

## IDYLLWILD WATER DISTRICT INVESTMENT POLICY

### 1.0 PURPOSE AND GOALS

This statement is intended to outline the policies for maximizing the efficiency of the District's Cash Management System and for prudent investment of the District's funds and to provide guidelines for suitable investments.

The ultimate goal is to enhance the economic status of the District while protecting its funds.

The District's Cash Management System is designed to accurately monitor and forecast expenditures and revenues, thus enabling the District to invest funds to the fullest extent possible. The District shall attempt to obtain the highest yield, provided that all investments meet the criteria established for safety and liquidity.

The investment policies and practices of the District are based on Federal, State and Local law and prudent money management. The primary goals of these policies are:

1. To assure compliance with all Federal, State and Local laws governing the investment of monies under the control of the District's Board, General Manager and Auditor-Controller.
2. To protect the monies entrusted to these officers.
3. To generate the maximum amount of investment income within the parameters of this Statement of Investment Policy and the guidelines for suitable investments.

WHEREAS; The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code Sections 53600.6 and 53630.1); and

WHEREAS; The legislative body of a local agency may invest surplus monies not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code Sections 5920 et seq. And 53600; and

WHEREAS; It shall be the policy of the Idyllwild Water District to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demand of the District and conforming to all statutes governing the investment of Idyllwild Water District funds.

The treasurer or fiscal officer of the Idyllwild Water District shall annually prepare and submit a statement of investment policy and such policy, and any changes thereto, shall be considered by the legislative body at a public meeting; (CGC 53646(a))

### 2.0 SCOPE

All monies entrusted to the District will be actively managed as part of a pooled portfolio. These funds are accounted for in the "Comprehensive Annual Financial District Audit".

Funds not included in the policy include deferred compensation funds and other funds held and managed by a third party for the benefit of employees or the District.

### 3.0 PRUDENCE

Investments shall be made with judgement 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. The standard of prudence to be used by investment officials shall be the “prudent investor” standard (CGC 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

#### 4.0 OBJECTIVES

As specified in CGC 53600.5 when investing, reinvesting, acquiring, purchasing, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

1. **SAFETY:** Safety of principal is the foremost objective of the District. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of principal in the portfolio, whether from institutional default, broker/dealer default or erosion of market value of securities. The District shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
  - A. Credit Risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by investing, to the extent possible through or depositing monies and investments with only very safe institutions as prescribed in the California Government Code Section 53635.2 and in only very safe investments as prescribed herein and by diversifying the investments so that the failure of any one issuer would not unduly harm the District’s cash flow.
  - B. The risk of market value fluctuations due to overall changes in the general level of interest rates shall be mitigated by limiting the weighted average maturity of the District’s investments to one year. (NOTE: five years is the maximum maturity allowed by law for individual investments unless specifically allowed by the Board of Directors to be a longer time.) It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall investment return.
2. **LIQUIDITY:** This is the second most important objective. Investments shall be made whose maturity date is compatible with cash flow requirements of the District and which can be easily and rapidly converted to cash without substantial loss of value.
3. **RETURN ON INVESTMENT (YIELD):** Investment shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity.

#### 5.0 DELAGATION OF AUTHORITY

Authority to manage the investments is derived from California Government Code Sections 53600, et seq. Management responsibility for the investments is hereby delegated to the General Manager and/or Auditor-Controller, who shall follow established procedures for investments consistent with this policy. Procedures should include references to: safekeeping, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except under the terms of this policy and the procedures established by the General Manager and/or the Auditor-Controller. The General Manager and Auditor-Controller shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Under the provisions of California Government Code Section 53600.3, the General Manager and/or Auditor-Controller are trustees and fiduciaries subject to the prudent investor standard.

## 6.0 ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investments, or which could impair their ability to make impartial investment decisions.

## 7.0 AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Auditor-Controller will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience and minimal capitalization authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For broker/dealers of government securities and other investments, the General Manager and/or Auditor-Controller shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Auditor-Controller shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the District's account with that firm has reviewed the District's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the District that are appropriate under the terms and conditions of the Investment Policy.

## 8.0 AUTHORIZED AND SUITABLE INVESTMENTS

The District is empowered by California Government Code Section 53601 et seq. To invest in the following:

- A. Bonds issued by the Idyllwild Water District or Idyllwild Water District-Improvement District NO. 1 Bonds.
- B. United States Treasury Bill, Notes and Bonds. Up to 100% of surplus funds can be invested in this type of investment. Surplus funds for the purpose of this Policy shall mean monies not expected to be expended for at least six months from the date of investment of such monies.
- C. Registered state warrants or treasury notes or bonds issued by the State of California.
- D. Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including pooled investment accounts sponsored by the State of California (LAIF), County Treasurers, other local or Joint Powers Agencies. Not more than 67% of surplus funds can be invested in this type.
- E. Not more than 75% of surplus funds may be invested in obligations issued by Agencies or Instrumentalities of the U.S. Government.
- F. Shares of beneficial interest issued by diversified management companies (Money Market Mutual Funds) investing in the securities and obligations authorized by this section. Such funds must carry the highest rating of at least two of the three largest national rating agencies. Not more than 20% of surplus funds can be invested in Money Market Mutual Funds.
- G. Funds held under the terms of a Trust Indenture or other contract or agreement may be invested according to the provisions of the indentures or agreements.

- H. Collateralized bank deposits (Non-Negotiable Certificates of Deposits) with a perfected security interest in accordance with the Uniform Commercial Code (UCC) or applicable federal security regulations. Not more than 50% of surplus funds can be invested in Certificates of Deposits.
- I. Any other investment security authorized under the provisions of CGC 5922 and 53601.

Also, see CGC 53601 for a detailed summary of the limitations and special conditions that apply to each of the types of investment securities.

**PROHIBITED INVESTMENTS:** Under the provisions of CGC 53601.6 and 53631.5, the District shall not invest any funds covered by this investment policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

## 9.0 COLLATERALIZATION

All certificates of deposits must be collateralized by U.S. Treasury Obligations. Collateral must be held by a third party trustee and valued on a monthly basis. The percentage of collateralization on repurchase and reverse repurchase agreements will follow the recommended amounts required under CGC 53601(I)(2).

## 10.0 SAFEKEEPING AND CUSTODY

All security transactions entered into by the District shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the District by book entry, physical delivery or by third party custodial agreement as required by CGC 53601.

## 11.0 DIVERSIFICATION

The District will diversify its investments by security type and institution. It is the policy of the District to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- (1) Portfolio maturates shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.
- (2) Maturities selected shall provide for stability of income and liquidity.
- (3) Disbursement and payroll dates shall be covered through maturities investments, marketable U.S. Treasury bills or other cash equivalent instruments such as money market mutual funds.

## 12.0 REPORTING REQUIREMENTS

In accordance with CGC 53646(b)(1), Auditor-Controller shall submit to each member of the Board of Directors at least a quarterly investment report no later than 30 days from the end of the quarter. The report must include type of investments, issuer, maturity date, par and dollar amounts invested in all securities, market value weighted average, investments and monies held by the local agency. This includes any funds, investments or programs, including loans, that are under the management of contracted parties. The report will also include the source of the portfolio valuation. As specified in CGC 53646(e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions.

The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the statement of investment policy or the manner in which the investments are not in compliance and, (2) that the District will meet its expenditure obligations for the next six months or an explanation as to why sufficient money will not or may not be available as required

by CGC 53646(b)(2) & (3). Subsidiary ledger of investments will be used in accordance with accepted accounting practices to maintain a complete and accurate record of all investment transactions. The Auditor-Controller shall report whatever additional information or data may be required by the governing body of the District.

### 13.0 INVESTMENT POLICY ADOPTION

The Investment Policy was adopted by resolution No. \_\_\_\_, dated October 25, 2017 of the Idyllwild Water District. Moreover, this policy shall be reviewed on an annual basis by the Board of Directors.

REVIEWED AND APPROVED

NAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

TITLE: \_\_\_\_\_

DATE: \_\_\_\_\_

**RESOLUTION NO. 741**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE IDYLLWILD WATER DISTRICT ESTABLISHING A POLICY FOR THE INVESTMENT OF THE DISTRICT'S SURPLUS FUNDS**

**WHEREAS**, State law requires local government agencies establish a policy for the investment of funds that is consistent with State investment requirements, and to review the policy on an annual basis; and

**WHEREAS**, Idyllwild Water District last updated its investment policy in 1996.

**NOW THEREFORE**, be it resolved by the Board of Directors of the Idyllwild Water District that surplus funds of the District shall be invested only as provided by law and the District's investment policy, which is attached and hereby adopted and made a part hereof.

This Resolution No. 741 and the attached investment policy supersedes and replaces Resolution No. 480 adopted on May 21, 1996, which resolution is hereby rescinded.

**ADOPTED THIS 25TH DAY OF OCTOBER, 2017**



Dr. Charles Schelly- Board President

**ATTEST:**

I, Erica Gonzales, secretary of the Idyllwild Water District hereby certify that the foregoing resolution was duly and regularly introduced and adopted by the Board of Directors of said Idyllwild Water District at its meeting held on the 25th day of October, 2017. By the following vote, to wit:

AYES:

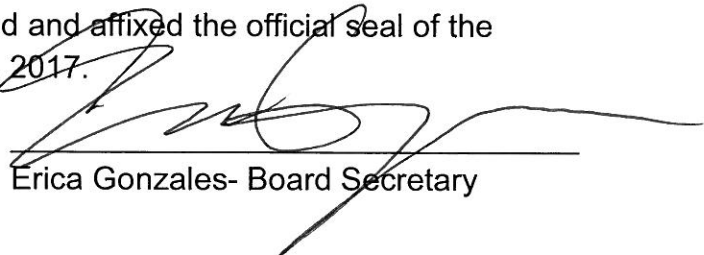
NAYS:

ABSTAIN:

ABSENT:

Peter Szabadi  
Catherine Dearing  
Geoffrey Caine  
Steve Kunkle  
Charles Schelly

In witness whereof I have hereunto set my hand and affixed the official seal of the Idyllwild Water District this 25<sup>th</sup> day of October, 2017.



Erica Gonzales- Board Secretary