



Proposed Policy
OPERATING RESERVES POLICY & INVESTMENT STRATEGY

OVERVIEW:

The Board of Directors holds fiduciary responsibility for all funds held by Philanthropy West Virginia for the purposes of carrying out its charitable mission and those of its affiliated programs, initiatives and projects. In light of this overall sense of stewardship, the following policy should be understood and followed as our best practice and financial development of the organization.

The Board of Directors has delegated supervisory authority over Philanthropy WV's financial affairs to the Finance & Administration (F&A) Committee of the Board. This committee is responsible for overseeing the management of the organization's funds and reporting to the full Board. In carrying out its responsibilities, the committee will act in accordance with Philanthropy WV's policies and all applicable laws and regulations. The F&A Committee will review the organization's fiscal policies as needed and recommend any changes to the Board of Directors for approval.

To ensure Philanthropy WV's long-term financial stability and effectiveness, this policy:

- Creates a process through which the Board annually reviews the allocation of Philanthropy WV's unrestricted net assets and designates how they will be used; and
- Sets a target level for Philanthropy WV's Operating Reserves, establishes an annual budgeting policy to build the Operating Reserves over time, and outlines a process to be followed should it be necessary to use Operating Reserves for operations.

OPERATING RESERVES:

Philanthropy WV maintains Operating Reserves for the purposes of helping the organization manage cash flow, covering unplanned financial shortfalls, and ensuring that the organization can continue to carry on its mission under extraordinary or unusual circumstances. Unless such circumstances arise, Philanthropy WV will maintain Operating Reserves of at least twelve months of the core operating expenses for the most recently completed fiscal year. Staff will not present and the board will not approve an annual operating budget that would cause Operating Reserves to drop below this threshold.

Philanthropy WV's annual operating budget will also include a contribution to the Operating Reserve equal to 2.5% of core operating expenses for the current fiscal year, if balance of the Operating Reserves is less than twelve months of core operating expenses. (Additional contributions may be continue to be made after the balance reaches twelve months of core operating expenses.)

On an annual basis, the F&A Committee will review Philanthropy WV's level of unrestricted net assets and may recommend that the Board designate such funds for special projects, capital investments, technology-related initiatives, addition to Operating Reserves or other needs.

How it is Funded:

Accumulated annual operating surplus designated by the Board and 1% of annual core operating expenses.

Use of Operating Reserves:

With oversight from the F&A Committee, Philanthropy WV staff and the President & CEO are responsible for monitoring income and expenses and projecting year-end results to ensure Operating Reserves are maintained at the minimum required level of twelve months of the most recently completed fiscal year's annual core operating costs.

Should the President & CEO and the Treasurer determine that the organization's financial performance for the current fiscal year will cause Operating Reserves to fall below that threshold, the F&A Committee will develop a recommendation for the board on how to proceed. Options include:

- If the President & CEO and the F&A Committee believe that using Reserves to fund operations represents the most responsible course of action, they will request the Board's approval to do so. At the same time, they will present to the Board a concrete plan-including steps, a timeline, and the specific amount of funds needed to return Operating Reserves to the minimum level required by this policy.
- Alternatively or in combination with this plan, the President & CEO and F&A Committee may also recommend that the organization reduce expenses in order to avoid depleting the Operating Reserves.
- Reducing Operating Reserves below the required minimum threshold requires explicit approval from the Board of Directors
- Board Designated Operating Reserves are unrestricted net assets of Philanthropy WV and as such are available to meet short-term cash needs (1 to 90 days) that may arise because of the timing of large grants and payments. Approval of the F&A Committee is required when Operating Reserves are used to manage cash flow. All borrowed funds should be repaid within six months.

Reporting:

The Board Treasurer and President & CEO will report on the status of the Operating Reserves to the F&A Committee who will report to the Board of Directors at its meeting.

INVESTMENT PLAN FOR OPERATING RESERVES & OTHER FUNDS:

Objective:

The primary investment objectives of Philanthropy WV are to preserve principal, to ensure liquidity and to maximize the contribution to the operating budget.

Asset Mix:

To accomplish the investment objective, at the direction of the F&A Committee, the staff or managers appointed by the committee are authorized to invest in funds of fixed-income securities (e.g., CDs, U.S. Treasuries, interest bearing checking accounts, and short-term cash money market mutual funds). The Board Treasurer, additional committee members and staff are responsible for insuring that the asset mix remains within the ranges established by the F&A Committee. These ranges are 0% in equity securities; 0-75% in fixed-income securities; 25-100% in short-term cash. The F&A Committee can modify these ranges from time to time with approval from the Board.

Proposed Tier of Operating Reserves Investments (set as of 06-2016):

Due to the fluctuating income projections by quarter for Philanthropy WV, we do not want to tie up our operating reserves in just one vehicle so it is proposed to have them in smaller denominations with staggered maturity dates. The following is a proposed tier of operating reserve investments that gives us shorter term in case we need it and also get better rates for other money to be invested in a longer term. As the market rates can go up in the near future, we can be sure the monies are tied up in longer term CD's so that when one matures we can take advantage of the better rates. It is best to have \$50,000 to \$75,000 of Operating Reserves in cash (Money Market or interest bearing Checking Account that is accessible). Once the reserves exceed this amount they will be moved into a CD. They CDs are to be setup in increments of \$25,000 or \$50,000 and kept on a staggered scale. The proposed tiers include:

- \$25,000 to 50,000 at 3 to 6 months
- \$25,000 to 50,000 at 6 to 9 months
- \$25,000 at 9 to 12 Months
- \$25,000 at 12 to 18 months
- \$25,000 at 18 to 24 months

[REFERENCE ITEM (will be removed for permanent copy of policy) - IMPORTANT NOTE on CURRENT PRACTICE: As of 06-01-2016, all of Philanthropy WV's (including its programs, initiatives, and projects) funds are held in four primary accounts including:

- a) Philanthropy WV at United Bank Money Market (Interest Rate is: 0.30%)
- b) WVNPA at United Bank Money Market (Interest Rate is: 0.30%)
- c) Special Projects at United Bank Money Market (Interest Rate is 0.05%)
- d) Operating Reserves at MVB Bank Interest Bearing Checking Account (Interest Rate is 0.50%)

Depending on the overall level of our operating reserves we can adjust these amounts and periods depending on the current interest rates. These are to be reviewed twice a year by the F&A Committee for recommendations to be made to the Board of Directors. In regards to funds designated for special programs and initiatives such as the WV Nonprofit Association, this policy will be shared with their Advisory Board for them to elect an option to take under this strategy. There determined action will be in alignment with this policy, but they can elect to keep operating reserves in cash if they so choose. *(This is an item to discuss with the WVNPA Advisory Board Treasurer and F&A Committee.)*

Asset Quality:

Fixed income securities: Philanthropy WV may directly invest in U.S. Treasury obligations or other securities guaranteed by the federal government with a maturity not to exceed three years.

Short-term (cash) investments: The quality rating of commercial paper must be A-1, as rated by Standard and Poor's, P-1 as rated by Moody's, or better. The assets of any mutual funds must comply with the quality provisions for fixed-income securities or commercial paper investments.

Investment income: Unless otherwise designated by the Board of Directors or a funder, income generated from investments will be recorded as income for the current fiscal year.

Board designated Quai-Endowment: If Operating Reserves exceed eighteen months of core operating expenses for the most recently completed fiscal year, the board may reserve distribution to setup a quasi-endowment to be managed in accordance with the terms of its own established investment policy. Consideration may be given to place these funds in with a community foundation to be managed as an agency endowment to support Philanthropy WV's annual operations.

This policy is prepared for Philanthropy WV to be annually reviewed by the F&A Committee and implemented by the F&A Committee, Board Treasurer, and Philanthropy WV staff. It is requested that the F&A Committee be made up of professionals who have expertise in asset management, investment expertise, and accounting experience to assist the staff in ensuring the best management of the organization's operating reserves.

This is drafted for F&A Committee and Board of Directors review, adaptation, and approval for their June 2016 meetings.

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