

## VI. Budget and Reserve Policy

- A. Philosophy – To seek investments that take only sensible risks, to run at a sustained rate of return, and to concentrate on a long-term investment horizon by
1. Adopt a value-oriented approach
  2. Study investment research
  3. Consult multiply investment advisors
  4. Seek a fee structure (expenses) below the industry average.
- B. Purpose - The purpose of this statement is to establish a clear understanding between the Investment Committee (The Committee), the IES Board of Directors (The Board) and Financial Services Advisor concerning the investment policies and objectives of Inland Empire Swimming Inc: "The Fund." ("The Fund" is understood to include all Inland Empire Swimming assets, including operating funds, unless specifically stated otherwise.) The policies for each asset class within The Fund are described as part of this document. This policy outlines an overall philosophy that is specific enough to guide the Committee, yet sufficiently flexible to allow for changes in the economy and securities markets. The Investment Committee will provide realistic expectations and risk tolerance to guide the Board toward long-term rate of return objectives that will serve as a standard for evaluating investment performance. The Investment Committee will also establish the procedures for overall policy and performance review. This statement will establish policies and restrictions to be placed on The Fund investments. However, these are not intended to impede the Committee's effort in attaining the overall objectives of The Fund. The Investment Committee has discretion in investment selection and diversification for the purposes of increasing investment returns or reducing risk exposure. The Investment Committee also has the responsibility to shift The Fund's asset commitment among industry sectors and individual securities to pursue opportunities presented by secular changes within the capital markets.
- C. Objectives –
1. The Fund's primary objective is to obtain an additional 5% return relative to the Consumer Price Index with a minimum return of 7% as a secondary objective. This objective should be pursued as a long-term goal designed to maximize benefits for the plan participants without undue risk, as defined herein.
  2. The Investment Committee realizes that poor securities markets may persist over a period of unpredictable duration. Therefore, they have established, as part of their risk policy, a minimum acceptable return equal to the rate of increase of the Consumer Price Index.
- D. Security Classes

1. Common Stocks: the quality rating of all common stocks should be B+ or better as rated by Standard & Poors, no investment in non-rated stocks is allowed.
  2. Convertible prefers stock and convertible bonds: the quality rating must be investment grade or better. The common stock into which both may be converted must be rated or specified according to the standards stated in item 1 above.
  3. Fixed income securities: The quality rating of bonds and notes must be investment grade or better. The portfolio may consist of only traditional principal and interest obligations ( no derivatives i.e., puts, calls or futures). Every effort should be made to "Ladder" the bond portion of the portfolio.
  4. Short-Term reserves: The quality rating of Commercial paper must be A-1 as rated by Standard and Poors.
  5. Mutual Fund: A 'Moringstart' risk rating, by category, will be used to evaluate a fund's performance and mix.
- E. Portfolio Mix
1. Equity ( or equity mutual funds) 50% to 70%
  2. Fixed Income (including cas equivalents 30% to 50%
  3. The IES time horizon and liquidity needs, as determined by the Board, will determine the asset allocations by category. Also, investment in the equity securities of any one company shall not exceed 6% of the portfolio value. Furthermore, reasonable sector allocations and diversifications shall be followed. In that regard, no more than 20% of the entire portfolio may be invested in the securities of any one-industry sector.
- F. Portfolio Management
1. Transactions: no margin transactions, short selling, or commodity transactions are authorized
  2. Reporting requirements:
    - a) Quarterly: The portfolio manager(s) shall provide the Finance Committee detailed information about: (1) asset allocation, (2) investment performance, and (3) any other matters of interest.
    - b) Annually: The portfolio manager(s) shall provide the Finance Committee an annual summary of all transactions, together with a report of investment performance for the year and recommended future investment strategies.
- G. Portfolio Expenditures - All expenditures and use of the Long-Term Investment Reserves (LTIR) shall be approved by the Finance Committee. Requests for such expenditures must be received, in writing, at least fifteen (15) days prior to the anticipated expenditure date. For requests totaling less than thirty percent (30%) of the total LTIR, approval of a minimum of three (3) members of the Finance Committee is required. For requests totaling thirty percent (30%) or greater of the LTIR, approval of by all (100%) of the members of the Finance Committee is required.

## 6.1. Budget Preparation

- a. All expenditures made in the name of the Corporation are subject to and governed by the annual operating budget approved by the Board of Directors and House of Delegates. An annual budget for capital expenditure is also approved at the same time.
  - b. Initial budgeting process will begin with the Treasurer, Finance Chair and BOD. The Treasurer and Finance Chair will prepare revenue projections for the coming year. Working with staff and committee chairs, the Treasurer and Finance Chair will determine needs for existing and ongoing programs. Proposals for new programs may also be initiated.
  - c. The Budget Committee will prepare a preliminary budget (with sufficient detail to be able to determine the appropriateness of cost/benefit) which will be presented to the Board of Directors for review.
- 6.2. Role of the Committees
- a. Committees will be provided with budget parameters by the Finance Committee. Committees will develop appropriate budgets to ensure the ongoing viability of programs.
- 6.3. Role of the Vice-Chairs
- a. The Vice-Chairs will review the budget with respect to the committees under their jurisdiction and make recommendations regarding the areas under their jurisdiction.
- 6.4. Role of the Board of Directors and House of Delegates
- a. Regarding amending, adding, or deleting a budget item, the primary place for such changes should be the Board of Directors.
  - b. The role of the House of Delegates is to adopt the budget brought forward by the Board of Directors.
  - c. Once adopted, it is the role of the Finance Vice-Chair and Treasurer to implement and enforce the budget.
- 6.5. Budget Amendment and Performance Review
- a. The budget should be approved as a living document, one with built-in flexibility. The Board and staff should be charged to live within the budget.
  - b. The Finance Vice-Chair will oversee expenditures and determine that the intent of the House of Delegates is being carried out.
  - c. The Finance Vice-Chair will review and approve all changes regarding the manner in which budgeted funds are expended.
  - d. Minor changes to the budget programs already approved will be handled administratively by the Finance Vice-Chair and the Treasurer.
  - e. New programs adopted during the year with budgetary impact will necessitate Board-considered budget amendments to adequately fund the programs.
  - f. A budget to actual expenditure report will be provided to the BOD members at each meeting of the BOD.
- 6.6. Budget Timetable
- a. April 1 – July 1 – Requests for program budgets and expenditures given to Finance Vice-Chair and Treasurer.
  - b. July 15 – Budget Committee produces a first draft of the proposed budget
  - c. Aug or Sept BOD meeting – Proposed Budget distributed to the BOD. BOD will meet to review, amend, and approve the Proposed Budget

- d. Fall HOD meeting – Inland Empire Swimming House of Delegates meets to review, amend, and approve the Budget for the following year Jan to Dec.

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