

## **INVESTMENT POLICY**

### **I. POLICY**

It is the policy of Talbot County Public Schools (hereinafter referred to as TCPS) to invest public funds in a manner that will conform to all State of Maryland and County statutes governing the investment of public funds. TCPS may not borrow money for the sole purpose of investment

### **II. SCOPE**

This investment policy applies to all financial assets of TCPS. These funds are accounted for in TCPS Annual Financial Report and include:

- A. General Fund
- B. Special Revenue Funds
- C. Capital Projects Funds
- D. Trust and Agency Funds
- E. Any new funds as provided by State of Maryland ordinance.

This policy does not cover funds placed in an approved TCPS Deferred Compensation Program (457 or 403B Plan). Deferred compensation funds will be administered by an independent plan administrator according to the instructions of the participants.

### **III. PRUDENCE**

- A. The standard of prudence to be applied by the investment officer shall be the “prudent person” rule, which states:

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.

The prudent person rule shall be applied in the context of managing the overall portfolio.

B. Investment officers acting in accordance with the investment policy and exercising due diligence shall not be held personally responsible for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the Director of Finance and Talbot County Board of Education members and appropriate action is taken to control developments.

#### **IV. INVESTMENT OBJECTIVES**

The primary objectives, in priority order, of TCPS investment activities shall be:

A. Safety: Safety of principal is the foremost objective of the investment program. Investments of TCPS shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification, third party collateralization and safekeeping, and delivery versus payment will be required.

B. Liquidity: TCPS investment portfolio shall remain sufficiently liquid to enable to meet all operating requirements, which might be reasonably anticipated.

C. Return on investment: TCPS investment portfolio shall be designed with the objective of attaining a return at least equal to the three month U.S. Treasury bill yield. The three-month Treasury benchmark was selected after considering TCPS investment risk constraints and the cash flow characteristics of the portfolio.

#### **V. DELEGATION OF AUTHORITY**

A. Authority to manage TCPS investment program is derived from State law (Article 9S § 22 and state Finance and Procurement Article ~ 6-222 and 6-223 of the Annotated Code of Maryland).

B. The Director of Finance is responsible for the management and supervision of TCPS investment program, consistent with this investment policy. The Director of Finance shall develop and maintain written procedures for the operation of the investment program, which shall include:

1. Explicit delegation of authority to persons (investment officers) responsible for investment transactions. No person may engage in an investment transaction except as provided under terms of this policy and the procedures established by the Director of Finance.

2. Requirements relating to safekeeping, delivery versus payment, wire transfers agreement collateral depository agreements and banking service agreements.

C. The Director of Finance shall be responsible for all transactions undertaken and shall establish

a system of controls to regulate the activities of the investment officers.

## **VI. ETHICS AND CONFLICTS OF INTEREST**

Officials and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment officers shall disclose to the Director of Finance any material financial institutions that conduct business within the County and they shall further disclose any large personal financial/investment positions that could be related to the performance of TCPS portfolio. Officials and employees shall subordinate their personal investment transactions to those of TCPS particularly with regard to the timing of purchases and sales.

## **VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

TCPS shall maintain a roster of financial institutions, which are approved for investment purposes. The following list identifies the types of institutions approved to process TCPS investment transactions along with the types of investment transactions handled by each institution type:

A. Primary Government Dealers: The Federal Reserve Bank of New York designate primary government dealers in government securities, can purchase all authorized and suitable investments as listed in Section VIII of this policy, except for certificates of deposits from primary government dealers. Primary government dealers approved by TCPS for investment purposes are required to send TCPS an audited financial report on an annual basis.

B. Other security Dealers; TCPS may purchase U.S. Treasury obligations from dealers other than primary government dealers and from dealer banks which market these securities.

1. All dealers must agree to TCPS policy of delivery—versus-payment as described in section XI of this policy.
2. The firm must provide copies of its audited financial statements on an annual basis, which are to be reviewed carefully to assure the firm is financially sound. The firm must also have adequate capital to fulfill its commitments under adverse market conditions.
3. The firm must be registered in the State of Maryland with a record for responsible business practices and professional integrity. The dealer must also provide adequate research facilities and market related information.
4. TCPS will deal only through knowledgeable and experienced salespeople. The firm must

send resume information on the salesperson assigned to TCPS. The firm must also send a list of other government clients buying and selling securities through their firm. This list will be used to obtain references.

C. Commercial Banks: TCPS can invest only in Certificates of Deposit in banks located in the state of Maryland. All banks shall provide their most recent consolidated Report of Condition (“call” report) at the request of TCPS conduct an annual evaluation of each bank’s credit worthiness to determine whether it should be on the “Qualified Institution” listing.

D. Maryland Local Government Investment Pool: TCPS is authorized to invest in the Maryland Local Government Investment Pool that functions as an U.S. Treasury Money Market Fund.

### **VIII. AUTHORIZED AND SUITABLE INVESTMENTS**

The Director of Finance is hereby authorized to invest excess funds of TCPS in the following instruments:

A. U.S. Treasury Obligations.

B. Maryland Local Government Investment Pool.

C. Certificates of Deposits with commercial banks. A summary of the Maryland law pertaining to authorize instruments is attached as Exhibit B.

### **IX. DIVERSIFICATION OF INVESTMENTS**

TCPS will diversify to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities.

Maximum Percent of Portfolio

#### **A. Diversification By Instrument Portfolio**

U.S. Treasury Obligations	100%
Collateralized certificates of Deposit	100%
Maryland Local Government Investment Pool	75%

#### **B. Diversification of Maturities**

In order to meet the objectives of TCPS investment activities as listed in Section IV of this policy, the majority of the investments of TCPS will be on a short-term basis (less than one year).

However, with the approval of the Director of Finance and TCPS Board Members a portion of the portfolio can contain investments with longer maturities (up to two years). Such investments

should not jeopardize the safety or liquidity standards of the portfolio and should increase the overall yield of the portfolio. Investments in long—term maturities will be limited to U.S. Treasury obligations.

## **X. COLLATERALIZATION**

A. Collateralization will be required on certificates of deposit. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at least 102% of the market value of the principal and accrued interest.

B. Collateral will always be held by an independent third party with whom TCPS has a current custodial agreement.

C. Acceptable collateral is specified under Section 6-202 of Title 6 of the state Finance and Procurement Article of the Annotated code of Maryland. However, the third party trust custodian, who holds the collateral, has the right to reject otherwise acceptable collateral based on their discretion concerning market conditions.

D. The right of collateral substitution is granted and all associated costs will be paid by the selling financial institution.

## **XI. SAFEKEEPING AND CUSTODY**

All security transactions, including collateral, entered into by TCPS shall be conducted on a delivery vs. payment (DVP) basis. Securities will be held by a third party custodian designated by the Director of Finance.

## **XII. INTERNAL CONTROLS**

The Director of Finance shall establish a system of internal controls. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and investment officers of TCPS. An audit of the internal controls of the investment program will be part of the annual financial audit conducted by an outside independent audit firm.

## **XIII. PERFORMANCE STANDARDS**

Given TCPS investment objectives and taking into account TCPS investment risk constraints and cash flow needs, the three month U.S. Treasury Bill yield is the appropriate measure to gauge TCPS investment portfolio performance. The Director of Finance shall monitor the performance of the portfolio.

#### **XIV. REPORTING REQUIREMENTS**

The Director of Finance will provide a monthly cash report to the TCPS Board Members for review.

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