

Investments and Deposits Policy

1. Background

- a) Investment and deposits policy represents a joint policy between the County and the Treasurer.
- b) It is recognized that the Treasurer is an elected official whose responsibilities are delineated by the Code of Virginia and that this policy is meant to illustrate strong fiscal management of a County and not to circumvent the powers of the constitutional office as the Treasurer works with the County in seeking input and collaboration in designing policies, controls and other best practices in treasury management.
- c) Investment and deposits policy is designed to serve as a guideline from which all County deposits and investments will be managed.
- d) In recognition of its fiduciary role in the management of all public funds entrusted to its care, it shall be the policy of the County that all investable balances be invested with the same care, skill, prudence and diligence that a prudent and knowledgeable person would exercise when undertaking an enterprise of like character and aims under circumstances prevailing at that time.
- e) Any modification to this policy shall require the approval of the Treasurer and Board of Supervisors.

2. Investment Objectives

- a) Safety - the safeguarding of principle shall be the foremost objective of the investment program by mitigating credit risk and interest rate risk with all other objectives subordinated to the attainment of this objective.
- b) Liquidity - the investment portfolio shall be managed at all times with sufficient liquidity to meet all daily and seasonal needs, as well as special projects and other operational requirements either known or which might be reasonably anticipated.
- c) Yield - the investment portfolio shall be managed with the objective of obtaining no worse than a fair value rate of return over the course of budgetary and economic cycles, taking into account the constraints contained herein and the cash flow patterns of the County.

3. Allowable Investments

- a) Investments shall be diversified so that exposure to market fluctuations is limited.
- b) All investments shall be in compliance at all times with provisions in the Code of Virginia.
- c) No investment maturity or duration will exceed five years.
- d) Investment grades shall be based upon the rating agencies of Moody's Investors Services, Inc. (Moody's), Standard and Poor's, Inc. (S+P), Fitch Investors Service (Fitch) and Thomas Bankwatch.
- e) The following table illustrates County allowable investment constraints with any additional capacity allowed under the Code of Virginia noted.
 - i) 100% maximum in US Treasury Agency Bills, Notes and Bonds.
 - ii) 25% maximum in State bonds, notes and other evidences of indebtedness with an investment grade from two of the rating agencies of at least A by Moody's, A by S+P or A by Fitch (*State capacity is 100%*).
 - iii) 25% maximum county, town, city, district, authority or other public body bonds, notes and other evidences of indebtedness with an investment grade from two of the rating agencies of at least A by Moody's, A by S+P or A by Fitch (*State capacity is 100%*).
 - iv) 100% maximum in savings accounts or time deposits.
 - v) 50% maximum in repurchase agreements (*State capacity is 100%*).
 - vi) 40% maximum in banker's acceptances with an investment grade of at least B/C by Thomas Bankwatch (*State capacity is 100%*).
 - vii) Commercial paper.

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- (1) 35% maximum.
 - (2) No maturity exceeding 270 days.
 - (3) No more than 5% of total funds invested in one issuing corporation.
 - (4) Issuing corporation, or its guarantor, has a net worth of at least \$50 million and the net income has averaged \$3 million for the five previous years (*No State restriction*).
 - (5) Investment grade from two of the rating agencies of at least P-1 by Moody's, A-1 by S+P or F-1 by Fitch.
- viii) 50% maximum in corporate notes and investment grade from two of the rating agencies of at least Aa by Moody's and AA by S+P (*State capacity is 100%*).
- ix) 100% maximum in certificates of deposit.

4. Prohibited Securities

- a) The following securities shall be expressly prohibited, unless specifically approved in writing by the Treasurer:
- i) Derivative products that include any of the following characteristics: high price volatility, illiquid markets, products that are not market tested, highly leveraged products, products requiring a high degree of sophistication to manage, and products that are difficult to value.
 - ii) Reverse repurchase agreements (repos).
 - iii) Any other security not specifically authorized in this policy or related regulation.

5. County Internal Controls

- a) The County shall maintain a system of internal controls which shall be documented and reviewed with internal and independent auditors and meet the requirements of the Government Accounting Standards Board.
- b) These controls shall be designed to provide reasonable assurance to prevent losses of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.
- c) There shall be a separation of transaction authority from accounting and record keeping with all transaction activity properly documented in the Treasurer's cash receipts system and bank reconciliations to the general ledger performed monthly.
- d) Treasurer and County officials 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.
- e) The Treasurer shall annually update the Board of Supervisors and at least quarterly update County administration on securities held, maturities, investment returns, unrealized gains (loses), comparisons to established benchmarks, market conditions and prevailing investment philosophy.
- f) Bank transfers.
- i) Dual authorizations representing the County and the Treasurer shall be in compliance with the Accounting Policy for all transfers that move County funds from a County account to a non-county account (e.g., debt service payments).
 - ii) In addition, the Treasurer's Office will have dual processing procedures requiring two people to conduct transfers with County bank accounts.
 - iii) All financial institutions utilized by the County will have written instructions regarding County authorizations for wire transfers, restrictions on accounts funds can be wired and other procedures that will mitigate unauthorized movement of funds (e.g., call-back to independent person, written confirmations, etc.).

Investment and Deposits Regulations

1. Background

- a) Unless otherwise specifically referenced, all investment actions, controls and reporting shall be the responsibility of the Treasurer's Office with any exceptions to the policy to be properly documented, approved in writing by the Treasurer and communicated to County officials.
- b) Standards used as a formulation of policy include standard setting bodies of federal and state authorities as well as professional organizations.

2. Allowable Investments

- a) Compliance with County diversification shall be demonstrated at time of investment acquisition, with compliance under State's allowable investments to be maintained throughout.
- b) Investments shall be diversified so that exposure to market fluctuations is limited.
- c) All investments shall be in compliance at all times with provisions in the Code of Virginia.

3. Maturity Restrictions

- a) It is recognized that, prior to maturity date, the fair value of securities in the County's portfolio may fluctuate due to changes in market conditions.
- b) In view of this and the County's investment objectives, every effort shall be made to manage investment maturity to precede or coincide with the expected need of funds.
- c) No investment will be sold prior to maturity unless more attractive investment opportunities exist or the County needs to liquidate investments to meet unanticipated obligations.
- d) Funds shall be invested at all times in keeping with the seasonal pattern of the County's cash balances, as well as any other special factors or needs, in order to assure the availability of funds in a timely and liquid basis.
- e) Cash flow projections will be monitored and updated on an ongoing basis jointly by the County's Finance Department and Treasurer's Office and communicated regularly to the investment managers.

4. Custodial Requirements

- a) All securities purchased for the County shall be held by the County or by the County's designated custodian.
- b) If held by a custodian, the securities must be in the County's or in the custodian's nominee name and identifiable on the custodian's books as belonging to the County and the custodian must be a third party, not a counter-party (buyer or seller).
- c) This requirement does not apply to excess checking account funds invested overnight in a bank "sweep" repurchase agreement or similar vehicle.
- d) All trades where applicable will be executed by delivery vs. payment to ensure that securities are deposited in the eligible financial institution prior to the release of funds.

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- e) The avoidance of physical delivery of securities will be sought as book entry securities are much easier to transfer and account for since actual delivery of a document never takes place.
- f) Bond proceeds
 - i) Proceeds placed with a trustee shall be subject to this investment policy.
 - ii) Cash flow requirements for the bond proceeds shall be prepared by the project financial manager and shall be used as a guide in structuring the maturity of the bond proceeds portfolio.
 - iii) Debt covenants and arbitrage requirements will be designed to maintain compliance with both debt and investment policies with any arbitrage liability adjusting net investment income in the year in which the liability was incurred.
 - iv) Reimbursement requests to the trustee for bond proceeds will be prepared by project financial manager within a timely manner so as to parallel project-related disbursements.
 - v) Debt service reserve funds shall be maintained and invested, as applicable, in compliance with debt agreements.
 - vi) Trustees, third party financial institution agents, shall be utilized in compliance with debt agreements.

5. Deposits Objectives

- a) All cash balance accounts established shall be in interest earning accounts with the following exceptions:
 - i) The primary bank account, in which a compensating balance shall be maintained to negate any management and service fees imposed by primary bank.
 - ii) Banks utilized as clearing accounts because of a desirable and convenient location to the taxpayer and/or to a County function which performs deposits (e.g., school cafeteria).
- b) All depositories will meet the standards for collateralization as set forth in the Virginia Security for Public Deposits Act or be covered by Federal Depository Insurance (FDIC).

6. Financial Institutions

- a) All banks, financial institutions, investment managers and other depositories (financial institutions) shall demonstrate an acceptable level of financial stability both before receiving/managing County funds and periodically thereafter.
- b) Annual financial reports will be provided to the County by its financial institutions.
- c) For all financial institutions with investments above FDIC requirements and/or above collateralization levels as required by the Public Deposits Act, documentation of the internal control environment can be demanded by the County.
- d) The County's Finance Department and Treasurer's Office shall jointly select a primary banking institution through a request for proposal process at least every five years.

7. County Internal Controls

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- a) All portfolios will be reviewed monthly by the Treasurer's Office and as part of the year-end audit to determine compliance with investment policy.

8. Disclosure

- a) All investment income shall be recorded monthly on an accrual basis net of investment management fees to the appropriate fund that earned the investment income.
- b) Investment portfolios will be adjusted to the fair value of investments quarterly with any net increase (decrease) in fair value recorded as investment income with fair value defined as the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale with the following exceptions:
 - i) Non-participating contracts, such as non-negotiable certificates of deposits with redemption terms that do not consider market rates, should be reported using a cost-based measure.
 - ii) May report at amortized cost, money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less (unless credit standing of issuer has not affected value).
- c) Year-end financial statements will contain all required disclosures.

9. Investment Managers

- a) The County's Finance Department and Treasurer shall jointly select one or more investment managers through a request for proposal process at least every five years.
- b) A review of all investments and investment results shall be presented to the County Treasurer and Finance Director on a quarterly basis or as required.
- c) Mutually agreed upon investment benchmarks shall be established for each investment portfolio which best reflect the goals and liquidity of each portfolio and to evaluate the performance of an investment portfolio and its investment manager.
- d) A list of individuals authorized to transfer funds or otherwise conduct investment transactions on behalf of the County shall be maintained and communicated to all affected parties.
- e) All investment advisors and financial institutions shall be required to sign an agreement ensuring compliance with investment policy.