CAMBRIA COMMUNITY SERVICES DISTRICT
INVESTMENT POLICY

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1. Policy

The Cambria Community Services District (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 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. Scope

The investment policy applies to all investment activities and financial assets of the District as accounted for in the Annual Comprehensive Financial Report (ACFR). This policy is applicable, but not limited to, all funds listed below:

- General Fund;
- Capital Funds;
- Other Special Revenue Funds, Debt Service Funds, Internal Service Funds;
- Any new fund created by the Board of Directors unless specifically exempted.

3. Prudence

The standard of prudence to be used by the designated representative shall be the “prudent investor” standard (GC 53600.3) and shall be applied in the context of managing the overall portfolio. Persons authorized 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 General Manager 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.

4. 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 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.

5. Delegation of Authority

The Municipal Code of the District and the authority granted by Board of Directors assign the responsibility of investing unexpended cash to the General Manager and/or the Finance Manager.

6. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions. Additionally, the General Manager and the Finance Manager are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC). Furthermore, investment officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the District.

7. Authorized Dealers and Institutions

The General Manager will maintain a list of approved financial institutions authorized to provide investment services to the public agency in the State of California. These may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). Best practices include the following: 1) a determination that all approved broker/dealer firms, and individuals covering the public agency, are reputable and trustworthy; 2) the broker/dealer firms should have the ability to meet all their financial obligations in dealing with the Public Agency; 3) the firms, and individuals covering the agency, should be knowledgeable and experienced in Public Agency investing and the investment products involved; 4) no public deposit shall be made except in a qualified public depository as established by state laws; 5) all financial institutions and broker/dealers who desire to conduct investment transactions with the public agency shall supply the General Manager with audited financial statements, proof of FINRA certification, trading resolution, proof of State of California registration, a completed broker/dealer questionnaire, certification of having read the Public Agency's investment policy, and depository contracts.

The General Manager may conduct an annual review of the financial condition and registrations of qualified dealers and institutions.

8. Authorized and 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 San Luis Obispo County Investment pool may be used up to the maximum permitted by California State Law. A review of the pool/fund is required, 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 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 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

9. Review of Investment Portfolio
The securities held by the District must be in compliance with Section 8.0, "Authorized and Suitable Investments," at the time of purchase. The General Manager shall review the portfolio at least annually to identify those securities that do not comply.

The General Manager shall establish procedures to report any major and critical incidences of noncompliance identified through the review of the portfolio.

10. Investment Pools / Money Market Funds
A thorough investigation of the investment pool/money market fund is required prior to investing and on a continual basis. Best efforts will be made to acquire the following information:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.

2. A description of interest calculations and how it is distributed, and how gains and losses are treated.

3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.

4. A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed.

5. A schedule for receiving statements and portfolio listings.

6. Whether reserves, retained earnings, etc. are utilized by the pool/fund.

7. A fee schedule, and when and how is it assessed.

8. Whether the pool/fund is eligible for bond proceeds and/or will such proceeds be acceptable.

11. Collateralization

Collateralization will be required on two types of investments: non-negotiable certificates of deposit and repurchase (and reverse repurchase) agreements. To anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value for non-negotiable certificate of deposit and 102% for reverse repurchase agreements of principal and accrued interest.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

The District may waive the collateralization requirements for any portion of the deposit that is covered by Federal Deposit Insurance.

12. Safekeeping and Custody

All security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Treasurer and evidenced by safekeeping receipts.

13. Diversification

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. To promote diversification, no more than 5% of the portfolio may be invested in the securities of any one issuer, regardless of security type, excluding U.S. Treasuries, federal agencies, and pooled investments such as LAIF, money market funds, or local government investment pools.

14. Maximum Maturities

To the extent possible, the District will attempt to match its investments to 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 the Board of Directors.

15. Internal Controls

The General Manager is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft, fraud, or misuse.

Separation of functions between the District's General Manager and Finance Manager is designed to provide an ongoing internal review in order to prevent the potential for converting assets or concealing transactions.

Investment decisions are made by the General Manager and executed by the Finance Manager. All wire transfers initiated by the Finance Manager must be reconfirmed by the appropriate financial institution to the General Manager. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Finance Manager 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 the investment process and procedures.

16. Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The District intends to spread its investments relatively evenly between 0 and 5 years and hold those investments to maturity. The District is limiting its authorized investments to the safest end of the investment spectrum—debt issued by the U.S. Treasury, U.S. Government Agencies, and debt that is federally insured (see section 8.0, Authorized and Suitable Investments, above, for a complete list of authorized investments).

Therefore, an appropriate performance benchmark will be a Constant Treasury Maturity Rate consistent with the weighted average maturity of the portfolio. The District recognizes that benchmarks may change over time based on changes in market conditions or cash flow requirements.

17. Reporting

The General Manager shall review and render quarterly reports to the Board of Directors that include the following information:

- Investment type (e.g., U.S. Treasury Note, U.S. Government Agency Bond);
- Name of the issuer (e.g., Federal Farm Credit Bank, Federal Home Loan Bank);
- Maturity date;
- Yield to maturity;
- Current market value and source of market value;
- Par and dollar amount for each security the District has invested in;
- Par and dollar amount on any money held by the District (e.g., LAIF balance, Cash Balance).

The report shall also include a description of any of the District's funds, investments, or programs that are under the management of contracted parties, including lending programs.

The quarterly report shall state whether the portfolio is in compliance with the investment policy or in what manner it is not in compliance.

The quarterly report shall include a statement denoting the ability of the District to meet its expenditure requirements for the next six months or provide an explanation as to why sufficient money shall (or may not) be available.

The quarterly reports shall be placed on the Board of Directors' meeting agenda for its review and approval no later than 45 days after the quarter ends. If there are no Board of Directors' meetings within the 45-day period, the quarterly report shall be presented at the soonest possible meeting thereafter.

18. Investment Policy Adoption

The District investment policy shall be adopted by resolution of the Board of Directors. The policy shall be reviewed annually by the Board of Directors and any modifications made thereto must be approved by the Board of Directors.

The General Manager shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures shall include reference to safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts, and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the District.

19. Glossary of Terms in this Policy

Accrued Interest: Interest earned but not yet received.

Annual Comprehensive Financial Report (ACFR): The official annual financial report for the District. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

Bond: A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Bond Swap: Selling one bond issue and buying another at the same time in order to create an advantage for the investor. Some benefits of swapping may include tax-deductible losses, increased yields, and an improved quality portfolio.

Broker: In securities, the intermediary between a buyer and a seller of securities. The broker, who usually charges a commission, must be registered with the exchange in which he or she is trading, accounting for the name-registered representative.

Certificate of Deposit: A deposit insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) at a set rate for a specified period of time.

Collateral: Securities, evidence of deposit, or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Constant Maturity Treasury (CMT): An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Custody: A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement that also calls for the bank to collect and pay out income, and to buy, sell, receive, and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

Diversification: Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Federal Deposit Insurance Corporation (FDIC): Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently $250,000) per account.

Interest Rate: The annual yield earned on an investment, expressed as a percentage.

Liquidity: Refers to the ability to rapidly convert an investment into cash.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Purchase Date: The date in which a security is purchased for settlement on that or a later date.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Risk: Degree of uncertainty of return on an asset.

Safekeeping: See Custody.

Settlement Date: The date on which a trade is cleared by delivery of securities against funds.

Time Deposit: A deposit in an interest-paying account that requires the money to remain on account for a specific length of time. While withdrawals can generally be made from a passbook account at any time, other time deposits, such as certificates of deposit, are penalized for early withdrawal.

Treasury Obligations: Debt obligations of the U.S. Government that are sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

U.S. Government Agencies: Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield: The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity: The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

20. Glossary of General Investment Terms

Active Deposits: Funds that are immediately required for disbursement.

Amortization: An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Asked Price: The price a broker dealer offers to sell securities.

Basis Point: One basis point is one hundredth of one percent (.01).

Bid Price: The price a broker/dealer offers to purchase securities.

Book Entry Securities: Securities, such as stocks held in "street name," that are recorded in a customer's account but are not accompanied by a certificate. The trend is toward a certificate-free society to cut down on paperwork and to diminish investors' concerns about the certificates themselves. All the large New York District banks, including those that handle the bulk of the transactions of the major government securities dealers, now clear most of their transactions with each other and with the Federal Reserve through the use of automated telecommunications and the "book-entry" custody system maintained by the Federal Reserve Bank of New York. These banks have deposited with the Federal Reserve Bank a major portion of their government and agency securities holdings, including securities held for the accounts of their customers or in a fiduciary capacity for the District. Virtually all transfers for the account of the banks, as well as for the government securities dealers who are their clients, are now effected solely by bookkeeping entries. The system reduces the costs and risks of physical handling and speeds the completion of transactions.

Book Value: The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Bullet Bond: *See "Non-callable Bond."*

Callable Bond: A debit obligation where the bond issuer (i.e., borrower) has the option to *call the bond* or pay it off early (before the scheduled maturity date). For instance, a 5-year bond might be "callable quarterly,"meaning that, although the bond has a scheduled end date 5 years from now, it could end in 3 months (and every 3 months after that, until the scheduled maturity date).

Coupon: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis: A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield: The interest paid on an investment expressed as a percentage of the current price of the security.

Discount: The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Duration: The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

Fannie Mae: Trade name for the Federal National Mortgage Association (FNMA), a U.S.-sponsored corporation.

Federal Reserve System: The central bank of the U.S. that consists of a seven-member Board of Governors, 12 regional banks, and approximately 8,000 commercial banks that are members.

Fed Wire: A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac: Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S.-sponsored corporation.

Investment Agreements: An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity, and interest rates.

Nationally Recognized Statistical Rating Organizations (NRSRO): A U.S. Securities and Exchange Commission - registered agency that assesses the creditworthiness of an entity or specific security. NRSRO typically refers to Standard and Poor’s Ratings Services, Fitch Ratings, Inc., or Moody’s Investors Services.

New Issue: Term used when a security is originally "brought" to market.

Non-callable Bond: Also known as *“Bullet Bond.”* A non-callable bond is a debt obligation where the bond issuer does not have the option to “call the bond,” i.e.,end the bond before the scheduled maturity date.

Perfected Delivery: Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Repurchase Agreement (Repo): A transaction where the seller (bank) agrees to buy back from the buyer (District) the securities at an agreed upon price after a stated period of time.

Reverse Repurchase Agreement (Reverse Repo): A transaction where the seller (District) agrees to buy back from the buyer (bank) the securities at an agreed-upon price after a stated period of time.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Yield Curve: The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.