



# MPC

# FOUNDATION

MONTEREY PENINSULA COLLEGE

## Board-Designated Operating Reserves Policy

### PURPOSE

The purpose of the Board-Designated Operating Reserves policy for the Monterey Peninsula College Foundation is to ensure the stability of the mission, programs, employment, and ongoing operations of the organization.

Operating Reserves are intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. Operating Reserves may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as investment in infrastructure or research and development. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an on-going budget gap. It is the intention of the Monterey Peninsula College Foundation for Operating Reserves to be used and replenished within a reasonably short period of time (two years).

The Operating Reserve policy will be implemented in concert with the other governance and financial policies of the Monterey Peninsula College Foundation, and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

### DEFINITIONS AND GOALS

The “**Board-Designated Operating Reserve Fund**” is defined as the designated fund set aside by action of the Board of Directors for Operating Reserves. The minimum amount to be designated as the Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The Operating Reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The target minimum Board-Designated Operating Reserve Fund is equal to **three months** of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, office, travel, program, and on-going professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average monthly expenses also excludes some expenses (for example, pass-through programs, one-time or unusual expenses, and capital purchases).

The amount of the Board-Designated Operating Reserve Fund target minimum will be calculated each year as part of the annual budget approval process. The Fund balance will be reported to the Finance Committee and Board of Directors on a regular basis, and included in financial reports.

### ACCOUNTING FOR RESERVES

The Board-Designated Operating Reserve Fund will be recorded in the financial records as Board-Designated Operating Reserve. The Fund will be funded and available in cash or cash equivalent funds. Operating Reserves will be commingled with the general cash and investment accounts of the organization.

Approved August 13, 2014

## **FUNDING OF RESERVES**

The Board-Designated Operating Reserve Fund will be funded with surplus unrestricted operating funds. The Board of Directors may from time to time direct that a specific source of revenue be set aside for Operating Reserves. Examples may include one-time gifts or bequests, special grants, or special appeals.

## **USE OF RESERVES**

Use of the Operating Reserves requires three steps:

### **1. Identification of appropriate use of reserve funds.**

The Executive Director will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds before using reserves, and evaluation of the time period that the funds will be required and replenished.

### **2. Authority to use operating reserves.**

The Executive Director will submit a request to use Operating Reserves to the Finance Committee of the Board of Directors. The request will include analysis and determination of the use of funds and plans for replenishment. The organization's goal is to replenish the funds used within twenty-four (24) months to restore the Board-Designated Operating Reserve Fund to the target minimum amount. The Finance Committee will review and recommend the request to the Board of Directors, who has authority to authorize transfer from the Board-Designated Operating Reserve Fund.

### **3. Reporting and monitoring.**

The Executive Director is responsible for ensuring that the Board-Designated Operating Reserve Fund is maintained and used only as described in this Policy. Upon approval for the use of Operating Reserve funds, the Executive Director will maintain records of the use of funds and plan for replenishment. He/she will provide regular reports to the Finance Committee and Board of Directors of progress to restore the fund to the target minimum amount.

## **RELATIONSHIP TO OTHER POLICIES**

The Monterey Peninsula College Foundation shall maintain the following board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Board-Designated Operating Reserve Fund:

- Investment Policy
- Endowment Accounting Policy

## **REVIEW OF POLICY**

This Board-Designated Operating Reserves Policy will be reviewed every three years, at minimum, by the Finance Committee, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Finance Committee to the Board of Directors.