



Here for Good

Community Foundation
for Monterey County

Operating Reserve Policy

Established August 2012

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The Operating Reserve Policy (Policy) defines the nature of the CFMC's operating cash assets and establishes goals and guidelines for minimum balances. The Policy does not pertain to cash that is held in the CFMC's investment portfolio, which is governed by the Investment Policy Statement. Nor does it pertain to the CFMC's administrative endowment, which is a permanently restricted, endowed fund whose exclusive use is the support of CFMC operations.

The CFMC's operating cash assets fall into four categories: 1. operating reserve; 2. building reserve; 3. cash on hand; and, 4. board designated reserve.

Definitions

The **operating reserve** is a designated cash amount that is held in reserve for urgent operating needs and to assure the financial health of the CFMC. Operating reserves can be set as a percentage of the annual operating budget or a fixed amount. Usage of the operating reserve requires board approval. Currently the CFMC has an operating reserve of \$250,000. This fund, and the reserve amount, was established by vote of the board.

Cash on hand is the cash available for normal operations and capital expenditures of the CFMC. Calculation of a monthly cash on hand figure should be net of the operating cash reserve, building reserve and board designated reserve. Since fees on funds (the CFMC's primary source of operating revenue) are taken quarterly, cash on hand varies from month-to-month. The CFMC currently does not have a policy specifying an amount of cash on hand, as it is defined here. Should such an amount be set, it should be set with a range, or have a base figure that takes into account the quarterly taking of fees.

The **building reserve** is an amount set aside for significant, unanticipated expenditures that improve or maintain the structural and operating integrity of CFMC-owned facilities. The building reserve is \$150,000, and was established by vote of the board in June 2012. The amount was based on a consultant's report that sought this information. It is being funded in five annual installments. A reserve study should be conducted every five years to insure the adequacy of the fund.

The **board designated reserve** consists of funds in addition to the funds listed above that are not restricted to the CFMC's grant-making programs. Should the board so designate, the board designated reserve can reside in the CFMC's portfolio, be held in cash or in other investment instruments. Use of the fund is at the board's discretion. The fund can serve as additional operating reserves, be allocated to special projects, utilized for grant making or any other mission-related purpose the board deems appropriate. The board retains the flexibility to alter the use of the fund based on organizational or community need. They are generally comprised of operating assets that have accumulated beyond the

designated balances of the operating reserve, cash on hand and the building reserve, or derive from planned gifts that name the CFMC's operations as beneficiary. (The CFMC's board has legal authority to place any unrestricted gift into any of the funds listed above. However, the CFMC's current practice, approved by the board, is to place all unrestricted gifts into the general endowment for the support of grant making.) Currently, there is no board designated reserve fund, as no limit has been placed on cash on hand.

Recommendations

Operating cash reserves: Maintain at \$250,000. Invested in cash vehicles.

Cash on hand: 5 – 8 months of current year's operating budget. At the end of a calendar year, should cash on hand exceed eight months, and the operating reserve and building reserve are fully funded, any amounts in excess will be placed into the board designated reserve. Invested in cash vehicles.

Building reserve: Build to \$150,000 in 2016 and maintain. Invested in cash vehicles.

Board designated reserve: No limit, as the board may, at its discretion, allocate these funds to replenish other operating cash reserve funds or use for other mission-related purposes. Invested at the board's discretion.

Annual review of this policy and the amounts specified for each of the operative reserve funds is the responsibility of the CFMC finance committee. Changes to the policy will be recommended to the board of directors.