Operating Reserve & Investment Policy

The following Policy has been adopted by the Board of Directors of and is to be shared with the Finance Committee and any active portfolio managers responsible for investing unrestricted assets of the organization:

# Policy Statement

The primary objective of this policy is to establish an operating reserve for that will permit the organization to continue to operate during difficult financial times. Some examples for use of operating reserve funds are as follows:

* 1. Maintain current level of operations while addresses longer term solutions to potential operating problems.
  2. Maintain current level of operations while fundraises for substitute funds should a major funder not renew their funding.

The primary investment objective of this policy is capital preservation and liquidity.

# Operating Reserve

will maintain an operating reserve that will be no less than 3 months (minimum) and no more than 6 months (maximum) of the annual operating budget. The operating reserve will be reviewed by the Finance Committee at least annually to see if the organization is in compliance with this policy.

* A minimum of 75% of the increase in unrestricted net assets from the current year will be added to the operating reserve until the maximum reserve balance has been achieved.
* An amount should be built into the annual budget to build the operating reserve to the desired level.
* The operating reserve funds will be invested in accordance with the Investment Policy adopted by the Board.
* Earnings from the operating reserve investments will be added to the balance until the maximum reserve balance is achieved. Once the maximum balance is achieved, then the earnings can be used for general operations.
* Any spending of the operating reserve corpus must be approved in advance by the Board.

# Investments

Since capital preservation and liquidity are the two main objectives for the investment of the operating reserve funds, the portfolio will be one with a short-term focus. Following are the investment guidelines for the investment of the operating reserve fund:

* Maturity for each investment should be no more than 3 years.
* At least 10% of the portfolio should have a maturity of less than 90 days.
* Permissible investments for the portfolio are as follows:
  + Money Market Funds – these funds should be available upon demand, must be with a financial institution that is insured and must not exceed the insured limit at the institution.
  + Certificates of Deposit – these funds should be issued by financial institutions that are insured by the FDIC and are limited to $100,000 in principal per institution.
  + Commercial Paper - investments in these instruments are authorized provided they hold a rating of A1/P1, are 90 days or less in maturity and are limited to $100,000 per issuing entity.
  + Repurchase Agreements – these investments with banks are eligible investments, only if the bank is rated AA or better, and the repo collateral consists of government securities. Collateral should be delivered and held by the bank in ’s name. The term of the repo is not to exceed 14 days, and the amount may be no larger than $150,000.
  + Banker’s Acceptance – these are eligible investments provided that the draft is drawn on an authorized obligatory bank, does not exceed $150,000, is for 90 days or less, and another security (i.e., commercial paper, negotiable CD or repo) is not presently outstanding with the issuing bank. The bank shall have a commercial paper rating of A1-P1.
  + U.S. Government Obligations - the only restriction on direct U.S. Government securities will be a limit of $300,000 per maturity, and a maximum term of three years.
  + Federal Agency Securities - investment in government agencies that are not direct obligations of the federal government will be restricted to one-year maturities and a maximum of $300,000 per agency.
  + Corporate Notes - investments in Corporate Notes are authorized provided that the debtor holds an AA rating or its equivalent and has a maturity of one year or less, is a United States corporation, and is limited to $100,000 per entity. These investments shall be made through public placement only.
* The Finance Committee is to receive regular reports of investment performance and investment activity.
* The utilization of outside investment professionals may be considered when implementing part or all of this program. Such professional service must be bound by these same guidelines while undertaking its investment management role.

# Accessing The Funds

The Executive Director may access the Operating Reserve Fund for purposes of paying approved expenses under the following conditions.

* Sufficient accounts or grants receivable are available to repay the usage within months.
* If replacement of funds will not be possible in the given timeframe, the use of funds must be approved by a majority vote of the Board.

# Procedure

* 1. The Executive Director will notify the Treasurer in writing, and usage of the Operating Reserve Fund will be acknowledged in writing by the Treasurer. E-mail is an acceptable form of notification and acknowledgement.
  2. The Treasurer will report usage and status of the Fund at the next full Board meeting as part of the regular Treasurer’s report.
  3. The Finance Committee will receive reports on the Operating Reserve Fund at its regular meetings and will be charged with assuring that the funds are maintained in accordance with the guidelines stated in this policy.
  4. The status of the Operating Reserve will be calculated at the end of each fiscal year based on the fiscal year audit/review results. The Operating Reserve Ratio will be calculated as follows:

Unrestricted Operating Reserve as of year-end/Budgeted Annual Operating Expenses/12months = No. of months

The Operating Reserve Ratio will be presented to the Finance Committee at their meeting following approval of the financial audit/review results. The Committee will consider the adequacy of the Operating Reserve amount and will recommend any changes as deemed necessary.

* 1. The Operating Reserve Fund will be listed separately in the net assets section of the organization’s statement of financial position as “Operating Reserve” and borrowings from the reserve will be shown as a liability – “Due to Operating Reserve” – in internal financial reports.
  2. The Finance Committee will review the Operating Reserve Policy yearly and recommend any necessary changes for Board approval.

# Responsibilities

The ultimate responsibility for investment oversight resides with the Board of Directors. The Finance Committee shall monitor the investment portfolio for compliance with this policy.

The Finance Committee shall review the portfolio periodically at Finance Committee meetings and review the guidelines at least annually.

At least quarterly, the Treasurer will report to the Board the investment performance of the operating reserve fund and compliance with the operating reserve policy.

APPROVED BY THE BOARD OF DIRECTORS:

LAST REVIEWED ON:

LAST UPDATED ON: