

AGENDA

FINANCE COMMITTEE MEETING

April 14, 2015

5:30 P.M. – 1201 S. Washington Ave.
REO Town Depot

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of 3/10/15..... **TAB 1**
2. February Financial Highlights **TAB 2**
3. FY15 Updated year end projections..... **(INFORMATION ONLY)**
4. IPS Amendment Resolution..... **TAB 3**

Other

Adjourn

FINANCE COMMITTEE

March 10, 2015

The Finance Committee of the Board of Water and Light met at the BWL Headquarters – REO Town Depot located as 1201 S. Washington Ave., Lansing, MI, at 7:14 on Tuesday, March 10, 2015

Finance Committee Chairperson Dennis M. Louney called the meeting to order and asked the Corporate Secretary to call the roll.

Present: Commissioners Dennis Louney, Margaret Bossenbery, Tony Mullen and Sandra Zerkle;
Also present, Commissioner Price

Absent: None

The Corporate Secretary declared a quorum.

Public Comments

There was no Public Comment

Approval of Minutes

Motion by Commissioner Zerkle, Seconded by Commissioner Bossenbery to approve the Finance Committee meeting minutes of November 11, 2014.

Action: Carried Unanimously

Internal Audit Status update

Internal Auditor Phil Perkins presented:

- FY 2015 Audit Plan Progress Report
- Independent Audit Results
- Requested Changes

FY 2015 Audit Plan Progress Report

Engagements Completed or in Progress:

1. Surprise Cash Count #1 – completed
2. Time Reporting Review #1 - completed
3. Material Inventory Audit

Engagements Planned:

1. Health & Drug Benefit Programs Audit (95% complete)
2. Engineering- Annual Projects Audit (75% complete)
3. Board of Commissioners Independent Audit of Previous Administration (complete, audit report in progress)
4. IT-PCI Compliance Audit (25% complete)
5. Time Reporting Review #2 (50% complete)

Engagements Remaining:

1. IT- Management of Non-Desktop Field Devices (Spring 2015)
2. Audit of Outage Management System (OMS) – pending Finance Committee approval
3. Follow-up of Post-Outage Recommendations – recommended deferral of all but OMS-related until FY 2016
4. Surprise Cash Count #2

Independent Audit Results

Internal Auditor Perkins reported the results of the requested Audit. The Areas reviewed included:

- Major purchases and expenditures approved by the previous administration, including sole source and emergency contracts
- Handling of CEO Hotline complaints and incidents
- Review and approval of previous General Manager's Procurement Card (P-Card) expense, and appropriate support for business expenses

Mr. Perkins stated that there is a P-Card manual which is basically the Board of Water & Light's P-Card policy, and is the tool used for appropriate guidance. Mr. Perkins stated, there are two reportable issues that he would like to inform the Board about.

The first issue is, after looking at some of the bigger projects. There is need for more clarity regarding what management needs to do to comply with Board policy regarding the need to report anticipated budget variances that exceed predefined thresholds that are laid out in that Board policy. Mr. Perkins cited a recent project. He said the Haco renovation is as an example where there was a placeholder budget estimate that was used back to originally approve it in fiscal 2014. The costs that were incurred in 2014 were considerably less than the budget because the project was just getting under way, so the updated budget that was submitted for fiscal 2015 when at that point a lot more was known about how much the project would cost, it was higher than the FY14 original budget amount by a percentage and an amount that

exceeded the threshold that's outlined in the board policy but that amount was approved by the board as part of the overall capital budget for this fiscal year. So, the question was whether management should have made a specific comment in its capital budget presentation to inform the board or the finance committee at least that the new budget amount requested exceeded the placeholder amount an amount that exceeds the Board Policy threshold. As the Internal Auditor Mr. Perkins recommended that it needs to be made clear as to when a reportable event has occurred, that needs to be reported to the board via the finance committee and a projected increase approved by the board.

The second issue is with the former General Manager's purchasing card or P-Card expenses. They were not reviewed or approved as they should have been based again on the Board P-Card policy or adequately supported that they were for a business purpose. Example of that is with the meal expenses, along with any other expense, the P-Card manual specifically states that a receipt is to be provided and it is to be itemized in nature. A good deal of the time the itemized receipt was not turned in and that does not conform with the Policy. The other piece of that regarding these P-Card meal expenses is that the specific party and organization that former General Manager dined with was not indicated. So, based on the fact that we are looking roughly at an average of \$100 a month in P-Card expenses, the Internal Auditor certainly saw no evidence that would point him toward any type of abuse, but by the same token, the Policy should have been complied with obviously. As the Internal Auditor Mr. Perkins recommended that the General Manager's P-Card expenses be reviewed and approved by either a Board member such as the finance chair or another designated and approved official and that again the itemized receipts are provided. This is a thing that needs to be reemphasized at least for this particular finding and to specifically indicate for meals and the other participants and the organizations that they belong to, so that it is clear that there is a business purpose to it.

Requested Changes

Internal Auditor Perkins stated that his last item that he would like to address the Board about his requested changes. Mr. Perkins stated that he would like to add an audit of OMS to the fiscal 2015 audit plan and defer the follow up on the post outage recommendation's audit (except the OMS) until fiscal 2016. The final request change is to authorize the hiring of an experienced IT auditor for the Internal Audit Department.

After dialogue regarding the hiring process for an experience IT employee, Finance Chair Louney suggested that himself, CFO Heather Shawa-DeCook and Internal Auditor Perkins meet to discuss a course of action as well as cost and bring the findings back to the Finance Committee.

Motion by Commissioner Zerkle, Seconded by Commissioner Mullen to accept the presented Independent Audit.

Action: Motion Carried

Financial Overview for the Year to Date End January 2015

CFO Heather Shawa-DeCook provided the Committee with a brief overview of the BWL's January financials as of the month end. (Year to Date) Ms. Shawa-DeCook stated that revenue year to date as of January month end was at 7% under budget and expects revenue to continue at that rate through the remainder of fiscal year end. As far as Net income update, Ms. Shawa-DeCook said that we are even with revenues and are above net income projections and there are two key contributing factors of that. One factor is that last December, the finance team put together an O&M budget reduction of 3.5% overall in which they worked with the management team and as of the 2nd quarter review it is looking like we will be able to maintain that at year end. The other contributing factor on the net income is decreased fuel cost, which is a key one. We will have 3rd quarter budget reviews by late April at which time an updated year-end projection will be provided to the Committee. Ms. Shawa-DeCook stated that the company is currently under budget in head count, which we would expect to be with our revenues down, however please note that we are projecting at year end to be at or slightly over budget. Finance is currently planning for fiscal year 2016 and the 6-year overall O&M and Capital Budget. This concludes the financial overview.

Signature of Authority Resolution

Chief Financial Officer (CFO) Heather Shawa-DeCook presented the Committee with a proposed Resolution for check signing signature authority, which is due to organizational and title changes. The proposed Resolution would specifically grant authority to sign checks, replacing Chief Administrative Officer with Chief Financial Officer.

Motion by Commissioner Zerkle, Seconded by Commissioner Bossenbery to forward the proposed Resolution to the full Board for consideration.

Action: Motion Carried

Authority to Invest Operating and Pension Funds Resolution

CFO Heather Shawa-DeCook presented the Committee with a proposed Resolution, which is specific to the title Chief Administrative Officer and updating it to reflect Chief Financial Officer.

Motion by Commissioner Zerkle to accepted amended resolution.

Action: Motion Carried

Motion by Commissioner Zerkle to accept the proposed Resolution and forward it to the full Board for consideration.

Action: Motion Carried

Other

Finance Chair Louney stated that all Commissioners should have received a copy of the Board's proposed budget. There needs to be discussion regarding the budget (Ipads/additional work load/conference/all other cost) to accommodate for the new Advisory Board members coming in July. After reviewing the numbers, it breaks down to roughly \$5000 per Commissioner, which may be an additional \$15,000 to \$16,000 that may have to be added to the Commissioner's budget. Finance Chair Louney said that there is time for formal discussion regarding this matter but felt it was important to get those numbers out there for everyone to see that. He stated that although the Commissioner's do not receive a stipend, there is a cost for governing.

Board Chair Price stated that in interest of transparency, he is sure that the general public has no idea of what it costs for the Commissioners to be here and believes it is very healthy to have an open discussion about that.

Finance Chair Louney thanked CFO Heather Shawa-DeCook and Director of Finance Gennie Eva and all of the Finance staff for all of their efforts.

Commissioner Bossenbery thanked Board of Water & Light's Engineer Dan Flynn for all of his help on getting the information together regarding the proposed dais renovations.

Adjourn

On **Motion** by Commissioner Zerkle, seconded by Commissioner Bossenbery, the meeting adjourned at 8:10 p.m.

Respectfully submitted
Dennis M. Louney
Chair Finance Committee

FINANCIAL SUMMARY FOR February-15

Cash Balance

	Month End Balance	Target	Difference	%
O&M Fund	\$ 78,128,768	\$ 80,126,021	\$ (1,997,253)	-3%
Days Cash on Hand	165	180		
Credit Rating	AA-			
Debt Service Coverage - Rating Agencies	1.63	2.35		
Debt Service Coverage - Bond Covenants	2.16	1.25		

Total Cash	\$ 208,058,019.00 =	\$ 78,128,768	+	\$ 91,342,804.00	+	\$ 38,586,447.00
		O&M Fund		Designated Funds		Restricted Funds

Budget Status O&M - YTD

	Actual YTD	YTD Budget	Difference	%
Excluding Fuel	\$ 91,735,978	\$ 96,800,945	\$ (5,064,967)	-5%

Financial Statements YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	(%) +/-
Revenue	\$ 234,459,705	\$ 250,161,150	\$ (15,701,446)	-6%	\$ 234,020,575	\$ 439,130	0.2%
Retail	\$ 212,483,114	\$ 219,965,594	\$ (7,482,480)		\$ 210,195,880	\$ 2,287,234	1.1%
Wholesale	\$ 21,976,590	\$ 30,195,556	\$ (8,218,966)		\$ 23,824,695	\$ (1,848,105)	-7.8%
Oper Expense	\$ 205,225,924	\$ 221,827,210	\$ (16,601,286)	-7%	\$ 200,131,414	\$ 5,094,510	2.5%
Non Oper	\$ (20,761,593)	\$ (24,220,974)	\$ 3,459,381		\$ (19,645,875)	\$ (1,115,718)	5.7%
Net Income	\$ 8,472,187	\$ 4,112,966	\$ 4,359,221		\$ 14,243,286	\$ (5,771,099)	-40.5%

	Actual YTD	YTD Budget	Target
Return on Assets	2.34%	1.92%	6.18%

Ratios

Operating Ratio	O&M Expenses	/	Revenue	=	Measures efficiency	APPA Median
	\$ 179,483,706		\$ 234,459,705		0.77	0.719

Current Ratio	Current Assets	/	Current Liabilities	=	Measures Liquidity	APPA Median
	\$ 271,738,911		\$ 39,856,477		6.82	1.800

Debt to Total Assets	LT Debt + Accrued Liabilities	/	Total Assets	=	Measures Leverage	APPA Median
	\$ 405,137,521		\$ 1,156,985,174		0.350	0.579

Revenue per KWh	KWH	Electric Revenue	Revenue/KWH
Retail			
Residential	382,578,486	\$ 52,844,573	0.138
Commercial	771,539,381	\$ 96,206,339	0.125
Industrial	244,433,032	\$ 30,285,219	0.124
Wholesale	489,458,894	\$ 30,294,047	0.062
Other	25,308,219	\$ 9,293,395	N/A

Receivable Turnover	Sales	/	Accounts Receivable balance	=	Turnover
	\$ 234,459,705		\$ 26,840,882		8.74

Bad Debt	Actual YTD	YTD Budget	Over/(under)	% of Revenue Total
	\$ 1,558,232.62	\$ 1,333,333.00	\$ 224,899.62	0.66%

Employee Data

	Actual YTD	YTD Budget	Over/(under)
Employee Count	730	743	(13)
	Bargaining = 449	62.50%	
	Non Bargaining = 269	37.50%	

Payroll Data	Actual YTD	YTD Budget	Difference	Actual Prior YTD	Difference	(%) +/-
Total Labor	\$ 39,156,475	\$ 39,390,225	\$ (233,750)	\$ 36,580,178	\$ 2,576,297	7.0%
Regular	\$ 33,946,995	\$ 35,225,837	\$ (1,278,842)	\$ 31,545,199	\$ 2,401,796	7.6%
Overtime	\$ 5,209,480	\$ 4,164,388	\$ 1,045,092	\$ 5,034,979	\$ 174,501	3.5%
Total Hours Worked	872,135			808,739		
Labor Expense/Hours Worked	\$ 44.90			\$ 45.23		
APPA Median	\$ 41.57					

Benefits Cost

(Including Retirees)	Actual YTD	YTD Budget	Difference
Health	\$ 9,239,025	\$ 10,295,925	\$ (1,056,900)
RX	\$ 2,204,981	\$ 1,991,760	\$ 213,221
Dental	\$ 756,322	\$ 875,848	\$ (119,526)
Life	\$ 145,300	\$ 211,719	\$ (66,420)
FICA	\$ 2,868,052	\$ 3,010,920	\$ (142,868)
Other	\$ 1,103,562	\$ 566,094	\$ 537,468
	\$ 16,317,242	\$ 16,952,266	\$ (635,024)

Operating Ratio - Measures the proportion of revenues to cover the operation and maintenance costs

Current Ratio - Measures whether current assets are sufficient to pay current liabilities within one year.

Debt to Total Assets Ratio - Measures the ability to meet its current and long-term liabilities based on the availability of assets.

* APPA Median Source is the APPA Selected Financial and Operating Ratios of Public Power Systems, 2013 Data. Specifically Utilities with over 100,000 Customer Class Size
This publication is always 2 years behind

Proposed Resolution

ADOPTION OF INVESTMENT POLICY STATEMENT FOR OPERATING FUNDS

WHEREAS, the BWL's Investment Policy Statement for Operating Funds was last approved by the Board in July 2009 (Resolution 2009-07-1); and

WHEREAS, the Investment Policy Statement should be reviewed periodically to revise as needed and in accordance with industry practices; and

WHEREAS, the Investment Policy Statement delegates authority by specific title, including a title no longer held by any BWL staff;

RESOLVED, that the Finance Committee approve the proposed attached Investment Policy Statement for Operating Funds and forward the policy to the Board for adoption.

Staff Comments: Due to organizational and title changes as well as a review of industry practices this resolution is proposed to remove reference to the title of Manager of Finance and Planning and update the policy in accordance with industry practices.



Revised [7-1-092-22-15](#)

Investment Policy Statement For Lansing Board of Water and Light Operating Funds

The purpose of this policy is to provide guidelines which govern the investment of Lansing Board of Water and Light operating funds.

I. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including the Lansing City Charter, the State of Michigan [~~Investment Public~~ Act 20 of 1943, as amended and Investment and The Revenue Bond Act 94 of 1933, as amended], and current Lansing Board of Water and Light Bond Resolutions.

II. Scope

This policy applies to the investment of all funds of the Lansing Board of Water and Light (hereinafter referred to as the LBWL) excluding the investment of employees' retirement funds. Proceeds from certain bond issues and related funds are also subject to the restrictions of applicable bond covenants.

1. Pooling of Funds

Except for the balance in certain restricted funds, the LBWL may consolidate balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation.

III. General Objectives

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.



Revised [7-1-092-22-15](#)

a. Credit Risk

The LBWL will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer to make payment, by:

- Limiting investments to the types of securities referred to in Section VI of this Investment Policy

- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b. Interest Rate Risk

The LBWL will minimize the interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby ~~minimizing~~ avoiding the need to sell securities on the open market prior to maturity.

- ~~Investing operating funds primarily in shorter term securities, money market mutual funds, or similar investment pools.~~

← Formatted: Indent: Left: 0.5", First line: 0"

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. ~~—, and a~~ portion of the portfolio may also ~~will~~ be placed in money market mutual funds and/or local government investment pools which offer same-day liquidity.



Revised [7-1-092-22-15](#)

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return ~~commensurate with 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 must be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Formatted: Indent: Left: 0.5", First line: 0"

IV. Standards of Care

1. Prudence

The standard of prudence to be used by investment officials exercising authority in accordance with LBWL Policy 7-01, as amended~~(the Chief Financial Officer and the Manager of Finance and Planning)~~ shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this investment policy and exercising due diligence shall be relieved of personal responsibility for investment losses.

The "prudent person" standard states that, "Investments shall be made with 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."



Revised ~~7-1-09~~2-22-15

2. Ethics and Conflicts of Interest

Investment officers and employees 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. Employees and investment officers 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. Employees and investment officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the LBWL.

3. Delegation of Authority

Authority to invest Operating Funds is ~~derived from the LBWL Policy 7-01 "Authority to Invest Operating and Pension Funds", as amended, granted to the General Manager, Chief Financial Officer and the Manager of Finance and Planning. Additionally, the Chief Financial Officer is authorized to delegate aforementioned privilege on behalf of the Manager of Finance and Planning. This authority is derived from the LBWL Policy 7-01 "Authority to Invest Operating and Pension Funds" as amended.~~
No person may engage in an investment transaction except those either granted or delegated authority under as provided in LBWL Policy 7-01 as amended.

V. Safekeeping and Custody

1. Safekeeping

Securities will be held by independent third-party custodians selected by the LBWL. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70 or acceptable alternative).

VI. Suitable and Authorized Investments



Revised [7-1-092-22-15](#)

1. Investment Types

Investments shall be in conformance with Section 1 of Public Act 20 of 1943 as amended from time to time. With respect to mutual funds, authorization to invest is limited to securities whose intention is to maintain a net asset value of \$1 per share.

VII. Investment Parameters

1. Diversification

The investments shall be diversified by:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements.

2. Maximum Maturities

To the extent possible, the LBWL shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the LBWL will not directly invest in securities [with a weighted average life of more than five years at the date of settlement](#) ~~maturity more than five (5) years from the date of purchase.~~

VIII. Reporting

1. Methods

The Chief Financial Officer shall provide quarterly a written report to the Board of Commissioners of the LBWL concerning the investment of the Operating Funds.

~~IX. The Board of Water and Light Operating Funds and Accounts~~

~~The Board of Water and Light has three classes of operating funds and accounts:~~

~~1. [Restricted by Bond Resolution](#)~~

Formatted: No bullets or numbering



Revised ~~7-1-09~~ 7-1-22-15

~~a. Bond and Interest Redemption Fund~~

~~This fund accumulates and pays bond interest and principal when due.~~

Formatted: Indent: Left: 0"

~~b. Bond Reserve Account~~

Formatted: No bullets or numbering

~~This account shall be used solely for the payment of the principal of, redemption premium, if any, and interest on bonds as to which there would otherwise be a default.~~

Formatted: Indent: Left: 0"

~~e. Operation and Maintenance Fund~~

Formatted: No bullets or numbering

~~This fund must include a sum sufficient to provide for the payment during the succeeding period of the next month's expenses of administration and operation of the System, including such current expenses for the maintenance thereof as may be necessary to preserve the same in good repair and working order.~~

Formatted: Indent: Left: 0"

~~d. Construction Funds~~

Formatted: No bullets or numbering

~~These funds include bond proceeds earmarked for specific projects and spent only on those projects.~~

Formatted: Indent: Left: 0"

~~e. Rebate Fund~~

Formatted: No bullets or numbering

~~This fund shall be used to hold an amount sufficient to enable the LBWL to rebate excess investment earnings to the federal government.~~

Formatted: Indent: Left: 0"

~~f. Receiving Fund~~

Formatted: No bullets or numbering

~~This fund is required by bond resolution. All revenues of the LBWL are credited to this fund and are pledged for the purpose of meeting the requirements of the aforementioned restricted funds and accounts.~~

Formatted: Indent: Left: 0"

~~2. Designated by the Board of Commissioners of the LBWL:~~

Formatted: No bullets or numbering

~~a. Coal Inventory Account~~

~~This account is used to overstock coal and prevent shortage in anticipation of a coal or freight strike.~~

Formatted: Indent: Left: 0"

~~b. Uninsured Losses Account~~

Formatted: No bullets or numbering

~~This account is used to cover uninsured losses in environmental liability, property damage self insurance and workers compensation self insurance.~~

Formatted: Indent: Left: 0"

~~e. Water Facilities Account~~

Formatted: No bullets or numbering

~~This account was funded with proceeds received from Delta and Lansing townships for future water system expansion.~~

Formatted: Indent: Left: 0"

Formatted: Indent: Left: 0"



Revised 7-1-092-22-15

~~3. Unrestricted and Undesignated~~

~~a. Any revenue remaining in the receiving fund after satisfying all requirements of the restricted and designated funds and accounts shall be deemed to be monies that may be used for such purposes as the LBWL deems to be in its best interest.~~

Formatted: No bullets or numbering



Revised 2-22-15

Investment Policy Statement For Lansing Board of Water and Light Operating Funds

The purpose of this policy is to provide guidelines which govern the investment of Lansing Board of Water and Light operating funds.

I. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including the Lansing City Charter, the State of Michigan [Public Act 20 of 1943, as amended and Investment and The Revenue Bond Act 94 of 1933, as amended], and current Lansing Board of Water and Light Bond Resolutions.

II. Scope

This policy applies to the investment of all funds of the Lansing Board of Water and Light (hereinafter referred to as the LBWL) excluding the investment of employees' retirement funds. Proceeds from certain bond issues and related funds are also subject to the restrictions of applicable bond covenants.

1. Pooling of Funds

Except for the balance in certain restricted funds, the LBWL may consolidate balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation.

III. General Objectives

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 LBWL will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer to make payment, by:

- Limiting investments to the types of securities referred to in Section VI of this Investment Policy
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b. Interest Rate Risk

The LBWL will minimize the interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby minimizing the need to sell securities on the open market prior to maturity.

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, and a portion of the portfolio may also be placed in money market mutual funds and/or local government investment pools which offer same-day liquidity.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return commensurate with 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 must be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. Standards of Care

1. Prudence

The standard of prudence to be used by investment officials exercising authority in accordance with LBWL Policy 7-01, as amended shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this investment policy and exercising due diligence shall be relieved of personal responsibility for investment losses.

The "prudent person" standard states that, "Investments shall be made with 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."

2. Ethics and Conflicts of Interest

Investment officers and employees 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. Employees and investment officers 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. Employees and investment officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the LBWL.



3. Delegation of Authority

Authority to invest Operating Funds is derived from the LBWL Policy 7-01 “Authority to Invest Operating and Pension Funds”, as amended. No person may engage in an investment transaction except those either granted or delegated authority under LBWL Policy 7-01 as amended.

V. Safekeeping and Custody

1. Safekeeping

Securities will be held by independent third-party custodians selected by the LBWL. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70 or acceptable alternative).

VI. Suitable and Authorized Investments

1. Investment Types

Investments shall be in conformance with Section 1 of Public Act 20 of 1943 as amended from time to time. With respect to mutual funds, authorization to invest is limited to securities whose intention is to maintain a net asset value of \$1 per share.

VII. Investment Parameters

1. Diversification

The investments shall be diversified by:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements.



Revised 2-22-15

2. Maximum Maturities

To the extent possible, the LBWL shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the LBWL will not directly invest in securities with a weighted average life of more than five years at the date of settlement

VIII. Reporting

1. Methods

The Chief Financial Officer shall provide quarterly a written report to the Board of Commissioners of the LBWL concerning the investment of the Operating Funds.