

## Investments:

### 22.1 Policy

It is the policy of the Mark Twain Health Care District (“District”) to provide guidelines for the prudent investment of District funds and to maximize the efficiency of the District’s cash management. The ultimate goal is to enhance the economic status of the District consistent with the prudent protection of the District’s investments. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California including California Government Code Sections 53600, *et seq.*

### 22.2 Scope

This policy covers all funds and investment activities of the District except for (1) the proceeds of bond issues, which are invested in accordance with provisions of their specific bond indentures, and (2) funds invested in retirement or deferred compensation plans. All funds covered by this policy are defined and accounted for in the District’s audited annual Basic Financial Statements Report. Further, any new funds created shall be covered by this policy unless specifically excluded by District management and the Board of Directors.

### 22.3 Prudent Investor Standard

The District operates its investment portfolio under the Prudent Investor Standard (California Government Code Section 53600.3) which states, that “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 District, that a prudent person in a like capacity and familiar with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principle and maintain the liquidity needs of the District.”

This standard shall be applied in the context of managing the overall portfolio. Investment officers, acting in accordance with written procedures and this investment policy and exercising the above standard of 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.

## **22.4 Investment Objectives**

- A. When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing the District's funds,
1. The primary objective is to safeguard the principle of the funds.
  2. The secondary objective is to meet the liquidity needs of the District.
  3. The third objective is to achieve a reasonable market rate of return on invested funds.

It is the policy of the District to invest public funds in a manner to obtain the highest yield obtainable with the maximum security while meeting the daily cash flow demands of the District as long as investments meet the criteria established by this policy for safety and liquidity and conform to all laws governing the investment of District funds.

### **B. Safety of Principle**

Safety of principle is the foremost objective of the District. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they arise from securities defaults, institution default, broker-dealer default, or erosion of market value of securities. The District shall mitigate the risk to the principle of invested funds by limiting credit and interest rate risks. Credit Risk is the risk of loss due to the failure of a security's issuer or backer. Interest Rate Risk is the risk that the market value of the District's portfolio will fall due to an increase in general interest rates.

1. Credit risk will be mitigated by:
  - a. Limiting investments to only the most creditworthy types of securities;
  - b. Prequalifying the financial institutions with which the District will do business, using a questionnaire or other screening tool (see exhibit A); and
  - c. Diversifying the investment portfolio so that the potential failure of any one issue or issuer will not place undue burden on the District.

2. 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 obligations, thereby reducing the possible need to sell securities on the open market at a loss prior to their maturity to meet those requirements; and
- b. Investing a portion of the portfolio in shorter-term securities.

### **C. Liquidity**

Availability of sufficient cash to pay for current expenditures shall be maintained in money market funds, local government investment pools that offer daily liquidity, repurchase agreements, or short-term securities that can easily be converted into cash because they have secondary markets. The accounting management system of the District shall be designed to accurately monitor and forecast expenditures and revenues to ensure the investment of monies to the fullest extent possible.

### **D. Rates of Return**

Yield on investments shall be considered only after the basic requirements of safety and liquidity have been met. The investment portfolio shall be designed to attain a market average rate of return throughout economic cycles, taking into account the District's risk constraints, the composition and cash flow characteristics of the portfolio, and applicable laws.

## **22.5 Delegation of Authority**

### **A. Responsibilities of the Accounting Department**

The Accounting Department is charged with the 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 treasury management and with applicable laws and ordinances.

### **B. Responsibilities of the Chief Financial Officer, or contracted financial services vendor**

The Chief Financial Officer, or contract financial services vendor, shall perform the monthly review and reconciliation of accounting investments as well as be responsible for the conduct of all Accounting Department functions.

### **C. Responsibilities of the Executive Director**

The Executive Director is responsible for directing and supervising the assigned designee and is responsible further to keep the Board of Directors fully advised as to the financial condition of the District.

### **D. Responsibilities of the District's Auditing Firm**

The District's auditing firm's responsibilities shall include but not be limited to the examination and analysis of fiscal procedures and the examination, checking and verification of accounts and expenditures. A review of the District's investment program is a part of the responsibility described above.

### **E. Responsibilities of the Board of Directors**

The Board of Directors shall annually review the written Investment Policy. As provided in the Policy, the Directors shall receive, review, and accept quarterly investment reports which may be included in the Consent Calendar of the regularly scheduled meeting of the Board of Directors in the month following the meeting of the Finance/Investment Committee.

### **F. Responsibilities of the Finance/Investment Committee**

There shall be a Finance Committee consisting of two (2) members of the Board of Directors and no more than two (2) citizens having experience in accounting, banking, or financial investments. No members of the Finance/Investment Committee shall profit in any way from activities of the Committee. The Executive Director and assigned designee(s) shall serve as staff liaison to the Committee. The Committee shall meet no less than quarterly to discuss the quarterly investment reports, investment strategy, investment and banking procedures, as well as the anticipated cash flow projection and any other significant investment-related activities being undertaken. The Committee's meetings will be summarized in minutes, which are distributed to the Board of Directors with the quarterly investment report.

## **22.6 Ethics and Conflicts 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. Employees and investment officers shall disclose any material financial interest in financial institutions that conduct business with this District, and they shall further disclose any large personal financial / investment positions that could be related to the performance of the District's portfolio.

## **22.7 Authorized Financial Dealers and Institutions**

- A.** The Executive Director will establish and maintain a list of the financial institutions and broker / dealers authorized to provide investment and depository services to the District. The District shall initially send a copy of its current Investment Policy to all financial institutions and broker / dealers approved to do business with the District. Receipt of the Investment Policy including confirmation that it has been received and reviewed by the person (s) handling the District's account, shall be acknowledged in writing within thirty (30) days. The District's investment status shall be reported to the Board at least annually by participating investment institutions.

### **1. Depositories**

In selecting depositories, the creditworthiness of institutions shall be considered, and the Executive Director shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history as part of the application process.

### **2. Brokers and Dealers**

To become a broker or dealer qualified to do business with the District, a firm must respond to the District's "Broker Dealer Questionnaire" and submit related documents relative to eligibility. Required documents include a current audited financial statement, proof of state registration, proof of FINRA registration, and a certification that the firm has received and reviewed the District's Investment Policy and agrees to offer the District only those securities that are authorized by the Investment Policy. The Executive Director may establish any additional criteria deemed appropriate to evaluate and approve any financial services provider.

If a third-party investment advisor is authorized to conduct investment transactions on the District's behalf, the investment advisor may use its own list of approved broker/dealers and financial institutions. The investment advisor's approved list must be made available to the District upon request.

## **22.8 Diversification and Risk**

The District recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. To minimize the District's exposure to these types of risk, the portfolio should be diversified among several types of institutions, instruments, and maturities. The Executive Director with the Finance Committee shall minimize default risk by prudently selecting only instruments and institutions, which at the time of placement have been evaluated for their financial viability and compliance with this policy. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

## **22.9 Performance Standards**

The investment portfolio will be managed in accordance with the standards established within this Investment Policy and should obtain a market rate of return throughout budgetary and economic cycles, taking into account the District's investment risk constraints, cash flow needs, and maturities of the investments. The basis to determine whether market yields are being achieved shall be the total return of the portfolio. The Bank of America Merrill Lynch 1-5 Year U.S. Government/Corporate AAA-A Index is the benchmark that will be compared to the portfolio's sector composition, maturity structure, current investment strategy, and total return. The Finance Committee will periodically review the District's portfolio performance against the benchmark.

## **22.10 Reporting**

The District has adopted California Government Code 53646 et seq to define the District's reporting responsibilities.