

Beaufort-Jasper Water & Sewer Authority

Cash and Investment Management Policy

Adopted: March 25, 2004, Board of Directors

Amended: June 28, 2018, Board of Directors

It is the policy of the Board of Directors of the Beaufort-Jasper Water & Sewer Authority, hence referred to as the “Authority,” that the Deputy General Manager, Finance & Administration (DGM F&A) shall maintain an effective program of cash and investment management and follow the legal requirements regarding depositories and collateral requirements. To that effect, the Deputy General Manager, Finance & Administration is both authorized and required to promulgate a written Statement of Cash and Investment Management Policy governing the Authority’s cash management and investment activities, and to institute and administer such specific procedures and criteria as may be necessary to ensure compliance with the Authority’s financial management policy. Specifically, this policy mandates pursuit of the following overall goals and objectives:

1. All aspects of cash management operations shall be designed to ensure the absolute safety and integrity of the Authority’s financial assets. The overall financial objective is to provide the highest possible income support to the Authority with a very low risk of loss of principal.
2. Cash management activities shall be conducted in full compliance with prevailing state and federal regulations. Furthermore, such activities shall be designed to adhere to guidelines and standards promulgated by such professional organizations as the American Institute of Certified Public Accountants (AICPA), the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA). Investments of the Authority must comply with South Carolina Code Section 6-5-10, which states that the Authority may invest money subject to its control and jurisdiction in:
 - (a) Obligations of the United States and agencies thereof;
 - (b) General obligations of the State of South Carolina or any of its political units;
 - (c) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government;
 - (d) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above and are held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
 - (e) Repurchase agreements when collateralized by securities as set forth in this section.
 - (f) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as

amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), and (e) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

The provisions of South Carolina Code Section 6-5-10 do not impair the power of the Authority to hold funds in deposit accounts with banking institutions as otherwise authorized by law. Investments shall have maturities consistent with the time or times when the invested monies will be needed in cash.

3. Operating within appropriately established administrative and procedural parameters, the Authority shall aggressively pursue optimum financial rewards, while simultaneously controlling its related expenses. Therefore, cash management functions, which engender interaction with outside financial intermediaries, shall be conducted in the best financial and administrative interests of the Authority. In pursuit of these interests, the Authority will utilize competitive bidding practices whenever practicable, affording no special financial advantage to any individual or corporate member of the financial or investment community.
4. The Deputy General Manager, Finance & Administration shall design and enforce standards and guidelines relating to a variety of cash management issues, such as the eligibility or selection of various financial intermediaries; documentation and safekeeping requirements; philosophical and operational aspects of the investment function; and such other functional and administrative aspects of the cash management program which necessitate standard setting in pursuit of appropriate prudence, enhanced protection of assets, or procedural improvements.
5. Investments of the Authority, or of funds held in its possession in a fiduciary capacity, shall be made with the exercise of that judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

Investment Strategy

The Authority's cash management program seeks to achieve three objectives with regards to investments: safety of principal, adequate liquidity to meet daily cash needs, and a reasonable yield commensurate with the preservation of principal and liquidity. The following investment strategy has been designed to accomplish these objectives:

1. The Authority invests in very creditworthy, highly liquid investments with maturities of one year or less and in intermediate-term securities of high credit quality with maturities no greater than five years. The Authority will only invest in those securities specified under South Carolina Code Section 6-5-10. These include collateralized money market accounts and certificates of deposit, U. S. Treasury Bills and Notes, high quality obligations of certain U. S. agencies and instrumentalities, and local government investment pools. Any securities not included in South Carolina Code Section 6-5-10 will not be eligible investments.
2. The primary objective of all Authority investment activity is the preservation of capital and safety of principal. Each investment transaction shall ensure that capital losses are avoided, whether from security default, sale of instruments prior to maturity, or erosion of market value.
3. At all times, the Authority shall remain sufficiently liquid to meet cash flow requirements by matching investment maturities with forecasted cash flow requirements, investing in securities with active secondary markets, and maintaining appropriate portfolio diversification. The Authority will maintain accounts with financial institutions such as checking or money market accounts and/or repurchase agreements for current cash flow requirements and shall also position investments to provide liquidity for certain predictable obligations such as debt service payments. To assess liquidity, a cash flow forecast will be prepared and minimum balance criteria will be established annually as part of the financing plan for the Capital Improvement Program. Based on these criteria, the Deputy General Manager, Finance & Administration will seek competitive investments for excess cash in order to achieve the highest yield possible in compliance with South Carolina Code Section 6-5-10. The Finance Committee will be informed of all investment transactions. Currently, the minimum balances have been established as follows:

Gross Revenue and Operations & Maintenance combined – 120 days operating cash.

Contingency & Depreciation Account - \$2,500,000

Water Capital Account - \$500,000

Sewer Capital Account - \$1,500,000

4. Every five (5) years to ten (10) years, or at the request of the Finance Committee, the Controller will seek competitive proposals for the general accounts from financial institutions within the Authority's service area. These accounts include Gross Revenue, Operations & Maintenance, Contingency & Depreciation, Water Capital, and Sewer Capital. Proposals are analyzed and reviewed and the Controller presents a recommendation to the Deputy General Manager, Finance & Administration. The decision to award an account is based on compliance with South Carolina Code Section 6-5-10, the overall interest rate, fee structure, and operational features, which best meet the business goals of the Authority. The Controller will closely monitor the financial position of local and regional financial institutions and investments will be directed only to those institutions that are

considered to have strong fiscal health and high ratings by independent rating agencies. As stated, the Authority shall aggressively pursue optimum financial rewards, while simultaneously controlling its related expenses and risks. Therefore, the financial institution that proposes the best net return with the least acceptable risk is generally awarded the account.

5. The Controller monitors financial assets monthly to ensure that appropriate interest is earned and fees charged on accounts with financial institutions, and to ensure compliance with the Authority's cash and investment policy. A monthly report, the Analysis of Cash and Investment Accounts, is prepared for review by the Deputy General Manager, Finance & Administration indicating balances and the related rate of return on each fund.

There may be times when the Authority has more or less of its funds in particular investment vehicles due to cash flow needs, prevailing market conditions, and other factors. The Analysis of Cash and Investment Accounts along with prevailing market conditions serve as a general guideline for making investment decisions. In this way, the portfolio will be able to take advantage of rising interest rates by re-investing maturing securities at higher yields. In falling rate environments, it will profit from having investments that were made at higher rates.

Following this discipline ensures that the Authority will always have sufficient cash available for daily needs, preserve its principal, and earn a competitive yield without assuming unacceptable risk.

Interest Earnings

Interest earned from investments shall be distributed to the operating fund or other Authority funds from which the money was provided, with the exception that interest earnings received on the investment of bond proceeds shall be attributed and allocated to either the related construction fund or to the debt service funds responsible for paying the principal and interest due on the particular bond issue as determined by the language of the Bond.

Oversight

The Deputy General Manager, Finance & Administration (or Controller acting at the direction of the DGM F&A) shall institute and administer such specific procedures and criteria relating to cash management issues in pursuit of ensuring the absolute safety and integrity of the Authority's financial assets, while optimizing financial return on those assets. Additionally, the Treasurer with the assistance of the Finance Committee of the Authority will be responsible for oversight and will regularly examine and evaluate the Authority's Cash and Investment Management Policy and investment activities and recommend revisions to the Policy and operational rules and regulations.