

This document is a guide for the Finance Vice Chair and other members of the Finance Committee to set guidelines for how the organization's long-term investments are to be maintained.

This document is administered by the Finance Committee and will be revised from time to time, as necessitated by changes in LSC policy. Changes to this document shall be approved by the South Texas Swimming Board of Directors or House of Delegates.

## **I. Budget Policy**

The annual operating budget presented to the House of Delegates will contain a line item "Contribution to Investment Fund" budgeting up to ten percent of the total budget to the investment account until the stated goal in the current 2017 investment policy is met.

### **A. Operating Reserve Policy**

1. Philosophy - The establishment and maintenance of an Operating Reserve will enable STSI to support strategic business practices and to:

- Ensure excess cash is moved to the investment fund
- Ensure funds are available for short term contingencies
- Generate investment income

2. Policy – The purpose of this policy is to establish and maintain an Operating Reserve, unencumbered and uncommitted, at a level relative to the annual program funding and costs of operating and maintaining the organization.

3. Definitions –

a) Costs of Operating and Maintaining the Organization – South Texas Swimming Inc.'s net expenses for Program Expenses and Administrative as reflected by the approved annual budget.

b) Board Designated Operating Reserve – A fund consisting of liquid assets and investments. Liquid assets are those that may be converted to cash quickly and easily. The checking account and money market accounts are considered the operating reserve. It is not required that the Operating Reserves be physically segregated in a separate checking bank or investment account although South Texas Swimming, Inc. may decide to do so.

#### 4. Strategies and Procedures –

a) The Investment Committee will have the responsibility for developing and recommending policies and guidelines for the investment of the Operating Reserve assets and the Board of Directors will approve such policies and guidelines.

b) The Operating Reserve goal will be to achieve and maintain at least six months of Program Expenses and Administration as defined in Section 3.

5. Sources – Assets for the Operating Reserve accounts will come from the excess revenues of the organization.

#### 6. Uses –

- Funds for emergency and emerging needs
- Funds to meet unfunded and unexpected organizational needs
- Funds to make up a deficiency in budgeted revenue, either in results or collection Experience

#### 7. Governance –

a) Depletion of the Operating Reserve will be evidenced by a negative balance in Undesignated Operating Funds. The procedure for approving the use of the Operating Reserve Fund will be as follows:

- As projected in the budget as approved by the House of Delegates
- By approval of the Board of Directors to fund unusual expenditures out of reserves
- By approval of the Board of Directors to fund extraordinary expenses or loss of Revenue

b) If the Operating Reserve has been less than 75% of the targeted reserve level for two consecutive quarters, the Board of Directors, in absence of any extraordinary circumstances, will adopt an operational budget that includes a projected surplus sufficient to rebuild the Operating Reserve Fund to its targeted reserve level over the following year.

c) If the Operating Reserve is above 100% for two consecutive quarters, the balance above 100% will be transferred to the investment fund. The internal financial review committee will review reserves for compliance during their six month reviews and it will be part of their written report to the Board of Directors.

8. Maintenance –

a) The status of the funded Operating Reserve Fund will be calculated at the end of each fiscal year based upon financial results.

Operating Reserve Ration Calculation – The calculation formula will be based upon amounts defined in Section 3 as follows: Unrestricted, Board Designated Operating Reserve as of 12/31 = [Budgeted Annual Operating Budget] X 6/12

o Example- $\$170,500 = (\$359,000 \times 0.92016 \text{ Budget}) \times 6/12$

o The adequacy of the Operating Reserve will be determined as follows:

	Example
Total Assets	\$1,284,687
Less Board Designated Funds for Specific Purpose (Investment Fund)	<u>(1,090,185)</u>
Total Unrestricted Net Assets	\$ 194,502
Less Current Liabilities	0
Less Board Designated Operating Reserve	<u>(179,500)</u>
Undesignated Operating Funds for Investment Fund	<u>\$ 15,002</u>

In the above example, after establishing a six month reserve of \$179,500 the excess of \$15,002 would move to the investment fund.

b) The Operating Reserve Ration Calculation will be presented to the Board of Directors and at the annual House of Delegates meeting. The Treasurer will consider the adequacy of the Operating Reserve amount and will recommend any changes as deemed necessary to the Investment Committee.

## II. Investment Policy

**A. Scope.** This policy applies to the investment of all operating funds of South Texas Swimming, Inc, hereinafter called “the corporation.”

1. Responsibility for Management of Funds. All funds of the corporation shall be managed by the BoD based on this policy, which shall be approved and amended as necessary by the STSI HoD at the annual convention of the LSC. At the discretion of the Board, an external agent or agencies may be engaged to manage funds of the corporation; in which case, the external manager(s) shall be responsible directly to the BoD.

2. External Management of Funds. Investment through external programs, facilities, and professionals operating in a manner consistent with this policy will constitute compliance.

3. Pooling of Funds. Except for cash in certain restricted and special funds, the corporation will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

**B. General Objective** The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield.

1. Safety. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest-rate risk.

a) Credit Risk. The corporation will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the corporation will do business; and diversifying the portfolio so that potential losses on individual securities will be minimized.

b) Interest-Rate Risk. The corporation will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and investing operating funds primarily in shorter-term securities.

2. Liquidity. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in bank deposits or repurchase agreements that offer same-day liquidity for short-term funds.

3. Yield. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- a) A security with declining credit may be sold early to minimize loss of principal;
- b) A security swap would improve the quality, yield, or target duration in the portfolio;  
and
- c) Liquidity needs of the portfolio require that the security be sold.

### **C. Standards of Care**

1. Prudence. The standard of care to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. The BoD, acting in accordance with written procedures and this investment policy, and exercising due diligence shall be relieved of personal liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

- a) The 1 Prudent Person Rule is a standard that requires that a fiduciary with funds for investment may invest such funds only in securities that any reasonable individual interested in receiving a good return of income while preserving his or her capital would purchase. Historically known as the prudent or reasonable man rule, this standard does not mandate an individual to possess exceptional or uncanny investment skill. It requires only that a fiduciary exercise discretion and average intelligence in making investments that would be generally acceptable as sound. (*West’s Encyclopedia of American Law*. Copyright © 1998 by The Gale Group, Inc. All rights reserved.)

2. Delegation of Authority.

- a) Responsibility for the operation of the investment program is hereby delegated to the corporation, which shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

b) Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the corporation.

c) The corporation shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

### 3. Ethics and Conflicts of Interest.

a) Directors and agents involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

b) Directors and agents shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Directors and agents shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the corporation.

4. Audits- The investment account will be audited on a semi-annual basis by the South Texas Swimming Audit Committee in conjunction with the audit of the remainder of the financial records of the LSC and in a manner consistent with the Bylaws of the LSC.

## **D. Suitable and Authorized Investments**

1. Investment Types. In accordance with and subject to restrictions imposed by current statutes, the following list represents the current range of investments that the corporation will consider and which shall be authorized for the investments of funds by the corporation:

- Exchange Traded Funds
- Oil and Gas Master Limited Partnerships and Direct Investments
- Mutual Funds (SEC-registered mutual funds in good standing)
- Real Estate/ Real Estate Trusts
- Certificates of Deposit
- Money Market Accounts

2. Investment Restrictions and Prohibited Transactions. To provide for the safety and liquidity of the corporation's funds, the investment portfolio will be subject to the following restrictions:

- a) Borrowing for investment purposes ("leverage") is prohibited.
- b) Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters, and equity-linked securities) are not permitted. Investment in any instrument that is commonly considered a "derivative" instrument; e.g. options, futures, swaps, caps, floors, and collars, is prohibited.
- c) Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

3. Investment Fund Assets The targeted financial resources of the investment account shall be One Million Dollars (\$1,000,000). This amount does not include funds that shall be available in short term instruments such as the corporate checking account or money market account that are available for daily operation of the LSC.

## E. Investment Parameters

1. Diversification.

a) The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

- Stocks/ Mutual Funds: 25% - 30%
- All Cap Value
- All Cap Growth
- ETFs
- Oil and Gas: 10% - 15%
- Liquid MLPs
- Direct Investments
- Bonds/Cash: 55% - 100%
- Intermediate/Short Term
- Cash

b) The Treasurer or their designee shall prepare report for the STSI HoD as a part of the annual financial review and quarterly investment reports to the BoD, including a management summary that provides an analysis of the status of the investment

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portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the corporation to ascertain whether investment activities during the reporting period have conformed to the investment policy.

**F. Use of Funds.** Funds and proceeds of the investment account may be used for the following purposes:

1. Allocate 3% of the Investment Fund balance as of August 31 of the preceding year to add to the annual operating revenue to support programming aligned with the STSI mission for the benefit of all STSI members.
2. Principle funds may be used to defray emergency expenses as needed with a 75% vote of the full BoD (not just those present and voting) or a 2/3rds vote of the HoD at the STSI Annual Meeting.