



## FINANCE DEPARTMENT

### INVESTMENT POLICY

Approved: May 5, 2014

#### **POLICY:**

This investment policy applies to all financial assets of Lincoln County. The County combines the cash resources of its various funds into a single pool in order to maximize investment earnings. Each fund's portion of total cash and investments is shown by fund type in the combined balance sheet of the County's Comprehensive Annual Financial Report. 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.

#### **PURPOSE:**

Funds of the County will be invested in accordance with North Carolina General Statute 150-30, the County's Investment Policy, and written administrative procedures. The County's investments shall be undertaken in a manner that (1) seeks to ensure the preservation of capital in the overall portfolio (safety), (2) provides for sufficient liquidity to meet the cash needs of the County's various operations (liquidity), and (3) attains a fair market rate of return (yield). Cash management functions will be conducted in such a manner as to ensure that adequate funds will always be available to meet the County's financial obligations and to provide the maximum amount of funds available for investment at all times.

#### **RESPONSIBILITY:**

In accordance with North Carolina General Statutes, the Finance Director is designated as the Investment Officer and is responsible for the County's financial assets. The Finance Director is also responsible for investment decisions and activities and shall develop and maintain written administrative procedures for the operation of the cash management and investment program, consistent with North Carolina General Statutes. In order to promote the efficiency of investment duties and related activities, the Finance Director may, at his option, designate one or more members of his staff to perform the functions of cash management and investing. Such delegation shall not relieve the Finance Director of responsibility for all transactions and executions performed by the designated individuals.

The standard of prudence to be used by the Investment Officer shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. It states that investment officers acting in accordance with North Carolina General Statutes, this policy, written administrative procedures, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price change, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. 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 probably safety of their capital as well as the probable income to be derived.

### **ETHICS AND CONFLICTS OF INTEREST:**

The Finance Director, designated Investment Officer and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions. Investment officials and employees shall disclose to the County Manager any material interests in financial institutions that conduct business with Lincoln County, and they shall further disclose any personal financial/investment positions that could be related to the performance of the County's portfolio. The disclosure need not include normal banking or brokerage relationships that are at normal market rates and conditions available to the general public.

### **STATUTORY AUTHORIZATION:**

The legal limitations of local government investments are defined in NCGS 159-30. Accordingly, the following classes of securities are indicative of the investments utilized by Lincoln County:

- 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, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration and the US Postal Service.
- C. Obligations of the State of North Carolina.
- D. Deposits at interest or purchase of 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.
- E. 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.
- F. Participating shares in a mutual fund for local government investment (such as the NC Capital Management Trust), which is certified by the North Carolina Local Government Commission.

### **ADMINISTRATIVE RESTRICTIONS:**

In addition to the previously noted limitations on appropriate securities, Lincoln County's investment activities are further restricted in the following manner:

- A. It is the policy of Lincoln County to diversify its investment portfolio. Assets held shall be diversified to eliminate the risk of loss resulting from the over concentration of assets in a specific issuer or specific class of securities. Diversification strategies shall be determined and revised periodically by the Finance Director. Portfolio maturities shall be staggered to avoid

undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

- 1) Lincoln County will invest its short-term investments (less than one year) based on cash flow analysis.
  - 2) Lincoln County will invest minimal levels in money market funds of local government investment pools unless these instruments have higher yields.
  - 3) Short-term investments will be aggressively managed to maximize yield.
  - 4) Reserve funds and other funds with longer-term investment horizons (greater than one year) will be invested in higher yield, longer maturing investments to maximize the investment opportunity available.
- B. Lincoln County recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to minimize default risk. No individual investment transaction shall be undertaken that jeopardizes the capital position of the overall portfolio. In the event of a default by a specific issuer, the Finance Director shall review and, if appropriate, proceed to liquidate securities having comparable credit risks.

### **SELECTION OF SECURITIES:**

The Finance Director, or his designee, will determine which instruments shall be purchased and sold, and the desired maturity date(s) that are in the best interest of the County. All brokers and dealers transacting business with the County must be licensed to do business within North Carolina. They must also have extensive knowledge of NC General Statutes and have references from other North Carolina local governments. The selection of an instrument will involve the evaluation of, but not be limited to, the following factors:

- a. Cash flow projections and requirements
- b. Current market conditions
- c. Overall portfolio balance and makeup
- d. Relative liquidity of the instrument

### **CUSTODY AND SAFEKEEPING OF SECURITIES:**

Lincoln County will maintain a third party safekeeping account for all investments, or take physical possession of them. Some securities, primarily certificates of deposit, will not be kept in the third party safekeeping account, but will be kept by the Investment Officer in a secure location in the County Finance Department. Transactions will be processed on a delivery versus payment basis, which insures that securities are deposited in an eligible financial institution prior to the release of funds.

### **INTERNAL CONTROLS**

The Finance Director is responsible for establishing and maintaining a system of internal controls. The internal control structure shall be designed to provide reasonable assurance that the assets of Lincoln County are protected from loss, theft, or misuse by third parties or County employees. Accordingly, the

Finance Director shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures.

**REPORTING:**

The Finance Director shall prepare an investment report on a semi-annual basis to present to the Board of Commissioners. The report should include the following:

- Listing of individual securities held at the end of the reporting period.
- Listing of investments by maturity date.
- Percentage of each type of investment in the total portfolio.

**FOR MORE INFORMATION CONTACT:** You may direct your questions to the Finance Director.

Approved By:



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W. Tracy Jackson, County Manager