



**POTTER LEAGUE**  
**POLICY STATEMENT**  
**BOARD DESIGNATED RESERVE FUNDS**

**BOARD DESIGNATED RESERVES**

**Statement of Purpose**

The Board of Directors of the Robert Potter League for Animals, Inc designated multiple Reserve Funds by resolution at its March 19, 2013 Board meeting. These Board Designated Funds enable the organization to achieve objectives to promote public and funder confidence in the long-term sustainability of the organization. They help to ensure the long-term financial stability of the organization and position it to respond to varying economic conditions and changes affecting the organization's financial position and the ability of the organization to continuously carry out its mission.

The Board Designated Reserves are funded by the accumulation of unrestricted surpluses that are liquid and thus available for use at the discretion of the Potter League's Board of Directors. The Board of Directors may at any time create / designate special purpose funds relevant to identified objectives as recommended by the Finance Committee.

The initial funds created by the Board of Directors are:

- Building Reserve
- Operating Reserve
- Long-term Investment Reserve

Each fund and its year-end balance is to be listed separately in the Net Assets section of on the Statement of Financial Position in Potter League's audited financial statements.

Under direction of the Finance Committee, the Executive Director will establish any separate accounts necessary for Board Designated Reserve Funds at banks or investment firms. Policies and procedures for handling deposits, reconciling statements, safeguarding access, etc. will be

the same as established from time to time for any of the Potter League's other bank accounts. If feasible, the funds will be invested according to the guidelines set in the Reserve Investment Policy.

## **BUILDING RESERVE**

Purpose of the Board Designated Building Reserve:

Since July 2012 and the completion of the new shelter, the Potter League has grown a building reserve fund to provide for major repairs and improvements. The Board annually transfers funds to the reserve from operations, and will continue to do so as outlined in the 20-year reserve requirement study prepared by the Nonprofit Finance Fund (NFF).

Process:

The targeted amount to be transferred and attained for the Board Designated Building Reserve is guided by the System Replacement Plan (SRP) created by NFF. Funds are included in the annual operating budget and approved as part of the regular budget process. The funds are deposited into a specified account prior to the end of the fiscal year. Decisions on how the funds in the Building Reserve are to be invested will be made by the Finance Committee.

Use of the Board Designated Building Reserve:

The Executive Director may access funds for major repairs and improvements to the facility as directed by the Board of Directors' approval of the Finance Committee's recommendations. Funds expended through the approved System Replacement Plan need to be reported to the Finance Committee. Funds needed that are not included in the System Replacement Plan will require prior approval from the Finance Committee and a potential adjustment of the SRP's funding schedule. Any disbursements from the fund shall be reported at the next full Board meeting.

A draw-down from the fund does not require repayment. Funding the Building Reserve on an annual basis is required unless otherwise directed by the Board of Directors.

## **OPERATING RESERVE**

Purpose of the Board Designated Operating Reserve:

The Operating Reserve is designed to provide for operations in the event of an unanticipated interruption or other operating contingency. It creates an internal line of credit to manage cash flow and maintain financial flexibility.

Process:

The targeted amount to be maintained for the Board Designated Operating Reserve is equal to approximately 120 days (4 months) of projected operating expenditures, excluding depreciation, and thus represents approximately 33% of the annual operating budget. Decisions on where and how the funds in the Operating Reserve are to be invested will be made by the Finance Committee. The Operating Reserve is to be rebalanced at least annually at the end of the fiscal year or as requested by the Finance Committee.

Use of the Board Designated Operating Reserve:

The Executive Director will request from the Treasurer in writing any withdrawals from the Board Designated Operating Reserve and usage will be acknowledged in writing by the Treasurer. E-mail or fax shall be acceptable forms of request and acknowledgement. Any funds borrowed from the Operating Reserve will be paid back through a prescribed repayment schedule and method determined by the Finance Committee. Disbursements shall be reported at the next full Board meeting. At any time that a borrowing from the Operating Reserve Fund is outstanding, the status of the borrowing and repayments will be reviewed at the regularly scheduled Board meetings.

## **LONG-TERM INVESTMENT RESERVE**

Purpose of the Board Designated Long-Term Investment Reserve:

The Long-Term Investment Reserve is composed of certain unrestricted, non-operating funds the Board of Directors has set aside for long-term purposes. These funds are invested to provide for the long-term growth of the League.

Process:

Decisions on how the funds in the Investment Reserve are to be invested will be made by the Finance Committee. Since the Investment Reserve is intended to be of longer duration and full liquidity is not anticipated, a more detailed Policy has been prepared to guide investment returns and activity within the fund (see below).

Use of the Board Designated Long-Term Investment Reserve:

The Board of Directors has approved that a range of 0% to 5% of the total Long-Term Investment Reserve will be available annually for operations and programs. During the budget preparation and approval process, the Finance Committee will make a decision as to the amount of this Reserve (0% to 5%) that will be added to the operating budget. Approval by the Board of Directors will be done with the approval of the operating budget. Distributions can be made on a quarterly or annual basis from the Reserve to the operating checking account.

The Board of Directors at any time can vote to release additional funds from the Long-Term Investment Reserve for operations and programs or to create / designate a new special purpose fund(s) relevant to identified objectives as recommended by the Finance Committee.

### **Investment Policy for the Long-Term Investment Reserve**

The purpose of this policy is to provide a clear and written outline of the Potter League's investment objectives and policies related specifically to the Board Designated Long-Term Investment Reserve Account (known hereafter as the "*account*"). This statement is intended to outline a philosophy and attitude which will guide the investment management of the assets covered by this policy toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical and to:

1. Establish a clear understanding for all involved parties of the investment goals and objectives of the assets covered by this policy.
2. Offer guidance and limitations to any and all investment managers regarding the investment of the assets covered by this policy.
3. Establish a basis for evaluating investment results.
4. Manage the assets covered by this policy according to prudent standards.
5. Establish the relevant investment horizon for which the assets covered by this policy will be managed.

This outline should be used and considered by any and all parties that are involved in the *account*, including the Board of Trustees, the Finance Committee, Officers of the organization, and any outside advisors we may choose to hire.

One role of the Finance Committee is the ongoing maintenance and supervision of the management of the account, advisors and policies. The Board of Directors is responsible for making final decisions as they relate to hiring of the advisors, changing or modifying this statement, and any other issue as stated in the By-Laws.

If an Investment Manager(s) ("IMs") is retained, the Potter League Finance Committee would not reserve any control over investment decisions, with the exception of specific limitations described herein. IMs would be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations would hamper investment managers, each manager should request modifications which they deem appropriate.

If such experts employed would be deemed to be fiduciaries, they would be required to acknowledge such in writing. All expenses for such experts must be customary and reasonable, and would be borne by the assets covered by this policy as deemed appropriate and necessary.

## **INVESTMENT MANAGER RESPONSIBILITIES**

The IM will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined herein. Specific responsibilities of the IM include:

1. Reporting, on a timely basis, quarterly investment performance results
2. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of the investment process, or the investment objective progress of the assets under management.
3. Informing the Finance Committee of any qualitative change to the investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
4. Voting proxies, if requested by the Finance Committee, and communicating such voting records to the Finance Committee on a timely basis.

## **GENERAL INVESTMENT PRINCIPLES**

1. Investments shall be made solely in the interest of the Potter League.
2. The assets covered by this policy shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a Prudent Man acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the assets covered by this policy shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity and return.

## **GOAL OF ASSETS UNDER MANAGEMENT OF THIS POLICY (AUM)**

The philosophy of the AUM is to make funds available as needed, and therefore, the overriding objective of this fund is to maintain principal and liquidity.

## **RISK / RETURN / ASSET ALLOCATION**

### **Definition of Risk**

The Finance Committee realizes that there are many ways to define risk. It believes than any person or organization involved in the process of managing the assets covered by this policy should understand how it defines risk so that the assets are managed in a manner consistent with the objectives and investment strategy in this statement of investment policy. **Risk in the context of the assets covered by this policy is defined as lack of liquidity and short term principal risk.**

The income from the account will be primarily used for supplementing the current operating budget. A diversified and balanced portfolio is deemed appropriate.

### **Asset Allocation Ranges**

Cash	5% - 25%
Fixed Income	20% - 60%
Equity	25% - 60%
Alternative Investments & Other Assets	0% - 20%

### **Performance Expectations**

The desired investment objective is a long-term return rate that is at least 3% above the inflation rate as measured by the Consumer Price Index plus the investment management fee. Portfolio performance will also be measured against an index that is a blend of stocks and bonds using 50% S&P 500, 40% Barclay's Aggregate Bond Index, and 10% three month T-bills.

### **Asset Allocation Constraints**

The Board and Committee understand that the Fund's risk is largely a result of asset class mix. It is understood that a proper mix of asset classes will provide an efficient portfolio in terms of low relative volatility for a stated level of return. The following asset classes are approved:

- Cash or Cash Equivalents
- Domestic fixed income, mutual funds, or Exchange Traded Funds (ETFs)
- Treasury Inflation Protected Securities (TIPs) or funds
- Domestic Large Capitalization Equities, mutual funds, or ETFs.
- Domestic Mid Capitalization Equities, mutual funds, or ETFs.
- Domestic Small Capitalization Equities, mutual funds, or ETFs.
- Domestic/International Real Estate Investment Trust Equities, mutual funds, or ETFs.
- International Equities, mutual funds, or ETFs.
- Alternative Instruments & Other, for example:
  - Master Limited Partnerships (gas, oil, etc)
  - Hard Asset Commodities (gold, precious metals)
  - Hedged Assets (developed and/or emerging market currencies)

The Investment Manager is expected to regularly review and make reasonable efforts to insure Potter League funds are invested appropriately. The Investment Manager will use a combination of individual securities, mutual funds, alternative investments and ETFs to create cost efficient portfolios that are diversified across and within asset classes, and will meet or exceed our goals.

**Additional Investment Information:**

- All Fixed Income and Equity securities held shall be publicly traded securities.
- No individual investment shall exceed 10% of the portfolio.
- The Finance Committee reserves the right to amend or further restrict or relax any investment if it is in the best interest of the Potter League's mission.
- Non-public securities may only be held with written approval from the Finance Committee.
- Any significant influx of cash may require an increased percentage of cash for a period up to six months.

**Rebalancing**

Maintaining the specified strategic asset class allocations is an important factor in achieving long-term goal objectives. Cash inflows and outflows will be applied in accordance with strategic allocations. The Investment Manager will monitor the portfolio and take prudent and necessary actions to ensure that allocations remain within the specified ranges and at or near the target weightings. Acknowledging the trade-offs between transaction costs and return objectives, the Investment Manager will use discretion in the timing and amount of rebalancing.

**LIQUIDITY**

The Finance Committee recognizes that, despite the conservative investment guidelines herein there exists some risk of loss of principal with any investment beyond cash or near cash. To minimize the possibility of such a loss occasioned by the sale of a security forced by need, the Finance Committee may periodically provide the IM with an estimate of expected net cash flow. The Finance Committee will notify the IM in a timely manner, to allow sufficient time to build up necessary liquid reserves.

**TAX STATUS**

The Potter League is a 501(c)3 organization and all gains and income are tax-exempt.

**OTHER**

Contributions of securities made to the Potter League must be liquidated and the proceeds turned into cash so that it may be invested as soon as practicable.

Approved by Board of Directors on March 19, 2013  
Updated and Approved by Board of Directors on June 21, 2016