



## Southern Mono Healthcare District Policy

<b>POLICY:</b> Statement of Investment Policy	<b>DEPARTMENT:</b> Administration
<b>Written by:</b> David Baumwohl, Legal Counsel	Page 1 of 5
<b>Approved by:</b> SMHD Board of Directors – Resolution 17-02	<b>Effective Date:</b> June 15, 2017
<b>Reviewed by:</b> Melanie Van Winkle, CFO	<b>Revised Date:</b> June 15, 2017

### Purpose

This Statement of Investment Policy is made pursuant to Government Code §53646 and shall be the Statement of Investment Policy of the Southern Mono Healthcare District, organized under the terms of the Local Health Care District Law, Division 23 of the Health and Safety Code (§§32000, et seq.).

The purpose of this Policy is to establish and implement criteria and guidelines regarding the District's authority to engage in investment related activities. The District hereby implements its authority to invest surplus public funds pursuant to Chapter 4, Division 2 of the Government Code (§§53600 et seq.), and to the general powers granted by the Local Health Care District Law.

It is the policy of the District to invest public funds in a manner which will provide the maximum security with the reasonably best investment return, while meeting the daily cash flow demands of the entity and conforming to State and local statutes governing the investment of public funds.

This Policy is a revised and updated policy resulting from an bi-annual review process conducted by the District, is effective as of the date of adoption hereof, and supplants, supersedes, and replaces all prior Policies.

### Definitions

“Administrator” shall include and refer to the Hospital Administrator or Administrator of Mammoth Hospital and shall also mean the Chief Executive Officer of the District.

“Board” shall mean the Board of Directors of the District.

“Chief Executive Officer” shall mean and include the Administrator of Mammoth Hospital and the District.

“District” shall mean the Southern Mono Healthcare District.

“Facilities” shall mean a Healthcare Facility, Hospital, Clinic, or other establishment operated by the District.

“Financial Officer” shall mean the Chief Financial Officer who shall be a member of the Board of Directors of the District, the Treasurer of the District, or other designated fiscal officer authorized by the Board to implement and carry out the policies set forth herein.

“Governing Board” shall mean the Board of Directors of the District.

“Healthcare District” shall mean the Southern Mono Healthcare District, formerly known as the Southern Mono Hospital District.

“Hospital District” shall mean the Southern Mono Healthcare District.

“Mammoth Hospital” shall mean Mammoth Hospital, a fully licensed and accredited acute care health care facility owned and operated by the District.

“Organization” shall mean and refer to the Southern Mono Healthcare District.

“Policy” shall mean this Statement of Investment Policy.

“Statement” shall mean this Statement of Investment Policy.

“The Local Health Care District Law” or “District Law” shall mean Division 23 of the Health and Safety Code, §§32000, et seq., as it now exists and may be amended or modified from time to time.

## **Glossary**

Because this Policy is to be available to the public as well as to the District, a glossary of related terminology is provided in Attachment “B” and made a part hereof.

## **Scope**

This Investment Policy applies to all funds and investment activities under the direct authority of the District. These funds are accounted for in the District’s Audited Annual Financial Report and include and exclude the following.

### A. Funds Included in This Policy

1. General Fund
2. Special Revenue Funds
3. Capital Project Funds
4. Trust and Agency Funds

### B. Funds Excluded from this Policy

1. Retirement/Pension Funds

## **Objectives**

The District shall make investments subject to the “prudent person” or the “prudent investor” standard in that the District and its Financial Officer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a reasonably 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 aims, to safeguard the principal and maintain the liquidity needs of the District. Investment officers acting in accordance with applicable written procedures and this Policy and exercising due diligence shall be relieved of personal responsibility for an individual investment or security credit risk or market price changes, provided deviations from expectations are reported to the Board in a timely fashion and appropriate action is taken to control adverse developments.

The primary objectives, in priority order, of the District’s investment activities shall be as follows.

A. Safety. Safety of principal is the foremost objective of the Investment Policy. It is the primary duty and responsibility of the Financial Officer to protect, preserve, and maintain cash and investments placed in his or her trust on behalf of the citizens of the communities served by the District.

B. Liquidity. A reasonable and adequate percentage of the investment portfolio should be maintained in investments sufficiently liquid so that such investments, or a portion thereof, can be converted to cash if necessary to meet necessary expenses and other cash requirements which might be reasonably anticipated.

C. Return on Investments. The District’s Investment Policy is designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles commensurate with the District’s investment risk constraints and the cash flow characteristics of the portfolio.

D. Diversification. The investment portfolio should be sufficiently diversified to avoid incurring unreasonable and avoidable risks regarding specific types of securities or individual financial institutions while attaining a benchmark average rate of return. To attain this objective, the District may diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions, or by depositing funds with the State of California Local Agency Investment Fund (“LAIF”) or similar county investment pool fund. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the District’s total investment portfolio will be invested in a single security type or with a single financial institution.

E. Maximum Maturities. To the extent possible, the 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 two years from the date of purchase. Reserve funds may be invested in securities exceeding two years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

## **Delegation of Authority**

The authority of the District to invest funds and participate in investment activities and deposits as provided for in this Policy may be delegated to a Financial Officer of the District, who shall thereafter assume full responsibility for such transactions until such time as the delegation of authority is revoked. The Financial Officer shall establish a system of controls to regulate the activities of subordinate officials and their procedures in the absence of the Financial Officer. The Financial Officer shall comply with all reporting requirements of this Policy. All activities of the Financial Officer shall be in full compliance with this Statement of Investment Policy.

## **Reporting**

A. Monthly Reporting. At each regularly scheduled monthly meeting of the Board of Directors of the District, the Financial Officer shall render a monthly report to the Board in public session, including in the report all matters prescribed by Government Code §53646. The monthly report will include a statement as to the status of the current investment portfolio. If all of the investment funds are deposited with the LAIF, the LAIF statement may be substituted for the monthly report; otherwise, the investment management report will include the following.

- (1) A listing of the individual securities held at the end of the reporting period by authorized investment category, including each security's purchase date and rating.
- (2) Average life and final maturity of all investments listed.
- (3) Coupon, discount, or earnings rate.
- (4) Par value, amortized book value, and market value.
- (5) Percentage of the portfolio represented by each investment category.
- (6) Benchmark comparison.

B. Bi-Annual Reporting. The Financial Officer shall present to the Board for consideration and adoption at a public meeting a Statement of Investment Policy. The Financial Officer shall present to the Board for consideration and adoption at a public meeting the Audited Bi-Annual Financial Report.

## **Authorized Investment Management Firms and/or Financial Dealers and Institutions**

The District Financial Officer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers, selected by credit worthiness, who are authorized to provide investment services in the State of California. These may include primary dealers, or regional dealers that qualify under SEC Rule 15C3-1 (the Uniform Net Capital Rule). No deposit shall be made except as established by state law. All financial institutions and broker/dealers for investment transactions must supply the District with audited financial statements and proof of state registration.

An bi-annual review of the financial condition and registrations of qualified financial institutions and broker/dealers will be conducted by the Financial Officer. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the District invests.

## **Authorized Investments**

The authorized investments which may be obtained or otherwise implemented by the District shall be as permitted in Government Code §§53601 and 53635. A list of authorized investments is provided in Attachment "A" and is made a part hereof. The District shall be prohibited from investments as set forth in Government Code §§53601.6 and 53631.5. Notwithstanding the generality of the foregoing, the District shall be permitted to deposit funds into the LAIF. From the District's perspective, special care will be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are, or the Financial Officer is, trained and competent to handle.

## **Investment Procedures**

The Financial Officer shall establish written investment policy procedures for the operation of the investment program consistent with this Policy. The procedures should include reference to: safekeeping, 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 Financial Officer.

## **Internal Controls**

The District, through its designated Financial Officer, shall establish a system of internal controls for the operation of the investment program consistent with this Policy. Such controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees or officers of the District.

Controls deemed most important include, without limitation: control of collusion; separation of duties; separating transaction authority from accounting and recordkeeping; custodial safekeeping; clear delegation of authority; specific limitations regarding securities losses and remedial action; written confirmation of telephonic transactions; documentation of transactions and strategies; and compliance with this Statement of Investment Policy.

The Financial Officer shall establish an bi-annual process of independent review by an external auditor. This review will provide additional internal control by assuring compliance with policies and procedures.

## **Investment Pools/Mutual Funds Due Diligence Standard**

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. A product of the investigation should result, at minimum, in descriptions of the pool/fund's eligible investments, safeguarding procedures, statement and fee schedules, who may invest in the program, limits on the size of deposits and withdrawals, and whether the pool/fund is eligible for bond proceeds or will accept such proceeds.

## **Risk Tolerance**

The District recognizes that investment risk can result from issue or defaults, market price changes, or various technical complications leading to temporary illiquidity. Investment diversification is employed pursuant to this Policy as a way to control or minimize risk. All investments shall be made in accordance with the objectives set forth in this Statement.

In addition to the general Policy considerations set forth herein, the following specific policies will be strictly observed.

A. All transactions will be executed on a delivery versus payment (DVP) basis.

B. With exception of U.S. Treasury securities, the LAIF, and authorized investment pools, no more than 50% of the District Portfolio will be invested in a single security type or with a single financial institution.

C. Custody. Securities will be held by a third-party custodian designated by the Financial Officer and evidenced by safekeeping receipts with a written custodial agreement. All investments shall be in the name of Southern Mono Healthcare District. The District shall from time to time execute such documents as are necessary to provide evidence of the Financial Officer's delegation of authority as provided for herein.

## **Ethics and Conflict of Interest**

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Board and Chief Executive Officer any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District.

## **General Provisions**

A. Severance. In the event any term or provision of this Policy is deemed to be in violation of law, null and void, or otherwise of no force or effect, the remaining terms and provisions of this Statement shall remain in full force and effect.

B. Effect of Waiver. No waiver of any breach or violation of any term, provision, article, or section of this Statement shall be construed as a waiver of any succeeding breach or violation of the same. The consent or approval of the District to or of any action or matter requiring consent or approval shall not be deemed to waive or render unnecessary any consent to or approval of any subsequent or similar act or matter.

C. Remedies. Enforcement of any term, provision, article, or section of this Statement shall be by proceedings at law or in equity against any persons or entities violating or attempting to violate this Statement, either to restrain violation, compel compliance or action, and/or to recover damages. Any and all remedies provided by law, operation of law, or otherwise, shall be deemed to be cumulative, and the choice of implementation of any particular remedy shall not be deemed to be an election of remedies to the mutual exclusion of any other remedy provided.

D. Construction. Unless otherwise stated in this Policy or unless the context otherwise requires, the definitions contained in the Local Health Care District Law shall govern the construction of this Policy. Without limiting the generality of the foregoing, the masculine gender includes the feminine and neuter, the singular number includes the plural, and the plural number includes the singular, and the word "person" includes a corporation or other legal entity as well as a natural person.

E. Investment Policy Adoption. This Investment Policy shall be adopted by resolution of the Board. This Policy shall be reviewed bi-annually, and any modifications made thereto must be approved by the Board, meeting in public session.

## **Responsible Department**

Implementation, training, and monitoring compliance with this policy are the responsibility of Administrator.

## **Sanctions**

Violations of this policy may result in disciplinary measures for the involved employee, up to and including dismissal.

## **Renewal/Review**

This Policy shall be reviewed bi-annually, and any modifications made thereto must be approved by the Board, meeting in public session.

# Attachment A

**ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT  
CODE (AS OF JANUARY 1, 2017)<sup>A</sup> APPLICABLE TO ALL LOCAL AGENCIES<sup>B</sup>**

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

<b>INVESTMENT TYPE</b>	<b>MAXIMUM MATURITY<sup>C</sup></b>	<b>MAXIMUM SPECIFIED % OF PORTFOLIO<sup>D</sup></b>	<b>MINIMUM QUALITY REQUIREMENTS</b>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations— CA And Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40% <sup>E</sup>	None
Commercial Paper— Pooled Funds <sup>I</sup>	270 days	40% of the agency's money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>
Commercial Paper— Non-Pooled Funds <sup>F</sup>	270 days	25% of the agency's money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>
Negotiable Certificates of Deposit	5 years	30% <sup>J</sup>	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	30% <sup>K</sup>	None
Placement Service Certificates of Deposit	5 years	30% <sup>K</sup>	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days <sup>L</sup>	20% of the base value of the portfolio	None <sup>M</sup>
Medium-Term Notes <sup>N</sup>	5 years	30%	"A" rating category or its equivalent or better
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple <sup>P,Q</sup>
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" rating category or its equivalent or better <sup>R</sup>
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple <sup>S</sup>
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund <sup>T</sup>	N/A	None	None
Supranational Obligations <sup>U</sup>	5 years	30%	"AA" rating category or its equivalent or better

# Attachment B

## TABLE OF NOTES FOR FIGURE 1

- <sup>A</sup> Sources: Sections 16340, 16429.1, 53601, 53601.8, 53635, 53635.2, 53635.8, and 53638.
- <sup>B</sup> Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.
- <sup>C</sup> Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.
- <sup>D</sup> Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.
- <sup>E</sup> No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.
- <sup>F</sup> "Select Agencies" are defined as a "city, a district, or other local agency that do[es] not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body."
- <sup>G</sup> Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.
- <sup>H</sup> Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, has program wide credit enhancements, and has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.
- <sup>I</sup> "Other Agencies" are counties, a city and county, or other local agency "that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body." Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for "Select Agencies," above.
- <sup>J</sup> No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).
- <sup>K</sup> No more than 30 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service (excludes negotiable certificates of deposit authorized under Section 53601(i)).
- <sup>L</sup> Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.
- <sup>M</sup> Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.
- <sup>N</sup> "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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"
- <sup>O</sup> No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.
- <sup>P</sup> A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years experience investing in instruments authorized by Sections 53601 and 53635.
- <sup>Q</sup> A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years experience investing in money market instruments with assets under management in excess of \$500 million.
- <sup>R</sup> Issuer must be rated in a rating category of "A" or its equivalent or better as provided by a nationally recognized statistical rating organization.
- <sup>S</sup> A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).
- <sup>T</sup> Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.
- <sup>U</sup> Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).