**Sample Cash Management & Investment Policy (Large County)**

# Governing Authority

Legality

The cash management and investment programs of the County shall be operated in conformance with federal, North Carolina, and other legal requirements, including provisions of the North Carolina General Statutes (hereafter “G.S.”), specifically The Local Government Budget and Fiscal Control Act (the “LGBFCA”), primarily

G.S. 159-30 – Investment of idle funds; G.S. 159-31 – Selection of depository, deposits to be secured; and G.S. 159-32 – Daily deposits; and the related statutes, the County’s Policies and Procedures Manual, Investment Policies, Banking Policies, and written administrative procedures.

# Scope

This Cash Management and Investment Policy (hereafter the “Policy”) applies to all financial assets and investment transactions of the County except authorized petty cash accounts and trust funds administered by the Social Services Director. The County pools the cash resources of its various funds into a single pool in order to maximize investment opportunities. These funds are accounted for in the County’s Annual Comprehensive Financial Report. Each fund’s portion of total cash and investments is summarized by fund type in the combined balance sheet as equity or deficit in pooled cash and investments.

# General Objectives

The primary objectives, in priority order, of investment activities shall be preservation of capital, maintenance of liquidity to meet the County’s operating needs, and attaining a fair market rate of return.

* 1. Preservation of Capital

Preservation of Capital 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.

* + 1. *Credit Risk*

The County will minimize credit risk, which is the risk of loss due to the failure of the investment issuer or backer, by:

* + - * Limiting investments and parameters to the types listed in Sections VI and VII of this Policy,
      * Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
    1. *Interest Rate Risk*

The County will minimize interest rate risk, which is the risk that the market value of investments in the portfolio will fall due to changes in market interest rates, by:

* + - * Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell or redeem investments prior to maturity, and
      * Investing based 0n estimated cash flow requirements and limiting the average maturity of the portfolio in accordance with this Policy (see section VII).
  1. Liquidity

The Investment Officer shall prepare and monitor forecasts of anticipated cash receipts and disbursements to permit the identification of the liquidity needs of the County. The investment portfolio shall remain sufficiently liquid to meet all cash flow requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands (static liquidity) and by maintaining an allocation to cash equivalent options that is sufficient to provide same day liquidity in the event of unexpected cash requirements. Furthermore, since all possible cash demands cannot be anticipated, selected securities shall have active secondary or resale markets (dynamic liquidity).

* 1. Rate of Return

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, in consideration of the investment risk constraints and liquidity needs. Return on investment is a subordinate objective to the preservation and liquidity objectives described above. The core investments are limited to relatively low risk investments in anticipation of earning a fair return relative to the risk being assumed. The cash management activities shall support the investment activities by maximizing the funds available for investment through assuring that amounts due to the County are promptly collected, properly accounting for funds received, timely depositing of daily funds in an official depository, and controlling disbursements.

# Standards of Care

* 1. Ethics and Conflicts of Interest

Investment 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. Investment Officers and employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial and investment positions that could be related to the performance of the investment portfolio. Investment Officers and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County. Investment Officers shall be familiar with N.C. General Statutes and County policy regarding gifts and favors and shall act accordingly.

* 1. Delegation of Authority

Authority to manage cash and the investment program is granted to the Finance Director and derived from G.S. 159-30. The Finance Director shall delegate this duty to the Investment Officers, or other designee, but such delegation shall not relieve the Finance Director of responsibility for all transactions undertaken. The Investment Officers shall act in accordance with established written procedures and internal controls for the management of cash and the operation of the investment program consistent with this Policy.

* 1. Standard of Prudence

The standard of prudence to be used by the Investment Officers shall be the “Prudent Person” rule, which states, “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.” This standard of prudence shall be applied in the context of managing the overall portfolio. An Investment Officer, acting in accordance with North Carolina General Statutes, this Policy, and written administrative procedures, and exercising due diligence, shall be relieved of personal responsibility for an investment credit risk, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

# Delivery Versus Payment, Broker/Dealers, Safekeeping, and Internal Controls

* 1. Delivery Versus Payment

All trades of marketable securities will be executed by delivery versus payment (“DVP”) to ensure that securities are deposited in an eligible financial institution acceptable to the County prior to the release of funds.

* 1. Authorized Broker/Dealers

The Investment Officer shall approve security broker/dealers to be utilized for investment transactions. All broker/dealers who wish to be approved for investment transactions shall initially, and on a periodic basis upon request, provide to the Investment Officers documentation pertinent to the firm’s financial condition, ownership status, registration with applicable government agencies, and any other documentation deemed necessary.

* 1. Safekeeping

The County’s marketable securities will be held by an independent third-party safekeeping selected by the County as evidenced by safekeeping receipts in the name of and for the benefit of the County. The safekeeping agent shall be a financial institution with an account with a Federal Reserve Bank and other pertinent clearing organizations. A reconciliation of safekeeping holdings to internal investment records shall be performed monthly.

* 1. Internal Controls

The Finance Director 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 as a result of fraud, employee error, misrepresentation by third parties or imprudent actions by county employees. Details of the internal controls system shall be documented in a cash management procedures manual and in an investment procedures manual and shall be reviewed and updated annually. 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 evaluation of costs and benefits requires estimates and judgments by management.

# Suitable and Authorized Investments

* 1. Investment Types

The legal limitations of local government investments are defined in N.C.G.S. 159-30. Accordingly, only the following investments are permitted by this policy:

* + 1. *Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.*
    2. *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 and the U.S. Postal Service.*
    3. *Obligations of the State of North Carolina.*
    4. *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.*
    5. *Deposits at interest or purchase of certificates of deposit with any bank, savings and loan association or trust company in North Carolina, secured in accordance with G.S 159-31(b).*
    6. *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.*
    7. *Bankers’ Acceptances 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 least one nationally recognized rating service and not bearing a rating below the highest (Aaa or AAA) by any nationally recognized rating service which rates the particular obligations.*

* + 1. *Participating shares in a mutual fund or local government investment pool (such as the NC Cash Management Trust) which is certified by the NC Local Government Commission.*
  1. Collateralization

As required by G.S. 159-31(b) - Selection of depository; deposits to be secured, full collateralization will be required on all funds on deposit or deposited at interest. An Investment Officer is to notify the depository at the time a new deposit account is opened, or a certificate of deposit is purchased that the account is a public deposit account subject to the collateralization requirements.

* 1. Repurchase Agreements

Repurchase agreements shall be consistent with G.S. 159-30(c)(12). Underlying collateral must be placed in safekeeping in a third-party designated by the County.

# Investment Parameters

In addition to the limitations imposed by N.C.G.S. 159-30, the County’s investment activities are further restricted in the following manner:

* 1. Diversification

To reduce interest rate risk and credit risk, it is the policy of the County to diversify its investment portfolio. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all County funds shall be diversified by maturity, issuer, and class of investment. Diversification strategies shall be determined and revised periodically by the Investment Officer

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for cash flow-based liquidity and stability of income. The combined total investment in commercial paper and bankers’ acceptances shall not exceed twenty-five percent (25%) of the total portfolio and the investment in commercial paper or bankers’ acceptances of a single issuer shall not exceed the lesser of ten million dollars ($10,000,000) or five percent (5%) of the total portfolio at the time of investment.

* 1. Maximum Maturities

To the extent possible, the County shall attempt to match its investments with anticipated cash flow requirements. However, no investment shall be made in any security with a final maturity greater than five (5) years from the date of purchase, without the written approval of the Finance Director.

* 1. Selection of Securities

The Investment Officers will determine which instruments shall be purchased and sold and the desired maturity date(s) that are in the best interest of the County. The selection of an investment will involve the evaluation of, but not be limited to, the following factors:

* + 1. Cash flow projections and requirements,
    2. Current market conditions,
    3. Overall portfolio allocation, and
    4. Specific attributes and attractiveness of the investment’s risk/return profile.

# Reporting

* 1. Internally Required Reports

The Investment Officers shall submit a monthly investment report to the Finance Director, including a general description of the portfolio’s investments, maturities, yields, and other features. The report will show the following:

* Accrued Investment earnings for the month and fiscal year-to-date,
* Comparison of actual investment earnings with budgeted earnings,
* Average weighted yield to maturity of the portfolio as compared to applicable benchmarks,
* Book Value and Market Value of individual investments and the overall portfolio,
* Asset allocation percentages of the investment types held in the portfolio

This management report will be prepared in a manner which will allow the County to ascertain whether investment activities during the reporting period have conformed to this Policy.

* 1. Statutorily Required Reports

The Investment Officers shall assist in the preparation of the following reports:

* A “Notification of Public Deposit” on form INV-91 with each depository and provide a copy to the State Treasurer as of June 30 of each year;
* The semi-annual reports on form LGC 203 required to be filed with the Local Government Commission pursuant to G.S. 159-33 – Semiannual report on status of deposits and investments;
* Such other report as may, from time to time, be required.
  1. Performance Standards

The County’s investment portfolio shall be designed with the objective of regularly meeting or exceeding performance benchmarks reflective of the portfolio’s risk/return characteristics. The investment program shall seek returns, consistent with risk limitations identified herein and prudent investment principles.

# Policy Considerations

* 1. Exemption

Any investment not in compliance with G.S. 159-30 shall be sold in accordance with the provisions of G.S. 159-33.

Any investment currently held that does not meet the guidelines of this amended Policy shall be exempted from the requirements of this Policy. At maturity or liquidation, such monies shall be reinvested only as provided by this Policy.

* 1. Regular Review

This Policy shall be reviewed periodically. Any changes must be approved by the Finance Director and any other appropriate authority, as well as the individuals charged with maintaining internal controls.