



FINANCIAL POLICIES AND PROCEDURES

POLICY NUMBER: FP-111
SUBJECT: FINANCIAL INVESTMENT POLICY
EFFECTIVE DATE: April 24, 1991
REVISION DATE: 4/18/95; 1/30/99; 3/5/99; 4/27/04; 09/12/04;1/28/06; 9/17/06; 9/16/09; 9/15/10
APPROVED BY: CWEA Board of Directors

POLICY

The Association will pursue procedures that enhance the opportunities for a prudent and systematic Investment Plan and to organize and formalize investment-related activities. Related activities which comprise good cash management include accurate cash projections, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and a program which coordinates working capital requirements and investments.

PROCEDURES

1. **DELEGATION OF AUTHORITY:** Under the authority of the Executive Director, the services of an investment consultant will be sought to propose an Investment Plan and to manage portions of CWEA funds. The following procedure shall be followed to engage a new or replace a current investment consultant.
 - A. The Executive Director will recommend to the Operations Committee the hiring or replacing of an investment consultant.
 - B. The Operations Committee will review the recommendation by the Executive Director and make a recommendation to the Board, which shall have final approval.
 - C. Staff will develop the Investment Plan with the investment consultant and the Operations Committee shall approve the Investment Plan. The Executive Director shall be responsible for keeping records of all investments and submitting reports as required by this policy.

2. **OBJECTIVES:**
 - A. **Safety:** It is the primary duty and responsibility of the investment consultant, Executive Director, and Operations Committee to protect, preserve, and maintain cash and investments placed in their trust on behalf of the members of the Association.
 - B. **Liquidity:** An adequate percentage of the portfolio should be maintained in liquid short-term investments which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments with active resale markets are highly recommended. Emphasis should be on investments with low sensitivity to market risk.
 - C. **Yield:** Yield should only become a consideration after the basic requirements of safety and liquidity have been met.

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- D. Market-Average Rates of Return: The investments shall be selected with the goal of attaining at least a market-average rate of return (benchmarked against its asset class) , taking into account the Association's risk constraints and cash flow requirements.
 - E. Diversification: After considering the size of investment instruments and the objective of FP 113 (Emergency Reserve Fund and Project Fund Policy), the portfolio will be diversified to avoid incurring unreasonable and avoidable risk regarding specific security types or individual financial institutions.
 - F. Maturity of all income investments shall be recommended by the investment consultant to the Executive Director and the Operations Committee and shall be consistent with the objectives of FP 113 (Emergency Reserve Fund and Project Fund Policy)
3. REPORTING: The Executive Director shall submit monthly reports developed by staff and/or CWEA's investment advisors to the Operations Committee on the status of all investments for the Association. The monthly reports shall include:
- A. Type of investment
 - B. Institution
 - C. Date of maturity
 - D. Amount of deposit or cost of security
 - E. Rate of interest or dividend
 - F. Interest income or dividend year-to-date
 - G. The funding level of the Emergency Fund relative to the level required by FP 113 on an annual basis.
 - H. Funding level in the Project Fund relative to the goals referenced in FP 113.
 - I. Quarterly reports which compare performance of funds to each other and to benchmarks
4. INVESTMENT INSTRUMENTS: The Executive Director is authorized to invest Association funds in the following types of instruments:
- A. Emergency Reserve Funds are limited to the following allowable investment instruments:
 - i. Securities of the U.S. Government, or its agencies.
 - ii. Certificates of Deposit (or Time Deposits) placed with commercial banks or savings and loan companies. Time Certificates of Deposit shall be deposited to various institutions so that each certificate will be covered by FDIC or FSLIC Insurance for the full amount of deposit.
 - iii. Local Agency Investment Fund (LAIF) demand deposits. The Association recognizes that the LAIF is not FDIC insured, but believes that since this is the Fund of the State of California, funds are sufficiently secure to meet policy objectives. .
 - iv. Passbook Savings Account Demand Deposits.
 - B. The Project Fund and restricted funds are limited to i-iv above and the following additional investment instruments; none of the following single allowable type of investments may exceed 50% of the Association's total reserve funds (Emergency Fund and Project Fund, as determined on an annual basis):
 - i. Mutual Funds, providing they are chosen to reflect a conservatively managed equity component, reflecting an overall prudent asset allocation model.

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- ii. Commercial Paper Rated A-1/P-1 by Standard & Poors and Moody's at the time of purchase.
 - iii. Corporate notes with a minimum rating of Investment Grade by Standard & Poors and Moody's rating services at the time of purchase.
- C. Investments and investment activities such as the following are prohibited:
- i. Private placements
 - ii. Individual Stocks (with the exception of individual stocks held within Mutual Funds listed under previous section Bi)
 - iii. Derivatives. However, to the extent that mutual funds are used by CWEA the mutual funds may buy or sell derivatives for the purpose of managing portfolio risk
 - iv. Commodities or commodity contracts (with the exception of individual stocks held within Mutual Funds listed under previous section Bi)
 - v. Short Sales
 - vi. Margin transactions
 - vii. Any speculative investment activities unless otherwise allowed in this policy.
- D. Investment transactions must be documented by the investment consultant and authorized by the Executive Director (or staff designee) within the parameters of the approved Investment Plan.
- E. Funds approved for use in accordance with FP 113 (Emergency Reserve Fund and Project Fund Policy) will be withdrawn from the most liquid instruments regardless of their Fund category in order to minimize early withdrawal penalties. Any temporary reduction this might cause in Emergency Fund investments will be replenished from remaining Project Fund investments when they mature.

5. SELECTION OF FINANCIAL INSTITUTIONS

The Association maintains checking accounts for the handling of daily financial transactions. As necessary, the Association may also maintain Certificates of Deposits. Due to the volume of revenue received and disbursed, including Local Section and Committee activity, it is impractical to consistently remain under the FDIC insurance limit at each insured bank. The Association therefore maintains its accounts with totals that may periodically exceed the FDIC limit in larger banking institutions.

6. REVIEW

The following procedures will be followed to ensure the investment policy statement is consistent with the current mission of CWEA and accurately reflects the current financial condition:

- A. This investment policy shall be reviewed annually by the Executive Director and Operations Committee for any necessary revisions.
- B. Recommendations for any revisions or modifications will be made by the Operations Committee to the Board.

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- C. The Investment Plan shall be reviewed annually by the Operations Committee with final revisions made after the CWEA Board approves the fiscal year budget, typically approved in June. The Operations Committee shall review the Investment Plan to insure all investments are consistent with CWEA's annual program of work and long range strategic planning. The Operations Committee shall present an annual Investment Plan report to the CWEA Board, during the September Board Meeting, to inform the Board of how CWEA's reserves are planned to be invested for the upcoming year to meet the objectives of CWEA's annual program of work and strategic plan.