



# AOC Educational Foundation

## OpMan 22 – Foundation Reserve Fund Policy

Draft: 23 July 2025

1. **POLICY:** The Statement of Reserve Fund Policy provides guidance for the Foundation Board of Governors and the investment manager in achieving the desired performance of the AOC Educational Foundation Reserve Fund. This statement:
  - A. Identifies the purpose of the Reserve Fund.
  - B. Provides guidelines on the amount of reserve resources that the Foundation should strive to maintain.
  - C. Articulates the investment objectives for the Foundation Reserve Fund Investment.
  - D. Identifies specific investment guidelines and limitations for the investment manager.
  - E. Provides a basis for the evaluation of the investment performance of the Foundation Reserve Fund Investment portfolio.
  - F. Identifies reports and procedures for the investment manager to facilitate timely and effective communication with the Foundation.
2. **PURPOSE:** The purpose of this Reserve Policy is to establish a prudent and transparent framework for building, managing, and utilizing the Foundation's financial reserves. The reserves are intended to provide stability, support long-term sustainability, and enable the Foundation to respond to financial emergencies or pursue strategic opportunities aligned with its mission.

Income generated from the investment of reserve funds (e.g., interest, dividends, capital gains) may be used at the discretion of the Board of Governors to support the Foundation's mission. This may include funding scholarships, pilot programs, special projects, or reinvestment to grow the reserve. The use of investment income will be reviewed annually as part of the Foundation's financial planning process.

In any given year, the Foundation shall plan an operating budget in which the expenses incurred do not exceed the projected income for that financial year. From time to time, situations will arise which will necessitate the need for additional resources. For this reason, the Foundation will maintain a Reserve Fund to enable the organization to meet its financial obligations during these times. The Reserve Fund provides a source of revenue that can be used for the following purposes:

- A. Continuity of operations in case of a catastrophic or other unforeseen event(s) which adversely impact(s) the normal flow of income to the Foundation;
- B. To address unanticipated shortfalls in operating revenue;
- C. To cover unforeseen, mission-critical expenditures;
- D. To pursue time-sensitive strategic opportunities, including grant-matching or investment in new programs;
- E. Resources for new Foundation initiatives or business opportunities requiring initial starting capital (with the expectation that these opportunities will return these resources to the reserve fund at a future date).



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- 3. RESERVE FUND LEVEL:** The Foundation strives to maintain a Reserve Fund that supports both operational stability and strategic agility. While the exact amount may vary depending on Foundation actions and market trends, the Reserve Fund should progress toward a defined threshold based on the following:

- A. An amount determined by the Board of Governors in alignment with strategic priorities, used to fund time-sensitive opportunities such as program pilots, grant matches, or investments in infrastructure and innovation.
- B. As a general guideline, the Foundation should aim to maintain a Reserve Fund balance that is at least 50% of annual operating expenses, recognizing this as a prudent financial objective.

It should be noted that this calculation identifies the minimum Reserve Fund balance that the Foundation should strive to maintain. There is nothing in this policy that precludes the Foundation from maintaining a reserve higher than the defined threshold.

- 4. MANAGEMENT OF RESERVE RESOURCES:** The funds in the Foundation Reserve Account will be placed into a separate account outside of the Operating Account(s) and maintained by an external investment manager. The funds will be balanced across a range of investment options as outlined below to maintain a balance of short-term and long-term investments.

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- 5. INVESTMENT MANAGER:** The Foundation will use the services of a professional investment manager who has the necessary specialized research facilities, organizational infrastructure, and skilled manpower to meet the portfolio objectives and operate within these policy guidelines.

- A. The investment manager will be able to make investment decisions and actively manage the Foundation Reserve Fund Investment, within the guidelines set forth in this policy.
- B. The Executive Director will function as the primary liaison and point of contact for the investment manager.
- C. When the investment manager recommends investment activities that deviate from this guidance, the Executive Director and Treasurer will coordinate with the Foundation Executive Committee to approve or deny the recommendation.

**6. INVESTMENT STRATEGY:**

- A. The Strategic Long-Range Asset Allocation of the investment portfolio should be reasonably balanced at a 60/40 asset allocation (60% equities/40% fixed income)
- B. At least \$50,000 of the portfolio will be in cash, money-market fund that invests only in short-term Treasuries. This shall be used as needed as a deposit point for earned interest, as a tool for re-balancing account holdings, and as a place for near-term, emergency cash draws for Foundation working capital. The money-market fund shall have limited check-writing features. The rate of return from this portfolio unit will be totally driven by government/market actions and will be risk-free (ignoring inflation).



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- C. The Fixed Income portion of the portfolio, as defined by the approved investment strategy ratios should, unless otherwise recommended by the Investment Manager, be invested in Government-issued or insured securities, to ensure the preservation of capital.
- D. Where possible, as advised by the Investment Manager, the Fixed Income investments should be at least 80% rated as investment grade.
- E. The balance of the portfolio will be invested in a mix of stocks, bonds, and cash. The investment manager will select the asset allocation for this part of the portfolio and the individual securities to include in the portfolio elements. The asset allocation and security selection will be guided by the following:
  - 1. The overall portfolio (government plus other) shall be reviewed and reported with recommendations to the Foundation at least annually by the investment manager. The investment manager's recommended asset allocation strategy shall include target ratios between equities and fixed income assets as well as target ratios within the categories of equities and fixed income assets. The investment manager shall clearly outline the risk exposure to the Foundation Financial Plan. The Finance Committee will review and approve the investment manager's recommendations. Once approved, this shall be referred to as the "AOC Strategy."
  - 2. Fees and transaction costs should be minimal and consistent with the investment strategy approved by the Foundation.
  - 3. Simple and straightforward security types are preferred but the investment manager will make final security type decisions.
- F. The investment manager can make portfolio changes up to 25% of the non-government portfolio value in any quarter without specific Foundation approval. Portfolio changes above this limit and any longer-term investment policy changes must be approved by the Foundation Board of Governors.
- G. The investment manager may deviate from the above guidelines by up to 10% to take advantage of market conditions while maintaining the portfolio's balance as defined in paragraph 3 above.
- 7. PORTFOLIO PERFORMANCE OBJECTIVE:** The overall portfolio rate of return benchmark for bonds shall be the Barclays Aggregate benchmark. The overall portfolio rate of return benchmark for equities should be the S&P 500 for large cap stocks, the Russell 2000 for small cap stocks, and the MSCI EAFE for international stocks. The investment manager is expected to meet or exceed these benchmark returns, net of all fees.
- 8. REPORTS:** The investment manager will provide a monthly statement of portfolio status to the Executive Director, who will in turn make it available to the Treasurer. The investment manager will submit a quarterly report which:
  - A. Computes the portfolio benchmark (using publicly available data) and notes the actual portfolio rate of return both with and without fees. These return numbers will cover the previous quarter and the previous 12 months. The benchmark numbers shall also include the previous 10 years (long-term portfolio returns shall be included at the appropriate time).
  - B. Contains a written recommendation about future actions even if the recommended action is to make no changes.



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- C. Summarizes portfolio changes, in the past quarter.
  - D. Reports portfolio risk, measured using the Risk Metrics Group (TM) process, and comparisons to market index risk grades and to investor type classification (aggressive, conservative, etc.).
  - E. When feasible the Executive Director will schedule the quarterly report to be presented in person by the portfolio manager at a regularly scheduled Executive Committee meeting if requested. An annual report by the portfolio manager will be presented at a Board meeting at the request of the Board of Governors.
9. **PROCEDURES:** Any newly installed Treasurer will review the OpMan policy with the Executive Director and Investment Manager to determine if the reserve policy is aligned with current Foundation financial priorities. When the Investment Manager requires written direction or approval from the Foundation, the request will be submitted to the Executive Director who will notify the Treasurer of the request. The Treasurer will authorize the action or take the issue to the Finance Committee for a decision, within two weeks of notification by the investment manager. If the Treasurer is not immediately (within one week) available to consider the request, the Executive Director will forward the request to the President.
10. **REPLENISHMENT:** When reserves fall below the target level defined in Section 3: Reserve Fund Level, the Board of Governors will evaluate the circumstances and determine an appropriate and feasible plan to replenish the reserves over a defined period. The replenishment plan will consider available funding sources and organizational priorities.