MONO COUNTY INVESTMENT POLICY

I. GOVERNING AUTHORITY

The County of Mono investment program shall be operated in conformance with federal, state, and other legal requirements, including but not limited to California Government Code Section 53600, et seq. and Section 53630, et seq.

II. SCOPE

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds. Except for cash in certain restricted and special funds, the County will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds and other entities in the Mono County Investment Pool based on their respective participation and in accordance with generally accepted accounting principles.

III. GENERAL OBJECTIVES

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

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 objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk
The County will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
• Limiting investments to the types of securities listed in Section VII of this Investment Policy
• Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the County will do business in accordance with Section V
• Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk
The County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
• Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity

• Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see section VIII).

2. Liquidity
The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. Yield
The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:
• A security with declining credit may be sold early to minimize loss of principal.
• A security swap would improve the quality, yield, or target duration in the portfolio.
• Liquidity needs of the portfolio require that the security be sold.

4. Local Considerations
Where possible, funds may be invested for the betterment of the local economy or that of local entities within the State.

IV. STANDARDS OF CARE

1. Prudence
The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio.
The "prudent person" standard is discussed in Government Code sections 27000.3 and 53600.3, which are incorporated herein by reference.

2. Ethics and Conflicts of Interest
Officers and employees involved in the investment process shall be included as “designated employees” under the County’s Conflict of Interest Code, which is incorporated herein by reference. Said officers and employees shall comply fully with that Code, including but not limited to disclosing and abstaining from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. In addition to any other disclosures mandated by the County’s Conflict of Interest Code, employees and

investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the County.

3. Delegation of Authority
Pursuant to Government Code section 53607, authority to manage the investment program is delegated by the Board of Supervisors to the Director of Finance, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of $10,000,000 and at least five years of operation) and any other criteria specified by this policy. These may include "primary" dealers or regional dealers that qualify under both Government Code section 53601.5 and Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).
All financial institutions and broker/dealers who desire to become qualified for investment transactions shall meet the requirements of Government Code section 53601.5 and, in addition, must supply the following as deemed appropriate by the Director of Finance:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of California state registration
- Certification of having read and understood and agreeing to comply with the County’s investment policy.
- Evidence of adequate insurance coverage meeting any applicable requirements of State law and otherwise deemed adequate by the Director of Finance.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Director of Finance.

VI. SAFEKEEPING AND CUSTODY

1. Delivery vs. Payment
All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

2. Safekeeping
Pursuant to Government Code section 53608, the Board of Supervisors delegates to the Director of Finance its authority to deposit securities for safekeeping. Securities will be held by a third-party custodian meeting the requirements of Government Code section 53608 or other applicable law and selected by the Director of Finance. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. Internal Controls
The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes 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 points:
• Control of collusion
• Separation of transaction authority from accounting and recordkeeping
• Custodial safekeeping
• Avoidance of physical delivery securities
• Clear delegation of authority to subordinate staff members
• Written confirmation of transactions for investments and wire transfers
• Dual authorizations of wire transfers
• Development of a wire transfer agreement with the lead bank and third-party custodian

VII. AUTHORIZED INVESTMENTS

1. Investment Types
The following investments are permitted, subject to any requirements or limitations imposed by applicable State law:
• U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;
• U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
• Certificates of deposit and other evidences of deposit at financial institutions,
• Bankers' acceptances;

• Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO);
• Medium-term notes 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 and rated “A” or better by a recognized rating service;
• Investment-grade obligations of the State of California and local agencies within the State;
• Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
• Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
• Local government investment pools either administered by the State of California or developed by local agencies within the State through joint powers statutes and other intergovernmental agreement legislation.

2. Collateralization
Where allowed by state law, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. Repurchase agreements will be collateralized at 102 percent.

VIII. INVESTMENT PARAMETERS

1. Diversification
The investments shall be diversified by:
• limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
• limiting investment in securities that have higher credit risks,
• investing in securities with varying maturities, and
• continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

The following diversification limitations shall be imposed on the portfolio:
• Maturity: No more than 60 percent of the portfolio may be invested beyond 12 months, and the weighted average maturity of the portfolio shall never exceed 24 months or such shorter dollar-weighted average maturity as may be required by State law.
• Default risk: No more than 25 percent of the overall portfolio or such lower percentage as may be required by State law may be invested in the securities of a single issuer, except for securities of the U.S. Treasury, U.S. Government Agency obligations, and deposits into the Local Agency Investment Fund pursuant to Government Code section 16429.1. No more than 30 percent of the overall portfolio may be invested in medium-term notes. No more than 10 percent of the portfolio or such lower percentage as may be required by State law may be invested in each of the following categories of securities:
a) Commercial paper,
b) Negotiable certificates of deposit,

c) Bankers' acceptances,
d) Any other obligation that does not bear the full faith and credit of the United States government or which is not fully collateralized or insured and
e) No more than 20 percent of the total portfolio may be invested in any combination of the foregoing instruments at any time.
• Liquidity risk: At least 10 percent of the portfolio shall be invested in overnight instruments or in marketable securities which can be sold to raise cash in one day's notice.

2. Maximum Maturities
To the extent possible, the County shall attempt to match its investments with anticipated cash flow requirements. The County shall adopt weighted average maturity limitations consistent with the investment objectives and applicable State law.
Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

3. Competitive Bids
The Director of Finance shall obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market.

IX. REPORTING

The Director of Finance shall prepare an investment report at least quarterly as authorized by California Government Code Section 53646. The report will include the following and such additional information, if any, as may be required by Government Code section 53646(b)(1):
• Listing of individual securities held at the end of the reporting period.
• Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
• Average weighted yield to maturity of portfolio on investments.
• Listing of investment by maturity date.
• Percentage of the total portfolio which each type of investment represents.

X. AMENDMENTS

This policy shall be reviewed on an annual basis. Any changes must be approved by the Director of Finance and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

XI. APPROVAL OF INVESTMENT POLICY

The investment policy shall be formally approved and adopted by the Board of Supervisors of the County of Mono and reviewed annually.