

A Resolution to establish
an Investment Policy for
the Town.

R E S O L U T I O N

WHEREAS, the laws of the State of Maryland now require that all governmental units formally adopt an investment policy for managing public funds; and

WHEREAS, the Town of Leonardtown wishes to be in compliance with all State Laws;

NOW, THEREFORE, BE IT RESOLVED that the Town Council of Leonardtown hereby adopts the following Investment Policy regarding the Town's funds:

Policy.

It is the policy of the Town of Leonardtown to invest public funds in a manner which will provide the highest return with the maximum security and still meet the daily cash flow demands of the Town of Leonardtown, as well as conforming to all state and local statutes governing the investment of public funds. This includes not borrowing funds for investment purposes.

Scope.

This investment policy applies to all financial assets of the Town of Leonardtown. These funds are accounted for in Leonardtown's Comprehensive Annual Financial Report and include:

Funds.

General Fund
Special Funds
Capital Projects Funds
Enterprise Funds

This policy does not cover the financial assets of the Town of Leonardtown Retirement Plan(s).

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 the 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 appropriate action is taken to control adverse developments.

Investment shall be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence exercise in the management of their own affairs

Objective.

The primary objective, in priority order, of the Town of Leonardtown's investment activities shall be:

a. Safety

Safety of principal is the foremost objective of the investment program. Investments of the Town of Leonardtown shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

b. Liquidity

The Town of Leonardtown's investment portfolio will remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.

c. 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 the cash flow characteristics of the portfolio. Return on investment is of least 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:

- (1) A declining credit security could be sold early to minimize loss of principal;
- (2) A security swap would improve the quality, yield, or target duration in the portfolio; or

- (3) Liquidity needs of the portfolio require that the security be sold.

d. Delegation of Authority

Authority to manage the Town of Leonardtown's investment program is derived from the Code of the Town of Leonardtown, Maryland. Management responsibility for the investment program is hereby delegated to the Town Treasurer, who shall establish written procedures for the operation of the investment program consistent with this policy. Procedures shall include reference to: safekeeping, PSA repurchase agreements, banking service contracts, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Town Treasurer. The Town Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

e. 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 material 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 individual with whom business is conducted on behalf of their entity.

f. Authorized Financial Dealer and Institution

- (1) A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Maryland. These may include "**primary**" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by the laws of the State of Maryland.

(2) All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following:

- Audited financial statements
- Proof of National Association of Security Dealers certification
- Proof of state registration
- Completion of broker questionnaire
- Certification of having read Town of Leonardtown's investment policy and depository contracts

(3) An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer.

g. Authorized and Suitable Investments

The Town of Leonardtown is empowered by statute to invest in the following types of securities.

- (a) U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations.
- (b) Certificates of deposit
- (c) Savings and loan association deposits
- (d) Prime bankers acceptances
- (e) Investment-grade obligations of state and local governments and public authorities
- (f) Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of domestic securities
- (g) Statewide investments pools

h. Maturity Restrictions

It is recognized that, prior to maturity date, the market value of the securities in the portfolio of the Town of Leonardtown may fluctuate due to changes in market conditions. In view of this and the Town's primary investment objectives of preservation of principal and liquidity, every effort shall be made to match investment maturities with anticipated cash flow requirements. Additionally, the requirements established by the Code of Maryland and State Treasury guidelines are further restricted as follows:

- (a) Funds shall be invested at all times in keeping with the daily and seasonal pattern of the Town of Leonardtown's cash balances, as well as any other special factors or needs, in order to assure the availability of funds on a timely and liquid basis. Cash flow projections will be monitored and updated on an ongoing basis.
- (b) Unless matched to a specific cash flow, the Town of Leonardtown will not invest in securities maturing more than three (3) years from the date of purchase.
- (c) Reserve funds may be invested in securities exceeding three (3) years if the maturity of such investments are made to precede or coincide with the expected need for funds and only with the prior approval of the Town Council.

i. Diversification

The Town of Leonardtown will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the Town of Leonardtown's total investment portfolio will be invested in a single security type or with a single financial institution.

j. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the Town of Leonardtown shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

k. Collateralization

- (1) Collateralization will be required on two types of investments: Certificates of deposit and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will 102% of market value of principal and accrued interest.
- (2) Collateral will always be held by an independent third party with whom the Town of Leonardtown has a current custodial agreement. The third party trust custodian has the right to reject otherwise acceptable collateral based on their discretion concerning market conditions.
- (3) A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Town of Leonardtown and retained. The right of collateral substitution is granted.

1. Internal Controls

- (1) The Town of Leonardtown shall establish a system of internal controls, which shall be documented in writing and reviewed with auditors. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and investment officers. An audit of internal controls of the investment operation is part of the annual financial audit conducted by an outside independent audit company.
- (2) The system of internal controls shall address the following points:
 - (a) Avoidance of collusion by employees
 - (b) Separation of transaction authority from accounting and record keeping.
 - (c) Avoidance of physical delivery of securities wherever possible
 - (d) Clear delegation of authority to subordinate staff members
 - (e) Written confirmation/communication of telephone transactions for investments and wire transfers.
 - (f) Development of a wire transfer agreement with lead bank or third party custodian.

m. Reporting

- (1) The Treasurer shall provide to the Town Council quarterly investment reports which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies.
- (2) Schedules in the quarterly report should include:
 - (a) A listing of the individual securities held at the end of the reporting period by authorized investment category.
 - (b) Average life and final maturity of all investments listed.

- (c) Coupon, discount or earnings rate.
- (d) Par value, Amortized Book Value and Market Value.
- (e) Percentage of the Portfolio represented by each investment category.


n. Performance Standards

The portfolio should obtain at least a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to an appropriate benchmark, as determined by the Treasurer on a regular basis, but at least quarterly.

o. Investment Policy Adoption and Review

The Town of Leonardtown's investment policy shall be adopted by resolution by the Town Council. The investment policy shall be reviewed annually by the Town Council and any modifications made thereto must be approved by the Town Council.

COMMISSIONERS OF LEONARDTOWN:



 J. Harry Norris III, Mayor

Attest




 Robert O. Guyther
 Town Administrator

 Norman A. Norris, Vice President

 Leon E. Battle, Councilman



 Bernard Y. Delahay, Councilman



 Ruth W. Proffitt, Councilwoman



 Walter Wise, Councilman