

# NCLGIA Winter Conference 2017

## Creating Sound Investment Policies

### Capital Management of the Carolinas, LLC

- Distributors of the North Carolina Capital Management Trust

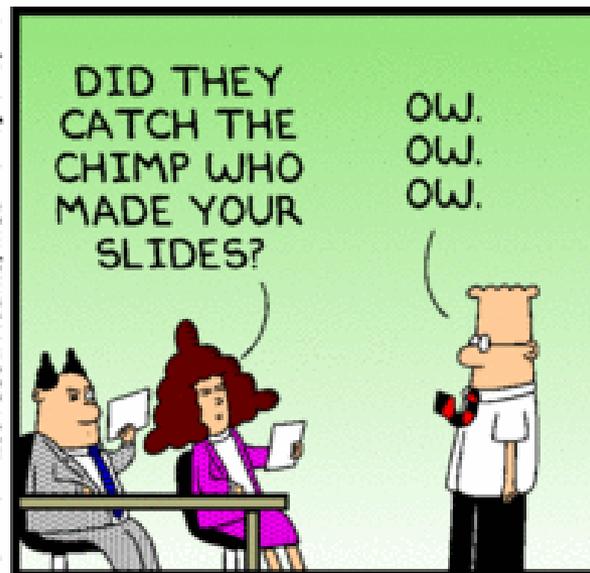
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# Cash Management And Investment Policies

- Considered essential by LGC staff (and national GFOA)
- Considered sign of good management by rating agencies
- Written
- Must consider NCGS and AG memos – unit can be more restrictive, but not more liberal than the law
- Standards of care –ethics and conflicts of interest; delegation of authority
- Legal protection
- Objectives – Safety, Liquidity, Yield
- Board adoption
- What funds are covered? This is the scope

# Who Approves The Policy?

- Board?
- How specific is what the board approves?
- What supporting documents are included?

# Cash Management And Investment Policies – What Goes In Each?

- How do we get the cash?
- What do we do with it while it is here?
- How do we send it on its way?
- How do we protect it?
- How do we tell people what has been done?
- LGC sample policy includes:
  - Governing authority
  - General objectives
  - Auth. financial institutions
  - Suitable and authorized investments
  - Investment parameters
  - Attachments
  - Scope
  - Standards of care
  - Safekeeping and custody
  - Reporting
  - Other documentation

# How Do We Get The Cash (Cash Receipts)?

- Collection policies
- Lockboxes
- Billing systems
- Cycle billing
- Remote deposit capture
- Customer deposits
- Delinquent account collections
- Joint property tax collection
- ACH drafts

# What Do We Do With The Cash While It Is Here?

- Authorized investments and deposits
- Maturity limitations
- Credit risk limitations
- Concentration requirements
- Authorized institutions
- Cash flow forecasts
- Bank RFPs
- Central depository account / pooled internal investment fund

# How Do We Send The Cash On Its Way (Cash Disbursements)?

- Methods of payment – check, EFT, procurement / credit cards
- Direct deposit for payroll
- Positive pay
- Preaudit requirements

# How Do We Protect The Cash?

- Insurance and collateralization
- Soundness of financial institutions – analysis, third party information, FINRA
- Custody and safekeeping
- Internal controls
- Fidelity bonds
- Internal and external reviews / audits

# How Do We Tell People What Has Been Done (Monitoring & Reporting)?

- LGC 203 reports
- Audited financial statements
- Reports to management and the board
- Investment Committee?
- How often is reporting done?
- Performance benchmarks

# **GASB 40 – Connection To The Cash Management and Investment Policy**

- Importance of board approval
  - Board-approved policies
  - Policies that are not board-approved
- 5 risks reported
  - Credit risk
  - Interest rate risk
  - Custodial credit risk
  - Concentration risk
  - Foreign currency risk

**Note to preparer:** The weighted average maturity of the North Carolina Capital Management Term Portfolio account ratings will be provided each year in a late summer memo.

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy limits at least half of the County's investment portfolio to maturities of less than 12 months. Also, the County's investment policy requires purchases of securities to be tiered with staggered maturity dates and limits all securities to a final maturity of no more than three years.

**Credit Risk.** The County limits investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2016, the County's investments in commercial paper were rated P1 by Standard & Poor's, F1 by Fitch Ratings, and A1 by Moody's Investors Service. The County's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2016. The County's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US government and agencies, and in high grade money market instruments as permitted under North Carolina General Statute 159-30 as amended. The County's investments in US Agencies (Federal Home Loan Bank) are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

**Custodial Credit Risk.** Custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's \$1,072,392 investments in repurchase agreements are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the County's name. The County's formal policy indicates that the County shall utilize a third party custodial agent for book entry transactions, all of which shall be a trust department authorized to do trust work in North Carolina who has an account with the Federal Reserve. Certificated securities shall be in the custody of the Director of Finance.

**Note to preparer:** Proceeds from installment financing held in escrow by a bank or its trust department will be a Category 3 investment if the trust department/escrow agent purchases and holds the securities, which is often common with these financing arrangements. This is not a new situation but it will meet the exception standard of disclosing Category 3 investments for custodial credit risk.

**Concentration of Credit Risk.** The County places a limit of 10% on the amount that the County may invest in any one issuer of commercial paper or banker's acceptances. More than 5% of the County's investments are in Cargill Corporation's commercial paper and the Federal Home Loan Bank securities. These investments are 6% and 30.5%, respectively, of the County's total investments. The County has adopted a policy of maximum exposure of 60% in US Government Agencies. Revised 8/2016 35-J-66

**Note to preparer:** Concentration risk is only included if one of the issuers is 5% or greater of the total investment portfolio (excludes deposits). It should be omitted if no holdings meet the 5% rule. Governments should provide information about the concentration of credit risk associated with their investments by disclosing, by amount and issuer, investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds (United States Treasuries), external investment pools (NCCMT), and other pooled investments (STIF and Long-term Fund) are excluded from this requirement. Repurchase agreements are omitted because underlying securities (Treasuries and GNMA) are exempt. If the unit has a concentration of credit risk, then it will need to disclose whether it has a formal policy or internal management policy. For an example disclosure of an internal management practice without a formal Board-adopted policy see the City of Dogwood illustrative financial statements.

# In What Ways Do We Incorporate The Policy Into Our Operations

- Signed trading agreements
- Counterparties sign statements that they have read documents
- Governments as institutional investors
- Supporting documents – custodial agreements, broker-dealer questionnaires, analysis of financial institutions, etc.

<https://www.nctreasurer.com>



**Department of State Treasurer**

**Policy Manual for Local Governments**

**Section 30: Cash and Investments**

Revision Issued: November 2016

[https://www.nctreasurer.com/slglfm/policy\\_manual/Pages/default.aspx](https://www.nctreasurer.com/slglfm/policy_manual/Pages/default.aspx)

From the Policy Manual:

### **3. Establishing Written Policies and Procedures**

Once **goals and objectives are developed**, written policies and procedures can be drafted. The purpose of an investment policy is to **establish specific guidelines** that are **consistent with the goals and objectives** of the unit and that provide for the efficient management of its funds considering its unique needs.

Investment procedures should provide for appropriate internal controls with the objectives of providing reasonable assurance that:

- a. All investment transactions are initiated by **authorized individuals**, comply with investment laws, policies and objectives, and are properly documented and approved;
- b. All documents evidencing ownership or other rights are subject to legally required **custodial arrangements** and proper physical safeguards;
- c. All investment transactions are **promptly and accurately recorded** in adequate detail and complete and accurate reports are issued on a timely basis; and
- d. All transactions are properly accumulated, classified and summarized in the **accounting records**.

# Sample Cash Management and Investment Policy

- I. Governing Authority – Legality; conforms to all legal requirements, specifically LGBFCA, G.S. 159-30, G.S. 159-31 and G.S. 159-32.
- II. Scope – Includes all funds except petty cash or certain specified funds; certain bond proceeds may be covered by a separate policy.
- III. General Objectives – In priority order:
  1. Safety – Safety of principal is the **foremost objective** of the program.  
Mitigate credit risk and interest rate risk.
    - a. Credit Risk – The unit will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
      - Limiting types of investments
      - Pre-qualifying financial institutions, broker/dealers or advisors
      - Diversifying the investment portfolio
    - b. Interest Rate Risk – The unit will minimize interest rate risk, which is the risk that the market value of securities will fall due to changes in market interest rates (fair value adjustment implications, see next slide)
      - Structuring maturities to meet cash requirements (avoid having to sell on the open market prior to maturity)
      - Invest operating funds in generally shorter-term securities

## The Longer the Maturity, the Greater the Price Volatility



Potential Interest Rate Increase of...	=	Potential Price Movement		
		2-Year Treasury	10-Year Treasury	30-Year Treasury
0.25%	=	-0.50%	-0.99%	-1.99%
0.50%	=	-2.18%	-4.36%	-8.72%
1.00%	=	-4.79%	-9.58%	-19.15%

Source: Bloomberg, U.S. Global Investors

2. Liquidity - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Securities mature with cash needs (static liquidity). Portfolio should consist of securities with active secondary market (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 secondary importance compared to the safety and liquidity objectives.

**Alternative sample language:**

3. Yield - The cash management portfolio of the [Unit Type] shall be designed with the objective of regularly meeting or exceeding a performance benchmark, which could be the average return on three-month U.S. Treasury bills, The North Carolina Capital Management Trust, or the average rate on Fed funds, whichever is higher. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

#### IV. **Standards of Care**

1. Ethics and Conflicts of Interest – Refrain from personal business activities that could conflict with proper execution and management of the investment program.
2. Delegation of Authority – Finance Officer is ultimate responsible.

#### V. **Authorized Financial Institutions, Depositories, and Broker-Dealers**

1. Authorized Financial Institutions, Depositories, and Broker-Dealers – Maintain a list of authorized financial institutions and broker/dealers.

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

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines,
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties),
- Proof of state registration,
- Completed broker-dealer questionnaire (not applicable to Certificate of Deposit counterparties),
- Certification of having read and understood and agreeing to comply with this investment policy of the [Unit Type], and
- Evidence of adequate insurance coverage.

## **VI. Safekeeping and Custody**

### **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 prior to the release of funds.

2. **Safekeeping** – To reduce custodial credit risk securities will be held by an independent third-party custodian selected by the unit as evidenced by safekeeping receipts in the name of and for the benefit of the unit.

3. **Internal Controls** – Should address collusion, separation of duties, reconciliation of accounts, written confirmation of transactions for investments and wire transfers, dual authorization for wire transfers and wire transfer agreement for bank and custodian.

4. **Deposit and Investment Risk** – GASB 40

## **VII. Suitable and Authorized Investments**

1. **Investment Types** - Only the investments authorized by G.S. 159-30 will be permitted by this policy. (See statute at end)

2. **Collateralization** - As required by G.S. 159-31(b). (See statute at end)

3. **Repurchase Agreements** - Repurchase agreements shall be consistent with G.S. 159-30(c)(12).

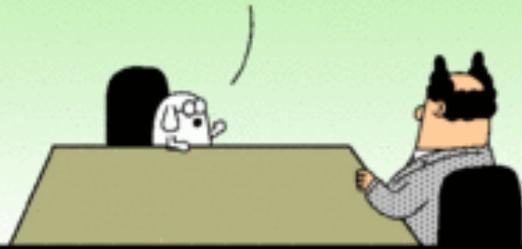
4. Prohibited Investments - Investment in the following instruments, even if permitted under G.S. 159-30, is expressly prohibited:(List here)

## VIII. Investment Parameters

1. Diversification - To reduce credit risk, 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), and
  - Limiting investment in securities that have higher credit risk. To reduce interest rate risk, the investments shall be diversified by:
    - Investing in securities with varying maturities, and
    - Continuously investing a portion of the portfolio in readily available funds such as a mutual fund for local government investment certified by the Local Government Commission pursuant to G.S. 159-30(c)(8), currently The North Carolina Capital Management Trust.
2. Maximum Maturities -To the extent possible, the [Unit Type] shall attempt to match its investments with anticipated cash flow requirements.

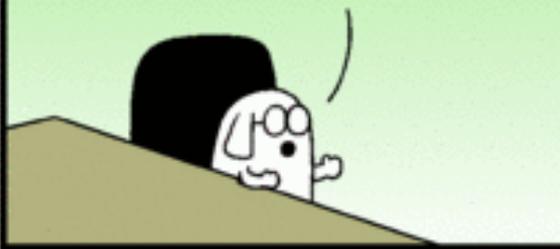
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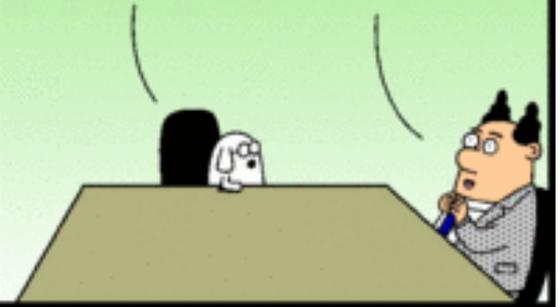
IT WOULD BE UNWISE TO INVEST IN JUST ONE SICK COW, BUT IF YOU AGGREGATE A BUNCH OF THEM TOGETHER, THE RISK GOES AWAY.



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IT'S CALLED MATH.

SUDDENLY I FEEL ALL SAVVY.



3. Competitive Bids - The finance officer shall obtain competitive bids from at least three brokers or financial institutions on all purchases of investment instruments purchased on the secondary market.

## IX. Reporting

1. Methods - The finance officer shall prepare an investment report monthly (alternative language would be for quarterly reporting), including a management summary that specifies whether the activities have conformed to the investment policy.

The report may include the following:

- Listing of individual securities held at the end of the reporting period,
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities,
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks,
- Listing of investment by maturity date, and
- Percentage of the total portfolio which each type of investment represents.

2. Statutorily Required Reports - The finance officer shall prepare and timely file the following reports:

- A “Notification of Public Deposit” on form COLL-91
- The semi-annual reports on form LGC 203

- The Annual Financial Information Report (“AFIR”) required to be filed with the Local Government Commission pursuant to G.S. 159-33.1 .
- Such other report as may, from time to time, be required.

### **Alternative sample language:**

1. Methods - ...Each quarterly report shall indicate areas of policy concern and suggested or planned revision of investment strategies... **(This language is more proactive.)**

#### 2. Performance Standards

The cash management portfolio of the [Unit Type] shall be designed with the objective of regularly meeting or exceeding a selected performance benchmark, selected from the average return on three-month U.S. Treasury bills, The North Carolina Capital Management Trust or the average rate of Fed funds. These indices are considered benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio’s rate of return.

#### 3. Marking to Market

The market value of the portfolio shall be obtained from an independent source monthly and a statement of the market value of the portfolio shall be issued monthly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

(cont'd)

In defining market value, consideration should be given to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 31 – “***Accounting and Financial Reporting for Certain Investments and for External Investment Pools***” as amended.

## **X. 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 at the time of adoption of this policy or currently held that does not meet the guidelines of this policy shall be temporarily exempted from the requirements of this policy.
2. Annual Review - This policy shall be reviewed on an annual basis. Any changes must be approved by the finance officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

## **XI. Approval and Amendment of Cash Management and Investment Policy**

The cash management and investment policy and any amendments **shall be formally approved and adopted by resolution of the [Governing Body]** of the [Unit Type] and reviewed annually.

**XII. List of Attachments** - The following documents are attached to this policy:

- Listing of authorized personnel,
- G.S. 159-30 – Investment of idle funds,
- G.S. 159-31 – Selection of depository; deposits to be secured,
- G.S. 159-33 – Semiannual report on status of deposits and investments,
- G.S. 159-33.1 – Semiannual report of financial information,
- Listing of authorized financial institutions, depositories and broker-dealers,

**XIII. Other Documentation** [*Include or delete as appropriate to policy as adopted.*]

The following documents are attached to this policy:

- Master Repurchase Agreement, other repurchase agreements and tri-party agreements,
- Broker-Dealer Questionnaire,
- Safekeeping agreements,
- Wire transfer agreements,
- Sample investment reports,

Current versions of the following documents shall be maintained and available for inspection and reference:

- Credit studies and prospectuses for securities purchased,
- NC Department of State Treasurer - Financial Operations Division publication,  
**“Collateralization of Public Deposits in North Carolina”**
- NC Department of State Treasurer, Policy Statement 30 – Cash and Investments,

# County of Guilford

## Investment Trading Relationship Agreement

In consideration of and as a prerequisite to conducting investment business with the County of Guilford, North Carolina, the undersigned investment/financial institution (hereinafter referred to as "FIRM") agrees to the following terms and conditions:

**ELIGIBLE INVESTMENT SECURITIES** – The FIRM acknowledges that it has received and is familiar with the Cash management and Investment Policy of the County of Guilford and the North Carolina General Statutes governing the investments which are eligible for purchase by local government in North Carolina. The FIRM agrees to offer no investment to the County that is not an authorized investment under the County's Cash Management and Investment Policy and the N.C. General Statutes, including the N.C. Attorney General's interpretations thereof. The FIRM certifies that it will inform the County if any instrument offered for purchase qualified institution within the meaning prescribed in the County's Cash Management and Investment Policy and understands that this agreement is void in the event it ceases to be qualified to conduct business with the County.

**CONFIRMATION AND MONTHLY STATEMENTS** – The FIRM agrees that it will send confirmation on every transaction promptly to the following address:

Guilford County Finance Department  
Attention: xxxxxx  
PO Box yyyyyy  
Greensboro, NC 27402

**DELIVERY INSTRUCTIONS** – The FIRM agrees to deliver securities to the County's safekeeping account #71-0114-01-8 with First Citizens Bank Trust Department, delivery versus payment. Standard delivery instructions are attached.

**AUTHORIZED COUNTY REPRESENTATIVES** – The FIRM will recognize only the individuals listed in the "Authorized Representative" attachment in the transactions with the County.

**FINANCIAL STATEMENTS** – The FIRM agrees to send a quarterly statement of financial position and an audited annual financial statement to the County Finance Director within a reasonable period after each business period.

**CANCELLATION** – This agreement may be canceled upon written notification by the FIRM or by the County. The agreement is automatically canceled if the FIRM ceases to be a qualified institution within the meaning prescribed by the County's Cash Management and Investment Policy.

# Guilford County – cont.

Scope - Applies to all financial assets of Guilford County except authorized trust funds administered by Social Services and Mental Health

## Objective

1. **Preservation of capital** in overall portfolio
2. Provide **sufficient cash needs** of County's various operations
3. Attain a **fair market rate of return**

## Responsibility

1. Finance Officer is charged with responsibility of cash management and investment
2. He/she may delegate one or more members of staff to perform these functions

## Authorized Investments – Attached a copy of NCGS 159-30

1. Repo agreements must be collateralized and placed in 3<sup>rd</sup> party safekeeping
2. CP & BA's no more than 35% of total portfolio, no single issuer more than 15% of portfolio
3. No maturities > 5 years; total maturities >1 year no more than 50% of portfolio

Competitive Bidding when possible, **not normally less than 3 bids**, documentation retained for 2 years.

# Investments

## Partners Behavioral Health Management

Original Effective Date: (Policy, Procedure, Program Description or Plan) <b>Board</b> or <b>QIC/MT</b>	7/18/2013	Lines of Business:	LME/MCO	Category:	Finance	
				Policy Number:	3.25	
Policy Revision <b>Board</b> Approval Date:	4/17/2014	Policy Annual <b>Board</b> Approval Date:	4/17/2014	Procedure/Program Description/Plan Revision <b>QIC/MT</b> Approval Date:	Procedure/Program Description/Plan Annual <b>QIC/MT</b> Approval Date:	6/3/2014

### **POLICY**

Partners Behavioral Health Management (Partners BHM) shall develop and implement procedures for the legal and proper investment of Area Authority idle funds. The C.E.O. or designee shall determine investment choices.

### **PROCEDURE**

#### **Deposits and Investments**

1. The single primary objective of an investment program is to earn income on idle cash. The law specifically requires that safety and liquidity be the most important standards of the program. It requires that the money be available when needed. Short maturities and high quality investments help to assure liquidity and safety. Sound judgment and care should be exercised to reduce the risks inherent in any investment program to the lowest reasonable level. Sufficient provision should be made to allow for the conversion of investments into usable funds in case of an emergency or an unanticipated change in circumstances.

## 2. Investment Requirements

The investment program must be operated within the requirements of the law. G.S. 159-30(c) specifically lists the types of investments which a governmental unit may make and only includes investments with the highest standards of safety. Public officials should never take unnecessary risks with public moneys in order to earn slightly more investment income. In addition, **finance officers should never invest in a security that they do not fully understand.** G.S. 159-30(e) permits investments of public moneys belonging to all funds of a government or public authority, without restrictions on pooling of funds for investment purposes, so long as the funds and the income thereon clearly remain identified with the owning fund. However, local law or the governing body may restrict the source, the extent and manner of pooling of funds, the manner of investing, or the investments to be made. Therefore, it is important that a formal investment program address the following:

- a. All restrictions on the sources of funds
- b. The approvals required and the manner in which the investments will be made
- c. The types of investments allowed, and;
- d. Any standards relating to return on investment which the governing board wishes to impose

## 3. Investment Authority

Although the law specifically requires that the purchase, sale, or redemption of investments be transacted by the finance officer, the governing body may establish any procedures it deems appropriate to control the approval process relating to the timing, the amount, and the specific type of investment before such investment is made.

# City of Burlington

1. Preserve capital and invest for highest return and maximum security while meeting cash flow requirements of the City.
2. All assets including bond proceeds.
3. Prudent Person Rule
4. Objectives – Safety, Liquidity, Yield
  1. Safety of Principal – preservation of capital in overall portfolio
  2. Diversification – Required in order that potential losses on individual securities do not exceed income generated from the remainder of the portfolio.
  3. Liquidity – maintained through the use of structured maturities and marketable securities.
  4. Market Return – while minimizing risk and retaining liquidity
5. Conflicts of Interest – Employees will subordinate personal investment transactions to the City's.
6. At no time will the total investment portfolio be invested in a single financial institution
7. Stagger Maturities
8. Hold-to-Maturity – may sell or trade prior to maturity
9. Interest Allocation – allocated monthly based on average cash balance in each fund as a percentage of the pooled portfolio.
10. Reporting – Quarterly reporting listing investment type, cost, market value, maturity date, yield, average portfolio yield.

## Town of Wake Forest – Incorporated as part of the Fiscal Policy Guidelines with Capital Improvement Budget Policies, Debt Policies, Reserve Policies and Budget Development Policies

1. Included under 159-30
2. Use Central Depository to maximize availability of cash.
3. Cash flows forecasted and incorporated into investments.
4. **No less than 20% will be liquid at any point in time.**
5. **Maximum maturity - 36 months**
6. Custody – DVP and in name of the Town by 3<sup>rd</sup> party custodian
7. Authorized Investments – Board approved official depository if secured under 159(31), also: NCCMT, US Treasuries, Agencies, under 159 rated no lower than AAA plus CP under 159 plus having a national bond rating.
8. Diversification – **No more than 5% in any one issuer of CP and no more than 20% in CP total. No more than 25% in any one US Agency.**
9. Interest Allocation – **based on fair and equitable formula set by finance officer**
10. Reporting – **Board will receive the semi-annual LGC 203 report**

## Mecklenburg County

1. In the event of default by a specific issuer, the Investment Officer shall review and if appropriate, proceed to liquidate securities having comparable credit risks.
2. Total CP investments s/b no more than 50% of total portfolio and the lesser of \$10,000,000 or 10% of portfolio with one issuer.
3. No maturity > 5 years.

## Town of Butner

1. Eligible investments under 159-30 but further limited to: CD's, NCCMT, MMDA's
2. Maturities should coincide with short-term and long-term needs of the Town.
3. If matching bids are made, institutions will be allowed to submit an upset bid. If they don't or bids remain tied, the Town will choose the institution holding the lowest amount of Town funds.

# City of Morganton

<u>1. Diversification Limits by Instrument</u>	<u>% of Portfolio</u>
US Treasuries	100%
US Agencies (fully guaranteed)	100%
CP, BA	40%
Repo	25%
CD      Bank	100%
S&L	25%
NCCMT	50%

## Further (by Institution)

BA's	No more than 25% with any one institution
CP	No more than 25% with any one institution
Repo	No more than 15% with any one institution
CD's	No more than 50% with any one institution
NCCMT	No more than 50% of total portfolio

## Maturities – should coincide with cash flow needs

Under 270 days	50%
Under 1 year	75%
Under 3 years	100%

## City of King – approved by Council

1. At least three (3) institutions shall be solicited, if possible, to insure greater return.
2. Maturities – Generally the Finance Officer will **not allow investment securities with terms >180 days to exceed 25% of portfolio balance at time of purchase.**
3. To minimize credit risk, at no time shall all securities be invested in a single institution.

# City of Clinton

1. Has a good “Definitions” sections at the beginning of policy document.
2. Eligible Investments under 159-30 further limited to:
  1. CD’s with approved banks
  2. NCCMT
  3. Interest bearing checking accounts (see #1 above)
3. Selection:
  1. Maturity should coincide with cash needs.
  2. Rate of interest s/b at equivalent to average rate of return in marketplace.
4. Reducing Risk
  1. Credit Risk - To reduce credit risk, investments shall be diversified by:
    1. Limiting over-concentration in securities of a specific issuer or business sector (excluding US Treasuries) and
    2. Limiting investment in securities that have higher credit risks.

## City of Clinton – cont.

### 4. Reducing Risk (cont.)

2. Interest Rate Risk – To reduce interest rate risk, investments shall be diversified by:

1. Investing in securities with varying maturities, and
2. Continuously investing a portion of the portfolio in readily available funds such as a mutual fund for local government investment certified by the Local Government Commission pursuant to GS 159-30(c)(8), currently The North Carolina Capital Management Trust.

5. Reporting – Monthly reporting with listing of security, maturity date and percentage of total portfolio with each type of investment represented.

## § 159-30. Investment of idle funds.

- (a) A local government or public authority may deposit at interest or invest all or part of the cash balance of any fund. The finance officer shall manage investments subject to whatever restrictions and directions the governing board may impose. The finance officer shall have the power to purchase, sell, and exchange securities on behalf of the governing board. The investment program shall be so managed that investments and deposits can be converted into cash when needed.
- (b) Moneys may be deposited at interest in any bank, savings and loan association, or trust company in this State in the form of certificates of deposit or such other forms of time deposit as the Commission may approve. Investment deposits, including investment deposits of a mutual fund for local government investment established under subdivision (c)(8) of this section, shall be secured as provided in G.S. 159-31(b). (b1) In addition to deposits authorized by subsection (b) of this section, the finance officer may deposit any portion of idle funds in accordance with all of the following conditions: (1) The funds are initially deposited through a bank or savings and loan association that is an official depository and that is selected by the finance officer. (2) The selected bank or savings and loan association arranges for the redeposit of funds in deposit accounts of the local government or public authority in one or more federally insured banks or savings and loan associations wherever located, provided that no funds shall be deposited in a bank or savings and loan association that at the time holds other deposits from the local government or public authority. (3) The full amount of principal and any accrued interest of each deposit account are covered by federal deposit insurance. (4) The selected bank or savings and loan association acts as custodian for the local government or public authority with respect to the deposit in the local government's or public authority's account. (5) On the same date that the local government or public authority funds are redeposited, the selected bank or savings and loan association receives an amount of federally insured deposits from customers of other financial institutions wherever located equal to or greater than the amount of the funds invested by the local government or public authority through the selected bank or savings and loan association.

(c) Moneys may be invested in the following classes of securities, and no others:

(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, Fannie Mae, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, the United States 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 may impose.

(5) 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 Commissioner of Banks of the Department of Commerce of the State of North Carolina, be fully collateralized. (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 by any nationally recognized rating service which rates the particular obligation.

(7) 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 (i) incorporated in the State of North Carolina or (ii) 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

(8) 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 subsection (c) 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.

(9) A commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3.

10) A commingled investment pool established by interlocal agreement by two or more units of local government pursuant to G.S. 160A-460 through G.S. 160A-464, if the investments of the pool are limited to those qualifying for investment under this subsection (c).

(11) 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.

(12) 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 if:

a. Such obligations that are subject to such repurchase agreement are delivered (in physical or in book entry form) to the local government or public authority, or any financial institution serving either as trustee for the local government or public authority or as fiscal agent for the local government or public authority or are supported by a safekeeping receipt issued by a depository satisfactory to the local government or public authority, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated at least daily, of not less than one hundred percent (100%) of the repurchase price, and, provided further,

that the financial institution serving either as trustee or as fiscal agent for the local government or public authority holding the obligations subject to the repurchase agreement hereunder or the depository issuing the safekeeping receipt shall not be the provider of the repurchase agreement;

b. A valid and perfected first security interest in the obligations which are the subject of such repurchase agreement has been granted to the local government or public authority or its assignee or book entry procedures, conforming, to the extent practicable, with federal regulations and satisfactory to the local government or public authority have been established for the benefit of the local government or public authority or its assignee;

c. Such securities are free and clear of any adverse third party claims; and d. Such repurchase agreement is in a form satisfactory to the local government or public authority. (13) In connection with funds held by or on behalf of a local government or public authority, which funds are subject to the arbitrage and rebate provisions of the Internal Revenue Code of 1986, as amended, participating shares in tax-exempt mutual funds, to the extent such participation, in whole or in part, is not subject to such rebate provisions, and taxable mutual funds, to the extent such fund provides services in connection with the calculation of arbitrage rebate requirements under federal income tax law; provided, the investments of any such fund are limited to those bearing one of the two highest ratings of at least one nationally recognized rating service and not bearing a rating below one of the two highest ratings by any nationally recognized rating service which rates the particular fund.

(d) Investment securities may be bought, sold, and traded by private negotiation, and local governments and public authorities may pay all incidental costs thereof and all reasonable costs of administering the investment and deposit program. Securities and deposit certificates shall be in the custody of the finance officer who shall be responsible for their safekeeping and for keeping accurate investment accounts and records.

(e) Interest earned on deposits and investments shall be credited to the fund whose cash is deposited or invested. Cash of several funds may be combined for deposit or investment if not otherwise prohibited by law; and when such joint deposits or investments are made, interest earned shall be prorated and credited to the various funds on the basis of the amounts thereof invested, figured according to an average periodic balance or some other sound accounting principle. Interest earned on the deposit or investment of bond funds shall be deemed a part of the bond proceeds.

(f) Registered securities acquired for investment may be released from registration and transferred by signature of the finance officer.

(g) A local government, public authority, an entity eligible to participate in the Local Government Employee's Retirement System, or a local school administrative unit may make contributions to a Local Government Other Post-Employment Benefits Trust established pursuant to G.S. 159-30.1.

(h) A unit of local government employing local law enforcement officers may make contributions to the Local Government Law Enforcement Special Separation Allowance Fund established in G.S. 147-69.5. (1957, c. 864, s. 1; 1967, c. 798, ss. 1, 2; 1969, c. 862; 1971, c. 780, s. 1; 1973, c. 474, ss. 24, 25; 1975, c. 481; 1977, c. 575; 1979, c. 717, s. 2; 1981, c. 445, ss. 1-3; 1983, c. 158, ss. 1, 2; 1987, c. 672, s. 1; 1989, c. 76, s. 31; c. 751, s. 7(46); 1991 (Reg. Sess., 1992), c. 959, s. 77; c. 1007, s. 40; 1993, c. 553, s. 55; 2001-193, s. 16; 2001-487, s. 14(o); 2005-394, s. 2; 2007-384, ss. 4, 9; 2010-175, s. 1; 2013-305, s. 1.)

## **§ 159-31. Selection of depository; deposits to be secured.**

(a) The governing board of each local government and public authority shall designate as its official depositories one or more banks, savings and loan associations, or trust companies in this State or, with the written permission of the secretary, a national bank located in another state. In addition, a unit or public authority, with the written permission of the secretary, may designate a state bank or trust company located in another state as an official depository for the purpose of acting as fiscal agent for the unit or public authority. The names and addresses of the depositories shall be reported to the secretary. It shall be unlawful for any public moneys to be deposited in any place, bank, or trust company other than an official depository, except as permitted by G.S. 159-30(b); however, public moneys may be deposited in official depositories in Negotiable Order of Withdrawal (NOW) accounts.

(b) The amount of funds on deposit in an official depository or deposited at interest pursuant to G.S. 159-30(b) shall be secured by deposit insurance, surety bonds, letters of credit issued by a Federal Home Loan Bank, or investment securities of such nature, in a sufficient amount to protect the local government or public authority on account of deposit of funds made therein, and in such manner, as may be prescribed by rule or regulation of the Local Government Commission. When deposits are secured in accordance with this subsection, no public officer or employee may be held liable for any losses sustained by a local government or public authority because of the default or insolvency of the depository. No security is required for the protection of funds remitted to and received by a bank, savings and loan association, or trust company acting as fiscal agent for the payment of principal and interest on bonds or notes, when the funds are remitted no more than 60 days prior to the maturity date. (1927, c. 146, s. 19; 1929, c. 37; 1931, c. 60, s. 32; c. 296, s. 7; 1935, c. 375, s. 1; 1939, c. 129, s. 1; c. 134; 1953, c. 675, s. 28; 1955, cc. 698, 724; 1971, c. 780, s. 1; 1973, c. 474, s. 26; 1979, c. 637, s. 1; 1981, c. 447, s. 2; 1983, c. 158, s. 3; 1999-74, s. 1.)