



OPERATING RESERVE AND INVESTMENT POLICY

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

A. Policy Statement

The primary objective of this policy is to establish an operating reserve for Colorado Nonprofit Association 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 Colorado Nonprofit Association addresses longer term solutions to potential operating problems.
2. Maintain current level of operations while Colorado Nonprofit Association fundraises for substitute funds should a major funder not renew their funding.

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

B. Operating Reserve

Colorado Nonprofit Association 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.

C. 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:

- a) Maturity for each investment should be no more than 3 years.
- b) At least 10% of the portfolio should have a maturity of less than 90 days.
- c) Permissible investments for the portfolio are as follows:
 - i) 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.
 - ii) 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.
 - iii) 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.
 - iv) 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 Colorado Nonprofit Association's name. The term of the repo is not to exceed 14 days, and the amount may be no larger than \$150,000.
 - v) 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.
 - vi) 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.
 - vii) 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.
 - viii) 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.
- d) The Finance Committee is to receive regular reports of investment performance and investment activity.

- e) 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.

D. Authorization

A resolution by the Board shall authorize the President to implement this investment policy in relation to investing the Organization's operating reserve funds.

E. 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.