RANDOLPH COUNTY, NORTH CAROLINA
INVESTMENT POLICY

LEGALITY

The investment program shall be operated in conformance with federal, state, and other legal requirements, including North Carolina General Statute 159-30.

SCOPE

This policy applies to all transactions involving the financial assets and related activity of all the various funds accounted for in the County's Comprehensive Annual Financial Report, except authorized petty cash accounts and certain restricted funds. The County will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

OBJECTIVES

The 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.

   Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

   - Limiting investments to the safest types of securities;
   - Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which an entity will do business; and
   - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

   Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

   - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
   - By investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

2. **Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably 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 certificates of deposit, money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds. Alternatively, a portion of the portfolio may be placed in securities with active secondary or resale markets (dynamic liquidity).

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 lesser importance compared to the safety and liquidity objectives described above. The core of investments is 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 could be sold early to minimize loss of principal;
- Liquidity needs of the portfolio require that the security be sold.

STANDARDS OF CARE

1. **Prudence**

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with established 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 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.

The "prudent person" standard states that, "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."

2. **Ethics and Conflicts of Interest**

Officers 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

3. **Delegation of Authority**

Authority to manage the investment program is granted to the Finance Officer by North Carolina General Statute 159-30(a). Responsibility for the operation of the investment program may be delegated by the Finance Officer to another County employee who shall carry out established procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Officer. The Finance Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKERS

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by creditworthiness (minimum capital requirement $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 Rule 15C3-1 (uniform net capital rule).

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

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Certification of having read and understood and agreeing to comply with the County's investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Finance Officer.

SAFEKEEPING AND CUSTODY

1. **Delivery vs. Payment**

   All trades of marketable securities 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.

2. **Safekeeping**

   Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. **Internal Controls**

   The Finance Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. 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 judgements by management.

SUITABLE AND AUTHORIZED INVESTMENTS

1. **Investment Types**

   The Finance Officer shall have the right and power to purchase, sell and exchange securities approved as eligible securities for investment on behalf of this unit's governing board subject to the approval of the County Manager or, in his/her absence, the designee.

   Only the following investments will be permitted by this policy although others are authorized by North Carolina General Statute 159-30(c):

   a. Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.

   b. 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, Fannie Mae, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, the United States Postal Service.

   c. Obligations of the State of North Carolina.

d. Bonds and notes of any North Carolina local government or public authority, subject to such restrictions as the Secretary of the Local Government Commission may impose.

e. Deposits at interest or savings certificates of deposit with any bank, savings and loan association or trust company in North Carolina, provided such deposits or certificates of deposit are fully collateralized.

f. Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest (A1, P1, F1) by any nationally recognized rating service which rates the particular obligation.

g. Participating shares in a mutual fund for local government investment (such as the N.C. Capital Management Trust) which is certified by the N.C. Local Government Commission.

h. Evidences of ownership of, or fractional undivided interests 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.

i. Repurchase agreements with respect to either direct obligations of the United States or obligations the principal of and the interest on which are guaranteed by the United States if entered into with a broker or dealer, as defined by the Securities Exchange Act of 1934, which is a dealer recognized as a primary dealer by a Federal Reserve Bank:, or any commercial bank, trust company or national banking association, the deposits of which are insured by the Federal Deposit Insurance Corporation or any successor thereof, under conditions specified by G.S.159-(c)(12).

Funds of this unit may be deposited at interest or invested in the following manner:

- Investment of idle monies may be invested in categories (a) through (g) authorized above; however, it will be the policy of Randolph County to maintain pooled funds primarily in deposits at interest or savings certificates of deposit (category e above) and mutual funds for local government investment (category g above).
- Investment of debt proceeds may be invested in any securities/investments authorized above (categories a through i) with the approval of the County Manager.

2. **Collateralization**

In accordance with North Carolina General Statute 159-31(b) and the GFOA Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required on deposits at interest and savings certificates of deposit. The County shall use only banking institutions approved by the North Carolina Local Government Commission.

3. **Repurchase Agreements**

Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements.

INVESTMENT PARAMETERS

1. **Diversification**

The investments will be diversified by security type and institution by:

- continuously investing a majority of the portfolio in readily available funds such as certificates of deposit or money market accounts to ensure that appropriate liquidity is maintained in order to meet ongoing obligations,
- investing in securities with varying maturities,
- limiting investments in securities to avoid overconcentration from a specific issuer or business sector (excluding U.S. Treasury securities), and
- limiting investment in securities that have higher credit risks.

2. **Maximum Maturities**

The County's general intent is to make investments and hold until maturity. However, early liquidation may be necessary if cash flow demand warrants an earlier date of sale.

The County shall limit the maximum final stated maturities of investments to three years unless specific authority is given to exceed. To the extent possible, the County will 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 two (2) years from the date of purchase. The Finance Officer shall determine what the appropriate average weighted maturity of the portfolio shall be.

REPORTING

The Finance Officer will provide a quarterly report for management. The report shall include a general description of the portfolio in terms of investment securities, maturities, yields and other features.

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow needs. The benchmark for the performance of the portfolio will be the average Federal Funds rate.

POLICY

The County's investment policy shall be adopted by resolution of the Board of County Commissioners.   The County Manager and the Finance Officer shall review the policy on an annual basis and any modifications made thereto must be approved by the Commissioners.

ADOPTED JUNE 6, 2005