

WEAKLEY COUNTY INVESTMENT POLICY

I. Scope

This policy applies to the investment of short-term operating funds. Longer-term funds, including donations and proceeds from certain bond and notes issues, are covered by a separate policy.

1. **Pooling of Funds** Except for cash in certain restricted and special funds, Weakley County will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the Debt Service fund or other fund designated by the county legislative body.

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. 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** Weakley County will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the safest types of securities
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which Weakley County will do business
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
 - b. **Interest Rate Risk** Weakley County will 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
 - Investing operating funds primarily in shorter-term securities, money market mutual 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 mutual funds or the Local Government Investment Pool 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 secondary importance compared to the safety and liquidity objectives described above. The cores 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 that the security 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 and 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 an 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 judgment 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 safety of their capital as well as 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 materials 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. Employees and officers shall refrain from undertaking personal investment transactions with the same institution with whom business is conducted on behalf of Weakley County.

- 3. Delegation of Authority** Authority to manage the investment program is granted to and derived from § 5-21-105 and § 5-21-107, TCA. 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: 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

- 1. Authorized Financial Dealers and Institutions.** A list will be maintained of financial institutions authorized to provide investment services.

All financial institutions who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements
- Certification of having read and understood and agreeing to comply with Weakley County's investment policy.

An annual review of the financial condition and registration of qualified financial institutions will be conducted by the investment officer.

From time to time, the investment officer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to the criteria under Paragraph 1 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. These types of investment purchases should be approved by the county legislative body in advance.

2. **Internal Controls** The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of Weakley County 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 judgments by management.
3. **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. Suitable and Authorized Investments

1. **Investment Types** Consistent with Section 5-8-301, Tennessee Code Annotated, the following investments will be permitted by this policy:
 - Bonds, notes, or treasury bills of the U. S. as well as other obligations guaranteed by the U. S. or its agencies;
 - Certificates of deposit and other evidence of deposit of state and federally chartered banks and savings and loan associations, provided that these investments are properly secured;
 - Obligations of the U. S. or its agencies under a repurchase agreement if made accordingly to state funding board procedures and approved by the director of local finance;
 - The state investment pool;
 - State bonds, if they have a rating of A or higher;
 - Nonconvertible debt securities of the following issuers provided such securities are rated in the highest category by at least two nationally recognized rating services:
 - (A) The federal home loan bank;
 - (B) The federal national mortgage association
 - (C) The federal farm credit bank;
 - (D) The student loan marketing association; and
 - The county's own bonds or notes issued in accordance with Title 9, Chapter 21.

- Prime commercial paper if it is rated in the highest category by at least two commercial paper rating services and the paper has a remaining maturity of ninety days or less.

Investment in derivatives of the above instruments shall require authorization by the county legislative body.

2. **Collateralization** Where allowed by state law and in accordance with the GFOA Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required on non-negotiable certificates of deposit.
3. **Repurchase Agreements** Repurchase agreements shall be consistent with GFOA Recommended Practices on Repurchase Agreements.

VI. 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 the Local Government Investment Pool (LGIP), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
2. **Maximum Maturities** To the extent possible, Weakley County shall attempt to match its investments with anticipated cash flow. Weakley County will not directly invest in securities maturing more than five (5) years from the date of purchase. Weakley County 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 five (5) 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 legislative body.

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 LGIP, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

VII. Reporting

- 1. Methods** The investment officer shall prepare an investment report at least bimonthly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last two months. This management summary will be prepared in a manner which will allow the county legislative body to ascertain whether investment activities during the reporting period have conformed to the investment policy. 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 not intended to be held until maturity.
 - Average weighted 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
- 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.
- 3. Marking to Market** The market value of the portfolio shall be calculated at least bimonthly and a statement of the market value of the portfolio shall be issued at least bimonthly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on “Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools.” In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

VIII. Policy Considerations

- 1. Exemption** Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of the 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 investment officer and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.