

Town of Zebulon
Cash Management and Investment Policy

WHEREAS, the cash management and investment programs of the Town of Zebulon shall be operated in conformance with federal, North Carolina, and other legal requirements, including provisions of the North Carolina General Statutes, specifically The Local Government Budget and Fiscal Control Act, primarily NCGS 159-30 through NCGS 159-33.1;

NOW, THEREFORE BE IT RESOLVED, by the Town of Zebulon Board of Commissioners that the following Cash Management and Investment Policy be adopted.

I. Scope

This policy applies to the management of cash and investment of all funds, excluding petty cash accounts, debt funds, fiduciary funds, and proceeds from certain bond issues.

1. Pooling of Funds

Except for cash in certain specified restricted and special funds, the Town 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 and NCGS 159-30(e).

II. General 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.

a. Credit Risk

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

- Limiting investments to the types of securities listed in Section VI of this Investment Policy,
- Pre-qualifying the financial institutions, broker-dealers, intermediaries, and advisers with which the Town will do business in accordance with Section IV, and
- 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.

b. Interest Rate Risk

The Town will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, 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
- Investing operating funds primarily in shorter-term securities and deposits or The North Carolina Capital Management Trust and limiting the average maturity of the portfolio in accordance with Section VII of 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 securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in a mutual fund for local government investment approved in accordance with NCGS 159-30(c)(8).

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 described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- Liquidity needs of the portfolio require that the security be sold.

The primary objectives, in priority order, of the cash management activities shall be safety, liquidity, and yield:

1. Safety

Safety of principal is the foremost objective of the cash management program and, accordingly, the activities shall be undertaken in a manner that seeks to ensure the safety of funds on deposit and the preservation of capital.

2. Liquidity

The finance officer shall prepare adequate forecasts of anticipated cash receipts and disbursements to permit the identification of the liquidity needs of the Town.

3. Yield

The cash management activities shall support the investment activities by maximizing the funds available for investment by assuring that amounts due to the Town are promptly collected, that funds received are properly accounted for and deposited daily in an official depository, and that disbursements are properly controlled.

III. Standards of Care

1. 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 and 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 the Town.

2. Delegation of Authority

Authority to manage cash and the investment program is granted to the finance director and derived from NCGS 159-30. The finance director 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 investment policy. Procedures should include references to: safekeeping, delivery versus payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral and depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the finance director. The finance director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the investment activities.

3. Prudence

Investments shall be made with judgment and care under circumstances then prevailing. Officers and employees acting in accordance with written policies and procedures 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 manner and appropriate action is taken to control adverse developments.

IV. Authorized Financial Institutions, Depositories, and Broker-Dealers

1. Authorized Financial Institutions, Depositories, and Broker-Dealers

A list will be maintained of financial institutions and depositories authorized by resolution of the Board of Commissioners pursuant to NCGS 159-31 to act as its official depositories and to provide banking services. In addition, a list will be maintained of security broker-dealers authorized by resolution of the Board of Commissioners to provide investment services and selected by creditworthiness (e.g., a minimum capital requirement of \$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, 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 National Association of Securities Dealers (NASD) 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 Town, and
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions, depositories and broker-dealers will be conducted by the finance director.

VI. **Safekeeping and Custody**

1. Delivery Versus Payment

All trades of marketable securities will be executed by delivery versus payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

2. Safekeeping

To reduce custodial credit risk or the risk that in the event of failure of a counterparty the unit will not be able to recover the value of collateral securities or then collateral securities in possession of a third party, securities will be held by an independent third-party custodian selected by the Town as evidenced by safekeeping receipts in the name of and for the benefit of the Town. The custodian shall be a trust department with an account with a Federal Reserve Bank and authorized to act as trustee in North Carolina. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70 – Service Organizations).

Certificated securities are to be avoided where possible. Any certificated securities shall be registered in the name of the Town and held in the custody of the finance director.

3. Internal Controls

The finance director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse. The internal control structure shall be designed to protect the loss of public funds arising from fraud, employee error, misinterpretation by third parties, unanticipated changes in financial markets, or imprudent actions by employees or officers of the Town. 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.

Compliance should be assured through the annual independent audit of the Town.

4. Deposit and Investment Risk

In establishing internal controls, consideration should be given to the risk and disclosure requirements of Governmental Accounting Standards Board Statement No. 40 – “Deposit and Investment Risk Disclosures”.

VI. **Suitable and Authorized Investments**

1. Investment Types

Funds of the Town may be deposited on invested in the following classes of securities as authorized by NCGS 159-30(c):

- Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States,
- 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 and the United States Postal Service,
- Obligations of the State of North Carolina,
- Bonds and notes of any North Carolina local government or public authority, subject to such restrictions the secretary of the Local Government Commission may impose,
- 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,
- 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,
- Banker’s acceptances, provided the accepting bank or its holding company is either (1) incorporated in North Carolina or (2) has outstanding publicly held obligations bearing the highest rating of at least on nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations,
- Participating shares in a mutual fund for local government investment (such as the North Carolina Capital Management Trust) certified by the Local Government Commission, and
- A commingled investment pool establish and administered by the State Treasurer pursuant to NCGS 147-69.3.

Furthermore, moneys may be deposited at interest in any bank, savings and loan association, or trust company in the State of North Carolina in the form of

certificates of deposit or other forms of time deposit as approved by the Local Government Commission.

2. Collateralization

As required by G.S. 159-31(b) full collateralization will be required on all funds on deposit or deposited at interest. The Town shall utilize the pooling method of collateralization and shall use only banking institutions approved by the North Carolina Local Government Commission.

3. Prohibited Investments

Investment in the following instruments, even if permitted under G.S. 159-30, is expressly prohibited:

- Evidences of ownership of, or fractional undivided interests in, future interest and principal payment on either direct obligations of the United States government or obligations of the principal and interest on which are guaranteed by the United States,
- Repurchase agreements as outlined in NCGS 159-30(c)(12), and
- Securities 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 provision of the Internal Revenue Code of 1986, as amended and further outlined in NCGS 159-30(c)(13).

VII. 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 risks.

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 NCGS 159-30(c)(8), currently The North Carolina Capital Management Trust.

2. Maximum Maturities

To the extent possible, the Town shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than three years from the date of purchase or in accordance with state and local statutes and ordinances. The Town shall adopt a weighted average maturity not to exceed 12 months.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as The North Carolina Capital Management Trust or FDIC insured money market deposit accounts to ensure that appropriate liquidity is maintained to meet ongoing obligations.

3. Competitive Bids

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

VIII. Reporting

1. Methods

The finance director shall submit quarterly an investment report that summarizes recent market conditions, economic developments and anticipated investment conditions. The report shall summarize the investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the quarter's total investment return and compare the return with budgetary expectations. Copies shall be transmitted to the independent auditor as requested.

Within 45 days of the end of the fiscal year, the finance director shall present a comprehensive annual report on the investment program and investment activity. The annual report shall include comparisons of return, individual securities held at year end with their maturity dates, the percentage each type of investment represents to the portfolio, and shall suggest policies and improvements that might be made in the investment program.

The finance director shall submit to the Local Government Commission the semiannual reports on the status of deposits and investments and reports of financial information in accordance with the requirements of NCGS 159-33 and NCGS 159-33.1.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased, the risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

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.

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

IX. Exemptions

Any investment not in compliance with NCGS 159-30 shall be sold in accordance with the provisions of NCGS 159-33. Any investment currently held that does not

meet the guidelines of this 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.

X. 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 Board of Commissioners of the Town. The finance director shall review the policy annually and bring any recommendation before the Board of Commissioners for consideration.

Approved this 2nd day of April 2012.