**Sample Investment Policy (Small Local Government Unit)**

**I. Purpose**

The purpose of this Investment Policy is to establish guidelines for the management of all investment activities conducted by [Local Government Name], ensuring compliance with North Carolina General Statute §159-30 and other applicable laws and regulations. The policy's primary goals are to ensure the safety of public funds, maintain sufficient liquidity to meet obligations, and maximize investment returns within the confines of risk management and legal restrictions.

**II. Scope and Authority**

This policy applies to all investment activities of [Local Government Name], including investment purchases, sales, custodianship, and the allocation of investment income. As required by G.S. 159-30, the Finance Officer is responsible for managing and overseeing all investments made by the local government, subject to the guidelines set forth in this policy and under the oversight of the governing board.

**III. Objectives**

The primary objectives of the investment program are as follows, in order of priority:

1. **Safety of Principal**: Ensure the protection of the principal amount of all investments from loss due to market fluctuations or default.
2. **Liquidity**: Maintain adequate liquidity to ensure that funds are available to meet the local government's financial obligations as they come due.
3. **Yield**: Seek to achieve a return on investments that is reasonable within the constraints of safety and liquidity.

**IV. Statutory Authority and Management**

1. **Finance Officer’s Responsibility**:
   * As required by G.S. 159-25 and G.S. 159-30, the Finance Officer shall manage the local government’s investments, which includes the authority to purchase, sell, and exchange securities.
   * The Finance Officer shall ensure that investments are made in accordance with this policy, applicable statutory requirements, and the goals set by the governing board. If any funds are found to be improperly deposited or invested in ineligible securities, the Finance Officer shall take corrective action within the time frame set forth in G.S. 159-33.
   * The Finance Officer will periodically report to the Local Government Commission and the governing board on the performance and status of the investment portfolio, including the types of securities held, maturities, yields, and compliance with the policy.
2. **Governing Board’s Role**:
   * The governing board shall review and approve this Investment Policy annually or as needed, providing guidance on investment strategies and objectives.
   * The governing board shall receive at least semiannual reports from the Finance Officer on the performance of the investment program and its compliance with this policy.

**V. Authorized Investments**

In compliance with G.S. 159-30(c), the following types of securities are authorized for investment: [NOTE THAT THESE ARE NOT ALL THE AUTHORIZED INVESTMENTS IN GS 159-30. A LOCAL GOVERNMENT SHOULD DETERMINE WHICH INVESTMENTS IT WILL ALLOW AND ENSURE THE POLICY REFLECTS THOSE INVESTMENT OPTIONS.]

1. **U.S. Government Obligations**: Treasury bills, notes, and bonds, or other obligations fully guaranteed by the U.S. government as to principal and interest.
2. **North Carolina State and Local Government Bonds**: Bonds and notes of the State of North Carolina, or any local government or public authority in the state.
3. **Federal Agency Instruments**: Obligations of U.S. government-sponsored enterprises (e.g., Fannie Mae, Freddie Mac, Federal Home Loan Banks, etc.).
4. **Commercial Paper**: Prime quality commercial paper rated in the highest category by at least one nationally recognized rating agency.
5. **Repurchase Agreements**: Repurchase agreements involving U.S. government securities or securities fully guaranteed by the U.S. government.
6. **Mutual Funds and Investment Pools**: Participating shares in mutual funds or investment pools that meet the investment criteria outlined in G.S. 159-30 and are certified by the North Carolina Local Government Commission.
7. **Certificates of Deposit**: Time deposits or certificates of deposit in banks or savings and loan institutions, with appropriate collateralization.

**VI. Custody of Securities**

1. **Requirement for Custody**:
   * In accordance with G.S. 159-30(d), all investment securities must be in the custody of the Finance Officer, who is responsible for their safekeeping. The Finance Officer will ensure that all securities are properly safeguarded and that appropriate custody arrangements are in place, including the use of custodial agents when applicable.
2. **Certificated Securities**:
   * Certificated securities are those represented by physical certificates (e.g., bonds or certain savings instruments).
   * These securities must be physically held in a secure location, such as the local government’s vault or safe deposit box at a reputable bank or trust company, or in the custody of a designated custodial agent.
   * The Finance Officer is responsible for maintaining proper records of all certificated securities and ensuring their safe storage and retrieval.
3. **Non-Certificated Securities**:
   * **Non-certificated securities** (such as U.S. Treasury bills, Federal agency instruments, and commercial paper) are typically held electronically, with ownership evidenced by book-entry records maintained by banks, the Federal Reserve, or other financial institutions.
   * To properly safeguard non-certificated securities, the Finance Officer must establish a signed custodial agreement with a qualified financial institution or third-party custodian.
   * The custodian shall hold the securities in the name of the local government and ensure that they are segregated from the custodian’s own proprietary securities.
   * Custody of these securities will be managed through electronic records with the custodian, ensuring the local government’s ownership interest is protected.
4. **Repurchase Agreements**:
   * While repurchase agreements do not require third-party custody for the underlying securities, the Finance Officer must ensure that all repurchase agreements are properly documented, and the securities involved are safeguarded in accordance with the terms of the agreement.
5. **Protecting Ownership Interests**:
   * The Finance Officer is responsible for ensuring that all securities are in the custody of either the local government or an approved custodial agent.

**VII. Investment Income and Allocation of Gains and Losses**

In compliance with G.S. 159-30(e), the Finance Officer shall allocate investment income, including both gains and losses, to the appropriate funds on a proportional basis.

1. **Allocation of Investment Income**:
   * Investment income (including interest, dividends, and realized capital gains) earned on the pooled funds shall be allocated back to the specific funds that contributed to the pool of invested cash. The allocation shall be based on each fund’s proportional share of the total pooled balance during the reporting period.
2. **Calculation Method**:
   * The proportional allocation shall be determined based on an average daily balance or another reasonable and equitable method, consistent with accounting principles and sound financial practices. The Finance Officerwill ensure that the calculation of earned income is done fairly and accurately, using appropriate financial tools and systems.
3. **Realized Gains and Losses**:
   * Any realized gains or losses from the sale or maturity of investments will be distributed proportionally to the respective funds based on their share of the investments at the time of the transaction.
4. **Reporting**:
   * The Finance Officer shall report the investment income, including gains and losses, on a periodic basis to the governing board. This report will include a breakdown of the income earned and its allocation to the various funds, ensuring transparency and accountability.

**VIII. Investment Parameters**

1. **Maturity Limits**:
   * Investments should generally have short-term maturities (less than one year) to maintain adequate liquidity and minimize market risk. Exceptions may be made for investments with longer maturities if they align with the local government’s long-term cash flow needs and goals.
2. **Credit Quality**:
   * Investments must meet minimum credit quality standards, ensuring that the securities are of high creditworthiness. This includes commercial paper, repurchase agreements, and other securities, which must meet the highest credit rating requirements as stipulated in G.S. 159-30(c).
3. **Diversification and Risk Management**:
   * The investment portfolio shall be diversified to minimize the risk of significant losses due to market fluctuations or the default of any one issuer.
   * Derivatives or complex securities shall not be used, unless specifically authorized by the governing board and fully understood by the Finance Officer.

**IX. Procedures for Purchasing and Selling Investments**

1. **Selection of Investments**:
   * The Finance Officer will select investments based on the local government’s liquidity needs, market conditions, and investment objectives. Only authorized securities, as outlined in this policy, will be purchased.
2. **Investment Transactions**:
   * Investment transactions shall be executed through reputable and reliable financial institutions or brokers. A record of each transaction shall be maintained, including the purchase, sale, or exchange of securities, and supporting documentation shall be kept for audit purposes.
3. **Custodial Agreement**:
   * Before purchasing non-certificated securities, the Finance Officer will ensure that a signed custodial agreement is in place with the financial institution or custodian that will hold the securities on behalf of the local government.

**X. Reporting and Oversight**

**Semiannual Reporting to Local Government Commission**

In compliance with G.S. 159-33, the Finance Officer shall submit a semiannual report to the Secretary of the Local Government Commission as follows:

1. **Reporting Dates**:
   * The Finance Officer shall submit the required report on January 1 and July 1 of each year (or as otherwise prescribed by the Local Government Commission), providing the necessary details on deposits and investments.
2. **Report Contents**:
   * The report shall include the following information:
     + The total amounts of funds under the Finance Officer’s custody.
     + The amounts of deposits of such funds held in depositories.
     + A list of all investment securities and time deposits held by the local government.
3. **Submission of the LGC-203 Report**:
   * In order to comply with the reporting requirements of G.S. 159-33, the Finance Officer shall submit the “Semi-Annual Report on Deposits and Investments” (the LGC-203 Report) through the LGC-203 module within the LOGOS system, which is maintained by the Department of State Treasurer’s State and Local Government Finance Division.

**Regular Reporting to Governing Board**

The Finance Officer shall report to the governing board at least semiannually on the status of the investment portfolio, including the types of securities held, their maturity dates, their yields, and compliance with the Investment Policy.

**XI. Amendments**

This policy shall be reviewed and amended periodically, as needed, to ensure compliance with changes in law or to address new risks and opportunities in the investment landscape. Any amendments to this policy must be approved by the governing board.