


EXHIBIT A

	VILLAGE OF PINEHURST STANDARD POLICY/PROCEDURE	
SUBJECT:	Investment Policy	Effective Date: 03/01/2005 Amended: 03/09/10
Department:	Financial Services	Policy No.: FIN-909.1
Prepared by:	Natalie Dean, Assistant Village Mgr.	# of Pages: 14

The purpose of this investment policy is to provide investment guidance to the statutory Finance Officer in the routine investment of public funds and to ensure public funds are invested within the limitations of the North Carolina General Statutes (NCGS).

I. Scope

This policy applies to the investment of short-term operating funds. Longer-term funds available for investment would include the proceeds from certain debt issues which are not covered by this policy.

Pooling of Funds - Except for cash in certain restricted and special funds, the Village 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 three 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* is the risk of loss due to the failure of the security issuer or backer. The Village will minimize this risk by:

- Limiting investments to the safest types of securities,
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Village will do business, and
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- b. *Interest Rate Risk* is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The Village will minimize this risk 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, 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 of 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 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 equality, yield, or target duration in the portfolio, or
 - Liquidity needs of the portfolio require that the security be sold.

Standards of Care

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 officials 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.

Ethics and Conflicts of Interest

Officials 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 interest 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 officials shall refrain from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of the Village.

Delegation of Authority

Authority to manage the investment program is outlined in NCGS §159-30 and granted to the Financial Services Director (i.e. the statutory Finance Officer), hereinafter referred to as investment officer. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with establish 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

A list will be maintained of financial institutions authorized to provide investment services. Banks approved for investments must be located in the State of North Carolina as required under G.S. 159-31(a). The Investment Officer shall review publicly available financial information to prequalify banks for investment deposits (CD's). Banks qualified for investments by the Investment Officer shall be deemed an official depository of the Village for investment purposes.

In addition, a list also will be maintained of approved security brokers/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements,
- Proof of Financial Industry Regulatory Authority (FINRA) certification,
- Proof of state registration,
- Completed broker/dealer questionnaire (Exhibit A), and
- Certification of having read and understood and agreeing to comply with the (entity's) investment policy.

An annual review of the financial condition and registration of qualified financial institution and broker/dealers will be conducted by the investment officer in March.

Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Village 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.

Accordingly, the investment officer shall establish a process for an annual 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 recording keeping,
- Custodial safekeeping,
- Clear delegation of authority to subordinate staff members,
- Written confirmation of transactions for investments and wire transfers, and
- Development of a wire transfer agreement with the lead bank and third-party custodian.

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**

Investment Types

Per North Carolina General Statutes (NCGS) §159-30, the Village is authorized to invest in the following classes of security and no other:

- a. Moneys may be deposited at interest in any bank, savings and loan association, or trust company in the State in the form of certificates of deposit or such forms of time deposit. **(Certificates of Deposit)**
- b. Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States **(Treasury Bills, Notes, and Bonds)**.
- c. 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, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, the United States Postal Service **(Agencies)**.
- d. Obligations of the State of North Carolina **(NC State Bonds)**.
- e. Bonds and notes of any North Carolina local government or public authority, subject to such restrictions as the secretary may impose **(NC Municipal Bonds)**.
- f. 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 Administrator of the Savings and Loan Division of the Department of Commerce of the State of North Carolina, be fully collateralized (**Certificates of Deposit**).

- g. 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 (**Commercial Paper**).
- h. Bills of exchange of 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 (1) incorporated in the State of North Carolina or (2) 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 (**Bankers Acceptances**).
- i. 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 sub section 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 (**North Carolina Capital Management Trust Fund – NCCMT**).
- j. Evidences of ownership of, or fractional undivided interest 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 (**Treasury Strips**).

The Village will not invest in derivatives of the above instruments.

VI. Investment Parameters

Diversification

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),
- 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 North Carolina Cash Management Trust Fund (NCCMT), which is a money market mutual fund, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Maximum Maturities

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

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in the NCCMT to ensure that appropriate liquidity is maintained to meet ongoing obligations.

VII. Reporting

Methods

The investment officer 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 Village to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report should be provided to the Village Manager and the Village Council. The report will include the following:

- a. Listing of individual securities held at the end of the reporting period,
- b. 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 (in accordance with Governmental Accounting Standards Board (GASB) requirements),
- c. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks,
- d. Listing of investment by maturity date, and
- e. Percentage of the total portfolio that each type of investment represents.

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.

Marking to Market

The market value of the portfolio shall be calculated at least quarterly 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 consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools."

VIII. Policy Considerations

Amendments

This policy shall be reviewed on an annual basis in March. Any changes must be approved by the investment officer, the Village Manager, and the Village Council, as well as the individual(s) charged with maintaining internal controls.

Approved by:



Andrew M. Wilkison, Village Manager

March 9, 2010

Date

#10-07

Village Council, Resolution

March 9, 2010

Date

Exhibit A
Broker/Dealer Request for Information

Section I: Statement of Position and General Requirements.

The Village of Pinehurst (hereinafter referred to as the "Village") is a local government operating under the laws of the State of North Carolina. The Village manages an operational portfolio ranging in size from \$3 million to \$5 million, which is comprised mainly of money market instruments. The Village has adopted a written Investment Policy that regulates the standards and procedures used in its cash management activities. A copy of the Investment Policy is attached as an Appendix to this document.

The Village maintains relationships with qualified members of the broker/dealer community who, in their opinion, understand the needs, constraints, and goals of the Village.

Broker/dealers will be notified of their approval by the Village in writing. No transactions will be conducted with an approved broker/dealer until all paperwork required by both parties has been executed. The Village solicits competitive bids and offers on the majority of its transactions. All securities will be delivered against payment to the third-party custodian named by the Village. Village personnel will review and substantiate all information and references requested in the document; therefore, please answer all questions as thoroughly as possible.

Section II – Part I: Request for General Information from Broker/Dealer Candidate

1. Name of firm _____

2. Address – Local
Headquarters _____

(Provide both street address and/or P. O. Box No., if applicable)

3. Telephone No. Local () _____

(800) _____

Headquarters () _____

Contact Personnel: (provide as an attachment if more space is required)

Name _____

CRD# _____

Title _____

Telephone No. _____

Name _____

CRD# _____

Title _____

Telephone No. _____

Name _____

CRD# _____

Title _____

Telephone No. _____

Provide background information concerning the account representatives listed in No. 4 above. Please include information on the individual's employment history as it relates to the securities industry, official licenses and certificates, the history and details of any disciplinary actions or complaints and the disposition of each as well as the history of any arbitration or litigation, the nature of the case and status or disposition.

5. Please provide the following information regarding at least four comparable clients with whom any of the representatives listed in No. 4 has an established relationship. We would prefer public sector clients in our geographical areas, if possible.

Client Name _____

Address _____

Person to Contact _____

Telephone No. _____

Length of Relationship _____

Client Name _____

Address _____

Person to Contact _____

Telephone No. _____

Length of Relationship _____

Client Name _____

Address _____

Person to Contact _____

Telephone No. _____

Length of Relationship _____

Client Name _____

Address _____

Person to Contact _____

Telephone No. _____

Length of Relationship _____

6. Has/have the representative(s) listed in No. 4 above been authorized by the firm to be account representative(s) for the Village of Pinehurst?

Yes _____ No _____

If yes, by whom? _____

7. Please list the name of the immediate supervisor of the account representative(s) named in your response to No. 4 above.

Briefly describe any formal program of supervision of the account representative(s) named in No. 4, if your firm has established such a program.

8. Is your firm a member of FINRA? Yes _____ No _____

If not, why? _____

9. Place an "X" by each regulatory agency that your firm is examined by and/or subject to its rules and regulations.

FDIC _____ SEC _____ NYSE _____

Comptroller of Currency _____ Federal Reserve System _____

Other (example: State Regulatory Agency). Multi-state firms please note: It is not necessary to include regulatory agencies that do not have jurisdiction over your firm's activities in the Village of Pinehurst.

10. Have you obtained all required licenses to operate as a broker/dealer in the state of North Carolina?

Yes _____ No _____

11. If you are not a Bank, please provide the following information regarding your principal banking relationship.

Bank Name _____

Address _____

Person to Contact _____

Telephone Number _____

Length of Relationship _____

12. Place an "X" in the block next to each of the instruments set forth below in which you make an active market (both buy and sell).

T-Bills _____

T Notes/Bonds _____

BA _____

Commercial Paper _____

Bank CDs _____

S & L CDs _____

GNMAs _____

FHLMCs _____

Other Federal Agencies (Please Specify) _____

Instrumentalities (Please Specify) _____

13. Does your firm specialize in any of the instruments listed above? If so, please specify which ones.

Section II – Part II: Request for Broker/Dealer Candidate Disclosure

14. To the best of your knowledge, has there been any "material" litigation, arbitration or regulatory proceedings, either pending, adjudicated or settled, that your firm has been subject to within the last five years that involved issues concerning the suitability of the sale or purchase of securities to institutional clients or fraudulent or unfair practices related to the sale of securities to an institutional client? If so, please describe each such matter briefly. For purposes of this section, proceedings are "material" if your independent accountant applying generally accepted accounting principles determines that such proceedings required disclosure on your financial statements.
15. Please provide certified audited financial statements for the last three years. In addition, for those dealers preparing and submitting financial statements to the

following organizations, please provide publicly available financial documents filed with these agencies for the previous two years:

Financial Industry Regulatory Authority Securities and Exchange Commission
New York Stock Exchange
Federal Deposit Insurance Corp.

16. Will the representative(s) assigned to the Village of Pinehurst account be required to read the Village of Pinehurst Investment Policy?

Yes _____ No _____

Section III: Certification

I hereby certify that the above is true and correct to the best of my knowledge and that I am authorized to execute this request for information on behalf of _____

Name of Firm _____

BY _____

*Title _____

DATE: _____

*Note the foregoing form must be signed by a registered principal of your firm.

RESOLUTION #10-07:

A RESOLUTION AMENDING THE INVESTMENT POLICY FOR THE VILLAGE OF PINEHURST, NORTH CAROLINA.

THAT WHEREAS, the Village of Pinehurst adopted an Investment Policy by Resolution 05-08 on March 22, 2005 to provide investment guidance to the Finance Officer in the investment of public funds; and

WHEREAS, the Village of Pinehurst has amended the Investment Policy from time to time; and

WHEREAS, the Village of Pinehurst desires to amend the most recently approved Investment Policy to modify financial institution and broker/dealer qualifications and make other minor changes.

NOW, THEREFORE, BE IT RESOLVED by the Village Council of the Village of Pinehurst, North Carolina, in work session assembled this 9th day of March, 2010, as follows:

SECTION 1. That the aforementioned "Investment Policy" is hereby amended, and the amended policy attached hereto as Exhibit A is made a part of hereof, the same as if included verbatim.

SECTION 2. That this resolution shall be and the same is hereby effective from and after the date of its adoption.

ADOPTED this 9th day of March, 2010.

(Municipal Seal)



VILLAGE OF PINEHURST
VILLAGE COUNCIL

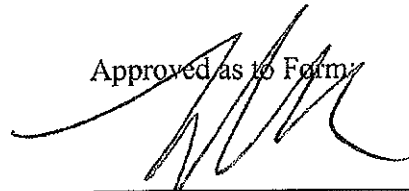
By: 

Virginia F. Fallon, Mayor

Attest:


Linda S. Brown, Village Clerk

Approved as to Form:


Michael J. Newman, Village Attorney