

Town of Huntersville
Cash Management and Investment Policy

I. Governing Authority

Legality

The cash management and investment programs of the Town of Huntersville (hereafter the “Town”) shall be operated in conformance with federal, North Carolina, and other legal requirements, including provisions of the North Carolina General Statutes (hereafter “G.S.”) , specifically The Local Government Budget and Fiscal Control Act (the “LGBFCA”), primarily G.S. 159-30 – Investment of idle funds; G.S. 159-31 – Selection of depository, deposits to be secured; and G.S. 159-32 – Daily deposits; and the related statutes.

II. Scope

This policy applies to the management of cash and investment of all funds, excluding petty cash accounts.

1. Pooling of Funds

Except for cash in separate bond 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 G.S. 159-30(e).

III. 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 VII 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 V, 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 this policy (see section VIII).

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. 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 G.S. 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.

IV. 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 officer and derived from G.S. 159-30. The finance officer 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 officer. The finance officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. 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 Town of Huntersville Board of Commissioners pursuant to G.S. 159-31 to act as its official depositories and to provide banking services. In addition, the Town will maintain a list of security broker-dealers authorized to provide investment services and selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000, at least five years of operation, and meeting the criteria listed below). 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, 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 officer.

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 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 (SAS) 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 officer.

3. Internal Controls

The finance officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town. Compliance with these procedures is to be addressed 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 (GASB) Statement No. 40 – “Deposit and Investment Risk Disclosures”.

VII. Suitable and Authorized Investments

1. Investment Types

Only the investments authorized by G.S. 159-30 will be permitted by this policy.

2. Collateralization

As required by G.S. 159-31(b) - Selection of depository; deposits to be secured, full collateralization will be required on all funds on deposit or deposited at interest. The finance officer is responsible for notifying the depository at the time a new deposit account is opened or a certificate of deposit is purchased that the account is a public deposit account subject to the collateralization requirements.

3. Repurchase Agreements

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

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 risks.
- For Commercial Paper, no more than 5% of the Town's total investment portfolio may be concentrated with one issuer and issuers with at least one long-term rating are preferred.

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 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 (3) years from the date of purchase or in accordance with state and local statutes and ordinances. The Town shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding three (3) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the Town of Huntersville Board of Commissioners prior to the investment.

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 or other collateralized funds with pooling method banks to ensure that appropriate liquidity is maintained to meet ongoing obligations.

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, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the month. This management summary will be prepared in a manner which will allow the Town to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Town Manager and the Town Board of Commissioners. 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 investments 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 with each depository and provide a copy to the State Treasurer as of June 30 of each year;
- The semi-annual reports on form LGC 203 required to be filed with the Local Government Commission pursuant to G.S. 159-33 – Semiannual report on status of deposits and investments;
- The Annual Financial Information Report (“AFIR”) required to be filed with the Local Government Commission pursuant to G.S. 159-33.1 – Semiannual report of financial information; and
- Such other report as may, from time to time, be required.

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 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 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.

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 Town of Huntersville Board of Commissioners and reviewed annually.

XII. Attachments: G.S. 159-30 – Investment of idle funds

Investment Trading Relationship Agreement

Policy adopted [*amended*] by resolution dated: [*Date*]

NC G S § 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.)

Town of Huntersville Investment Trading Relationship Agreement

In consideration of and as a prerequisite to conducting investment business with the Town of Huntersville, 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 Town of Huntersville 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 Town that is not an authorized investment under the Town’s Cash Management and Investment Policy and the NC General Statutes, including the NC Attorney General’s interpretations thereof.
- The FIRM certifies that it will inform the Town if any instrument offered for purchase possesses a rating that is dependent on a letter of credit.
- The FIRM certifies that it is a qualified institution within the meaning prescribed in the Town’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 Town.

CONFIRMATION AND TRANSACTIONS

- The FIRM agrees that it will send confirmation on every transaction promptly to the following address:
Attn: Jackie Huffman
Finance Director
Town of Huntersville
PO Box 664
Huntersville, NC 28070
- The FIRM recognizes that the only authorized investment representatives of the Town are the Finance Director and Assistant Finance Director.
- The FIRM agrees to send a quarterly statement of financial position and an audited annual financial statement to the Town Finance Director within 10 business days after each business period.
- This agreement may be canceled upon written notification by the FIRM or the Town. The agreement is automatically canceled if the FIRM ceases to be a qualified institution within the meaning prescribed by the Town’s Cash Management and Investment Policy.
- The undersigned authorized representative of the FIRM agrees on behalf of the FIRM, that the provisions of this agreement will be followed relating to the permissible investments and that if the Town sustains losses as a result of the FIRM’s failure to abide by the provisions of this agreement relating to the permissible investments, then the FIRM will be liable for resulting losses and will reimburse the Town the amount of these losses. Where interest-bearing or discounted instruments are involved, calculation of the loss shall include any interest earnings or amortized discount that the Town would have been entitled to from the date of the investment to the date of settlement for the loss.

- The FIRM agrees that any changes to this agreement will not be effective unless authorized in writing by the Town Finance Director. The Town agrees that it will notify the FIRM of any changes in its Cash Management and Investment Policy. This agreement becomes effective upon signature of the Town Finance Director.

Firm

Person Authorized to Bind Firm (Type or Print)

Signature

Date

Position/Title

Town of Huntersville

Jackie Huffman, CPA Finance Director