



January 2, 2024

TO: Finance Advisory Committee

FROM: Ron Munds, General Manager

SUBJECT: Agenda Item 3 – 01/02/2024 FAC Meeting
Amending and Updating the District's Investment Policy

DESCRIPTION

Provisions of the Government Code section 53646 (2) directs that the Chief Fiscal Officer or Treasurer of a local agency renders to the legislative body a statement of investment policy annually at a public meeting. Additionally, the District's Investment Policy requires the Finance Officer/Treasurer file a quarterly report that identifies the District's investments and their compliance with the District's Investment Policy. Staff is recommending some changes to the Investment Policy which are outlined in this report.

STAFF RECOMMENDATION

Staff recommends that the FAC adopt the following motion:

Motion: I recommend to the Board that the Board adopt Resolution 2024-01 amending and updating the District's Investment Policy

DISCUSSION

The District's original Investment Policy was adopted at the District's inception back in 1999 and reaffirmed by the Board in 2003, 2012 and 2016. In October 2020, the Board amended and adopted the current policy to reflect changes in state law and comply with current investment regulations. Per Government Code section 53646(2), the Board is to reaffirm or amend the Investment Policy annually.

In June 2023 the district entered into a contract with Optimized Investment Partners (Optimized) to assist with protecting and diversifying the District's financial assets. One of the services offered by Optimized is assistance in updating the Investment Policy consistent with current state requirements and other regulations. Based on the recommendations provided by Optimized, the following are the recommended changes to the current policy:

Section 2 Policy. A new section 2 was added to the report which state specifically summarizes the District's investment policy.

Section 3 Purpose and Scope. The portion of the section dealing with the standard of prudence was deleted and moved to Section 6.A.

Section 5 Objectives. The objectives have been updated to provide more details and one objective was added; Return on Investments.

Section 6 Standards of Care. More details were added to the Prudence section.

Section 7 Authorized and Suitable Investments. The section replaces the current Section 6 Investment Authority. The new Section 7 provides greater detail on

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Charles L. Cesena

Vice President
Marshall E. Ochylski

Directors
Matthew D. Fourcroy
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District Accountant
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acceptable investments and adds statements on diversification of investments and maximum maturity dates for investments.

Section 8 Internal Controls. This section was added to better define the internal controls required to ensure that the assets of the Los Osos Community Services District are protected from loss, theft, fraud or misuse.

Section 9 Reports. Minor revisions to the reporting requirements, the main one being extending the filing date with the Board from thirty days to forty-five days. This change will better align with the timing of the end of the quarters and the Board meeting dates.

Financial Impact

There are no direct financial impacts related to the recommended action made in this report.

Attachments

Resolution No. 2024-01
Exhibit A 2024 Investment Policy
Investment Policy Track Changes Version

RESOLUTION 2024-01

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
REAFFIRMING THE DISTRICT INVESTMENT POLICY**

WHEREAS, the Board of Directors of the Los Osos Community Services District (“District”) believes that public funds should, so far as is reasonably possible, be invested in financial institutions to produce revenue for the District rather than to remain idle, and

WHEREAS, from time to time there are District funds which for varying periods of time will not be required for immediate use by the District, and which will, therefore, be available for the purpose of investing in financial institutions with the objectives of safety, liquidity, yield and compliance with state and federal laws and policies.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Los Osos Community Services District as follows:

1. The District hereby updates and amends the investment policy attached hereto as “Exhibit A” as the District’s Investment policy;
2. The District General Manager shall act as Treasure/Finance Officer of the District and is authorized to invest and re-invest funds in accordance with the Investment Policy for the succeeding twelve (12) month period or until such time as the delegation of authority is revoked.

On the motion of Director _____, seconded by Director _____ and on the following roll call vote, to wit:

Ayes: _____
 Noes: _____
 Abstain: _____
 Absent: _____

The foregoing resolution is hereby passed, approved, and adopted by the Board of Directors of the Los Osos Community Services District this 4th day of January 2024.

 Marshall E. Ochylski
 President, Board of Directors
 Los Osos Community Services District

ATTEST:

APPROVED AS TO FORM:

 Ron Munds
 General Manager and Secretary to the Board

 Thomas D. Green
 District Legal Counsel

**LOS OSOS COMMUNITY SERVICES DISTRICT
2024 INVESTMENT POLICY**

1. INTRODUCTION

In accordance with California Government Code § 53646 which directs the District to annually prepare and adopt a written statement of investment policy, this policy establishes the standards as prescribed by state law under which the District's Finance Officer shall conduct business with financial institutions with regard to the investment process.

2. POLICY

The Los Osos Community Services District shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy, in priority order of Safety, Liquidity and Return on investment. In accordance with the Municipal Code of the Los Osos Community Services District and under authority granted by the Board of Directors, the General Manager is responsible for investing the unexpended cash in the District Treasury.

3. PURPOSE AND SCOPE

This investment policy is intended to outline the guidelines and practices to be used in effectively managing the District's available cash and investment portfolio. It applies to all cash and investment assets of the District including but not limited to moneys held in sinking funds, reserves or designations, trust funds or surplus funds not required for the immediate necessities of the District. Proceeds of debt issuance shall be invested in accordance with the permitted investment provisions of their specific bond indentures. District monies not required for immediate expenditure will be invested in compliance with governing provisions of law (California Government Code § 53600 et seq.) and this policy.

4. FINANCE OFFICER

The Board of Directors appoints the General Manager as the District Finance Officer and Treasurer and delegates the principal management responsibility for the deposit and investment of District monies, funds and financial assets pursuant to this statement of investment policy. In the event of an extended absence of the General Manager, the Acting General Manager or Interim General Manager will act as the Acting District Finance Officer and Treasurer. The services of any investment or financial advisor to the District shall be governed by the terms and standards set forth in this Policy.

5. OBJECTIVES

The District's primary investment objectives, in order of priority, shall be:

- A. Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The District shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.



1. Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in issuers that carry the direct or implied backing of the U.S. Government (including, but not limited to, the U.S. Treasury, U.S. Government Agencies, and federally insured banks). The portfolio will be diversified so that the failure of any one issuer does not unduly harm the District's capital base and cash flow.
2. Market risk, (aka "interest rate risk") defined as market value fluctuations due to overall changes in the general level of interest rates shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long-term securities for the sole purpose of short-term speculation. Moreover, it is the District's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. Limited exceptions will be granted for security swaps that would improve the portfolio's yield and/or credit quality.

B. Liquidity: The District's investment portfolio will remain sufficiently liquid to enable the Los Osos Community Services District to meet all operating requirements which might be reasonably anticipated.

C. Return on Investments: The District's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the District's investment risk constraints identified in this Investment Policy and the cash flow characteristics of the portfolio.

6. STANDARDS OF CARE

A. PRUDENCE

The standard of prudence to be used by the Financial Office and/or the designated representative shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. Persons authorized by the Financial Officer to make investment decisions on behalf of local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency".

The Financial Officer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control



adverse developments.

B. DISCLOSURES

Finance Officer shall disclose any material interest in financial institutions or professionals with which he/she conducts the District business, and shall comply with all applicable laws relating to conflicts of interest.

7. AUTHORIZED AND SUITABLE INVESTMENTS

A. SUITABLE INVESTMENTS

Investment of District funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.
2. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
3. Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, and Los Angeles County Investment pool, may be used up to the maximum permitted by California State Law. A review of the pool/fund is required when part of the list of authorized investments, with the knowledge that the pool/fund may include some investments allowed by statute but not explicitly identified in this investment policy.

Additionally, shares of beneficial interest issued by a joint powers authority organized pursuant to CA Code (Section 6509.7) that invests in the securities and obligations in compliance with CA Code 53601 (subsection 'a' to 'r', inclusive) are also authorized. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

- The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- The adviser has not less than five years of experience investing in the securities and obligations authorized in CA Code (subsection 'a' to 'r', inclusive).
- The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).



Exhibit A

4. Negotiable Certificates of Deposit issued by nationally or state-chartered banks (FDIC insured institutions) or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of total portfolio. Principal and accrued interest on these investments must not exceed the \$250,000 FDIC insurance limit. A maturity limitation of five years is applicable.

5. Time deposits or placement service deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 50% of the investment portfolio may be invested in this investment type. A maturity limitation of five years is applicable. Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent. Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.

6. Various daily money market funds administered for or by trustees, paying agents and custodian banks contracted by the Los Osos Community Services District may be purchased as allowed under the State of California Government Code. Only funds holding U.S. Treasury or Government agency obligations can be used

The following summary of maximum percentage limits, by instrument, are established for the District's investment portfolio:

| Authorized Investment Type | Government Code | Maximum Maturity | Minimum Credit Quality | Maximum in Portfolio | Maximum Investment in One Issuer |
|--|---------------------|------------------|------------------------|---|----------------------------------|
| Treasury Obligations (bills, notes, & bonds) | 53601(b) | 5 Years | N/A | 100% | N/A |
| US Government Agency and Federal Agency Securities | 53601(f) | 5 Years | N/A | 100% | N/A |
| Local Agency Investment Fund (LAIF) | 16429.1 | Upon Demand | N/A | As permitted by LAIF (currently \$65 million per account) | N/A |
| San Luis Obispo County Investment Pool | 53684 | Upon Demand | N/A | As permitted by County Treasurer (currently no limit) | N/A |
| Joint Powers Authority Pool | 53601(p) | N/A | See § 8.3 (above) | None | N/A |
| Negotiable Certificates of Deposit | 53601(i) | 5 Years | N/A | 30% | N/A |
| Placement Service Deposits | 53601.8 and 53635.8 | 5 Years | N/A | 50% | N/A |



B. DIVERSIFIED INVESTMENTS

The District shall diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities

C. MAXIMUM MATURITIES

To the extent possible, the Los Osos Community Services District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than 5 years from the date of purchase. Any investment longer than 5 years must be done with advance permission from Board of Directors.

8. INTERNAL CONTROLS

The Fiscal Officer/Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Los Osos Community Services District are protected from loss, theft, fraud or misuse.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the accountant/bookkeeper on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review and perform procedure testing on the District's cash and investments that have a material impact on the financial statements. The General Manager shall review and ensure compliance with investment process and procedures.

9. REPORTS

A. QUARTERLY REPORT

Finance Officer/Treasurer shall file a quarterly report that identifies the District's investments and their compliance with the District's Investment Policy. The quarterly report may be filed with the District's auditor and considered by the District's Board of Directors within forty-five (45) days after the end of each quarter (California Government Code § 53646). Required elements of the quarterly report are as follows:

1. Type of Investment
2. Institution/issuer
3. Date of Maturity (if applicable)
4. Amount of deposit or cost of the security, including par and dollar amount invested on all securities, investments, and moneys held by the District
5. Current market value of securities, with identification of the source of the valuation, for all securities held by the District as well as securities under the management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund
6. Rate of Interest
7. Statement of compliance with the Statement of Investment Policy or the manner in which the portfolio is not in compliance



8. Statement of the District's ability to meet cash flow requirements, including any pool expenditure requirements, for the next six months, or an explanation as to why sufficient money may not be available
9. Accrued Interest (if applicable)
10. Description of any of the District's funds, investments, or programs that are under the management of contracted parties, including lending programs

B. ANNUAL REPORT

Prior to February Board meeting, of each year, the Finance Officer/Treasurer shall file and submit an annual report to the Board of Directors which will contain the same information required in the quarterly report.

The annual report will include a recommendation to the Board of Directors to either:

1. Readopt the District's then current annual Investment Policy; or
2. Amend the District's then current Investment Policy.

C. LIMITED QUARTERLY REPORT

If the District has placed all of its investments in the Local Agency Investment Fund (LAIF) created by California Government Code § 16429.1, or in Federal Deposit Insurance Corporation, insured accounts in a bank or savings and loan association, in a County investment pool, or any combination of these, the Finance Officer may submit to the Board of Directors and the auditor of the District the most recent statement or statements received by the District from these institutions in lieu of the information required in paragraph 7.B, above. This special reporting policy does not relieve the Finance Officer of the obligation to prepare an annual investment report as identified in paragraph 7.C, above.



LOS OSOS COMMUNITY SERVICES DISTRICT
2024 INVESTMENT POLICY
Track Change Version

1. INTRODUCTION

In accordance with California Government Code § 53646 which directs the District to annually prepare and adopt a written statement of investment policy, this policy establishes the standards as prescribed by state law under which the District's Finance Officer shall conduct business with financial institutions with regard to the investment process.

2. POLICY

The Los Osos Community Services District shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy, in priority order of Safety, Liquidity and Return on investment. In accordance with the Municipal Code of the Los Osos Community Services District and under authority granted by the Board of Directors, the General Manager is responsible for investing the unexpended cash in the District Treasury.

2.3. PURPOSE AND SCOPE

This investment policy is intended to outline the guidelines and practices to be used in effectively managing the District's available cash and investment portfolio. It applies to all cash and investment assets of the District including but not limited to moneys held in sinking funds, reserves or designations, trust funds or surplus funds not required for the immediate necessities of the District. Proceeds of debt issuance that shall be invested in accordance with the permitted investment provisions of their specific bond indentures. District monies not required for immediate expenditure will be invested in compliance with governing provisions of law (California Government Code § 53600 et seq.) and this policy. ~~Investments shall be made in judgment 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 (California Government Code § 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers (Finance Officer) acting in accordance with written procedures and the investment policy and exercising prudence and 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.~~

3.4. FINANCE OFFICER

The Board of Directors appoints the General Manager as the District Finance Officer and Treasurer and delegates the principal management responsibility for the deposit and investment of District monies, funds and financial assets pursuant to this statement of investment policy. In the event of an extended absence of the General Manager, the Acting General Manager or Interim General Manager will act as the Acting District Finance Officer

and Treasurer. The services of any investment or financial advisor to the District shall be governed by the terms and standards set forth in this Policy.

4.5.OBJECTIVES

The District's primary investment objectives, in order of priority, shall be:

1. Safety: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The District shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.
 - a. Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in issuers that carry the direct or implied backing of the U.S. Government (including, but not limited to, the U.S. Treasury, U.S. Government Agencies, and federally insured banks). The portfolio will be diversified so that the failure of any one issuer does not unduly harm the District's capital base and cash flow.
 - b. Market risk, (aka "interest rate risk") defined as market value fluctuations due to overall changes in the general level of interest rates shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long-term securities for the sole purpose of short-term speculation. Moreover, it is the District's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. Limited exceptions will be granted for security swaps that would improve the portfolio's yield and/or credit quality.
2. Liquidity: The District's investment portfolio will remain sufficiently liquid to enable the Los Osos Community Services District to meet all operating requirements which might be reasonably anticipated.
3. Return on Investments: The District's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the District's investment risk constraints identified in this Investment Policy and the cash flow characteristics of the portfolio.

~~The primary objectives are safety, liquidity, yield, and compliance.~~

~~_____~~
~~**A. SAFETY**~~

~~_____~~
~~The investment portfolio shall be managed in a manner that ensures the preservation of capital. The objective is to minimize credit risk and interest rate risk.~~

~~_____~~
~~**B. LIQUIDITY**~~

~~The investment portfolio shall remain sufficiently liquid to meet all operating requirements. This shall be accomplished by structuring the investment portfolio so that investments mature in advance of cash needs.~~

~~C. YIELD~~

~~Yield shall be a consideration only after the requirements of safety and liquidity have been met.~~

~~D. COMPLIANCE~~

~~This Investment Policy is written to be in compliance with applicable California and Federal law.~~

5.6. **STANDARDS OF CARE**

A. PRUDENCE

The standard of prudence to be used by the Financial Office and/or the designated representative shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. Persons authorized by the Financial Officer to make investment decisions on behalf of local agencies investing public funds are trustees and

therefore fiduciaries subject to the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency".

The Financial Officer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

~~The Finance Officer will manage the portfolio pursuant to the "Prudent Investor Standard." When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds in the District's investment portfolio, the Finance Officer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District.~~

B. DISCLOSURES

Finance Officer shall disclose any material interest in financial institutions or professionals with which he/she conducts the District business, and shall comply with all applicable laws relating to conflicts of interest.

6.7. **INVESTMENTS AUTHORITY** AUTHORIZED AND SUITABLE INVESTMENTS

A.

SUITABLE INVESTMENTS

Investment of District funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.
2. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
3. Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, and Los Angeles County Investment pool, may be used up to the maximum permitted by California State Law. A review of the pool/fund is required when part of the list of authorized investments, with the knowledge that the pool/fund may include some investments allowed by statute but not explicitly identified in this investment policy.

Additionally, shares of beneficial interest issued by a joint powers authority organized pursuant to CA Code (Section 6509.7) that invests in the securities and obligations in compliance with CA Code 53601 (subsection 'a' to 'r', inclusive) are also authorized. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

- The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- The adviser has not less than five years of experience investing in the securities and obligations authorized in CA Code (subsection 'a' to 'r', inclusive).
- The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

4. Negotiable Certificates of Deposit issued by nationally or state-chartered banks (FDIC insured institutions) or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of total portfolio. Principal and accrued interest on these investments must not exceed the \$250,000 FDIC insurance limit. A maturity limitation of five years is applicable.
5. Time deposits or placement service deposits, non-negotiable and collateralized in

accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 50% of the investment portfolio may be invested in this investment type. A maturity limitation of five years is applicable. Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent. Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.

6. Various daily money market funds administered for or by trustees, paying agents and custodian banks contracted by the Los Osos Community Services District may be purchased as allowed under the State of California Government Code. Only funds holding U.S. Treasury or Government agency obligations can be used

The following summary of maximum percentage limits, by instrument, are established for the District's investment portfolio:

| <u>Authorized Investment Type</u> | <u>Government Code</u> | <u>Maximum Maturity</u> | <u>Minimum Credit Quality</u> | <u>Maximum in Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|---|----------------------------|-------------------------|-------------------------------|--|---|
| <u>Treasury Obligations (bills, notes, & bonds)</u> | <u>53601(b)</u> | <u>5 Years</u> | <u>N/A</u> | <u>100%</u> | <u>N/A</u> |
| <u>US Government Agency and Federal Agency Securities</u> | <u>53601(f)</u> | <u>5 Years</u> | <u>N/A</u> | <u>100%</u> | <u>N/A</u> |
| <u>Local Agency Investment Fund (LAIF)</u> | <u>16429.1</u> | <u>Upon Demand</u> | <u>N/A</u> | <u>As permitted by LAIF (currently \$65 million per account)</u> | <u>N/A</u> |
| <u>San Luis Obispo County Investment Pool</u> | <u>53684</u> | <u>Upon Demand</u> | <u>N/A</u> | <u>As permitted by County Treasurer (currently no limit)</u> | <u>N/A</u> |
| <u>Joint Powers Authority Pool</u> | <u>53601(p)</u> | <u>N/A</u> | <u>See § 8.3 (above)</u> | <u>None</u> | <u>N/A</u> |
| <u>Negotiable Certificates of Deposit</u> | <u>53601(i)</u> | <u>5 Years</u> | <u>N/A</u> | <u>30%</u> | <u>N/A</u> |
| <u>Placement Service Deposits</u> | <u>53601.8 and 53635.8</u> | <u>5 Years</u> | <u>N/A</u> | <u>50%</u> | <u>N/A</u> |

B. DIVERSIFIED INVESTMENTS

The District shall diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities

C. MAXIMUM MATURITIES

To the extent possible, the Los Osos Community Services District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than 5 years from the date of purchase. Any investment longer than 5 years must be done with advance permission from Board of Directors.

PERMITTED INVESTMENTS

~~The District Finance Officer is authorized to deposit or invest District funds only in the following institutions and investments:~~

~~County pooled funds (California Government Code §§53635, 61053)~~

~~The Local Agency Investment Fund created by the California State Treasury (California Government Code § 16429.1)~~

~~One or more FDIC insured Banks and/or Savings and Loan Associations that are designated as District depositories by resolution of the Board of Directors (California Government Code § 61053).~~

~~Intra-District fund loans and transfers with a fair rate of return from one fund to another specifically authorized and evidenced by District resolution.~~

~~Investment funds collateralized as per California Government Code § 53652.~~

~~Such other financial institutions or securities that may be designated by the Board of Directors from time to time in compliance with California and Federal law.~~

~~Allowable investments instruments per California Government Code which are consistent with California Debt and Investment Advisory Commission's guidelines.~~

~~_____~~ B. ~~_____~~ PROHIBITED INVESTMENTS

~~_____ The District's Finance Officer shall not invest in:~~

- ~~1. _____ Inverse floaters, range notes or interest only strips that are derived from a pool of mortgages.~~
- ~~2. _____ Any security that could result in a zero interest accrual if held to maturity.~~
- ~~3. _____ A state or federal credit union, if a member of the District's Board of Directors or an administrative officer also serves on the Board of Directors, or any committee appointed by the Board of Directors, or the credit committee or supervisory committee, of the state or federal credit union.~~
- ~~4. _____ Those investments or institutions not permitted by this Policy, or by action of the Board of Directors.~~

~~_____~~ C. ~~_____~~ DIVERSIFIED INVESTMENTS

~~_____ Investments, other than investments referenced in paragraphs **6-A** (1) and (2) above, will be diversified to avoid losses that may be associated with any one investment.~~

8. INTERNAL CONTROLS

The Fiscal Officer/Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Los Osos Community Services District are protected from loss, theft, fraud or misuse.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the accountant/bookkeeper on a monthly basis.

An independent analysis by an external auditor shall be conducted annually to review and perform procedure testing on the District's cash and investments that have a material impact on the financial statements. The General Manager shall review and ensure compliance with investment process and procedures.

8-9. _____ REPORTS

A. MONTHLY REPORT

~~_____ Finance Officer/Treasurer shall make monthly reports to the Board with the following information:~~

~~Investments made or retired during the preceding month.~~

~~Single transfers between permitted institutions of greater than \$150,000.~~

BA.. QUARTERLY REPORT

Finance Officer/Treasurer shall file a quarterly report that identifies the District's investments and their compliance with the District's Investment Policy. The quarterly report must be filed with the District's auditor and considered by the District's Board of Directors within ~~thirty-fourty-five~~ (4530) days after the end of each quarter (~~i.e., by May 1, August 1, November 1, and February 1~~) (California Government Code § 53646). Required elements of the quarterly report are as follows:

1. Type of Investment
2. Institution/issuer
3. Date of Maturity (if applicable)
4. Amount of deposit or cost of the security, including par and dollar amount invested on all securities, investments, and moneys held by the District
5. Current market value of securities, with identification of the source of the valuation, for all securities held by the District as well as securities under the management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund
6. Rate of Interest
7. Statement of compliance with the Statement of Investment Policy or the manner in which the portfolio is not in compliance
8. Statement of the District's ability to meet cash flow requirements, including any pool expenditure requirements, for the next six months, or an explanation as to why sufficient money may not be available
9. Accrued Interest (if applicable)
10. Description of any of the District's funds, investments, or programs that are under the management of contracted parties, including lending programs

C. ANNUAL REPORT

Prior to February Board meeting⁴, of each year, the Finance Officer/Treasurer shall file and submit an annual report to the District's auditor and Board of Directors which will contain the same information required in the quarterly report.

The annual report will include a recommendation to the Board of Directors to either:

1. Readopt the District's then current annual Investment Policy; or

2. Amend the District's then current Investment Policy.

D. LIMITED QUARTERLY REPORT

If the District has placed all of its investments in the Local Agency Investment Fund (LAIF) created by California Government Code § 16429.1, or in Federal Deposit Insurance Corporation, insured accounts in a bank or savings and loan association, in a County investment pool, or any combination of these, the Finance Officer may submit to the Board of Directors and the auditor of the District the most recent statement or statements received by the District from these institutions in lieu of the information required in paragraph 7.B, above. This special reporting policy does not relieve the Finance Officer of the obligation to prepare an annual investment report as identified in paragraph 7.C, above.