

Community Foundation of Tompkins County

Operating Reserve Policy

Approved by Board of Directors, September 12, 2016

The following items are for background information and are not part of the policy.

1. The Financial Administration committee (FAC) has been charged by the Board to consider the level of operating reserves that the Foundation should maintain, and how these funds should be held.
2. Since March 2016, the CEO has been monitoring the “Operating Cash” (i.e., the amount of cash available to run operations) and has analyzed projections compared to actual month end Operating Cash.
3. For 2016, the year-end projected Operating Cash is approximately 200k and the minimum of \$71k occurs in September. (Typically 60% of gifts are received in the last 6 weeks of each calendar year.)
4. The Foundation has secured a line of credit (LOC) for \$100k from Tompkins Trust Company which can be drawn from if necessary to sustain operations.
5. Currently, there are two Funds related to operations:
 - a. The Operational Fund is held in cash or cash equivalents in local banks (in checking and savings accounts and in CDs).
 - b. The Operational Endowment Fund (which currently has \$195k principal) is governed by the spending policy and is invested in the Foundation’s regular 65/35 portfolio.
6. Part of the present proposal is to create a third fund, the Operational Reserve Fund, to hold funds in excess of those needed for current operations, which will be invested in one of the Foundation’s portfolios, possibly with a shorter time horizon than the Operational Endowment Fund. The Operational Reserve Fund has greater flexibility than the Operational Endowment Fund. The Operational Endowment Fund receives gifts from donors who have restricted their gifts as endowed.
7. Drawing a parallel with personal finances, the Operational Fund, the Operational Reserve Fund and the Operational Endowment Fund are analogous to checking, saving, and retirement accounts, respectively.

Operating Reserve Policy

Definitions

Operating Cash is defined as the cash available for operations and it excludes funds held in the Operational Reserve Fund and the Operational Endowment Fund.

The *Target Operating Cash (TOC)* is defined to be 6 months of the budgeted total expenditures (i.e., 50% of the budgeted annual total expenditures).

Policy: Operating Cash

1. The purpose of this policy is to ensure that the Foundation has sufficient cash to maintain operations, and that operating funds in excess of those needed for current operations are prudently invested.
2. The CEO shall ensure that the LOC is maintained, and the available credit shall be included in the monthly financial report.
3. As part of the annual budgeting process, projections shall be made of the Operating Cash at the end of each month of the budget year.
4. As part of the budget approval process, the Board may authorize a transfer to or from the Operational Fund from or to the Operational Reserve Fund, thus increasing or decreasing, respectively, the projected year-end Operating Cash.
5. If the current year-end projected Operating Cash (accounting for any transfers to or from the Operational Reserve Fund) exceeds the TOC, then a deficit budget for the following year may be considered, provided that the budget-year-end projected Operating Cash is no less than the TOC.
6. Conversely, if the current year-end projected Operating Cash (accounting for any transfers) is less than the TOC, then the budget for the following year shall at least be balanced, and some priority should be given to increasing the year-end Operating Cash.
7. The Operating Cash shall be monitored by the CEO and shall be included in the monthly financial report.
8. If at any time during the budget year, the minimum projected Operating Cash (for the remaining months) plus the available line of credit is less than 3 months of the budgeted total expenditures (i.e., 25% of the budgeted annual total expenditures), then the CEO shall notify the FAC and the Executive Committee immediately. The FAC shall determine if a budget modification is required.

Policy: Operational Reserve Fund

1. The purpose of the Operational Reserve Fund is to provide the benefits of investment returns on operating funds (in excess of those needed for current operations) while maintaining greater flexibility than afforded by the Operational Endowment Fund. The Board may use these funds for strategic investments.
2. At a future time, when the Operating Cash exceeds that required for annual operations by more than the TOC, the Board may initiate the Operational Reserve Fund through a transfer from the Operational Fund.
3. The funds shall be invested in one or more of the Foundation's portfolios selected by the Board of Directors considering FAC recommendations.
4. There shall be an annual payout from the Operational Reserve Fund to the Operational Fund as determined by the Spending Policy (just as there is such a payout from the Operational Endowment Fund).
5. Other transfers to and from the Operational Reserve Fund require the approval of the Board.
6. As part of the annual budgeting process, the FAC shall determine if there is excess cash being held in the Operational Fund which should be transferred to the Operational Reserve Fund; and, if there is, the FAC shall recommend to the Board the amount of the transfer to be made.