COMMONWEALTH OF VIRGINIA
COUNTY OF HENRICO
DEPARTMENT OF FINANCE

To: John A. Vithoulkas, County Manager

From: Investment Advisory Committee

Topic: Amendments to Investment and Cash Management Guidelines

Date: February 15, 2016

Please be advised that as of December 15, 2015, the Investment Advisory Committee has recommended the inclusion of Corporate Notes as an investment option for the County of Henrico and modified the Local Government Investment Pool limitation to remove the reference to a maximum of a $50 million investment. The following represents the revised language in the Investment and Cash Management Guidelines:

12.0 Diversification:

The investments shall be diversified by: limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities), limiting investment in securities that have higher credit risks, investing in securities with varying maturities, and continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Diversification by instrument:	**Maximum Percent of Portfolio**
U.S. Treasury Obligations (bills, notes and bonds)	100%
U.S. Government Agency Securities and Instrumentalities	70%
Municipal (Local and State) Bonds	70%
Banker's Acceptance (BA's)	40%
Money Market	40%
Certificates of Deposit (CD's) Commercial Banks	90%
Certificates of Deposit (CD's) Savings & Loan Associations	10%
Commercial Paper (max mandated by State Code)	35%
Local Government Investment Pool	75%
Corporate Notes (Long term "AA" from S&P, "Aa" from Moody's, Short term "A-1" from S&P, "P-1" from Moody's	20%

Diversification of funds to be invested in any one issuer:

No limit: FDIC, FSLIC, Collateralized Certificates of Deposit
No limit: U.S. Treasurers and Agencies
Maximum 5% of total portfolio for any Bankers' Acceptance, Commercial Paper, Corporate Notes or Municipal Bonds.

Notwithstanding the above, in no event shall the percent of portfolio by diversification of instrument or the diversification of funds to be invested in any one issuer be in excess of any limitation imposed by State law.

☑ I approve the revised language in Section 12.0 "Diversification"

______ Initials 2/15/2010

COUNTY OF HENRICO
INTER-OFFICE MEMORANDUM

TO: Virgil R. Hazelett, P.E., County Manager

SUBJECT: Revised Guidelines

FROM: Investment Advisory Group

DATE: December 10, 2008

Please be advised that as of December 8, 2008, the County has commenced transitioning its banking and investment activities to BB & T Corporation. Attached you will find the most recent revision to our "Investment and Cash Management Guidelines." Should you have any additional questions concerning this matter, please advise.

☑ I approve the attached Guidelines dated December 2008.

___ Initials

☐ I am currently withholding my approval pending the response to concerns which I have regarding the Guidelines.

___ Initials

Attachment

The County of Henrico, Virginia
Department of Finance

Investment
and
Cash Management
Guidelines

August 2011

COUNTY OF HENRICO, VIRGINIA
DEPARTMENT OF FINANCE
INVESTMENT AND CASH MANAGEMENT GUIDELINES

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COUNTY OF HENRICO, VIRGINIA
DEPARTMENT OF FINANCE
INVESTMENT AND CASH MANAGEMENT GUIDELINES

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The County of Henrico, Virginia
Department of Finance
Investment and Cash Management Guidelines

1.0 Guideline Statement:

It is the intent of the County of Henrico (the County) to invest public funds in a manner that will ensure that all available funds on deposit are invested in accordance with the laws of the Commonwealth of Virginia governing investments. Moreover, investments shall be made in a manner that assures the safety and return of principal, provides for cash flow needs, and maximizes investment income within these constraints.

2.0 Scope:

These investment guidelines apply to activities of the County with regard to investing the financial assets of all bond funds and all pooled cash funds. **These guidelines exclude retirement and pooled OPEB trust funds that are managed by the Virginia Retirement System and Virginia Association of Counties/Virginia Municipal League, respectively.** Except for cash in certain restricted and special funds, the County will pool cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. These funds are accounted for in the County's Comprehensive Annual Financial Report and include:

2.1 General Fund:

The General Fund accounts for all revenues and expenditures of the County that are not accounted for in the other funds. Revenues are primarily derived from general property taxes, local sales taxes, license and permit fees and revenues received from the State for educational purposes. A significant part of the General Fund's revenues is used to maintain and operate the general government; however, a portion is also transferred to other funds principally to fund debt service requirements and capital projects. Expenditures include, among other things, those for general government, education, public safety, highways and streets, welfare, culture and recreation.

2.2 Special Revenue Funds:

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds account for the resources obtained and used relating to State and Federal Grants, Mental Health and Mental Retardation programs, the Utility Department's Solid Waste and Street Light Operations and the School Cafeteria.

2.3 Debt Service Fund:

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on all Governmental Funds long-term debt except for accrued compensated absences and capital lease obligations for equipment which are paid by the fund incurring such expenditures. Debt Service Fund resources are derived from transfers from the General Fund.

2.4 Capital Projects Fund:

The Capital Projects Fund accounts for all general government capital projects which are financed through a combination of proceeds from general obligation bonds and operating transfers from the General Fund and Special Revenue Funds.

2.5 Enterprise Funds:

Enterprise Funds account for operations that are financed in a manner similar to private business enterprises, where the intent of the County is that the cost of providing services to the general public be financed or recovered through charges to users of such services. These funds account for the operation, maintenance and construction of the County-owned water and wastewater system (considered a single segment for financial reporting purposes) and the operation of a County-owned golf course.

2.6 Internal Service Fund:

The Internal Service Fund accounts for the County's Central Automotive Maintenance operation, Technology Replacement Fund and Health Insurance Fund. Resources for these funds come from inter-departmental charges.

2.7 Trust and Agency Funds:

The Trust and Agency Funds account for Fiduciary Funds administered by the County and consist of Expendable Trust and Agency Funds, which are accounted for in essentially the same manner as Governmental Funds.

3.0 Prudence:

Public Funds held by the County are held in trust for its citizens. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio of public funds. This standard provides that investments shall be made solely in the interest of the County's citizens and with the skill, care, prudence, judgement and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

4.0 Objectives:

The County's primary objectives, in priority order, of the cash and investment activities are as follows: To assure the safety of principal; to provide liquidity as required to satisfy cash flow needs; and to maximize investment income within the constraints of all laws of the Commonwealth of Virginia governing investment of public funds.

4.1 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.

4.1-1 Credit Risk:

To minimize credit risk, the risk of loss due to the failure of the security issues or backer, by:

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the County does business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

4.1-2 Interest Rate Risk:

To minimize the risk that the market value of securities in the portfolio will fall due to changes in general 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, money market mutual funds, Municipal bonds, U.S. Government obligations or similar investment pools.

4.1-3 Financial Statement Credit Risk:

In order to limit financial statement credit risk, the County's investments shall be maintained in a manner consistent with the Governmental Accounting Standards Board (GASB) Statement No. 3, "Accounting and Financial Reporting for Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements." This statement categorizes assumed risk at three levels:

Category 1: Includes investments that are insured or registered or for which the securities are held by the County or its safekeeping agent in the County's name. This is the highest level of safety.

Category 2: Includes uninsured or unregistered investments for which the securities are held by the financial institution's trust department or safekeeping agent in the County's name.

Category 3: Includes uninsured or unregistered investments for which the securities are held by the broker or dealer or by its safekeeping agent.

Every effort is made to ensure that the County's investments are categorized at Category Level 1 described above. This is accomplished through a trust agreement with a bank as agent to take custody of the collateral in the County's name.

4.2 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). A portion of the portfolio also may be placed in money market mutual funds or local government investment pools, which offer same-day liquidity for short-term funds.

4.3 Return on Investments:

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. Core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- A security swap would improve the quality, yield, or target duration in the portfolio; and
- Liquidity needs of the portfolio require that the security be sold.

5.0 Delegation of Authority:

The Director of Finance serves as the chief investment officer for the County and is responsible for investment decisions and activities, in accordance with the Code of Virginia and in accordance with established written procedures, guidelines and internal controls for the operation of the County's investment program. The Director of Finance may procure an outside investment management firm to manage the day-to-day operation of the investment portfolio. The Director of Finance, or designee, is granted the authority to administer the financial affairs of the County, including custody and deposit of all public funds belonging to or handled by the County in §15.2-617 and §15.2-620, of the Code of Virginia, 1950 as amended ("State Code"). Funds of the County shall be invested in accordance with the Code of Virginia, Investment of Public Funds Act, Chapter 45, Title 2.2, Sections 2.2-4500 through 2.2-4517 and the Virginia Security for Public Deposits Act, Chapter 44, Title 2.2, Sections 2.2-4400 through 2.2-4411.

5.1 Investment Advisory Group:

An Investment Advisory Group shall be established to advise the Director of Finance and to provide a systematic and formal review of the County's investment activity. This group will meet with the Investment Manager within 45 days of the end of the quarter and shall provide oversight over all County investments. The Investment Advisory Group shall discuss with the Investment Manager current economic trends, portfolio mix and performance, portfolio strategy and shall review and analyze quarterly investment management reports as provided by the Investment Manager.

5.1-1 Membership of the Investment Advisory Group:

- Deputy County Manager for Administration
- Director of Finance
- Accounting Division Director
- Budget Director
- Revenue Division Director
- Treasury Division Director
- Designee(s) Appointed by the Director of Finance

5.2 Liability of Treasurers or Public Depositors:

Virginia Code §2.2-4516 provides that when investments are made in accordance with the Investment of Public Funds Act, no treasurer or public depositor shall be liable for any loss therefrom in the absence of negligence, malfeasance, misfeasance, or nonfeasance on his part or on the part of his assistants or employees.

5.3 Investment Management Services:

The Director of Finance may contract with an authorized financial institution to provide investment management services to the County. These services shall be procured following procedures developed by the State and the County to insure competitive procurement of governmental services. The contract for investment management services shall be for a period, including renewals, of no more than five years.

5.3-1 Obligations of the Investment Manager to Provide Investment Management Services:

Any contract awarded for investment management services shall contain provisions requiring that:

- The Investment Manager shall be responsible for the day-to-day investment management of County assets, including specific security selection and timing of purchases and sales. Such management shall be performed within the constraints of applicable State law, accounting guidelines (including in particular governmental accounting guidelines) and the County's Department of Finance Investment and Cash Management Guidelines. Such management shall be performed in a manner the Investment Manager deems to be in the County's best interest and as agreed upon in quarterly strategy meetings with the County.

- The Investment Manager shall develop appropriate investment strategies. The Investment Manager shall agree to brief the County on a quarterly basis regarding anticipated strategies for the upcoming quarter and to review at that time the portfolio performance for the preceding quarter using standard benchmarks to evaluate the performance of the portfolio.

- The Investment Manager shall provide monthly to the County all necessary reports needed to properly account for the activities of the portfolio, including year-end interest accrual and amortization of premium or discount.

- The Investment Manager shall provide cash projections and forecasting to meet the County's cash flow needs.

- The Investment Manager shall provide quarterly to the County an evaluation of credit risk using a standard rating method for each security held in the portfolio.

5.3-2 Investment Procedures:

The Investment Manager shall establish written investment procedures for the operation of the investment program consistent with these investment guidelines.

5.3-3 Rights of the County:

Any contract awarded for investment management services shall reserve the following rights to the County:

- The right at any time to instruct the Investment Manager as to which of the County's securities shall be held and which are to be sold, and the right to instruct the Investment Manager as to the securities in which any and all of the County's funds shall be invested.

- The right at any time to change its Department of Finance Investment and Cash Management Guidelines and to establish new and different investment guidelines for the Investment Manager.

5.3-4 Inspections, Audits and Contract Administration:

Any contract awarded for investment management services shall require that:

- The Investment Manager shall have an annual independent audit performed at its own expense. A copy of this audit must be submitted to the County within 90 days of the end of the Investment Manager's fiscal year.

- The Investment Manager shall retain all books, records and other documents relating to the Investment Management Services for five (5) years after final contract payment, or until audited by the County, or its auditors, whichever occurs first. The Investment Manager shall agree to cooperate with, and make space available for, the County, its authorized agents or auditors or State auditors. The Investment Manager shall agree that these agents or auditors shall have full access to and the right to examine and copy any relevant materials. Such relevant materials shall be available on demand and without notice during normal working hours.

- The Investment Manager and the County each shall appoint a Contract Administrator who shall have the authority to see that the terms of the Contract are observed.

- The Investment Manager shall agree that the County's Contract Administrator may visit the Investment Manager to observe and inspect the operations of the Investment Manager in providing the Investment Management Services.

6.0 Ethics and Conflicts of Interest:

All persons involved in the investment process shall conduct themselves in accordance with the Code of Virginia, State and Local Government Conflict of Interests Act, Title 2.2, Chapter 31, Sections 2.2-3100 through 2.2-3131. More specifically, all persons 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. All persons involved in the investment process shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. All persons involved in the investment process shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County.

All persons involved in the investment process shall disclose to the County Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the County of Henrico.

7.0 Authorized Banks and Financial Dealers and Institutions:

The Investment Manager shall maintain a list of financial institutions authorized to provide depository or investment services respectively. The Investment Manager shall select security broker/dealers by creditworthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read and understood and agreeing to comply with the County's investment guidelines.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Investment Manager.

The Director of Finance may choose to periodically invest in instruments offered by minority and community financial institutions. In such situations, a waiver to the criteria under Section 9.0 "Authorized Banks and Financial Dealers and Institutions" may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law.

8.0 Suitable and Authorized Investments

The following investments will be permitted by these guidelines and are those defined by the Code of Virginia, Title 2.2, Investment of Public Funds Act, Sections 2.2-4500 through 2.2-4517 as permitted investments by political subdivisions. Currently, the County of Henrico does not maintain sinking funds as defined under the Code of Virginia, Section 2.2-4500.

The allowable types of investments under the Code of Virginia can be found in the following code sections:

Chapter 44 – Virginia Security for Public Deposits Act

2.2-4400.	Short title; declaration of intent; applicability
2.2-4401.	Definitions
2.2-4402.	Collateral for public deposits
2.2-4403.	Procedure for payment of losses by pooled method
2.2-4404.	Procedure for payment of losses by dedicated method
2.2-4405.	Powers of Treasury Board relating to the administration of this chapter
2.2-4406.	Subrogation of Treasury Board to depositor's rights; payment of sums received from distribution of assets
2.2-4407.	Mandatory deposit of public funds in qualified public depositories
2.2-4408.	Authority to deposit public funds
2.2-4409.	Authority to secure public deposits; acceptance of liabilities and duties by public depositories
2.2-4410.	Liability of treasurers or public depositors
2.2-4411.	Reports of qualified public depositories

Chapter 45 – Investment of Public Funds Act

2.2-4500.	Legal investments for public sinking funds
2.2-4501.	Legal investments for other public funds
2.2-4502.	Investment of funds of Commonwealth, political subdivisions, and public bodies in "prime quality" commercial paper.
2.2-4503.	Not set out
2.2-4504.	Investment of funds by the Commonwealth and political subdivisions in bankers' acceptances
2.2-4505.	Investment in certificates representing ownership of Treasury bond principal at maturity or its coupons for accrued periods
2.2-4506.	Securities lending
2.2-4507.	Investment of funds in overnight, term and open repurchase agreements

2.2-4508.	Investment of certain public moneys in certain mutual funds
2.2-4509.	Investment of funds in negotiable certificates of deposit and negotiable bank deposit notes
2.2-4510.	Investment of funds in corporate notes
2.2-4511.	Investment of funds in asset-backed securities
2.2-4512.	Investment of funds by State Treasurer in obligations of foreign sovereign governments
2.2-4513.	Investments by transportation commissions
2.2-4514.	Commonwealth and its political subdivisions as trustee of public funds; standard of care in investing such funds
2.2-4515.	Collateral and safekeeping arrangements
2.2-4516.	Liability of treasurers or public depositors
2.2-4517.	Contracts on interest rates, currency, cash flow or on other basis
2.2-4518.	Investment of funds in deposit

Chapter 46 – Local Government Investment Pool Act

2.2-4601.	Findings and Purpose
2.2-4602.	Local government investment pool created
2.2-4603.	Investment authority
2.2-4604.	Interfund pooling for investment purposes

9.0 Investment Pools/Mutual Funds

If governmental sponsored investment pools or money market funds are utilized, a thorough investigation of the pool/fund is required prior to investing, and on a continual basis thereafter. The investment manager will perform due diligence following these general guidelines:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

10.0 Safekeeping and Collateralization

As required by Code of Virginia, Section 2.2-4515, securities purchased pursuant to the provisions of this chapter shall be held by the public official, municipal corporation or other political subdivision or public body or its custodial agent who may not otherwise be a counterparty to the investment transaction. Securities held on the books of the custodial agent by a custodial agent shall be held in the name of the municipal corporation, political subdivision or other public body subject to the public body's order of withdrawal. The responsibilities of the public official, municipal corporation, political subdivision or other public body shall be evidenced by a written agreement that shall provide for delivery of the securities by the custodial agent in the event of default by a counterparty to the investment transaction.

As used in this section, "counterparty" means the issuer or seller of a security, an agent purchasing a security on behalf of a public official, municipal corporation, political subdivision or other public body or the party responsible for repurchasing securities underlying a repurchase agreement.

The provisions of this section shall not apply to investments with a maturity of less than thirty-one calendar days.

11.0 Custody:

Invested securities will always be held by an independent third party with whom the Investment Manager has a current custodial agreement.

12.0 Diversification:

The investments shall be diversified by: limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities), limiting investment in securities that have higher credit risks, investing in securities with varying maturities, and continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Diversification by instrument:	**Maximum Percent of Portfolio**
U.S. Treasury Obligations (bills, notes and bonds)	100%
U.S. Government Agency Securities and Instrumentalities	70%
Municipal (Local and State) Bonds	70%
Banker's Acceptance (BA's)	40%
Money Market	40%
Certificates of Deposit (CD's) Commercial Banks	90%
Certificates of Deposit (CD's) Savings & Loan Associations	10%
Commercial Paper (max mandated by State Code)	35%
Local Government Investment Pool (maximum $50 million)	75%

Diversification of funds to be invested in any one issuer:
No limit: FDIC, FSLIC, Collateralized Certificates of Deposit
No limit: U.S. Treasurers and Agencies
Maximum 5% of total portfolio for any Bankers' Acceptance, Commercial Paper or Municipal Bond.
Notwithstanding the above, in no event shall the percent of portfolio by diversification of instrument or the diversification of funds to be invested in any one issuer be in excess of any limitation imposed by State law.

13.0 Maximum Maturities:

To the extent possible, the County shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the County will not directly invest in any single security maturing more than five (5) years from the date of purchase.

Because of inherent difficulties in accurately forecasting cash flow requirements, **a minimum of $10,000,000** shall be continuously invested in readily available funds such as money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

13.1 Minimum Bank Balances:

The Department of Finance will establish a minimum balance for all bank accounts, with the exception of certain accounts that require a target balance to cover service charges for services provided by the bank. These service charges will be:

- Investment Management Fee
- Bank Services Cost
- Lockbox Fee

The County will maintain a minimum balance of $50,000 in each account unless the account requires a target balance (which will be determined by the bank based on volume of services). If funds exceed the minimum balance, they will be transferred monthly to the appropriate account to be invested with other County funds. If during the month, funds exceed the minimum balance by $400,000, the funds will be transferred immediately.

14.0 Investment of Bond Proceeds:

With certain exceptions, the Tax Reform Act of 1986 restricts the interest that may be earned on the unexpended proceeds of tax-exempt bonds issued after 1986. The average yield on investments purchased with bond proceeds may not exceed the yield on the bonds. Any excess earnings are considered arbitrage earnings and must be remitted to the U.S. Treasury. In order to determine if there are arbitrage earnings with respect to a series of bonds, all unexpended tax exempt bond proceeds of such series shall be invested separately or in the State Non-Arbitrage Pool (SNAP).

Notwithstanding the general policy that the Director of Finance shall refrain from specific fund investments, interest earned on these investments shall be allocated to the funds for which the bonds were issued.

15.0 Internal Controls:

The Investment Manager is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse. The internal control structure shall meet the requirements of GASB Statement 31, "Accounting and Reporting Certain Investments and for External Investment Pools," February 1997 and shall be designed to provide reasonable assurance that these objectives are met. 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 valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Investment Manager shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

15.1 Delivery vs. Payment:

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

16.0 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 will be compared on a regular basis. The quarterly investment report, as defined in section 17.0 below, shall compare the County's yield to, the Lipper Money Market, the 90 day T-Bills, the 1 year T-bills, the 2 year T-notes, the Merrill Lynch 1-3 year Government Index, and the 1-5 year Government Index. The Investment Manager will provide in his quarterly report the average life and modified duration of the holdings within the County's portfolio so an appropriate analysis of the earnings performance can be determined.

16.1 Marking to Market:

The market value of the portfolio shall be calculated monthly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed. In defining market value, considerations should be given to the GASB Statement 31, "Accounting and Reporting for Certain Investments and for External Investment Pools."

17.0 Reporting Method:

The Investment Manager shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the County to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Board of Supervisors, County Manager, Director of Finance, and members of the Investment Advisory Group.

The report will 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.
- Yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investments by maturity date.
- Percentage of the total portfolio that each type of investment represents.
- Any deviation from a Category 1 investment as defined in section 4.1-3 Financial Statement Credit Risk.

17.1 Annual Review of Bank Accounts:

The Accounting Division of the Department of Finance will review each bank account annually to determine if the account is required in order to meet the banking needs of the County. This review will be documented by approval of the list of existing bank accounts by the Director of Finance.

If an account is no longer needed, the bank will be notified by letter to close the account and transfer any remaining balance to an appropriate account indicated in the letter. Also, a closing statement would be requested at the same time.

A monthly review of each bank account will be made by the accountant responsible for bank reconciliations. The accountant will review with his supervisor, the Accounting Section Manager, all bank reconciliations. This review will be documented by the supervisor's initials on the reconciliation.

17.2 Bank Service Cost:

The Accounting Division Director will monitor and review monthly all bank accounts for banking services costs and related target balances used to earn service credits. This review will be for the purpose of determining if target balances are adequate to cover service charges each month. This review will be documented by a memo to the Director of Finance.

17.3 Investment Management Fee:

The Accounting Division Director will monitor and review monthly the Investment Management Fee charged by the County's Investment Manager. In addition, the management fee will be recalculated to determine accuracy of the calculation. This review will be documented by a memo to the Director of Finance.

18.0 Amendments to Guidelines:

These guidelines shall be reviewed on an annual basis by the Investment Advisory Group. Any changes to the guidelines shall be discussed by the Director of Finance with the Deputy County Manager for Administration prior to the changes becoming final.

19.0 Glossary of Terms

The following is a glossary of key investment terms.

Accrued Interest - The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally Sponsored Agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of a federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Amortization - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Average Life - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

Bid - The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Callable Bond - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk - The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Collateralization - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Commercial Paper - An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Convexity - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Counterparty - The issuer or seller of a security, an agent purchasing a security on behalf of a public official, municipal corporation, political subdivision or other public body or the party responsible for repurchasing securities underlying a repurchase agreement.

Credit Quality - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return) - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Delivery Versus Payment (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Derivative Security - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Discount - The amount by which the par value of a security exceeds the price paid for the security.

Diversification - A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Funds (Fed Funds) - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate - Interest rate charged by one institution lending federal funds to the other.

Government Securities - An obligation of the U.S. Government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. Securities Market. See "Treasury Bills, Notes, and Bonds."

Interest Rate – The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "coupon rate".

Interest Rate Risk - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. 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 valuation of costs and benefits requires estimates and judgments by management.

Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial Safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by

written communications and approved by the appropriate person. Written communications may be via fax if on letterhead, and if the safekeeping institution has a list of authorized signatures.

7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverted Yield Curve - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Company Act of 1940 - Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Guideline - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Investment-grade Obligations - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

Liquidity - An asset that can be converted easily and quickly into cash.

Local Government Investment Pool (LGIP) - An investment by local governments in which their money is pooled as a method for managing local funds.

Mark-to-Market - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk - The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value - Current market price of a security.

Maturity - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder.

Money Market Mutual Fund - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

Municipal Bond - A debt security issued by a city, county or other local government, or their agencies which is exempt from federal taxes and from most state and local taxes. Also known as a "muni", Municipal bonds may be general obligations of the issuer or secured by specified revenues.

Mutual Fund - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

Mutual Fund Statistical Services - Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services, and Morningstar.

National Association of Securities Dealers (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Net Asset Value - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. [Total assets) - (Liabilities)]/(Number of shares outstanding)]

No Load Fund - A mutual fund which does not levy a sales charge on the purchase of its shares.

Nominal Yield - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

Offer - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

Par - Face value or principal value of a bond, typically $1,000 per bond.

Positive Yield Curve - A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium - The amount by which the price paid for a security exceeds the security's par value.

Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Prudent Person Rule - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Regular Way Delivery - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

Reinvestment Risk - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase Agreement (repo or RP) - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse Repo) - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Rule 2a-7 of the Investment Company Act - Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

Safekeeping - Holding of assets (e.g., securities) by a financial institution.

Serial Bond - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Swap - Trading one asset for another.

Term Bond - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Return - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

Treasury Bills - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Notes - Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from $1,000 to $1 million or more.

Treasury Bonds - Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.

Uniform Net Capital Rule - SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

Volatility - A degree of fluctuation in the price and valuation of securities.

"Volatility Risk" Rating - A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc-" by S&P, "V-10" by Fitch).

Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

When Issued (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield-to-Call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-maturity - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Zero-coupon Securities - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.