

Town of Atlantic Beach Investment Policy

I. Scope

This policy applies to the investment of short-term operating funds. Longer-term funds, including investment of employees' retirement funds and proceeds from certain bond issues, shall be covered by a separate policy.

1. **Pooling of Funds** Except for cash in certain restricted and special funds, the Town will consolidate 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.

II. General Objectives

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

1. **Safety** Safety of principal is the foremost objective of the investment program. Investment of Town funds 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, the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the safest type of securities
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Town will do business
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
 - b. **Interest Rate Risk** The Town will minimize the risk that the market value of securities in 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 prior to maturity
 - Investing operating funds primarily in short-term securities, money market funds, or similar investment pools.
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 funds or local government investment pools which offer same-day liquidity for short-term funds.

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 of 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.
 - Liquidity needs of the portfolio require the security to be sold.

III. Standards of Care

1. **Prudence** 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. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for and individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived.

2. **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 personal financial/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.

3. **Delegation of Authority** Authority to manage the investment program is granted to the Finance Director hereinafter referred to as investment officer and derived from the following G.S. 159-24. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/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 investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

IV. Safekeeping and Custody

- **Authorized Financial Dealers and Institutions** The Town of Atlantic Beach will only deposit monies in financial institutions that are members of the Collateralization of Public Deposits and Pooling Bank List that is compiled by the State of North Carolina Department of Treasurer. (See attached list)

1. **Internal Controls** The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse. The internal control structure shall be designed to 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 judgements by management.

Accordingly, the investment officer shall establish a process for an annual independent review by an external or independent 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 recordkeeping
- 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

2. **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.

V. Investment Parameters

1. **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 pools, money market funds or authorized overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations
2. **Maturity Quotes** The investment officer is responsible for receiving quotes from Authorized Financial Dealers and institutions for maturing certificates of deposit.. The investment officer will award the quote to the highest bidder. It is the Town's goal to seek the maximum interest available as well as to consider liquidity and cash flow needs.
3. **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 five (5) years from the date of purchase or in accordance with state and local statutes and ordinances. The Town shall adopt weighed average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

VI. Reporting

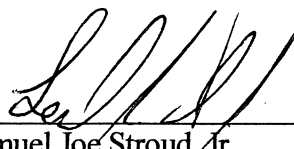
1. **Methods** The investment officer shall prepare an investment report monthly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. The report will include the following:
 - Listing of individual securities 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 over one-year duration that are intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
 - Average weighed yield to maturity of portfolio on investments as compared to applicable benchmarks.

- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

VII. Policy Considerations

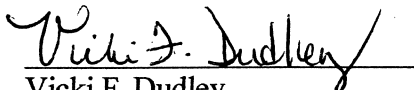
1. **Exemption** Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.
2. **Amendments** This policy shall be reviewed on an annual basis. Any changes must be approved by the Town Manager and the Town Board

ADOPTED, this the 16th day of October 2000.



Lemuel Joe Stroud, Jr.,
Mayor

Attest:



Vicki F. Dudley
Town Clerk, CMC

(SEAL)