

GRAVELLY FORD WATER DISTRICT

INVESTMENT POLICY

**Adopted by Resolution 2017-06
August 21, 2017**

GRAVELLY FORD WATER DISTRICT

INVESTMENT POLICY

TABLE OF CONTENTS

	Page
1.0 PURPOSE.....	4
2.0 SCOPE.....	4
3.0 OBJECTIVE.....	4
3.1 LEGALITY	4
3.2 SAFETY	5
3.3 LIQUIDITY.....	5
3.4 RETURN ON INVESTMENT.....	5
3.5 LOCAL COMMUNITY REINVESTMENT.....	5
4.0 REVIEW OF INVESTMENT.....	5
5.0 ETHICS AND CONFLICT OF INTEREST.....	5
6.0 PRUDENCE.....	5
6.1 STANDARD OF PRUDENCE.....	6
7.0 BORROWING FOR PURPOSES OF MAKING INVESTMENTS.....	6
8.0 AUTHORIZED INVESTMENTS AND LIMITS	6
8.1 UNITED STATES TREASURY BILLS, NOTES, CERTIFICATES OF INDEBTEDNESS	6
8.2 FEDERAL AGENCY SECURITIES.....	6,7
8.3 BANKERS ACCEPTANCES.....	7
8.4 COMMERCIAL PAPER	7

8.5	NEGOTIABLE CERTIFICATES OF DEPOSIT	7, 8
8.6	NON-NEGOTIABLE TIME CERTIFICATES OF DEPOSIT	8
	8.6.1 CERTIFICATES OF DEPOSIT USING A PRIVATE SECTOR ENTITY THAT ASSISTS IN THE PLACEMENT OF CERTIFICATES OF DEPOSIT (PRIVATE PLACEMENT).....	8
8.7	REPURCHASE AGREEMENTS.....	9
8.8	MEDIUM-TERM NOTES.....	9
8.9	LOCAL AGENCY INVESTMENT FUND	9, 10
8.10	MUTUAL FUNDS	10
8.11	MORTGAGE-BACKED SECURITIES	10, 11
8.12	BOND PROCEEDS	11
8.13	EXTERNAL INVESTMENT MANAGERS	12
9.0	SELECTION OF INVESTMENTS	11
10.0	DIVERSIFICATION.....	11
11.0	MAXIMUM MATURITIES	11
12.0	SELLING SECURITIES PRIOR TO MATURITY	12
13.0	AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS.....	12
14.0	CONFIRMATION	13
15.0	SAFEKEEPING AND CUSTODY.....	13
16.0	PERFORMANCE STANDARDS	13
	16.1 MARKET YIELD BENCHMARK	13
17.0	ADMINISTRATIVE COST OF INVESTING.....	13
18.0	CREDIT OF INTEREST EARNINGS	14
19.0	LOCAL AGENCY DEPOSIT OF EXCESS FUNDS	14
20.0	WITHDRAWAL OF FUNDS FROM THE TREASURY POOL	14

21.0 REPORTING..... 14

22.0 INTERNAL CONTROL 14

23.0 INVESTMENT POLICY REVIEW 14

GRAVELLY FORD WATER DISTRICT
INVESTMENT POLICY

1.0 Purpose

The Gravelly Ford WATER District policy is to invest public funds in a manner that will provide a market average rate of return consistent with the objectives included in this Investment Policy while meeting the daily cash flow demands of the District, and conform to all applicable state laws governing the investment of public funds.

Investments differing from this policy shall be made only in circumstances where market timing or economic trends indicate such investments are beneficial and such is approved by the Board of Directors. Such investments must comply with all applicable laws and may only be made with written approval of the District's Board of Directors.

2.0 Scope

This Investment Policy applies to all financial assets controlled, deposited and/or retained in accounts of the Gravelly Ford Water District.

3.0 Objective

The primary objectives, in priority order, of the Gravelly Ford Water District's investment activities shall be the following:

3.1 Legality. Investments shall only be made in only securities legally permissible. In recognition of a rapidly changing and expanding marketplace, new concepts or securities shall be reviewed for compliance and possible consideration. Legality issues shall be resolved with the Board and its general counsel.

3.2 Safety. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. Investments should be made in securities of high quality to avoid credit risk and loss of principal.

3.3 Liquidity. The investment portfolio should remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated or respond to opportunities for investments arising from changing market conditions.

3.4 Return on Investment. The investment portfolio shall be designed with the objective of attaining the highest interest revenue, taking into consideration the objectives of this Policy and the cash flow characteristics of the portfolio.

3.5 Local Community Reinvestment. When it is in the best interest of the investment portfolio, and within the confines of other objectives enumerated in this Policy, the District, in its discretion, may give preference to local investment opportunities.

4.0 **Review of Investments**

The Board of Directors for the Water District shall annually review, audit and monitor the Investments. The cost for the audit shall be considered an administrative cost of investing.

5.0 **Ethics and Conflict of Interest**

The Water District and staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or other persons with whom the Water District conducts business shall not be allowed.

6.0 **Prudence**

Investments shall be made with judgment and care, under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, and not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

6.1 The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk of market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

7.0 Borrowing for Purposes of Making Investments

The Water District is prohibited from the practice of borrowing for the sole purpose of making investments.

8.0 Authorized Investments and Limits

The following securities are authorized investments for the Water District. Securities shall be valued at amortized cost when determining their percentage to the money in the Water District's accounts. Additions or deviations from this list, in addition to being permissible under the Government Code, require approval by the District's Board of Directors. Investments not expressly authorized by law are prohibited.

The District interprets the authorized investment limits to be based upon the portfolio allocation at the time security is purchased. The portfolio allocation may temporarily fall outside of these limits due to maturities and fluctuations in the size of the pool after the purchase of a security. Additionally, the applicable credit ratings are interpreted to be based upon the rating at the time the security is purchased. The list is as follows:

8.1 United States Treasury Bills, Notes, Certificates of Indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. Term should be limited to maximum five years.

8.2 Obligations issued by Federal Farm Credit Bank, Federal Home Loan Banks, the Federal Home Loan Mortgage Company, or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in obligations, participations, or other instruments of or

issued by a federal agency or a United States Government-sponsored enterprise. Term should be limited to maximum five years.

8.3 Bills of Exchange or Time Drafts drawn on and accepted by a commercial bank, otherwise known as Bankers Acceptances, both domestic and foreign, which are eligible for purchase by the Federal Reserve System. Any investment in Bankers Acceptances shall be restricted to the top 150 world banks as determined by their total assets and limited to those institutions in this group whose short term debt rating is of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized statistical-rating service.

Purchases of Bankers Acceptances may not exceed 180 days maturity or 40 percent of the money held by the District.

8.4 Commercial Paper of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard and Poor's. Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars and having an "A" or higher rating for the issuer's other outstanding debentures by Standard and Poor's, or its equivalent or better ranking by a nationally recognized statistical-rating service and a maximum maturity limit of 270 days.

Additionally the assets held by the District in any single issuer is limited to 10 percent and the total Commercial Paper investments may not exceed 40 percent of the total assets held by the District.

8.5 Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, savings association, federal association, or state-licensed branch of a foreign bank. Any investment is to be restricted to the top 150 world banks as determined by their total assets and limited to those institutions in this group whose short term debt rating is of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc. or Standard and Poor's. As an alternative to the credit guidelines above, banks, savings associations or federal associations having a four star rating or higher rating as provided for by Bauer Financial, Inc. or a comparable rating service, shall be

considered eligible institutions for these investments. Term should be limited to 15 months.

Investments in Negotiable Certificates of Deposit (in combination with section 8.6.1) may not exceed 50 percent of the money held by the District. No more than 30 percent of the money shall be invested in any one institution. Term should be limited to 15 months.

8.6 Non-negotiable Time Certificates of Deposit issued by a nationally or state-chartered bank, savings association or federal association (GC 53601 (n)). Unless fully covered by FDIC insurance, including the interest earned, these investments require full collateralization with government securities totaling 110 percent or mortgages totaling 150 percent of the principal amount (GC 53652). Any investment is to be restricted to those institutions whose short term rating is of prime quality of the highest ranking as provided for by Moody's Investors Service, Inc. or Standard and Poor's (P-1; A-1). As an alternative to the credit guidelines above, banks, savings associations or federal associations having a four star rating or higher as provided for by Bauer Financial, Inc. or a comparable rating service, shall be considered eligible institutions for these investments. Any investment will require the approval and execution of a Contract for Deposit by the Water District's Board of Directors. Term should be limited to 15 months.

Investments in Non-negotiable Time Certificates of Deposit may not exceed 50 percent of the money in the District's Control. No more than 15 percent of the money shall be invested in any one institution.

8.6.1 Investments in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit. Investments shall be initially placed with a nationally or state-chartered commercial bank, savings bank, savings and loan association or a credit union in this state, which shall be known as the selected depository institution. Any investment will require the approval and execution of a Deposit Placement Agreement by the District's Board. Combined purchases under sections 8.5 and 8.6.1 shall not exceed 30 percent of the portfolio. Additionally, purchases under 8.6.1 shall not exceed 15 percent of the portfolio. Term should be limited to 15 months.

8.7 Investments in Repurchase Agreements representing United States Treasury Securities, United States Agency discount and coupon securities, domestic and foreign Banker's Acceptances, commercial paper, and domestic bank/savings associations or federal associations Negotiable Certificates of Deposit.

Investments shall be made only after the execution of a Repurchase and Custody Agreement (Tri-Party Agreement) between the District or the investment manager (if under contract), the dealer and the Custodian.

Investments will consist of overnight Repurchase Agreements, which include weekend placements and maturities; however, securities with longer maturities may be used as collateral for these Agreements.

Excluding circumstances of market-timing and known cash demands, investments in Repurchase Agreements shall be limited to not more than 15 percent of the money held by the District. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against these securities. Any exceptions to the maturity or investment amount provisions will require written approval by the District's Board of Directors.

8.8 Corporate Medium-term Notes with a maximum remaining maturity of five years or less issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated in a rating category of "A" or higher, by Standard and Poor's Corporation, or its equivalent or better by a nationally recognized rating service

Investments in Medium-term Notes may not exceed 30 percent of the money held by the District.

8.9 Shares of beneficial interest issued by diversified management companies, otherwise known as Mutual Funds, investing in the securities and similar safe obligations.

To be eligible for investment, these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by two of the largest nationally recognized rating services, or (2) have an

investment adviser registered with the Securities and Exchange Commission with at least five years' experience investing in the securities noted above and with assets under management in excess of \$500,000,000.

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment, these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations, or (2) retain an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500,000,000.

Investment in Mutual Funds shall not include the payment of any commission that these companies may charge and may not exceed 20 percent of the surplus funds held by the District. Only 10 percent of the surplus funds may be invested in any one mutual fund.

8.10 Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond of a maximum of five years maturity. Securities eligible for investment shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated "AA" or its equivalent or better by a nationally recognized rating service.

Investments in these securities may not exceed 10 percent of the funds held by the District.

8.11 Bond proceeds may be invested in accordance with the Government Code provisions, or they may be invested in alternative vehicles if authorized by bond documents.

8.12 External Investment Managers. The District may contract with external investment managers to provide investment management services. These managers may be hired to invest funds not needed for liquidity and to increase the rate of return of the pool by employing an active investment strategy. The external investment manager is allowed to

make specific investment decisions within the framework of this investment policy.

External investment managers are required to provide timely transaction documentation and investment reports to ensure that the manager's actions comply with the requirements of the law and this investment policy.

Selection of External Investment Managers is subject to section 13.0 of this investment policy. Additionally, after selection, the manager's performance shall be reviewed against the agreed upon benchmark.

8.13 Registered state warrants or treasury notes or bonds of the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

Investments in these securities may not exceed 10 percent of the surplus funds held by the District.

9.0 Selection of Investments

Investments, with the exception of California registered state warrants in section 8.14, above, shall only be made following a minimum of three competitive comparisons with offerings documented and retained for each type of investment.

10.0 Diversification

The District shall reasonably attempt to diversify their investments and institutions.

11.0 Maximum Maturities

To the extent possible, investments shall be made to match anticipated cash requirements. Unless matched to a specific cash flow, normal investments will be in securities such that the average weighted maturity of the investment security shall not exceed 3.5 years. Proceeds of sales or funds set aside for the repayment of any notes issued for temporary borrowing purposes shall not be invested for a term that exceeds the term of the notes.

12.0 Selling Securities Prior to Maturity

Securities purchased shall normally be held until maturity. Occasionally, opportunities will exist to sell securities prior to maturity and purchase other securities (swap/trade). Securities that are no longer in compliance with this Investment Policy may be sold prior to maturity. Securities may also be sold in order to maintain the liquidity of the District's funds.

13.0 Authorized Financial Dealers and Institutions

The Water District shall maintain a list of financial institutions authorized to provide investment services. In addition, a list shall also be maintained of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15c3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following: audited financial statements, proof of Financial Industry Regulatory Authority membership, trading resolution, proof of state registration, completed broker-dealer questionnaire, certification of having read the District's Investment Policy, and if applicable, depository contracts. Broker-dealers are evaluated and selected based upon criteria that include: organization experience and credibility, individual broker-dealer qualifications, compliance, product inventory, and economic research.

An annual review of the financial conditions and registrations of selected brokers shall be conducted by the District's Board of Directors. A current audited financial statement is required to be on file for each authorized financial institution and broker-dealer.

Investment managers are evaluated and selected based upon criteria that include: organization experience and credibility, staff experience, compliance, and performance.

14.0 Confirmation

Receipts for confirmation of purchase of authorized securities should include the following information: trade date, par value, maturity, rate, price, yield, settlement date, description of securities purchased, agency's name, net amount due, and third party custodian information. Confirmation of all investment transactions should be received by the District within five business days of the transaction.

15.0 Safekeeping and Custody

Investments, excluding Non-negotiable Time Certificates of Deposit, Repurchase Agreements and investments that are under the management of contracted parties, shall be held in custody with the Service Bank or its correspondent or other institutions approved by the District's Board. Investments in Repurchase Agreements shall be held in custody by the Custodian to the Tri-Party Agreement.

16.0 Performance Standards

The investment portfolio shall be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account investment risk constraints and cash flow needs.

16.1 Market yield benchmark. The investment strategy is passive. Given this strategy, the basis used by the District to determine whether market yields are being achieved shall be the one-year U.S. Treasury note rate.

17.0 Administrative Cost of Investing

The District may deduct actual administrative costs associated with investing, depositing, banking, auditing, reporting, or otherwise handling or managing of funds. The administrative costs shall be segregated and deducted from the interest earnings of the District each quarter prior to the reporting or distribution of interest earnings.

18.0 Credit of Interest Earnings

Whenever reasonably possible, interest shall be credited based on the average daily cash balance of money on deposit in the District for the

calendar quarter; and whenever reasonably possible to obtain, the District shall prefer accounts that pay our interest to the District at least quarterly.

19.0 Reporting

The Manager of the District shall provide the Board of Directors with a monthly inventory report and a monthly transaction report of the invested District Funds.

20.0 Withdrawal Of Funds From The Treasury Pool

As part of the District's annual independent audit, the investment program shall be reviewed for appropriate internal controls that provide assurance of compliance with policies and procedures.

21.0 Investment Policy Review by Board of Directors

This Investment Policy shall be reviewed on an annual basis by the District Manager and also reviewed annually to the Board of Directors.

The Board of Directors shall accept and approve and/or change this investment policy and any changes thereto in writing at a public meeting. Whenever reasonably possible, (i.e., quarterly or annually) the District Manager shall provide the Board of Directors a report listing the District's funds, accounts, and where invested.

The Board of Directors shall accept and approve and/or change this investment policy by public motion annually; and any changes thereto shall be made in writing at a public meeting.

22.0 Internal Control

As part of the District's annual independent audit, the investment program shall be reviewed for appropriate internal controls that provide assurance of compliance with policies and procedures.

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The foregoing policy was duly and regularly adopted at a public meeting by the Board of Directors of the Gravelly Ford Water District at the meeting of August 21, 2017, with the following vote:

Yes/No/Absent – Stephen Emmert, President

Yes/No/Absent – Seth Kirk, Vice President

Yes/No/Absent – Paul Stewart

Yes/No/**Absent** – Diane Kirk

Yes/No/**Absent** – Kenneth Basila, Secretary

GRAVELLY FORD WATER DISTRICT
RESOLUTION NO. 2017-06

RESOLUTION AUTHORIZING THE ADOPTION OF INVESTMENT POLICY FOR
DISTRICT FUNDS

WHEREAS, the Gravelly Ford Water District (District) is a water district organized under the California Water District Law, codified by California Water Code Section 34000 et seq.; and

WHEREAS, the District is in need of an Investment Policy that applies to all financial assets controlled, deposited or retained in accounts of the Gravelly Ford Water District; and

WHEREAS, the objective of such Investment Policy shall have primary objectives of Legality, Safety, Liquidity, Return on Investment and Local Community Reinvestment; and

WHEREAS, the Board of Directors shall annually review, audit and monitor District Investments; and

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Gravelly Ford Water District does hereby authorize the Gravelly Ford Water District Investment Policy attached hereto; and

BE IT FURTHER RESOLVED, that this Investment Policy shall be implemented effective the date of approval by the Board.

The foregoing Resolution was duly and regularly adopted by the Board of Directors of the Gravelly Ford Water District at the meeting of August 21, 2017 upon a motion by Director P. Stewart, and seconded by Director S. Kirk upon the following vote:

AYES: Directors P. Stewart, S. Kirk, S. Emmert
NOES: Directors NONE
ABSTAIN: Directors NONE
ABSENT: Directors K. Basila, D. Kirk

Steven Emmert
Steven Emmert, President

Kenneth Basila
Kenneth Basila, Secretary

