projected maximum amount required, and the anticipated repayment schedule at its next board meeting.

Other

Other withdrawals shall be approved by the THA Board of Trustees, or if necessary its Executive Committee, prior to the transfer of any funds. Whenever monies from the Fund are utilized, the THA Board of Trustees shall determine how the Fund will be replenished (i.e. assessment, dues increases, repayment from operating funds over a specified period, voluntary contributions, etc.)