

Rowan County Investment Policy

INTRODUCTION STATEMENT

The purpose of this investment policy is to provide a framework for the County of Rowan to use in the responsible administration of all county funds and the investment of those funds. County funds shall be handled at the highest level of public trust and fiduciary responsibility. The objectives of this policy and its associated investment program are to responsibly preserve and protect County capital and to earn the highest possible market rates of return. This policy serves to satisfy North Carolina General Statute (NCGS) 159-30.

I. Scope

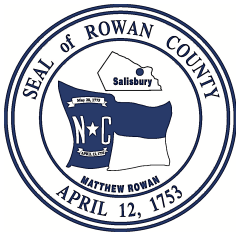
Applicability. North Carolina General Statute (NCGS) 159-30 authorizes local governments to invest all or part of the cash balance of any fund. This Board of Commissioners ("Board")-approved Rowan County Investment Policy, ("investment policy"), sets forth procedures for the County's investment program to ensure all public monies are appropriately and safely invested. In Rowan County, the Finance Director is also the finance officer, as defined in NCGS 159-24. The term "investment program" encompasses all investment actions in which the Finance Director or their designee engages with the purpose of earning investment revenue on public funds. The investment policy and program refer to the shorter-term investment of operating monies. The investment of unspent bond proceeds, employees' retirement monies or other non-operating monies are not within the scope of this policy nor managed by this investment program.

Pooling. In accordance with NCGS 159-30(e), Rowan County consolidates cash balances from numerous funds, apart from certain restricted or specialized funds, to maximize investment revenue. Quarterly, investment revenues are allocated across funds based on individual average quarterly fund balances.

II. Objectives

Rowan County's investment program objectives, in order of priority, are:

1. ***Safety.*** Protecting the principal of public monies is the primary objective of the investment program. Careful consideration of credit and interest rate risks help mitigate the risks of principal losses.
 - a. ***Credit risk.*** The risk of loss of a security's value, due to the failure of the issuer of the security, is defined as credit risk. Rowan County mitigates this risk by:
 - i. Investing only in legally authorized securities as defined by NCGS 159-30(c).
 - ii. Transacting only with pre-qualified financial institutions, brokers, and dealers.
 - iii. Diversifying its portfolio to minimize the effect of an individual security's loss on the County's portfolio.
 - b. ***Interest rate risk.*** The risk of loss of a security's market value due to changes in interest rates is defined as interest rate risk. Rowan County mitigates this risk by:

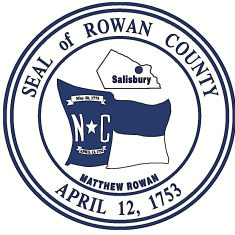


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- i. Investing primarily in shorter-term securities. The County will not invest in any security with a maturity date of more than five (5) years.
 - ii. Staggering the maturities of investments using a laddering strategy so that maturities will meet cash requirements and avoiding the need to sell on the open market.
2. *Liquidity.* Ensuring the County has access to monies to meet anticipated cash needs is defined as liquidity. All investment purchases are made with the intent to hold the investment to maturity. In the interest of providing adequate liquidity, fifty percent (50%) of the portfolio must mature within one year.
3. *Yield.* The County builds its investment portfolio to obtain the best possible actualized yield after fees & investment costs, once the primary objectives of safety and liquidity are met.

III. Standards of care

1. *Delegation of authority.* NCGS 159-30(a) authorizes the finance officer to 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 under the general guidance and supervision of the County Manager. NCGS 159-25(a)(6) also requires the finance officer to supervise the investment of idle funds for the County. The finance officer will be responsible for managing the investment program in accordance with the Board approved investment policy. No other individual may engage in any investment transactions on behalf of Rowan County.
2. *Due diligence.* The Finance Director or their designee shall be relieved of personal responsibility in the event unexpected circumstances arise causing a loss of principal, provided due diligence was performed when purchasing the investment. Due diligence is evidenced by purchasing and managing the investment program in accordance with this investment policy.
3. *Conflicts of interest.* The Finance Director or their designee are prohibited from making personal investments with a broker or dealer that Rowan County utilizes to purchase investments. In addition, they must disclose, to the County Manager (and to the governing board, at the discretion of the County Manager) any material interests in any financial institutions that Rowan County utilizes in the investment program. The Finance Director or their designee must refrain from any act that could impair the ability to make unbiased investment decisions, including any action that could result in personal gain.
4. The County may institute an agreement with an investment advisor to provide quarterly cash flow analysis, forecasting, review the County's investment performance on a quarterly basis, and make periodic recommendations regarding maturity parameters and investment strategies. The County Finance Director may consider input from an investment advisor. Any investment advisor retained by the County shall have at a minimum of 5 years' experience advising institutional clients with portfolios that exceed \$50,000,000.



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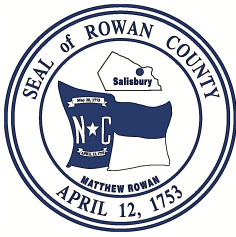
IV. Safekeeping, custody, and brokers

Third-party safekeeping. Rowan County will contract with a third-party safekeeping institution in the trust department of a bank that will serve as custodian of investments. Investment trades must be executed on a delivery vs. payment (DVP) method to ensure purchased securities are delivered prior to the release of any funds. Evidence of proper safekeeping may be monitored through online access to the County's custodial account. The custodian must present the County with a monthly safekeeping statement.

As investments produce earnings or are liquidated, the funds shall be directly wired either to a bank delegated by Rowan County as an official depository and collateralized as required by G.S.159-31, or to an investment account allowable under G.S. 159-30, such as the NCCMT.

Authorized dealers, brokers, and financial institutions. The Finance Director or their designee, will maintain a listing of approved financial institutions, dealers (primary or regional), and brokers providing investment services to Rowan County. Financial institutions, dealers and brokers are selected by the Finance Director *with signed concurrence from the Internal Auditor* based upon the broker's experience, knowledge of NC Local Government Investment law (G.S. 159-30), and the needs of Rowan County. The dealer or broker shall have a minimum of 5 years' experience purchasing approved securities for institutional clients with portfolios that exceed \$50,000,000. The dealer, broker, and financial institution must sign the "ROWAN COUNTY Investment Trading Relationship Agreement" or a modified version based on various specifics that may be agreed to.

Competitive Selection of Investment Instruments. The Finance Director shall determine which instruments shall be purchased and the desired maturity date. This determination will be based on known and projected cash flow requirements of the County, current money market conditions, and the relative percentage composition of various types of investments within the portfolio. After determining the type of investment(s) and the desired maturity date(s), he/she shall then obtain competitive bids of offered interest rates, or prices of desired securities, by telephone calls or e-mails to as many banks and dealers as is feasible under the circumstances. The number of bids solicited will be based on several factors, such as time restraints, amount of funds being invested, and the number of institutions that offer the desired security. The County will accept the bid which provides the highest rate of return within the maturity required and within the parameters of this policy. Under unusual or volatile money market conditions the finance officer, with concurrence of the County Manager or Internal Auditor, may exercise his/her prudent judgement and accept a firm bid without completing the normal solicitation process if the offered bid appears to be sufficiently attractive and may not remain available at the same rate if normal procedures are followed. In order to maintain portfolio balance and to increase yields, the trading of investment securities is often beneficial to the County. Since these "swaps" are not normally susceptible to the bidding process, primarily due to simultaneous buy and sell executions and constant price changes due to market volatility, the normal bidding process may be waived by the Finance Director with concurrence from the County Manager or Internal Auditor.



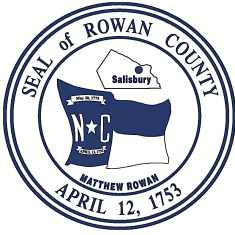
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The solicitation and receipt of bids as well as exceptions shall be documented and retained for a period of 5 years by the Finance Department. The Internal Auditor shall audit for policy compliance in January of each year.

V. Authorized investments

Authorized investments. NCGS 159-30(c) provides a comprehensive listing of legally authorized investments. Rowan County's portfolio may only include the classes of securities specifically authorized by this statute. The following is not an exhaustive list but includes the most common legally authorized investments:

1. Obligations of the United States or obligations fully guaranteed as to principal and interest by the United States (Treasury Bills or Notes).
2. Obligations of Federal Agencies such as but not limited to: Federal Farm Credit Bank, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Fannie Mae, and Governmental National Mortgage Association.
3. Obligations of the State of North Carolina.
4. Bonds and notes of any North Carolina local government or public authority.
5. 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 at the date of purchase.
 - a. Examples of nationally recognized rating agencies include Standard & Poor's, Fitch Group, and Moody's.
6. Participating shares in a mutual fund for local government investment, approved by the Local Government Commission.
 - a. The North Carolina Capital Management Trust Government Portfolio (NCCMT)
 - b. North Carolina Investment Pool if approved by resolution of the Board of Commissioners
7. Diversification guidelines
 - a. At a minimum 30% shall always be invested in the NCCMT. The investment may go up to 100% if deemed necessary.
 - b. The remaining 70%
 - i. Approximately 65% and up to 100% in Treasury Bills, Notes or Government Agencies. Laddered, not to exceed 5 years.
 - ii. No more than approximately 35% in commercial paper laddered, not to exceed 270 days.
 - c. Issuer: At no time shall more than \$10,000,000 be in any one corporate issuer for commercial paper.



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VI. Internal controls and reporting

1. *Reporting.* The Finance Director will be responsible for maintaining adequate records for investments. Such records include, but are not limited to:
 - a. *Schedule of investments.* A schedule of investments will be maintained that includes the security name, purchase date, cost, maturity date, and yield. This schedule will be used as supporting documentation for the monthly reconciliation.
 - b. *Mark-to-market.* At the end of the fiscal year, an investment officer will mark the value of investments, when appropriate, to market value in accordance with the guidance promulgated by the Governmental Accounting Standards Board (GASB). On the monthly reconciliation, an investment officer will report the variance between the cost and market value of investment portfolio. If the Finance Director believes this variance is material, and may adversely impact the financial statements, the Finance Director and investment officer will determine what action, if any, is necessary and will report the decision to the County Manager.
 - c. *Semi-annual LGC-203 report.* A semi-annual report of cash and investments will be prepared and submitted by the investment officer each January and July as required by NCGS 159-33. With the report, a supplemental schedule of investments will also be submitted that includes the specific security name, purchase date, cost, maturity date, and the market value of each investment as of the report date. This required report provides the Local Government Commission division of the North Carolina State Treasurer's Office with all cash and investment balances at December 31 and June 30.
 - d. *Quarterly Investment Report to County Commissioners.* The Finance Director shall submit quarterly investment reports to the Board of County Commissioners. The report shall summarize the investment activities in the most recent quarter and comment on anticipated investments in the next quarter. The report shall include a general description of the portfolio in terms of investment securities, maturities, yield, and other features. The report shall show investment earnings for the quarter and fiscal year-to-date. The report will compare actual investments earnings with budgetary expectations and will comment on actual and anticipated variances with the budget.