

**CAMROSA WATER DISTRICT
STATEMENT OF INVESTMENT POLICY
February 2017**

PURPOSE:

This statement is intended to provide guidelines for prudent investment of the District's temporarily idle cash, and outline policies for maximizing efficiency of the District's cash management system. The ultimate goal is to enhance the economic status of the District while protecting its cash resources.

SCOPE:

This investment policy applies to all financial assets of the District, as well as other funds that may be created from time to time which shall also be administered in accordance with the provisions of this policy. Funds held by the Ventura County Treasurer during tax collection periods shall be governed by the County's investment policy, and are not subject to the provisions of this policy.

THE INVESTMENT PROCESS:

The investment of public funds is a professional discipline. The investment process has the following components:

- A written investment policy explicitly identifying the District's opportunities, constraints, preferences, and capabilities.
- An Investment Strategy identifying Investment opportunities and overall objectives of the District,
- A Market Analysis identifying the District's circumstances and market conditions.
- A Portfolio Analysis identifying adjustments needed in response to changing circumstances, results and new objectives.

POLICY:

The Camrosa Water District shall invest its pooled, temporary idle cash investments in a manner that affords the District a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under current legislation of the State of California (Water Code Section 31303 and 31336 and Government Code Section 53600 et seq.). Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence, who are familiar with those matters, exercise in the management of their own affairs, not for speculation, but for investment considering the probable safety and liquidity of capital, as well as reasonable income to be derived.

The Board of Directors and the General Manager, acting in accordance with procedures and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate actions are taken to control adverse developments.

The General Manager shall establish a system of internal controls to be reviewed by the Investment Committee and with the independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by District Staff.

INVESTMENT STRATEGY

Temporarily idle or surplus funds of the Camrosa Water District shall be invested in accordance with principles of sound treasury management and in accordance with the provisions of the California Government Code Sections 53600 et seq, the Water Code and this Investment Policy. The basic objectives of the District's investment program are, in order of priority,

- 1.) Safety of invested funds,
- 2.) Maintenance of sufficient liquidity to meet cash flow needs; and
- 3.) Attainment of the maximum return possible consistent with the first two objectives.

These objectives will be accomplished using the following procedures

1. Safety – The District shall ensure the safety of its invested funds by limiting credit and interest rate risks. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of portfolio securities will fall due to an increase in general interest rates.

Credit risk will be mitigated by:

- a. Limiting investments to safer types of securities;
- b. Diversifying the investment portfolio so that the failure of any one issuer or backer will not place undue financial burden on the District; and
- c. Monitoring all of the District's investments to anticipate and respond appropriately to a significant reduction of creditworthiness of any of the issuers. The relative health of issuers shall be evaluated by the Investment Committee at least annually.

Interest rate risk will be mitigated by:

- a. Structuring the District's portfolio so that securities mature to meet the District's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturity;
 - b. Investing primarily in short-term securities; and
 - c. Occasionally restructuring the portfolio to minimize the loss of market value and/or to maximize cash flows.
2. Liquidity – The District's financial portfolio must be structured in a manner which will provide that securities mature at approximately the same time as cash is needed to meet anticipated demands. Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. As a general rule, and subject to annual review by the Investment Committee, the average maturity of the investment portfolio will not exceed two years. No investment will have a maturity of more than five years from its date of purchase.
 3. Return – The investment portfolio shall be designed with overall objective of obtaining a total rate of return throughout economic cycles, commensurate with investment risk constraints and cash flow needs.

ELIGIBLE INVESTMENT INSTRUMENTS

Camrosa shall invest only in investment instruments and media approved by Resolution of Camrosa's Board of Directors. The Board of Directors may consider additions or deletions to the approved investment instruments and media list at any time by resolution and shall include in each resolution the entire list of approved investments. This policy shall be used to evaluate recommended additions to the approved list. Additions to the approved list shall not be made unless there is a strong likelihood that the addition will be utilized within the near future. The attached Addendum contains examples of typical investment instruments which may be included on an approved list.

INVESTMENT CONSTRAINTS

General Guidelines. Temporarily idle operating cash shall be invested in instruments whose average maturity does not exceed two years. Reserves established for the replacement of utility (water, sewer) facilities may be invested for a longer term if a higher yield may be achieved. Funds held for capital replacement shall be invested in securities that reasonably can be expected to produce enough income to offset inflationary construction cost increases. Such funds shall not be exposed to market price risks or default risks that would jeopardize the assets available to accomplish their stated objective. Such would be the case with obligations of the U.S. Government or its agencies.

Diversification. It is the District's policy to diversify its investment portfolio to control credit risk. Diversification strategies shall be determined and revised periodically. Maturities shall be staggered to provide for liquidity and stability of income. At least 25% of the portfolio will be invested in securities which can be liquidated on one day's notice in order to control liquidity risk. No more than one-third (33%) of Camrosa's portfolio shall be held by any single investment firm or institution. The sole exception shall be the State of California Investment Pool (L.A.I.F.).

Prohibited Investments. Investments by the District in securities permitted by the California Government Code, but not specifically approved by Board Resolution is prohibited without the prior approval of the Board of Directors. The District shall not invest any funds such as inverse floaters, range notes, and other instruments outlined in California Government Code Section 53601 nor in any security that could result in zero interest if held to maturity. No representative of the District is authorized to engage in margin transactions, derivatives nor reverse repurchase agreements on behalf of the District. Finally, while it may occasionally be necessary or strategically prudent of the District to sell a security prior to maturity to either meet unanticipated cash needs or to restructure the portfolio, no investment may be made for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates.

Security Dealers and Depositories. The District shall seek to conduct its investment transactions with several competing, reputable security dealers and brokers as the need may arise. The selection process shall screen out institutions that lack viability or whose past practices suggest the safety of public capital, directed to or through such firms, would be impaired.

Ethics and Conflict of Interest. Officers and employees 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. Such employees and investment officials shall disclose to the Board of Directors and the General Manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial investment positions that could be related to the performance of the District's

portfolio. Such employees and officers shall subordinate their personal investment transactions to those of the District, particularly with regard to the time of purchases and sales.

RESPONSIBILITIES

General Manager. The General Manager is charged with responsibility for maintaining custody of all public funds and securities belonging to or under the control of the District and for the deposit and investment of those funds in accordance with principles of sound fiscal management and in conformance with applicable laws and ordinances. The General Manager shall develop an investment procedures manual to implement this Investment Policy for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse as approved by the Board of Directors.

Details of the internal controls system shall be documented in an investment procedures manual and shall be reviewed and updated annually. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognized that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls structure shall address the following:

1. Control of collusion
2. Separation of transaction authority from accounting and record keeping
3. Custodial safekeeping
4. Avoidance of physical delivery securities
5. Clear delegation of authority to subordinate staff members
6. Written confirmation of transactions for investments and wire transfers
7. Dual authorizations of wire transfers
8. Development of a wire transfer agreement with the lead bank and third-party custodian

The internal controls are further defined in the Investment Procedure attached.

The General Manager is responsible for keeping the Board of Directors fully advised as to the financial condition of the District.

District's Auditing Firm - The District's auditing firm's responsibilities shall include, but not be limited to, the examination and analyses of fiscal procedures and the examination, checking and verification of accounts and expenditures. A review of the District's investment program is to be performed, under a separate engagement for services, in conjunction with the annual financial audit.

Board of Directors - The Board of Directors shall consider and adopt a written Investment Policy. As provided in that Policy, the Board shall receive, review, and accept monthly Cash Position Reports and quarterly Investment Reports.

Investment Committee - An Investment Committee consisting of two members of the Board of Directors appointed by the President, will meet with the District General Manager as required to develop the general strategies, allocate reserve assets among various approved investment instruments, and to monitor results. The Committee shall include in its deliberations, potential risks to District funds, authorized depositors, brokers and dealers, and target rate of return on investments, and any other topics as it may determine or as directed by the Board of Directors. The Committee shall report to the full Board of Directors

the results of the Investment Committee Meeting including any recommended actions. Payment for any transaction which requires the transfer of funds from one investment to another shall require the signature of at least two Members of the Board.

REPORTING

The General Manager, will provide the Board of Directors with monthly cash position and quarterly reports of investments. Such reports will provide at least the following: Type of investment, institution, date of maturity, amount of deposit, current market value of all securities maturing beyond one year after reporting date, rate of interest and such other data as from time to time may be required by the Board.

ANNUAL REVIEW

This investment policy shall be reviewed annually by the Investment Committee to ensure its consistency with respect to the overall objectives of safety, liquidity and yield. Proposed amendments to the policy shall be prepared by the Investment Committee and be forwarded to the Board of Directors for Consideration.

ADDENDUM

GLOSSARY:

U.S. GOVERNMENT SECURITIES

U.S. Treasury Obligations - Treasury bills, Treasury bonds, and Treasury notes issued by the U.S. Treasury. The maturity on these investments shall not exceed five years without the prior approval of the Investment Committee. Per Gov't. Code no maturity greater than five years and no portfolio limits.

U.S. Government Agency Obligations - Any obligation of, or obligation that is insured as to principal and interest by the United States or any agency or corporation thereof, and any obligation and security of the United States sponsored enterprises, including, without limitation:

- 1) Federal Farm Credit Banks (FFCB);
- 2) Federal Home Loan Bank System (FHLB);
- 3) Federal Home Loan Mortgage Corporation (FHLMC);
- 4) Federal National Mortgage Association (FNMA);
- 5) Federal Agriculture Mortgage Association (FAMA);
- 6) Tennessee Valley Authority (TVA)

Per Gov't. Code no maturity greater than 5 years and no portfolio limits.

FINANCIAL INTERMEDIARIES

CERTIFICATES OF DEPOSIT

Commercial Bank Certificates of Deposit – Time Certificates of Deposit provided that the depository is a member of the FDIC and the amount does not exceed the current FDIC insured limit. Per Gov't. Code no maturity greater than five years and no portfolio limit.

Negotiable Certificates of Deposit – Bank Deposit Notes issued by a nationally or state chartered bank or by a state-licensed branch of a foreign bank provide and is a member of the FDIC. Per Gov't Code limits maturity to five years and 30% of portfolio.

Savings and Loan Association (S&L) Deposits – Investments in any Savings and Loan (S&L) institution and bank shall be limited to FDIC Limitations. Collateralization for uninsured S&L deposits is required.

RELATED INSTRUMENTS

Repurchase Agreements – An agreement with an approved broker/dealer that provides for, sell, and simultaneous purchase of an allowable collateral security. The difference in the sales and purchase price is the earning rate on the agreement. A master repurchase agreement must be in place with the approved broker/dealer. Per Gov't. Code no maturity greater than one year, and no portfolio limits.

Bankers' Acceptances - Bills of exchange or time drafts drawn on and accepted by commercial banks, which are eligible for purchase by the Federal Reserve System, are known as bankers' acceptances. Purchases of these instruments may not exceed 180 bankers days maturity per Gov't Code and 40% portfolio limit.

State Investment Pool - Offering a governmental alternative to money market funds, California has created the Local Agency Investment Fund (LAIF). Such funds are operated directly by the State Treasurer who commingles state and local funds. Rates of return fluctuate daily and are reported as a monthly average yield rate. Same day or next day liquidity, by telephone communication. The State Treasurer requests voluntary compliance with no more than fifteen transactions per month. Authorized by Gov't. Code Section 16429.1(b), with no maximum maturity or maximum % of portfolio.

Ventura County Investment Pool - The Ventura County Investment Pool is an additional alternative to money market funds. Similar to the State LAIF, invested funds are commingled with County and other local agency funds for investment purposes and yields are reported monthly. Liquidity provisions are consistent with the State's provisions, and withdrawals can also be made by telephone by authorized personnel. Authorized by Gov't. Code Section 53684(a) with no maximum maturity or maximum % of portfolio.