

COLORADO HOSPITAL ASSOCIATION

CASH RESERVES AND INVESTMENT POLICY

Effective Date: May 13, 2008
Revision Dates:
Initiated by: Controller
Approved by: President and CEO/VP of Financial Policy

POLICY STATEMENT

The cash reserve objective is to maintain adequate liquid funds to sustain operations until corrective action can be taken in the event of a significant loss of revenue. For purposes of this policy, cash includes checking accounts and investments with maturities of less than one year or that can otherwise be readily converted to liquid funds.

The overall investment objectives are preservation of principal, preservation of asset purchasing power through growth, competitive investment yields and minimizing investment risk. Investment vehicles must be based on their projected inflows and outflows of cash.

This document establishes the minimum amount of cash reserves and the investment policy and procedures for the investment of funds held in the two primary investment accounts: **Operating Cash** and **Long-term**.

GENERAL PROCEDURES

1. Reporting Structure

CHA will report investment performance for the Operating Cash and/or Long-term accounts to the CHA Board of Trustees. Some other formal structure for this function will be acceptable.

CHA may use investment consultants and/or managers as deemed appropriate to make prudent investment decisions. CHA shall maintain separate investment policy and procedures documents for the Operating Cash and Long-term/Other Investment accounts. These documents should incorporate the organization's overall investment guidelines.

2. Reporting Investment Results to the CHA Board of Trustees

Short-term investments shall consist of fixed income/cash equivalent funds with average maturities of less than one year. Long-term investments shall consist of funds with average fixed income maturities greater than one year. Overall investment performance targets shall be budgeted annually for both the operating and Long-term accounts.

3. General Portfolio Restrictions

Restricted Investments

The following is a list of prohibited investments for the Operating Cash and Long-term/Other Investments Accounts.

- A. Corporate High Yield Bonds (i.e., less than BBB quality)**
- B. Private Placements**
- C. International (non-dollar denominated)**
- D. Commercial Mortgages**
- E. Non-liquid Equity Participations**
- F. Limited Partnerships**
- G. Real Estate**
- H. Commodities**
- I. Precious Metals**
- J. Certain derivatives: Margin Trades, Options, Futures, Options on Futures, Short Sales and Forwards.**

Any exceptions to the Restricted Investments list will be considered periodically by the CHA Executive Committee.

In the case of investments which were originally purchased as “permitted investments” but subsequently reverted to “restricted investments” (e.g., downgrades of corporate bonds), such investments are to be separately evaluated and sold/retained as deemed appropriate by the Executive Committee with the objective of liquidating any out-of-policy investments within a reasonable period.

OPERATING CASH POLICY

1. Cash Reserves

CHA shall maintain, at any point in time, minimum cash reserves approximating six months of cash expenses. Notwithstanding the minimum cash reserve requirement, it shall be the goal of CHA to maintain cash reserves approximating nine months of cash expenses.

2. Investment Objectives

The overall investment objectives of the Operating Cash funds are primarily preservation of principal, and secondarily investment of all available funds at the highest possible yield with minimum risk, while providing sufficient liquidity to meet the operating cash requirements of CHA. Recognizing the inherent uncertainty of cash flows and working capital needs, Operating Cash funds are to be invested in high-quality securities with minimum credit risk and short-term maturities.

3. Permitted Investments

The Operating Cash portfolio shall consist of fixed income high-quality securities. The following listed investments are permitted under this policy. There may be securities of

similar safety, liquidity, and yield which may be utilized which are not specifically identified herein. Such investments will be periodically considered and revisions will be made to the policy as necessary.

- A) **Obligations of the U.S. Government and Agencies** – All obligations of the U.S. Government or its agencies are approved for use, including direct investment in U.S. Government Mortgage Pass-Through Securities.
- B) **Certificates of Deposit, Demand/Transaction Deposits, and Time Deposits**
Certificates of Deposit, Demand/Transaction Deposits, and Time Deposits may be purchased from domestic banks and savings and loans associations if the principal amount of the instrument (excluding maturing interest to be paid at least semi-annually) is insured in full by the FDIC (current limit - \$100,000).
- C) **Money Market Funds** – Dealers are to be selected based upon consideration of their relative financial strength, reputation, participation in money and financial markets, evaluation of the fund's portfolio structure and securities, management fees, absence of purchase or sales loads, rankings by various sources, etc.
- D) **Commercial Paper** – Commercial paper must be rated A-1 by Standard & Poor's or P-1 Moody's. Total outstanding commercial paper may not constitute more than 50% of the portfolio.

4. **Maturities**

The overall maturity structure should be laddered consistent with the liquidity requirements of the organization.

5. **Diversification**

No individual issuer shall represent more than 10% at market of the overall Operating Cash portfolio. However, direct obligations of the U.S. Government or its agencies, certificates of deposit, demand/transaction deposits and time deposits and money market funds are permitted to exceed the 10% per issuer limit, providing they meet the guidelines noted above.

LONG-TERM/OTHER INVESTMENTS POLICY

1. **Investment Objectives**

Generally, Long-term accounts are funds not required for the day-to-day operations of CHA. Amounts are periodically deposited in Long-term accounts only after desired operating cash levels are met. These funds are classified as "Long-term Investments" since the funds are designated to be used for the replacement/acquisition of capital assets related to the Organization's activities or for the payment of principal on debt incurred for such asset acquisitions. Other investments are sometimes classified as "other assets" or "other investments" on the balance sheet. Other investment assets would also be covered under this section of the policy.

The investment objectives of the Long-term/Other Investments accounts are preservation of principal, preservation of asset purchasing power through growth, obtaining the highest investment yield with minimum risk, and meeting CHA's liquidity for capital needs. Because Long-term/Other Investment funds have more predictable cash flow requirements, the investment objective for these funds may be more orientated to preservation of asset purchasing power through growth than Operating Cash funds.

2. Permitted Investments

The Long-term/Other Investment portfolio shall consist, principally, of high-quality fixed income securities. The following lists of investments are permitted under this policy. There may be investments of similar safety, liquidity and yield which may be utilized which are not specifically identified herein. Such investments will be periodically considered by the Executive Committee of the Board and revisions to the Policy will be made as necessary.

Fixed Income: (For permitted investments A through D below, see Operating Cash Policy for investment qualifications)

- A) Obligations of the U.S. Government and Agencies**
- B) Certificates of Deposit, Demand/Transaction Deposits and Time Deposits**
- C) Money Market Funds**
- D) Commercial Paper**

3. Maturities

The maximum average maturity of the fixed income asset class shall not be greater than 7 years. No individual security shall have a maturity (or stated average maturity for mortgage-backed securities) greater than 15 years. Exceptions to these two maturity rules are allowed where the objective is to match the maturity of a related long-term liability (assuming sufficient levels of liquidity are expected over the duration of the investment).

4. Diversification

No individual issuer shall represent more than 10% at market of the overall Long-term/Other Investments portfolio. However, direct obligations of the U.S. Government or its agencies, certificates of deposit, demand/transaction deposits and time deposits, re-purchase agreements, and money market funds are permitted to exceed the 10% per issuer limit.