

**POLICY TITLE: Reserve Fund and Investment Policy**

**POLICY NUMBER: 3120**

**3120.1** Prudent financial planning and fiscal responsibility includes anticipating and preparing for future funding requirements as well as unforeseen and unexpected emergencies, disasters, and other events. The Lake Shastina Community Services District (LSCSD) has established reserve funds for its long-term organizational and operational stability. Reserve funds enable the district to minimize significant rate fluctuations due to unforeseen and expected cash flow requirements. This reserve fund policy is to ensure that the district accumulates, manages, maintains, and uses certain financial resources only for specific purposes.

**3120.2** The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code (CGC) §53600.6 and §53630.1); and,

CGC Sections 5921 and 53601, et seq., allow the legislative body of a local agency to invest surplus monies not required for the immediate necessities of the local agency; and,

The treasurer of a local agency is required to annually prepare and submit a statement of investment policy and such policy, and any changes thereto, is to be considered by the local agency's legislative body at a public meeting (CGC §53646(a)).

**3120.3** Investment of surplus money of the LSCSD is made in securities in which the District is legally empowered to invest such funds in accordance with Section 53601 of the CGC, taking into consideration the probable income as well as the probable safety of said funds, exercising the judgment and care, under the 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 (CGC §53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations for expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

**3120.4** In as far as possible, all funds in excess of those required to cover annual operational and administrative expenses shall be invested in the Local Agency Investment Fund (LAIF) in accordance with Section 16429.1 of the CGC, Commercial Banks with F.D.I.C. insurance, or Credit Unions with NCUSIF insurance.

**3120.5** As specified in CGC §53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives of the investment activities, in priority order, shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

2. Liquidity: The investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated. No investments the term of which exceed five years will be considered.
3. Return on Investments: 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 the cash flow characteristics of the portfolio.

**3120.6** Investments shall be limited as follows:

- A. District investments in State or National banks shall be limited to \$250,000 including interest, or other amount as defined by FDIC limits.
- B. District investments in State or Federal Credit Unions shall be limited to \$250,000 including interest, or other amount as defined by NCUSIF limits.
- C. District investment in the State of California LAIF shall be limited to \$10,000,000 including interest.

Depositories having custody of District Funds shall be directed to forward copies of all correspondence concerning LSCSD funds to the District's Treasurer.

**3120.7** Reserve fund account balances shall be maintained separately and shall reflect at all times the balance in each reserve fund in a manner consistent with generally accepted accounting practices.

Verification that moneys have been on deposit at all times and collateralized in amounts equal to or in excess of funds designated by the Board of Directors as reserve funds shall be made in the annual audit of financial records.

**3120.8** The District maintains two types of reserve funds:

1. Unrestricted, which consist of all equity that does not meet the definition of restricted or invested in capital assets, net of related debt.
2. Restricted, which consist of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.

Restricted reserves for future capital outlays are hereby established for the Fire and Police non-enterprise funds. Annually, in the process of developing the budget for the upcoming fiscal year, amounts to be identified for specific capital outlays will be budgeted as reserve expenditures.

**3120.9** The District Senior Accounting Clerk or other designated person shall provide a quarterly report on investments to the Board.