



Washington Association of Conservation Districts  
**Financial Policy and Procedure**  
**Manual**

Updated and Approved  
2/26/2024

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## **Introduction**

The Washington Association of Conservation Districts Financial Policy and Procedure Manual provides the policies and procedures for financial transactions within the business which must be followed by all staff. It also provides guidelines the Washington Association of Conservation Districts will use to administer these policies, with the correct procedure to follow.

An effective internal control system is intended to help the Board of Directors and management to:

- Comply with laws and regulations
- Ensure reporting is completed reliably and on time
- Protect assets
- Achieve Association policy goals
- Avoid or uncover errors and inconsistencies
- Ensure reliability and completeness in accounting
- Conducting business effectively and efficiently

## **Accounting Guidelines and Internal Control**

It shall be the policy of the Washington Association of Conservation Districts to create and maintain accounting, billing, and cash control policies, procedures and records which are consistent with Generally Accepted Accounting Principles (GAAP), and appropriate internal controls are maintained. The following procedures need to be followed:

- 1) Standard accounting procedures, in accordance with GAAP, will be utilized for all financial functions.
- 2) Accounting will be done on an accrual basis.
- 3) To ensure optimal internal controls, WACD will separate functional responsibilities as recommended by GAAP, to the extent possible based on staffing resources.
- 4) The Financial Accounting Administrator will maintain financial records in accordance with the record retention policy or as determined by Federal, State, or local law.
- 5) The Washington Association of Conservation Districts fiscal year starts on July 1<sup>st</sup> and ends on June 30<sup>th</sup>.

Washington Association of Conservation Districts will keep all financial policies current and relevant. From time to time, it may be necessary to modify and amend some sections of the policies and procedures, or to add new procedures. These policies and procedures apply to all employees.

## **FINANCIAL ACTIVITY CONTROLS**

### **SECTION 1. BUDGET**

The annual budget process requires planning and preparation of management and staff. The budget should be designed and prepared to direct the most efficient and prudent use of the organization's financial and human resources. The budget will be developed based on historical as well as projected costs for each line item. The following guidelines represent basic budgeting steps:

- (a) The Finance Committee shall collaborate with staff to develop a budget recommendation. Once approved by the Finance Committee, the budget will be presented to the Executive Board for review and approval no later than three weeks before the Board of Director's meeting in June.
- (b) The recommended budget shall then be provided to the Board of Directors at least two weeks before the June Board meeting [distribution deadline under Part IX, Section (3)(b) of the Bylaws].
- (c) The annual budget will be presented at the June Board of Directors meeting for review and approval. The budget goes into effect July 1<sup>st</sup>.
- (d) From time to time, the finance committee may amend the annual budget with approval from the Board of Directors.

Budget Authorization. In adopting the fiscal year budget, the Board of Directors shall limit the Executive Director's spending within the approved budget. The Executive Director has authority to spend more or less on individual line items in order to keep expenditures at or below the authorized budget. The Board of Directors authorizes the Executive Director, after consultation with the Finance Committee, the WACD Treasurer, and the WACD President, to approve purchases up to \$100,000 within the parameters of the approved budget or reserve accounts.

### **SECTION 2. INVESTMENTS**

The Association's investment philosophy is to preserve capital while optimizing returns through prudent management at moderate risk levels. The investment approach is to grow the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions. See Appendix B - Investment Fund Policy.

### **SECTION 3. RESERVE FUNDS**

**Preamble.** It is the intent of the Association that the Plant Materials Center is operated and managed to benefit all conservation districts and to protect the long-term mutual viability of WACD overall and the Plant Materials Center.

## **Part 1. Funds for Capital Equipment and Operating Expenses.**

WACD shall have reserves for capital equipment replacement and operating expenses. Funds for reserves shall be composed of cash-on-hand at the beginning of the fiscal year plus amounts held in other accounts and funds as described below. Reserves shall be viewed as restricted funds that require Board action if such funds need to be utilized. See Appendix C – Reserve Fund Policy.

- (a) Operating Reserve - WACD shall hold in reserve the equivalent of six months of expenses, factored to account for reductions in operating expenses during lean times. Six months of expenses shall be calculated using one-half of the highest annual expenses over the past five years of operations.
- (b) Composition of Operating Reserve - The WACD operating reserve shall be composed of cash on hand at the start of the fiscal year, plus liquid assets held in certificates of deposit; money market account; treasury-based investments, or the Local Government Investment Pool. If necessary, the Executive Director may cause the six-month operating reserve amount to be met by selling assets in the WACD Investment Account. Excess operating reserve funds shall be moved to the WACD Investment Account at the beginning of the next fiscal year.
- (c) Plant Sale Deposit Reserve - WACD should preserve plant sale deposits because those funds are at risk until sales are completed. Plant sale deposits should be sequestered separately from other WACD funds. A money market fund at Edward Jones is a likely way to safely hold these deposits apart from other funds.
- (d) Capital Equipment Reserve - WACD shall hold in reserve the equivalent of the replacement cost for critical capital equipment, factored to account for the assumption that not all equipment will need to be replaced at the same time and in recognition that purchase of some equipment may be done through loans. The capital equipment list shall consist of assets listed on the annual depreciation schedule. The factor of the total replacement cost shall be 50% of the estimated replacement cost. Capital equipment reserves shall be held in the WACD Investment Account and shall be considered restricted funds. Growth of capital equipment reserves within the WACD Investment Account shall not automatically accrue to the capital equipment reserve. The capital equipment reserve shall be recalculated annually, and the restricted amount set by Board action.
- (e) Deposits and withdrawals must be approved by the Finance Committee and then authorized by the Board of Directors. The total investment amount does not need to be segregated by the individual identified reserve accounts.
- (f) The Association may retain one or more investment advisors to manage the investment portfolio as recommended by the Finance Committee and approved by the Board of Directors. Such advisors shall be subject to periodic performance reviews and shall report annually to the Finance and Executive Committees on the investment portfolio.

**Part 2A. Legal Assistance Fund for Statewide Issues.** The legal assistance fund was established to provide financial assistance in supporting legal representation for conservation districts and/or the Association on matters that have a statewide impact on conservation district operations or conservation district governance.

- (a) To obtain money for the WACD Legal Assistance Fund, the Association may solicit funds from all conservation districts. Money received shall be placed into the Fund not to exceed \$50,000 at any time but may be combined with other WACD long-term investments or reserve accounts as recommended by the Finance Committee and approved by the Board of Directors. When the fund balance drops below \$10,000, the Association may solicit funds from conservation districts.
- (b) Funds shall be drawn and expended by the Executive Committee only as directed on a case-by-case basis by the Board of Directors, after input from the Finance Committee, and based upon the following:
  - (i) That legal representation for the Association is required to respond to a legal case or lawsuit that threatens a statewide impact to the operation or governance of Conservation Districts.
  - (ii) That legal representation is required for one or more conservation districts to respond to a legal case or lawsuit that threatens a statewide impact to the operation or governance of conservation districts; or
  - (iii) That costs for legal representation already incurred by one or more conservation districts warrant limited financial support by the Association where a legal case or lawsuit of previously localized nature grows to threaten a statewide impact to the operation or governance of conservation districts.
- (c) The Board of Directors shall specify the maximum amount and duration of funds to be drawn up and expended by the Executive Committee. The Executive Director shall approve all invoices for payment from the WACD Legal Assistance Fund and shall report to the Executive Committee and Board of Directors.

**Part 2B. Legal Assistance Fund for Local Issues.** The legal assistance fund was established to provide financial assistance in supporting legal representation for conservation districts and/or the Association on internal matters.

- (a) To obtain money for the WACD Legal Assistance Fund a district must be a member in good standing (i.e., have paid their dues).
- (b) WACD will cover the consultation cost for up to one hour a year (July 1<sup>st</sup> through June 30<sup>th</sup>) for each member in good standing, subject to available funds. The budget for this service is \$10,000 per fiscal year. Additionally, member districts in good standing can access WACD's

General Counsel at a reduced rate should the need to engage a long-term legal counsel be required.

- (c) Districts interested in participating should contact WACD Executive Office staff to request a consultation with WACD's General Counsel.
- (d) Funding for the Legal Assistance Fund may be provided in part by WACD's long-term investments or reserve accounts as recommended by the Finance Committee and approved by the Board of Directors.

**Part 3. Leadership Development Fund.** Contributions for this fund may be allocated as part of the annual meeting registration cost, from grants and/or from reserve funds as determined by the Board of Directors. Moneys are maintained in a separate line item on the Statement of Financial Position (Restricted Net Assets – Exec). Usage of these funds requires authorization from either the Executive Board or Board of Directors and may be used for:

- (a) Supervisor leadership development programs.
- (b) Special leadership training programs or events.
- (c) Conservation district technical employee training and certification; and
- (d) Other training/leadership opportunities identified by the Board of Directors.

#### **SECTION 4. AUDITS AND REVIEWS**

WACD shall have an audit performed every five years. Audits will be conducted by a third-party, certified public accountant. WACD will conduct independent and regular reviews of its financial accounting, including transactions and financial reports. Each month, a summary of the review will be provided to the Executive Director and Treasurer.

#### **SECTION 5. END OF MONTH AND FISCAL YEAR-END CLOSE**

1. An external bookkeeper will review and sign off on all monthly journal entries and the check register, which will be printed and filed for audit trail purposes.
2. At the end of each month, an external bookkeeper will review all balance sheet accounts including verification of the following balances: cash accounts match the bank reconciliations, credit card statements, accounts receivable and payable accounts match outstanding amounts due and owed.
3. The income and expense accounts review will include reconciliation to amounts received and expended and verification that payroll expenses match the payroll reports including federal and state payroll tax filings.
4. At the end of the fiscal year, a CPA will prepare the annual Return for Organization Exempt from Income Tax (IRS Form 990 and 990-T). The return will be presented to the Executive Director for review and approval. The CPA will then file the return with the Internal Revenue Service by the annual deadline.
5. All other payroll tax filings, IRA, and B&O tax will be completed and filed with the appropriate agency as required per the State.

## **SECTION 6. CREDIT CARDS**

The business credit cards can only be used for WACD Business and are not to be used for personal expenses. No cash advances are to be taken using a business credit card. All holders of business credit cards are required to send all receipts to the Financial Accounting Administrator in a timely manner. The Financial Accounting Administrator will verify all credit card charges with the monthly statements. A copy of all charges will be attached to the monthly credit card statement. If a business credit card is lost or stolen, the owner of the card is to notify and Financial Accounting Administrator, who is responsible for canceling the card. A new card will be issued to the employee. All business credit cards are to be returned to WACD when the employee is no longer employed.

## **SECTION 7. BANK ACCOUNTS**

The Board of Directors may delegate the President, Treasurer, or Executive Director to establish bank accounts and set signatory authority. No account shall exceed the FDIC limit. Any two authorized individuals below, by mutual agreement, shall be allowed to initiate changes (manage, modify, create, rename, transfer, redeem, or otherwise change) to investment, checking and savings accounts on behalf of the Association:

- (a) President.
- (b) Treasurer.
- (c) Executive Director.

**Part 1 - Bank Transfers.** The Financial Accounting Administrator will monitor the balances in the bank account to determine when there is a shortage or excess in the bank account. A recommendation will be given to the Executive Director when a transfer should be made to maximize the potential for earning interest. The approval for the transfer will be made in writing and a copy of the written approval will be attached to the bank statement. Only account signers, with the approval of the WACD Board or Executive Director, can authorize bank transfers.

## **SECTION 8. SIGNATURE AUTHORITY**

The following officers, if they choose, and employees of the Washington Association of Conservation Districts shall be authorized to sign checks on behalf of the Association:

- (a) President.
- (b) Treasurer.
- (c) Executive Director.
- (d) Director of Nursery Operations; and
- (e) Financial Accounting and Human Resources Administrator.

- (1) All checks, except for those issued for payroll, above \$5,000 shall require two signatures.
- (2) In the case that one of the signatures is the same as the payee, an officer's signature is required.
- (3) The Executive Director shall determine the process for obtaining signatures for checks.
- (4) Only account signers, with approval of the WACD Board or Executive Director, can authorize bank transfers.



- (5) Only the Executive Officers and the Executive Director may sign documents, correspondence, applications, reports, and contracts on behalf of the Association.
- (6) The Director of Nursery Operations may sign contracts that pertain to the nursery upon written approval from the Executive Director.
- (7) The President and Treasurer may choose to be authorized signers on WACD accounts. Regardless of their role, both individuals will be granted real-time, read-only access to all WACD accounts.

## **SECTION 9. CASH RECEIPTS AND DISBURSEMENTS**

### **Part 1 – Cash Receipts.**

Unopened mail is delivered to the Director of Nursery Operations or Assistant Nursery Manager, who will open and endorse the checks. The checks will be endorsed with a rubber stamp that includes the following information:

- (a) For deposit only
- (b) Organization name
- (c) Name of the bank and bank account number

The checks will then be recorded in a receipt book and a copy of the receipt will then be stapled to the invoice and filed. A copy of the bank deposit report (generated from the accounting software) along with the deposit slip will then be given to the Director of Nursery Operations or Assistant Nursery Manager. Once verified, the bank deposit report will be initialed by either the Director of Nursery Operations or Assistant Nursery Manager. The bank deposit receipt will be stapled to the bank deposit report and filed. These reports will be kept for a year.

Checks received at the Executive Office will be mailed to the Plant Material Center. The Executive Staff person mailing the check will notify the Financial Accounting and Human Resources Administrator via email that the check has been mailed. The check will be deposited and recorded in the receipt book per the process described above.

### **Part 2 – Cash Disbursements.**

- (a) Check Authorization – The Executive Director or Director of Nursery Operations must provide approval for all disbursements. Supporting documentation must accompany checks when presented for signature.
- (b) Checks – Most non-recurring disbursements will be made by check. Recurring disbursements may be set up electronically with vendor via Electronic Funds Transfer with prior approval from the Executive Director or Director of Nursery Operations.
- (c) Only pre-numbered checks shall be used. Blank checks are to be locked in a secure place when not in use. Access to blank checks must be limited to persons authorized to prepare checks.

- (d) Signing blank checks is strictly prohibited. Checks must be made payable to specific payees based upon appropriate documentation; and never to "cash" or "bearer."
- (e) Prior to preparing checks, receiving reports should be compared to vendor invoices for accuracy. Checks must be prepared from vendor invoices only and not from a vendor statement. Check signers should compare supporting data/documents against checks.
- (f) The bottom third of the check is attached to the invoice along with any other documentation and filed in the respective accounts payable files.
- (g) Signed checks that have not been mailed or distributed shall also be stored in a locked cabinet.
- (h) Any voided checks must be marked "Void" and retained in a secure place.

**Part 3 – Executive Checks.** Checks that require signatures from the Executive Director are mailed to the office in Olympia, with the necessary documentation. Checks are mailed via United Postal Service with a tracking number and a copy of the check register showing which checks are sent.

**Part 4 – Outstanding Checks.** Outstanding checks older than 6 months that have not already been replaced are automatically cancelled and are no longer valid. The funds for checks voided are credited back in the account/sub fund that funded the original check.

#### **SECTION 10. ORGANIZATIONAL INSURANCE**

WACD shall carry organizational insurance, at a minimum covering property and assets. WACD shall also carry Directors and Officers (D&O) Insurance. It is the Executive Director's responsibility to ensure that the organization has appropriate insurance coverage by reviewing it every three years, at a minimum, to minimize risk exposure.

#### **SECTION 11. FINANCIAL ASSISTANCE TO ORGANIZATIONS**

The Executive Director may recommend to the Board of Directors that financial assistance be granted via memorandum of understanding to specified organizations if mutual educational, technical proficiency, or leadership benefits would result.

#### **SECTION 12. ACCOUNTS PAYABLE**

Only valid accounts payable transactions based on documented vendor invoices, receiving reports, or other approved documentation are recorded as accounts payable. Vendors and suppliers are paid as their payment terms require, taking advantage of any discounts offered. If cash flow problems exist, payments are made on a greatest dependency/greatest need basis.

#### **SECTION 13. AGED RECEIVABLES**

Customers shall be invoiced when the service/product is provided by WACD or the WACD Plant Materials Center. Customers are responsible for paying the full amount specified on the invoice. All invoices are due net 30. The Executive Director, WACD Treasurer and Director of Nursery Operations will receive a monthly Aged Receivable report.

**Part 1 – Past Due Accounts.** Statements will be mailed monthly. Accounts past due (90 days or more) may be assessed an interest charge of 18%. Customers will be notified in writing of potential interest charges on outstanding balances. Customers with an outstanding balance (90+ days) may not purchase additional items or place future orders until paid in full.

Step	Days From Date of Invoice	Action
1	30	Send first statement to customer.
2	60	Telephone and follow-up with a second statement to the customer letting them know that interest will start to accrue after 90 days.
3	90	Send a certified letter informing the customer that unless the past due payment is received within the next 30 days, their account may be referred to a collection agency.

The Finance Committee will meet quarterly and will review all accounts that are 90+ days past due. If the Finance Committee determines that the account is uncollectible, a recommendation to write off the balance will be presented at the next Board of Directors meeting.

#### **SECTION 14. PMC SALES**

Production of high-quality seedlings requires close attention to all phases of nursery management. These include preparation of nursery beds, soil management, planting procedures, control of seedling density, use of fertilizers, irrigation, and pest control.

**Part 1 – Inventory.** Throughout the growing season, the Sales Manager counts the plants to generate an estimated number of plants for sale. Once inventoried, the estimated numbers and sizes for each species are entered into the accounting software. After placing an order, customers receive a Sales Order that shows the quantity of each item ordered - the quantity is how many of a given item we project to be able to fulfill based on our inventory estimates.

The estimated available inventory numbers are updated and posted on our website as orders are entered. If concerns arise throughout the growing season, the customer is notified as soon as possible.

- (a) All seeds received for planting are locked in a refrigerator with restricted access.
- (b) Cutting estimates are based on historical data.
- (c) At the end of the fiscal year (June 30<sup>th</sup>) and estimated value of plants in the field is entered into the Statement of Financial Position.

As the plants are harvested, they are recorded on a spread sheet until the species is complete. Once complete, the actual numbers are entered in the accounting system.

**Part 2 – Customer Deposits.** A separate spreadsheet will be used to track all deposits from customers. Customer deposits are considered a liability until the order is complete and invoiced out.

Appendix A

**Washington Association of Conservation Districts  
Budget Preparation & Account Review Timelines**

Deliverable	Responsible Party	Due Date
<b>BUDGET</b>		
Budget Development	WACD Staff	May
Review	Executive Director	Mid-May
Review	Finance Committee	Mid-May (Note #1)
Review	Executive Board	Mid-May
Approve Budget	WACD Board	June (Note #2)

<b>AUDIT</b>		
Audit every 5 years	Finance Committee / Audit Review Committee	August 2024

<b>INVESTMENTS and PAST DUE ACCOUNTS</b>		
Review	Finance Committee	February (review October - December)
Review	Finance Committee	May (review January – March)
Review	Finance Committee	August (April – June)
Review	Finance Committee	November (July – September)

<b>ANNUAL INVESTMENT PORTFOLIO REVIEW</b>		
Review	Treasure and Executive Director	August (review prior Fiscal Year)
Update	WACD Board	September Board Meeting
60/40 Asset Allocation Review and Rebalancing	Investment Manager	June 30 <sup>th</sup> & December 31 <sup>st</sup>

Note #1 - Once approved by the Finance Committee, the budget will be presented to the Executive Board for review and approval no later than three weeks prior the Board of Director’s meeting in June.

Note #2 - Provide to the Board of Directors at least two weeks prior to the June Board meeting

Appendix B  
**Washington Association of Conservation Districts  
Investment Fund Policy**

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# Washington Association of Conservation Districts Investment Fund Policy

Effective: June 20, 2022  
Updated: October 19, 2023

## Overview

This Investment Fund Policy documents the overarching philosophy, objectives, and specific practices that shall guide the Board in their responsibility as stewards of the Washington Association of Conservation District's (WACD) resources and will guide employed Investment Manager(s) and Investment Consultant(s) as they manage the Association's Investment Fund. The Association's investment philosophy is to preserve capital while optimizing returns through prudent management at moderate risk levels. The investment approach is to grow the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions.

WACD's investment objective is to provide funds for the benefit of the Association's membership (such as dues reduction), special projects, and the long-term financial stability of the Association. This policy covers WACD's Investment Fund, which currently includes three investment accounts:

- Money Market Reserve Account
- Certificate of Deposit
- Investment Account

Except as they relate to the WACD investment accounts, this policy does not cover WACD's cash accounts, which are currently held in checking and/or savings accounts.

## **INVESTMENT FUND MANAGEMENT GUIDELINES**

The following sections describe the Association's risk management approach. These sections provide guidance to Investment Managers and Consultants employed by WACD to manage the funds.

### **Risk Management**

Investment risk is defined as the unpredictability of investment returns, the chance that actual investment returns are different from expected returns, and the possibility that overall portfolio performance does not meet target expectations. Higher returns are typically associated with higher risk.

#### **Part 1 - Risk Tolerance: Moderate**

The Association accepts moderate risk for the Investment Fund, meaning that the Association accepts some volatility in the Fund to achieve the return objectives as set forth in this policy. The Association understands that actual risk and returns may be higher or lower than the stated risk tolerance and return objective.

#### **Part 2 - Asset Allocation - 60% Equity / 40% Fixed Income**

Asset allocation refers to how monies are invested across different financial asset categories and sub-categories - stocks versus fixed income securities, large-capitalization versus small-capitalization, growth versus value, U.S. versus international, developed markets versus emerging markets, etc. Different assets have varying degrees of risk and return. Diversifying assets in these different categories and subcategories is the way Investment Managers manage risk. Strategic allocation of portfolio assets is the most significant determinant of long-term investment returns and portfolio asset value stability.

The Association expects that actual returns and return volatility may vary from expectations and return objectives over time, particularly in the short term. The Association only expects to amend the asset allocation in the event of material changes to the Investment Fund, to the Regular Annual Disbursement Calculation, and/or to the capital markets and asset classes in which the Investment Fund invests.

Fund assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of equity investments is to maximize the long-term real growth of the Investment Fund. Fixed-income investments generally provide for more stable periodic returns and provide some protection against a prolonged decline in the market value of equity investments.

Cash investments (like money market funds or other stable-value instruments) will be considered temporary, not strategic portfolio holdings. Cash may be used for fund liquidity needs or to facilitate a planned program of dollar-cost averaging into the portfolio.

The following targets represent a general expectation. However, market fluctuations and the Investment Manager's strategic allocations may result in some deviation from the targets.

- Equity 60% (Minimum 50%, Maximum 70%)
  - Equity holdings shall include a diversified mix of U.S. and foreign large-, mid-, and small-capitalization stocks.
- Fixed Income 40% (Minimum 25%, Maximum 50%)
  - Investment Grade, 35%
  - Non-investment grade, 5%
- Fixed income investments shall include a diversified mix of short-, medium-, and long-term holdings and may include foreign bond holdings hedged to minimize currency exposure.
- Cash 0% target.

Tactical assets may comprise no more than 20% of total fund assets. Tactical assets may include Exchange Traded Funds (ETFs) or other liquid investments. Their purpose is to 1) provide exposure to alternative assets, such as commodities or real estate, or 2) temporarily increase exposure to traditional asset classes to take advantage of short-lived anomalies.

### **Part 3 - Rebalancing**

- The Investment Manager will use incoming and outgoing funds to realign the current weightings of the portfolio closer to the asset allocation guidelines, or to the Investment Manager's strategic weightings within those guidelines.
- The Investment Manager will review the portfolio as of June 30<sup>th</sup> and December 31<sup>st</sup> each year to determine the deviation from target/strategic weightings.
- If any asset class (equity or fixed income) is +/- more than 5% from its target at the semi-annual review, the portfolio will be rebalanced within a reasonable period of time.
- The Investment Manager may rebalance at any time, reporting to the Association within 10 days when this has occurred outside of the semi-annual review.

Diversification across and within asset classes is the primary means by which the Association expects to avoid undue risk of large losses over long time periods. To protect the portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the following guidelines will be in place:

- Except for fixed income assets explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of the total portfolio assets.
- Except for passively managed investment vehicles seeking to match the returns of a broadly diversified market index, no single investment pool or investment company (mutual fund) shall represent more than 20% of the total portfolio assets.
- With respect to fixed income assets, the portfolio may allocate no more than 10% to securities below investment grade (Standard & Poor's BBB or Moody's Baa or higher).



### **Prohibited Assets**

Investment Managers are prohibited from investing in the following:

1. Direct investment in commodities
2. Private Placements
3. Direct investment in derivatives
4. Venture-Capital Investments
5. Direct investment in real estate properties
6. Interest-Only (IO), Principle-Only (PO), and Residual Tranches Collateralized Mortgage Obligations (CMO)
7. Cryptocurrencies
8. Other investments that are not appropriate to WACD's moderate risk tolerance

### **Transaction Restrictions**

To ensure marketability and liquidity, investment advisors will execute equity transactions through the following exchanges: New York Stock Exchange; American Stock Exchange; and NASDAQ over-the-counter market. If an Investment Manager determines that there is a benefit or a need to execute transactions in exchanges other than those listed in this statement, written approval is required from the Board of Directors.

### **Prohibited Transactions**

Investment Managers are prohibited from the engaging in the following transactions:

1. Short Selling
2. Margin Transactions
3. Other transactions that are not appropriate to WACD's moderate risk tolerance

### **Large Fund Contributions**

To avoid undue impact on investment performance caused by the timing of contributions to the Investment Fund, contributions that are relatively significant in relation to the total balance of the Investment Fund should be made gradually. No more than the greater of (a) \$50,000 or (b) 1/12 (8.33%) of the total amount to be invested should be moved into the Investment Fund in the given month. The Investment Manager(s) may use their discretion as to when the money is moved into the Investment Fund within a given calendar month.

### **REGULAR ANNUAL DISBURSEMENTS**

As part of the annual budgeting process, the Board will determine whether to withdraw funds from the Investment Fund. If funds are disbursed from the Fund, the following calculation will be used. Annual withdrawals shall be calculated as 2% of the average market value of the previous 16 rolling quarters, as measured on March 31 of the prior fiscal year. Based on long-term historical net returns of a moderate risk portfolio, this policy is weighted somewhat in favor of long-term Investment Fund growth over current benefits to members. In the short- and medium-term, however, the reverse may be true.

This withdrawal calculation represents guidance. As with any other budget item, the Board must approve fund use. Extreme circumstances which affect WACD operations may make a deviation

from the annual disbursement calculation in any given year advisable. Withdrawals should not be subject to fine-tuning based on market fluctuations.

### **EXCEPTIONAL DISBURSEMENTS**

Exceptional disbursement requests to disburse funds from the Investment Fund to the reserve accounts may be made to manage operational shortfalls, contingencies, or special projects. Exceptional disbursement requests must be submitted to the full board for approval.

### **CONTRIBUTIONS**

As per the WACD Reserve Policy, funds must be contributed to the Investment Fund account once the Reserve Accounts have reached their balance targets.

### **INVESTMENT PERFORMANCE REVIEW & EVALUATION**

The Finance Committee will review the performance of the Investment Manager at least annually and compare account performance with the objectives of this policy. Any change in the Investment Manager's organization, personnel, or investment philosophy must be fully disclosed to the Finance Committee immediately.

The Committee will designate a Benchmark roughly representing the target risk/return profile of the Investment Fund. Initially, the benchmark selected is the Institutional class shares of Vanguard's Life Strategy Moderate Growth Fund (VSMGX). The Committee acknowledges that Fund performance will diverge somewhat from benchmark performance as a rule. The Association may make a direct investment in the benchmark to facilitate a side-by-side comparison that incorporates differences in fee structures.

The benchmark is intended to provide a basis for discussing variance in performance and, over longer periods, to help in the evaluation of the Investment Manager.

### **INVESTMENT FUND ACCOUNT AUTHORITIES**

The WACD Executive Director, Plant Materials Center Director of Nursery Operations, WACD President and Treasurer, and the Financial Accounting and Human Resources Administrator will have read-only login access to the investment account data. The Executive Director or President has the authority to grant read-only access to other individuals as they deem appropriate.

The WACD Treasurer and Executive Director shall regularly monitor the Investment Fund and ensure that it is prudently and effectively managed according to this policy and its stated risk tolerance. They must review the performance of the Investment Fund at least quarterly. Any concerns or irregularities will be immediately discussed with the WACD Executive Committee. No final action or change to any investment account may be completed without two written approvals – one approval from any two of these positions: WACD President, Treasurer, and Executive Director.

All disbursements or contributions to the Investment Fund accounts must be reported immediately to the Executive Committee and to the Board at the next scheduled Board meeting.

## **INVESTMENT FUND REPORTING**

The WACD Finance Committee will obtain written monthly custodial statements from the Investment Manager providing transaction details for each account in the Investment Fund. Each monthly statement should include:

1. The name and quantity of each security purchased or sold, with the price and transaction date; and
2. A description of each security holding as of month-end, including its percentage of the total portfolio, purchase date, quantity, average cost basis, current market value, unrealized gain, or loss, and indicated annual income (yield) at market.
3. If not included in the custodial reports, the Investment Manager shall provide a report for the portfolio showing the month-end allocation of assets.

The Executive Director will include Investment Fund account data as part of the WACD Monthly Financial Report, which will be made available to the WACD Board and Association members online.

Quarterly, the Investment Manager will provide an Investment Fund Report to the WACD Finance Committee, who will review the quarterly results against the Benchmark.

Annually, the Investment Manager will meet with the WACD Treasurer and Executive Director to review the Fund's performance and the Annual Investment Fund Report for the previous four quarters. This report will be presented to the WACD Board.

## **INVESTMENT FUND POLICY REVIEW AND REVISION**

Every five years, or as directed by a vote of the WACD Board, the President, in consultation with the Treasurer, shall appoint a task force of at least 3 people to review the Investment Fund Policy and to make recommendations for revisions. The Investment Fund Policy Task Force will collaborate with the Executive Director and Treasurer for guidance to create the revised Investment Fund Policy. The policy will then be submitted to the Board Executive Committee for their revisions. Finally, the revised Investment Fund Policy, including the Executive Committee revisions, will be submitted to the full Board for deliberation and final approval.

### **Definitions**

1. "Investment Fund" or "Fund" shall mean the long-term investments of WACD currently managed by Edward Jones. The term does not include WACD or PMC checking accounts or other accounts dedicated to funding near-term operations or liabilities or "Reserve Funds" set aside to cover unexpected expenditures and emergencies.
2. The "Finance Committee" shall refer to the governing body established by the board to administer the Investment Fund as specified by WACD policy.
3. "Investment Manager" shall mean any individual, or group of individuals, employed directly by WACD to manage the investments of all or part of the Investment Fund assets. The Investment Manager is currently Edward Jones.
4. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.

5. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
6. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Investment Fund is perpetuity.

Appendix C  
**Washington Association of Conservation Districts  
Reserve Fund Policy**

Effective: June 19, 2023

**OVERVIEW**

WACD shall have reserves for capital equipment replacement and for operating expenses. Funds for reserves shall be composed of cash-on-hand at the beginning of the fiscal year plus amounts held in other accounts and funds as described below. Reserves shall be viewed as restricted funds that require Board action if such funds need to be utilized.

**OPERATING RESERVE**

WACD shall hold in reserve the equivalent of six months of expenses, factored to account for reductions in operating expenses during lean times.

Six months of expenses shall be calculated using one-half of the highest annual expenses over the past five years of operations.

The proposed reduction factor shall be 75%.

For this proposal, I am using FY23 budgeted expenses:

Executive Office:	$\$423,587.88 / 2 = \$211,793.94$
Plant Materials Center:	$\$1,466,001.00 / 2 = \$733,000.50$
TOTAL UNFACTORED 6-MONTH EXPENSES =	$\$944,794.44$
FACTORED AT 75% OF TOTAL =	$\$708,595.83$

In this example, WACD should have \$708,595.83 available for a six-month operating reserve in FY24.

**COMPOSITION OF OPERATING RESERVE**

The WACD operating reserve shall be composed of cash on hand at the start of the fiscal year, plus liquid assets held in certificates of deposit or a money market account or Treasury-based investments or the Local Government Investment Pool. If necessary, the Executive Director may cause the six-month operating reserve amount to be met by selling assets in the WACD Investment Account. Excess operating reserve funds shall be moved to the WACD Investment Account at the beginning of the next fiscal year.

**PLANT SALE DEPOSIT RESERVE**

WACD should preserve plant sale deposits because those funds are at risk until sales are completed. Plant sale deposits should be sequestered separately from other WACD funds. A money market fund at Edward Jones is a likely way to safely hold these deposits apart from other funds.

**CAPITAL EQUIPMENT RESERVE**

WACD shall hold in reserve the equivalent of the replacement cost for critical capital equipment, factored to account for the assumption that not all equipment will need to be replaced at the same time and in recognition that purchase of some equipment may be done through loans.

The capital equipment list shall consist of assets listed on the annual depreciation schedule. The factor of the total replacement cost shall be 50% of the estimated replacement cost.

Capital equipment reserves shall be held in the WACD Investment Account and shall be considered restricted funds. Growth of capital equipment reserves within the WACD Investment Account shall not automatically accrue to the capital equipment reserve. The capital equipment reserve shall be recalculated annually, and the restricted amount set by Board action.