

| | | |
|--------------|---|------------------------------------|
| | COUNTY OF COLUMBUS STANDARD POLICY/PROCEDURE | |
| SUBJECT: | Investment Policy | Effective Date: September 21, 2009 |
| Department: | Finance Office | Policy No. 2009001 |
| Prepared by: | Bobbie Faircloth, Finance Director | # of Pages: 15 |

The purpose of this investment policy is to provide investment guidance to the statutory Finance Officer in the routine investment of public funds and to ensure public funds are invested within the limitations of the North Carolina General Statutes (NCGS)159-30,

I. Scope

This policy applies only to the investment of short-term operating funds. Longer-term funds available for investment would include the proceeds from certain debt issues which are not covered by this policy.

Pooling of Funds - Except for cash in certain restricted and special funds, the County will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

II. General Objectives

The three primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

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 objective will be to mitigate credit risk and interest rate risk.
 - a. *Credit Risk* is the risk of loss due to the failure of the security issuer or backer. The County will minimize this risk by:

- Limiting investments to the safest types of securities as directed by N.C.G.S. 159-30,
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the County will do business, and
 - Reasonably diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- b. *Interest Rate Risk* is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The County will minimize this risk by:
- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations. This is to avoid the need to sell securities on the open market prior to maturity. And
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.
2. **Liquidity** - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio may also be placed in money market mutual funds of local government investment pools that will offer same-day liquidity for short-term funds.
3. **Yield** - 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 liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The cores of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:
- A security with declining credit may be sold early to minimize loss of principal,
 - A security swap would improve the equality, yield, or target duration in the portfolio, or
 - Liquidity needs of the portfolio require that the security be sold.

III Standards of Care

1. Prudence

- a. The standard of prudence to be used by investment officials shall be the "prudent person rule" standard and shall be applied in the context of managing an overall portfolio.
- b. Prudent Person Rule- Investments shall be made with judgment and care, under 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.
- c. Investment officials, acting in accordance with NCGS 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 from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. Ethics and Conflicts of Interest

- a. Investment officials and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.
- b. Investment Officials and employees, involved in the investment process, shall disclose any material interest in financial institutions with which they conduct business.
- c. Investment Officials and employees involved in the investment process shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

3. Delegation of Authority

- a. Authority to manage the investment program is outlined in NCGS §159-30 and granted to the Financial Services Director (i.e. the statutory Finance Officer), hereinafter referred to as Investment Officer.

- b. Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy.
- c. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements.
- d. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer.
- e. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

IV. **Safekeeping and Custody**

1. Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide investment services. In addition, a separate list will also be maintained of approved security brokers/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements,
- Proof of National Association of Securities Dealers (NASD) certification,
- Proof of state registration,
- Completed broker/dealer questionnaire (Exhibit A), and
- Certification of having read and understood and agreeing to comply with this investment policy.

An annual review of the financial condition and registration of qualified financial institution and broker/dealers will be conducted by the Investment Officer.

From time to time, the Investment Officer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to the criteria described above may be granted. All terms and

relationships will be fully disclosed prior to any purchase and will be reported to the County Board of Commissioners on a consistent basis and will be consistent with state laws. These types of investments purchases will be approved by the County Board of Commissioners in advance.

2. Internal Controls

- a. The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse.
- b. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.
- c. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Investment Officer shall establish a process for an annual review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion,
- Custodial safekeeping,
- Clear delegation of authority to subordinate staff members,
- Written confirmation of transactions for investments and wire transfers, and
- Development of a wire transfer agreement with the lead bank and third-party custodian.

3. Delivery vs. Payment

All trades where applicable, will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

V. **Suitable and Authorized Investments**

1. Investment Types

Per North Carolina General Statutes (NCGS) §159-30, the County is authorized to invest in the following classes of security:

- a. Moneys may be deposited at interest in any bank, savings and loan association, or trust company in the State in the form of certificates of deposit or such forms of time deposit. (**Certificates of Deposit**)
- b. Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States (**Treasury Bills, Notes, and Bonds**).
- c. Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, the United States Postal Service (**Agencies**).
- d. Obligations of the State of North Carolina (**NC State Bonds**).
- e. Bonds and notes of any North Carolina local government or public authority, subject to such restrictions as the secretary may impose (**NC Municipal Bonds**).
- f. Savings certificates issued by any savings and loan association organized under the laws of the State of North Carolina or by any federal savings and loan association having its principal office in North Carolina; provided that any principal amount of such certificate in excess of the amount insured by the federal government or any agency thereof, or by a mutual deposit guaranty association authorized by the Administrator of the Savings and Loan Division of the Department of Commerce of the State of North Carolina, be fully collateralized (**Certificates of Deposit**).
- g. Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation (**Commercial Paper**).
- h. Bills of exchange or time drafts drawn on and accepted by a commercial bank and eligible for use as collateral by member banks in borrowing from a federal reserve bank, provided that the accepting bank or its holding company is either (1) incorporated in the State of North Carolina or (2) has outstanding publicly held obligations bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations (**Bankers Acceptances**).

- i. Participating shares in a mutual fund for local government investment; provided that the investments of the fund are limited to those qualifying for investment under this sub section and that said fund is certified by the Local Government Commission. The Local Government Commission shall have the authority to issue rules and regulations concerning the establishment and qualifications of any mutual fund for local government investment (***North Carolina Capital Management Trust Fund – NCCMT***).
- j. Evidences of ownership of, or fractional undivided interest in, future interest and principal payments on either direct obligations of the United States government or obligations the principal of and the interest on which are guaranteed by the United States, which obligations are held by a bank or trust company organized and existing under the laws of the United States or any state in the capacity of custodian (***Treasury Strips***).

The County will not invest in derivatives of the above instruments.

VI. **Investment Parameters**

1. Diversification

The investments shall be diversified by:

- Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- Limiting investment in securities that have higher credit risks,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as the North Carolina Cash Management Trust Fund (NCCMT), which is a money market mutual fund, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

2. Maximum Maturities

To the extent possible, the County shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the County will not directly invest in securities maturing more than five (5) years from the date of purchase. The County shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use

of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the Columbus County Board of Commissioners.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in the NCCMT or similar money market fund to ensure that appropriate liquidity is maintained to meet ongoing obligations.

VII. **Reporting**

1. Methods

The Investment Officer shall prepare an investment report at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the County to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report should be provided to the County Manager and the County Commissioners. The report will include the following:

- a. Listing of individual securities held at the end of the reporting period,
- b. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements),
- c. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks,
- d. Listing of investment by maturity date, and
- e. Percentage of the total portfolio that each type of investment represents.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

3. Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools."

VIII. Policy Considerations

1. Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the Investment Officer, the County Manager, and the County Commissioners, as well as the individual(s) charged with maintaining internal controls.

Approved by:

James Prevatte
Columbus County Board of Commissioners
Chairman James Prevatte

September 21, 2009
Date

Exhibit A
Broker/Dealer Request for Information

Section I: Statement of Position and General Requirements.

The County of Columbus (hereinafter referred to as the "County") is a local government operating under the laws of the State of North Carolina. The County manages an operational portfolio ranging in size from \$15 million to \$25 million, which is comprised mainly of money market instruments. The County has adopted a written Investment Policy that regulates the standards and procedures used in its cash management activities. A copy of the Investment Policy is attached as an Appendix to this document.

The County maintains relationships with qualified members of the broker/dealer community who, in its opinion, understand the needs, constraints, and goals of the County.

Broker/dealers will be notified of their approval by the County in writing. No transactions will be conducted with an approved broker/dealer until all paperwork required by both parties has been executed. The County solicits competitive bids and offers on the majority of its transactions. All securities will be delivered against payment to the third-party custodian named by the County. County Investment Officer will review and substantiate all information and references requested in the document; therefore, please answer all questions as thoroughly as possible.

Section II – Part I: Request for General Information from Broker/Dealer Candidate

1. Name of firm _____

2. Address – Local
Headquarters _____

(Provide both street address and/or P. O. Box No., if applicable)

3. Telephone No. Local () _____

(800) _____

Headquarters () _____

Contact Personnel: (provide as an attachment if more space is required)

Name _____

CRD# _____

Title _____

Telephone No. _____

Name _____

CRD# _____

Title _____

Telephone No. _____

Name _____

CRD# _____

Title _____

Telephone No. _____

Provide background information concerning the account representatives listed in No. 4 above. Please include information on the individual's employment history as it relates to the securities industry, official licenses and certificates, the history and details of any disciplinary actions or complaints and the disposition of each as well as the history of any arbitration or litigation, the nature of the case and status or disposition.

5. Please provide the following information regarding at least four comparable clients with whom any of the representatives listed in No. 4 has an established relationship. We would prefer public sector clients in our geographical areas, if possible.

Client Name _____

Address _____

Person to Contact _____

Telephone No. _____

Length of Relationship _____

Client Name _____

Address _____

Person to Contact _____

Telephone No. _____

Length of Relationship _____

Client Name _____

Address _____

Person to Contact _____

Telephone No. _____

Length of Relationship _____

Client Name _____

Address _____

Person to Contact _____

Telephone No. _____

Length of Relationship _____

6. Has/have the representative(s) listed in No. 4 above been authorized by the firm to be account representative(s) for the County of Columbus?

Yes _____ No _____

If yes, by whom? _____

7. Please list the name of the immediate supervisor of the account representative(s) named in your response to No. 4 above.

Briefly describe any formal program of supervision of the account representative(s) named in No. 4, if your firm has established such a program.

8. Is your firm a member of NASD? Yes _____ No _____

If not, why? _____

9. Place an "X" by each regulatory agency that your firm is examined by and/or subject to its rules and regulations.

FDIC _____ SEC _____ NYSE _____

Comptroller of Currency _____ Federal Reserve System _____

Other (example: State Regulatory Agency). Multi-state firms please note: It is not necessary to include regulatory agencies that do not have jurisdiction over your firm's activities in the County of Columbus.

10. Have you obtained all required licenses to operate as a broker/dealer in the state of North Carolina?

Yes _____ No _____

11. If you are not a Bank, please provide the following information regarding your principal banking relationship.

Bank Name _____

Address _____

Person to Contact _____

Telephone Number _____

Length of Relationship _____

12. Place an "X" in the block next to each of the instruments set forth below in which you make an active market (both buy and sell).

T-Bills _____ T Notes/Bonds _____

BA _____ Commercial Paper _____

Bank CDs _____ S & L CDs _____

GNMAs _____ FHLMCs _____

Other Federal Agencies (Please Specify) _____

Instrumentalities (Please Specify) _____

13. Does your firm specialize in any of the instruments listed above? If so, please specify which ones.

Section II – Part II: Request for Broker/Dealer Candidate Disclosure

14. To the best of your knowledge, has there been any "material" litigation, arbitration or regulatory proceedings, either pending, adjudicated or settled, that your firm has been subject to within the last five years that involved issues concerning the suitability of the sale or purchase of securities to institutional clients or fraudulent or unfair practices related to the sale of securities to an institutional client? If so, please describe each such matter briefly. For purposes of this section, proceedings are "material" if your independent accountant applying generally accepted accounting principles determines that such proceedings required disclosure on your financial statements.
15. Please provide certified audited financial statements for the last three years. In addition, for those dealers preparing and submitting financial statements to the

following organizations, please provide publicly available financial documents filed with these agencies for the previous two years:

National Association of Securities Dealers
Securities and Exchange Commission
New York Stock Exchange
Federal Deposit Insurance Corp.

16. Will the representative(s) assigned to the County account be required to read the County Investment Policy?

Yes _____ No _____

Section III: Certification

I hereby certify that the above is true and correct to the best of my knowledge and that I am authorized to execute this request for information on behalf of _____

Name of Firm _____

BY _____

*Title _____

DATE: _____

*Note the foregoing form must be signed by a registered principal of your firm.

.