

RESOLUTION NO. 2011-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF BIG BEAR AIRPORT DISTRICT ADOPTING A DISTRICT INVESTMENT POLICY

WHEREAS, The Legislature of the State of California has declared that surplus public funds invested by local officials and local agencies are an issue of statewide concern and has issued specific guidelines and adopted California Government Codes to assist local agencies in sound and prudent fiscal management practices; and,

WHEREAS, the Board of Directors of Big Bear Airport District ("Board") seeks the primary investment objectives for surplus District funds as Safety of Principal, Preservation of Purchasing Power and Growth of Capital; and,

WHEREAS, the Board seeks the following order of priority when selecting investments or District funds: Safety, Liquidity and Yield; and,

WHEREAS, the Board does hereby delegate management responsibility for the investment program to the General Manager who shall establish a system of controls to regulate activities and shall implement the Board's objectives and priorities as outlined in the attached District Investment Policy; and,

WHEREAS, the General Manager shall report on such investments at least quarterly, if not monthly; and,

WHEREAS, the Board shall review this policy annually in advance of adoption of the budget.

NOW, THEREFORE, the Big Bear Airport District Board of Directors resolves and orders as follows:

1. The Recitals set out above are true and correct.
2. The Board hereby adopts the Big Bear Airport District Investment Policy attached and incorporated here.

Passed, approved, and adopted this 10th day of August, 2011, by the following vote:

AYES: BAKER, KNIGHT, STEUBE, SMITH
NOES: GREENE
ABSTAIN: NONE
ABSENT: NONE



PRESIDENT OF THE BOARD OF DIRECTORS

ATTEST:



SECRETARY OF THE BOARD OF DIRECTORS

BIG BEAR AIRPORT DISTRICT

STATEMENT OF INVESTMENT POLICY FISCAL YEAR 2012

I. PURPOSE AND POLICY

This statement is intended to provide guidelines for the prudent investment of the Big Bear Airport District (District) temporary idle cash, including special designated reserves, and to outline the procedures for maximizing the efficiency of the District's cash management system. It is intended to provide meaningful guidance in the management of the District's investment portfolio and not be overly restrictive given the changing economic and investment market conditions.

This policy statement shall be reviewed no less than annually by the Finance Committee and shall be re-adopted by the Board of Directors every year.

It is the policy of the Big Bear Airport District to invest public funds in a manner which will provide the highest investment return with the maximum security, while meeting the daily cash flow demands of the District, and conforming to all state and local statutes governing the investment of public funds.

II. SCOPE

This investment policy applies to all financial assets of the District. These funds are accounted for in the official District accounting records and the District's **Comprehensive Annual Financial Report** and include the following funds:

- A. General Fund
- B. Special Revenue Funds
- C. Capital Project Funds
- D. Debt Service Funds (not currently applicable)
- E. Trust Accounts (not currently applicable)

III. PRUDENCE

The District shall operate its temporarily pooled cash investments under the "**prudent person**" and/or "**prudent investor**" standard, Probate Code Section 16040, et. seq., and shall be applied in the context of managing an overall portfolio. This affords the District a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under current legislation of the State of California, Government Code Section 53600, et. seq.

Investment officers acting in accordance with written procedures and the 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 from expectations are reported timely and appropriate action is immediately taken to control adverse developments.

IV. OBJECTIVE

The District's cash management system is designed to accurately monitor and forecast revenues, expenditures and available balances, thus enabling the District to invest funds for the maximum term possible.

Preservation and protection of the District's capital is the guiding philosophy of the investment manager who will manage each portfolio to meet the guidelines stated in the California

Government Code 53600 and 53601. This is a fixed income portfolio comprised of domestic fixed income instruments and cash equivalents and is intended to be structured in accordance with the District's mission and strategic objectives. This portfolio will be managed less aggressively than strictly discretionary fixed income portfolios. In accordance with the investment objectives stated below, assets in the portfolio will be managed in a conservative manner.

Objectives for selecting investments and the order of priority are:

1. **Safety** - The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. The Big Bear Airport District only operates *in those investments that are considered very safe. The District shall not engage in speculation.*
2. **Liquidity** - This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality, especially when the unexpected need for funds occurs.
3. **Yield** - This is the potential dollar earnings an investment can provide and sometimes is described as "rate of return".

The primary investment objectives are:

Safety of Principal

The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. The Big Bear Airport District only operates in those investments that are considered very safe.

Preservation of Purchasing Power

Asset growth, exclusive of contributions and withdrawals, should strive to exceed the rate of inflation in order to preserve the purchasing power of the District's assets. The preservation of purchasing power is also known as the "Real Rate of Return" (RRR) in the future value of money concept.

Growth of Capital

A. Asset growth, exclusive of contributions and withdrawals, should also be equal to or exceed the return of the Local Agency Investment Fund (LAIF) plus fees on a consistent basis. If the investment policies of LAIF should change, this objective will be re-evaluated.

B. Asset growth, exclusive of contributions and withdrawals, should provide a rate of return competitive with that of an index comprised of the Lehman 10-Year Government I Corporate Index and 90-Day Treasury Bills, while incurring similar or less risk than such index. Growth of capital shall be expected to be somewhat less than of a more aggressively structured discretionary fixed income portfolio over time.

C. Cash flow and asset/liability matching information will be made readily available. Adequate liquid cash should be maintained by the District so that a forced sale of longer-term securities at a loss is unnecessary to cover short-term cash needs. The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. Losses are not acceptable on a sale before maturity and should be taken only if the reinvested proceeds will result in a total return greater than would have been by the old investment

instrument considering any capital loss of foregone interest on the original investment. While active management of the account will be utilized to attain the highest returns with the least amount of risk, only securities that could be held to maturity without loss to the District should be purchased.

The above objectives are expected to be achieved over a minimum time horizon of 3 - 5 years. Given the cyclical nature of the financial markets, the success of the portfolio manager in achieving these goals should not be judged in any shorter period of time.

V. DELEGATION OF AUTHORITY

Authority to manage the Big Bear Airport District's investment program is derived from Big Bear Airport District Resolution. Management responsibility for the investment program is hereby delegated to the General Manager who shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and their procedures in his/her absence.

The General Manager is authorized to:

- A. Formulate any and all procedures necessary to implement this policy.
- B. Determine the allocation of the District's total funds available for investment.
- C. Engage investment management consultants to assist in the investment, management, oversight, evaluation, or other services related to the District's investments.
- D. Take other actions, as appropriate and necessary, to implement and carry out this policy.
- E. All investment decisions shall be approved by the Big Bear Airport District Board of Directors.
- F. If the General Manager is incapacitated for any period of time, the Finance Committee will assume management responsibility of the Investment Program.

VI. ETHICS AND CONFLICTS OF INTEREST

Officers, employees, and agents involved in the investment process for the Big Bear Airport District shall refrain from personal business activities that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial decisions. Officers, employees, and agents involved in the investment process shall abide by the California Government Code Section 1090 et. seq., and the California Political Reform Act, California Government Code Section 81000 et. seq.

VII. AUTHORIZED AND SUITABLE INVESTMENTS

The following investments are authorized by the California Government Code, as it may be amended from time to time.

- Local Agency Investment Fund (Sec. 16429.1)
- County Treasurer demand deposits (Sec. 536841)
- Passbook savings demand deposits {Sec. 53635}
- Certificates of Deposit (5-year maximum) (Sec. 53601 & 53635)
- Bonds issued by the Big Bear Airport District {Sec. 53601 (a)}
- Securities of the U.S. Government, or its agencies {Sec. 53601 (b) & (e)}
- Registered securities of the State of California (Sec. 53601 (c))
- + Securities of other local agencies within the State of California (Sec. 53601 (d))

- Negotiable certificates of deposit (30% maximum) (Sec. 53601 (j))
- Repurchase agreements (1-year term maximum) (98% of underlying collateral maximum) (Sec. 53601 (j))
- Reverse repurchase agreements (92-days maximum, 20% maximum) (Sec. 53601 (j))
- Medium term notes of corporations or licensed depository institutions (5-year maximum) (30% maximum) {Sec. 53601 (k)}
- Mutual funds that invest only in State of California authorized investments (20% maximum combined with 53601(l)(B) below) (Sec. 53601 (k)(A))
- SEC-registered money market mutual funds (20% maximum combined with Sec. 53601 (k)(A) above) (Sec. 53601 (k)(B))
- Asset-backed and mortgage-backed securities (20% maximum) {Sec.53601 (o), (p), Sec. 53651 & Sec. 53652}

However, the Big Bear Airport District hereby limits its investments to the following vehicles:

- Securities of the U.S. Government, or its agencies (US T-Bills, US T-Notes, Federal Agency issues such as FICB's, FFCB's, FLB's, FHLB's, FNMA's, SBA's, GNMA's, TVA's, and SALLIE MAE's).
- Certificates of Deposit (5-year *maximum*).
- Local Agency Investment Fund (LAIF).
- Passbook savings demand deposits.
- Mutual funds that invest only in State of California authorized investments,
- SEC-registered money market mutual funds.
- Corporate Bonds rated AA or better.

Any newly developed derivative of an allowable investment that is not specifically mentioned in this policy must be recommended by the General Manager or Investment Manager for inclusion in the policy. Any amendments to the policy must be submitted to the Board of Directors for review and approval.

VIII. PROHIBITED INVESTMENTS

Pursuant to Government Code Section 53601.6, local agencies are prohibited from making investments in the following vehicles:

- Inverse floaters, range notes, or mortgage-derived interest-only strips
- Zero-interest coupon securities

The District further limits investments by expressly prohibiting investments in the following:

- Stocks
- Futures and options
- Medium term corporate notes
- Asset-backed and mortgage backed securities
- Registered securities of the State of California or other local agencies within the State of California
- Repurchase agreements
- Reverse repurchase agreements
- Leveraged investments of any kind
- Derivative securities
- Any other investment which in the future may be prohibited by applicable law

IX. DIVERSIFICATION

The Big Bear Airport District will diversify its investments by security type and institution. Securities purchases and holdings are maintained within statutory limits imposed by the California Government Code. The District further limits its investments as follows (as a percentage of the overall portfolio):

Savings Account	No limit
U.S. Treasury Bills	100% (not more than 30% of the available funds at the time of investment shall be placed in any one particular agency of the U.S. Government, i.e. FNMA - Federal National Mortgage Association, GNMA - Government National Mortgage Association, FFCS - Federal Farm Credit System, FHLMC - Federal Home Loan Mortgage Corporation and FHLB - Federal Home Loan Banks. Furthermore, investments in any one financial institution in combination with any other debt from that institution shall not exceed 20% of the District's surplus funds.)
U.S. Treasury Notes	40% 20%
Federal Agency Securities	No Limit
The Local Agency Investment Fund	No Limit
Certificates of Deposit	50%
Corporate Bonds	(only those Corporate Bonds with a minimum rating of AA or better)

X. MAXIMUM MATURITIES

To the extent possible, the Big Bear Airport District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, and with prior Board of Directors approval, the District will not directly invest in securities maturing more than five (5) years from the date of purchase.

XI. INTERNAL CONTROL

The General Manager shall establish an annual process of independent review by a Board-approved external auditor. This review will provide internal control by assuring compliance with policies and procedures.

XII. 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 contained in this Investment Policy.

The portfolio performance results will be measured on a quarterly basis by the investment manager. Investment performance will be measured against commonly accepted market benchmarks which approximately the specific restrictions on the portfolio in accordance with applicable current legislation by the State of California.

XIII. REPORTING

The General Manager shall render a quarterly investment report to the Board of Directors. The report shall include the type of investment, institution, date of maturity, par value and amount of investment, rate of interest, current market value, source of the market value, and such other data as may be required by the Board. The report shall also include a statement denoting the ability of the District to meet its expenditure requirements for the ensuing six (6) months or an explanation as to why sufficient funds may not be available and a statement that the District's investment portfolio is in compliance with the District's investment Policy or the manner in which it may not be in compliance. (Sec. 53646j)

XIV, INVESTMENT POLICY ADOPTION:

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

BIG BEAR AIRPORT DISTRICT

GLOSSARY OF TERMS

SECTION A - TYPES OF INVESTMENTS

U.S. Treasury Bills - are direct obligations of the United States Government issued weekly with maturity dates up to one year. They are issued and traded on a discount basis with interest computed on a 360-day basis. They are issued in amounts of \$10,000 and up, in multiples of \$5,000. They are a highly liquid security. The District limits its U.S. Treasury Bill investments to no more than 60% of its portfolio.

U.S. Treasury Notes - are direct obligations of the United States Government initially issued with two to ten year maturities. They are actively traded in a large secondary market and are very liquid. The Treasury may issue notes with a minimum of \$1,000; however, the average minimum is \$5,000. The District limits its U.S. Treasury Note investments to no more than 40% of its portfolio.

Federal Agency Securities - are guaranteed directly or indirectly by the United States Government. All agency obligations qualify as legal investments and are acceptable as collateral for public deposits. They usually provide higher yields than regular Treasury issues with all of the same advantages. Examples include:

FICB's (Federal Intermediate Credit Bank Debentures) - are loans to lending institutions used to finance the short-term and intermediate needs of farmers, such as seasonal production. They are usually issued monthly in minimum denominations of \$3,000 with a nine-month maturity. Interest is payable at maturity and is calculated on a 360-day basis.

FICB's (Federal Farm Credit Bank) - are debt instruments used to finance the short and intermediate term needs of farmers and the national agricultural industry. They are issued monthly with three and six month maturities. The FICB issues larger vehicles (one to ten years) on a periodic basis. These issues are highly liquid.

FLB's (Federal Land Bank Bonds) - are long-term mortgage credits provided to farmers by Federal Land Banks. These bonds are issued at irregular times for various maturities ranging from a few months to ten years. The minimum denomination is \$1,000. They carry semi-annual coupons. Interest is calculated on a 360-day basis.

FHLB's (Federal Home Loan Bank Notes and Bonds) - are issued by the Federal Home Loan Bank System to help finance the housing industry. The notes and bonds provide liquidity and home mortgage credit to savings and loan associations, mutual savings banks, cooperative banks, insurance companies and mortgage-lending institutions. They are issued irregularly for various maturities. The minimum denomination is \$5,000. The notes are issued with maturities of less than one year and interest is paid at maturity. The bonds are issued with various maturities and carry semi-annual coupons. Interest is calculated on a 360-day basis.

FNMA'S (Federal National Mortgage Association) - are used to assist the home mortgage market by purchasing mortgages insured by the Federal Housing

Administration and the Farmers Home Administration, as well as those guaranteed by the Veterans Administration. They are issued about four times a

year for maturities ranging from a few months to eight years. They are issued in minimum denominations of \$10,000. They carry semi-annual interest coupons. Interest is computed on a 360-day basis.

Other federal agency issues are Small Business Administration notes (SBA's), Government National Mortgage Association notes (GNMA's), Tennessee Valley Authority notes (TVA's), and Student Loan Association notes (SALLIE-MAE's).

The District limits its Federal Agency securities in total to no more than 20% of its total portfolio.

Certificates of Deposit - are time deposits of a bank or savings and loan. They are purchased in various denominations with maturities ranging from 30 days to several years. The interest is calculated on a 360-day annual basis and is payable monthly.

The District limits its investment in Certificates of Deposit to no more than 10% of its portfolio and each investment must be entirely insured by the Federal Deposit Insurance Corporation (FDIC).

Commercial Paper - are short-term, negotiable, unsecured promissory notes. In order for cities to purchase commercial paper, State law requires maturities to be less than 180 days, the commercial paper to be of the highest quality as provided for by Moody's Investment Service or Standard and Poor's and limited to U.S. corporations. The District limits its investment in Commercial Paper to no more than 10% of its portfolio and may not exceed 10% of a single issuer's outstanding paper.

Banker's Acceptances - are negotiable time drafts drawn to finance the export, import, shipment or storage of goods, and they are termed "accepted" when a bank guarantees to pay the face value at maturity. It is an irrevocable obligation of the accepting bank and a contingent obligation of the drawer. In order for cities to purchase banker's acceptances, State law requires that the banker's acceptance be eligible for purchase by the Federal Reserve System and maturities to be less than 180 days. The District limits its investment in Banker's Acceptances to no more than 10% of its portfolio.

Local Agency Investment Fund (LAIF) - is a special fund in the State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 thereafter, with a maximum balance of \$40,000,000 for any agency. The District is restricted to a maximum of ten (10) transactions per month, LAIF offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share basis determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly. The State retains an amount for reasonable costs of making the investments, not to exceed one-quarter of one percent of the earnings.

SECTION B -- INVESTMENT TERMS

AGENCIES; Federal agency securities and/or Government-sponsored enterprises.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.)
See Offer.

COLLATERAL: Securities, evidence of deposit or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the Big Bear Airport District. It includes statements for the District as a whole and for each individual fund prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

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

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Bid.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT INVESTOR STANDARD: A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

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

SECURITIES & EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on investment, expressed as a percentage.