Investing Your Administrative Reserve

Considerations for Non-Profits

WASHINGTON COUNTY COMMUNITY FOUNDATION

STEIN WEALTH ADVISORS

Administrative Reserve Definition

Money set aside by a nonprofit in a designated fund, to enable the nonprofit to continue operations during significant unexpected losses of income and/or significant unexpected increases in expenses.

Typically, the nonprofit Board designates a portion of its assets without donor restriction for the Administrative Reserve.

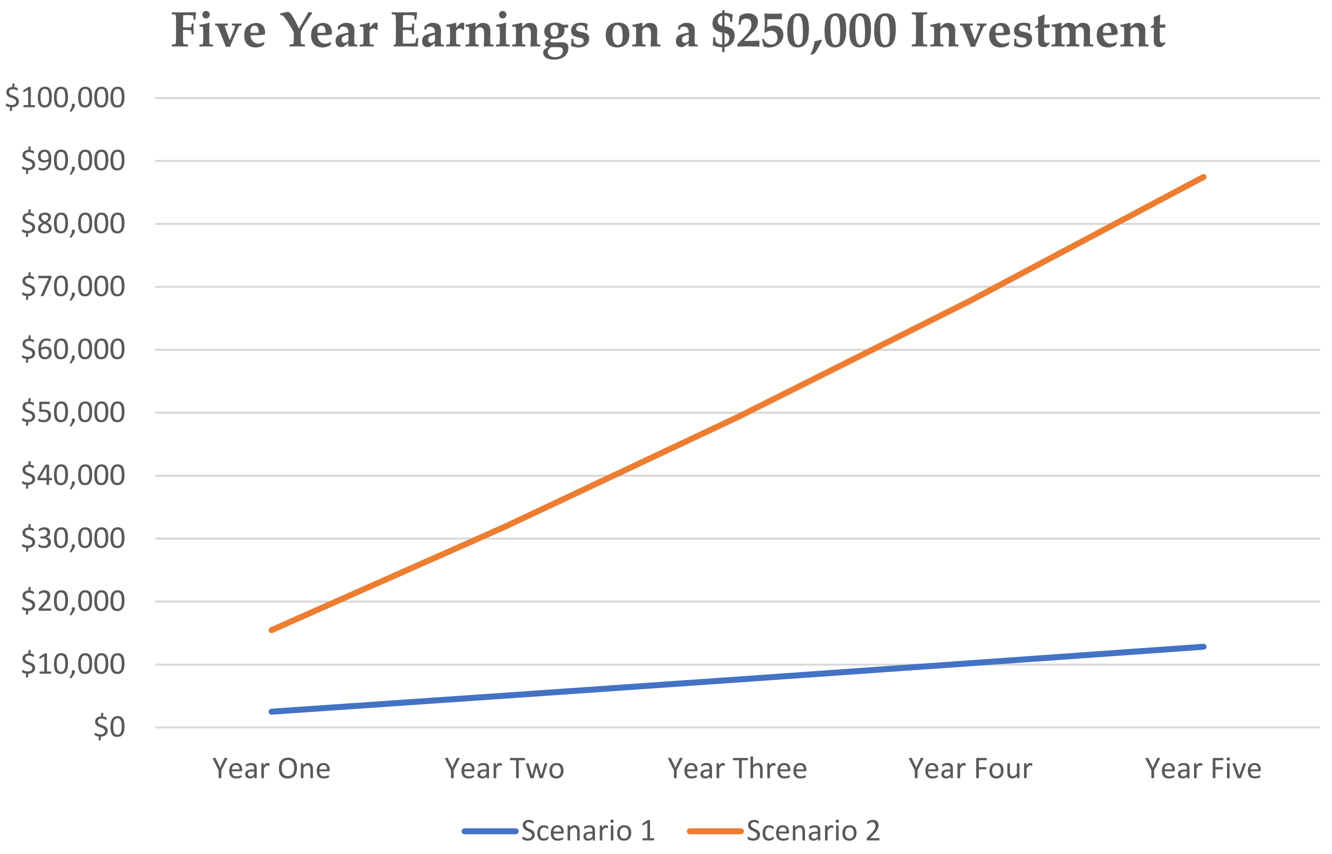
Industry best practice is to have at least six months, and preferably 12 months, of the nonprofit's current operating budget in the Administrative Reserve.

Administrative Reserve is different from an Administrative Endowment where a donor has given you a gift to support operations but which restricts access to principal.

You are fortunate to have had $250,000 in your Administrative Reserve for five years.

Scenario 1: The money was invested in a money market paying 1% annually, resulting in total earnings of **$12,818**

Scenario 2: The money was invested in a balanced investment portfolio that earned 6% annually, resulting in total earnings of **$87,465**



Investment Portfolio Composition and Complexity

The composition and complexity of your portfolio can vary. Generally smaller portfolios use more Exchange Traded Funds and Mutual Funds, while larger portfolios also use individual Stocks and Bonds in addition to Exchange Traded Funds and Mutual Funds.

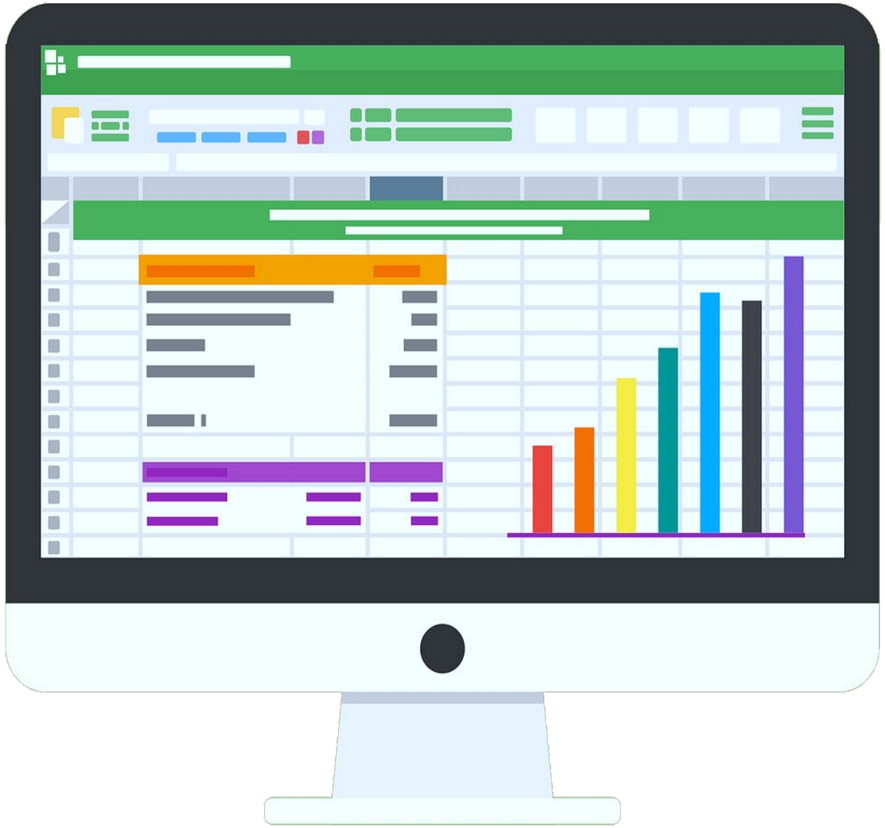
Why Should You Hire an Investment Management Firm?

1. To fulfill your fiduciary duty

2. To obtain qualified investment expertise and guidance / mitigate investment risk

3. To enable your non-profit to concentrate on other aspects of the organization (programs, development, etc.)

Common Investment Vehicles



- Stocks
- Bonds
- Mutual Funds
- Exchange-Traded Funds (ETFs)
- Money Market Funds
- Certificates of Deposit

Factors to consider when selecting the investment vehicle(s) for your administrative reserve fund

1. Amount of money you have to invest
2. Whether you have a line of credit or other availability to ready cash
3. Willingness/ability to accept risk

Mitigating Investment Risk

1. Hire a Qualified Investment Firm
2. Establish an Investment Policy Statement and Maintain Compliance With the IPS
3. Diversify Portfolio by Selecting a Variety of Investments Within Each Asset Class
4. Set Investment Goals and Monitor Performance Against Those Goals

Selecting an Investment Management Firm

People: Qualified and experienced investment professionals

Processes:

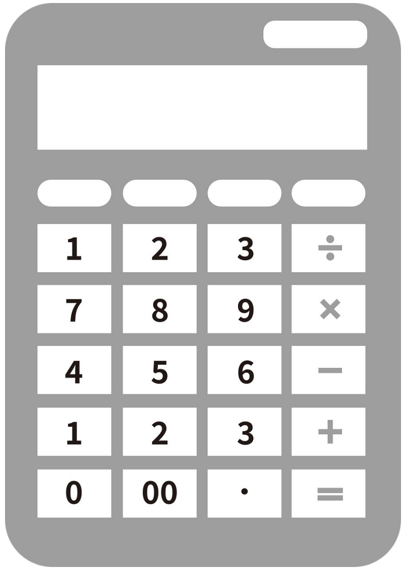
- How is money transferred in and out of the portfolio?
- What types of investment vehicles does the firm provide?
- Are monthly accounting statements available electronically?
- Are annual performance statements available electronically?
- How frequently will the portfolio be rebalanced?
- Will the manager meet with the non-profit on an annual basis?
- Does the firm have the ability to accept stock gifts into the portfolio?

Fees: What fees are charged by the manager? Mutual fund fees?

Measuring Performance of Investment Managers

Common Investment Performance Indices:

- S&P 500 (Large Cap)
- S&P 400 (Mid Cap)
- S&P 600 (Small Cap)
- US Aggregate Bond (US Bonds)
- MSCI EAFE (Non US/CA Stock)



Measuring Performance of Investment Managers

Blended Benchmark: Calculated by applying the same percentage of pre-defined indices as your actual investment target.

Investment Target	Blended Benchmark
50% Equity 50% Fixed	50% S&P 500 and 50% US Agg Bond
65% Equity 35% Fixed	65% S&P 500 and 35% US Agg Bond
80% Equity 20% Fixed	80% S&P 500 and 20% US Agg Bond

Crafting an Investment Policy Statement (IPS)

1. Purpose and scope
2. Roles and responsibilities/assignment of investment authority
3. Spending policy
4. Investment goals and objectives
5. Asset allocation policy and guidelines

Crafting an Investment Policy Statement (IPS)

6. Rebalancing method and frequency
7. Review and reporting
8. Performance evaluation
9. Conflict of interest policy
10. Fulfilling fiduciary duty

Timing Is Important

Dollar-cost averaging: invest equal dollar amounts in the market at regular intervals of time. The idea is to get the best deal on a desired investment by controlling for market fluctuations.

Buy Low: time your investment purchases so that you buy stocks when they have dropped in price, assuming they will continue to rise in value.

Questions?

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