

APWA San Diego and Imperial Counties Chapter Financial and Investment Policy

12/13/17

Updated 10/12/17 and adopted by the Chapter Board on 10/12/17

Goals of Policy:

1. Define the assets of the Chapter.
2. Define the financing strategy.
3. Provide a strategy for the long-term finances of the Chapter.
4. Provide a guideline for budgeting and annual rebalancing of funds.
5. Provide sufficient cash-on-hand to meet cash flow requirements throughout the year.
6. Provide sufficient reserves for special (unbudgeted) one-time expenditures or economic downturns.

Chapter Assets:

The Chapter's assets are divided into an Operating Fund, and a Long-Term Fund:

- The **Operating Fund** will be held in cash accounts, i.e. checking, savings, and/or money market accounts, that maximize the availability of funds.
- The **Long-Term Fund** will be held in a portfolio of stocks, bonds, and cash through APWA National's Global Allocation investment option (with Merrill Lynch), which currently provides a mix of 53% stocks, 25% bonds, 20% cash, and 2% other. The Board should periodically review this investment option to make sure it remains consistent with the Chapter's Financial Strategy.

Financial Strategy:

The Chapter's Financial Strategy is to fund the Chapter's educational, scholarship and internship programs/activities, as well as hosting conferences, through multiple fundraising events throughout the year. In addition to these events throughout the year, a small amount of funds will be withdrawn from the Long-Term Fund each year (as defined below).

Long -Term Fund Strategy:

The following are general guidelines for withdrawal of funds from the Long-Term Fund:

- The reserve balance of the Chapter's Long-Term Fund is to be maintained at an amount **greater than 50% of the annual Operating Expense and not less than a balance of \$100,000.**
- The treasurer will evaluate the balance of the Long-Term Fund on an annual basis during the budgeting process, and based on the recent performance of the fund and other factors, recommend to the Chapter's Board of Directors the amount to be withdrawn from the fund (requiring approval of the Board of Directors).
- A general rule of thumb:
 - The annual withdrawal from the Long-Term Fund shall be **approximately 6%.**
- The actual withdrawal of the funds from the Long-Term Fund shall be made at the point in time that the Operating Fund falls below 15% of the yearly Operating Expense. (Note: Treasurer shall obtain approval from the Board of Directors prior to a transfer of assets.)
- *When the Long-Term Fund drops below \$200,000, this Financial and Investment Policy shall be re-evaluated to determine if the strategy should be adjusted to preserve the future of the Chapters' Assets.*

Budgeting Guidelines and Process:

The Treasurer will develop a budget for the year based upon input from the Chapter’s Board of Directors and the Committee leaders to develop the income and expenses for all Chapter activities.

- The goal of the budgeting process is to develop a balanced budget, (Income = Expenses) – NET ZERO INCOME.
- If the expenses exceed the income, the following guidelines shall be followed in developing the cash reserves for the budget:
 1. Use positive net income from previous year (Year 1) Operating Actual Profit & Loss.
 2. Use positive net Income from previous year Long-Term Fund.
 3. Withdrawal up to 6% from Long-Term Fund.
 4. Note: Budget deficit should **not exceed 20%** of Year 2 Operating Expenses.
 5. If the budget deficit is greater than the sum of 1+2+3 above, and /or 20% of the Year 2 expenses, then the Chapter’s Board of Directors shall review the budget and approve one of the following outcomes:
 - A. Make adjustments to the budget to bring it within the above guidelines.
 - B. Approve the additional **one-time expenditure** for Year 2.

Budget Calendar- (Treasurer to perform all budget tasks.)

- January – Review ½ year actual income and expenses to budgeted amounts.
- February/March – Begin discussing budgets with Committee leaders and Board of Directors.
- April – Present first draft of budget (and ask for input).
- May – Provide final draft of budget.
- June – Obtain approval of Final Budget, Balancing of Assets, and any transfers from the Long-Term Fund.

Allocation Process:

The Treasurer will rebalance the Operating Fund in June - upon approval of the budget for the following fiscal year using the following allocation process:

| | |
|--|----------------|
| | <u>Example</u> |
| 1. Establish the total financial assets at Year 1 (year-end) | \$315,000 |
| 2. Establish the operating budget (expenses) for Year 2 | \$210,000 |
| 3. Ensure that the Operating Fund has a balance greater than 1/3 of the Year 2 Operating Fund: | |
| A. 1/3 of Year 2 operating budget to the Operating Fund | \$70,000 |
| B. Year 1 (year-end) Operating Fund | \$73,000 |

- If A is greater than B, no reallocation necessary.
- If A is less than B, Treasurer to ensure that the Operating Fund does not drop below 15% of Year 2 Operating Expenses.
- If the Operating Fund drops below 15% of the Yearly Operating Expenses, the Treasurer shall notify the Chapter’s Board of Directors and advise that a transfer from the Long-Term Fund is required at that point of time of the fiscal year (requires approval by the Chapter’s Board of Directors).

This policy shall be implemented by the Chapter Treasurer, and may be adjusted as appropriate by a vote of the Chapter’s Board of Directors.