

COBB COUNTY FINANCE DEPARTMENT
("COBB COUNTY")

INVESTMENT AND PORTFOLIO POLICIES AND PROCEDURES

I SCOPE

This investment policy applies to activities of Cobb County with regard to investing the financial assets of its funds (except for Pension Trust Funds and financial assets under the direct control of any of the Constitutional Officers of Cobb County). These funds are accounted for in the County's annual financial report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Proprietary Funds
- Other funds which may be created from time to time

At such time as funds under the direct control of Constitutional Officers might pass to Cobb County, then these policies will be applicable.

II OBJECTIVES

Cobb County's investment objectives in order of priority are:

A-Safety of Principal

Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities defaults or erosion of market value. To attain 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-Maintenance of Adequate Liquidity

The investment portfolio must be structured in such a manner that will provide sufficient liquidity to pay obligations as they become due.

C-Return on Investment

The County seeks to attain market rates of return on its investments, consistent with constraints imposed by its safety objectives, cashflow considerations and state laws that restrict the placement of certain funds.

The goal of the overall portfolio shall be an annual objective of exceeding the average return on three month U.S. Treasury Bills by 25 basis points. Each fund will have a goal consistent with its cashflow patterns and average investment terms that allows for a moderately aggressive objective. These goals will be established annually during the budget process and reported on a monthly basis through the divisional performance indicator report.

D-Legality

Funds of Cobb County will be invested in compliance with the provisions of Georgia Code Section 36-83-4 and in accordance with these policies and written administrative procedures. Certain funds have outstanding bond issues which have specific investment policies contained within the bond ordinances and official statements. Those policies will be adhered to and are not in conflict with the terms of this policy.

III DELEGATION OF AUTHORITY

The Board of Commissioners of Cobb County shall establish the overall investment policies, the management and implementation of which is delegated to the Finance-Director-Comptroller, who shall establish procedures for the operation of the investment program. Such procedures shall include explicit delegation of authority to Treasury Division personnel 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 Finance Director-Comptroller.

IV PRUDENCE AND ETHICAL STANDARDS

The standard of prudence to be used by Treasury Division personnel shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Treasury Division personnel acting in accordance with written procedures 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.

The "prudent person" standard is herewith understood to mean the following:

"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 safety of their capital as well as the probable income to be derived."

V INVESTMENT POLICIES

A-Specific policies to ensure safety of principal

1-Acceptable investments set forth in Georgia Code Section 36-83-4 are:

- a) Obligations of the State of Georgia or of other states
- b) Obligations issued by the United States government consisting of U.S. Treasury Bills, Notes and Bonds
- c) Obligations fully insured or guaranteed by the United States government or a United States government agency
 - Export-Import Bank
 - Farmers Home Administration
 - General Services Administration

- Government National Mortgage Association (GNMA)
 - Penn Central Transportation Certificates
 - Ship Financing Bonds Title 13
 - Small Business Administration
 - Washington Metropolitan Transit Authority Bonds
- d) Obligations of the following U.S. Government Agencies:
- Federal Farm Credit Banks (FFCB)
 - Federal Home Loan Mortgage Corporation (FHLMC) participation certificates or debentures
 - Federal Home Loan Bank (FHLB) or its banks
 - Government National Mortgage Association (GNMA)
 - Federal National Mortgage Association (FNMA) participation certificates or debentures which are guaranteed by GNMA
 - Student Loan Marketing Association
- e) Repurchase agreements backed by b), c) or d)
- f) Prime Bankers' Acceptance
- Bankers' Acceptances that are eligible for purchase by the Federal Reserve Bank and have a credit rating of A1/P1 or better
- g) The Local Government Investment Pool
- h) Obligations of other political subdivisions of the State of Georgia
- i.) Time deposits and savings deposits of banks organized under the laws of Georgia or the U.S. Government and operating in Georgia
- Savings accounts
 - Money Market accounts
 - Certificates of Deposits (non-negotiable type)

2-Approved Broker-Dealers and Banks

- a) It is the policy of Cobb County to purchase securities only from those broker/dealers and banks that are included on the County's bid list as approved by the Finance Director-Comptroller. The approved list will be developed in accordance with these Investment Policies.
- b) Repurchase Agreements will be conducted only with those banks and broker/dealers who have executed a Master Repurchase Agreement with the County. All repurchase agreements must be in written form using the Public Securities Association Master Repurchase Agreement as a guide. Annex 1 of this guide shall materially conform to the recommendations by the Government Finance Officers Association. Agreements not substantially conforming to this Master and Annex 1 are unacceptable.
- c) Broker/Dealers will be required to sign a Broker/Dealer questionnaire Certification.

3-Safekeeping of Securities

- a) To protect against potential fraud and embezzlement the investment securities of the County shall be secured through third-party custody and safekeeping procedures. A Safekeeping Agreement will be executed.
- b) Exempt from the third-party safekeeping procedures are securities which collateralize Repurchase Agreements of 7 days' duration or less. These securities shall be safekept at the Federal Reserve Bank, pledged to the Cobb County Board of Commissioners and the County shall have the right to approve any substitutions of collateral should that prove necessary.
- c) The Safekeeping Agreement explicitly requires that securities will be delivered versus payment. This practice ensures that the County neither transfers money or securities before receiving the other portion of the transaction. Both transactions occur simultaneously through the custodial bank, authorized to conduct transactions for the County.

4-Diversifications of the Portfolio

- a) It is the policy of Cobb County to diversify its investment of idle funds so as to eliminate the risk of loss resulting from overconcentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be reviewed periodically.
- b) In establishing specific diversification strategies, the following guidelines apply:
 - Portfolio maturities shall be staggered to provide funds when needed.
 - Maturities selected shall provide for stability of income and reasonable liquidity.
 - When evaluating the purchase of an individual security to a specific maturity its impact on the portfolio as a whole should be the major consideration.
 - Maximum limits by class of security are as follows:

U.S.TreasuryObligations	100%
U.S. Government Agency Securities and Securities Issued by Instrumentalities of Government	
Sponsored Corporations	70%
Local Government Investment Pool	70%
Repurchase Agreements	25%
Prime Bankers Acceptance	10%
Certificates of Deposit	25%
Obligations of other political Subdivisions of the State of Georgia	25%
 - No more than 40% of the entire invested portfolio may be placed with any one bank or security dealer.

B-Specific Policies to Ensure Liquidity

1-Diversification of Investment Maturities

- a) The longer the maturity of a particular investment, the greater its susceptibility to market price and credit losses. The County seeks to limit such risk by maintaining conservative maturities that are within guidelines recommended by the Government Finance Officers Association ("GFOA"). These guidelines generally recommend avoiding securities with maturities beyond five years unless the investment is matched and held to a specific maturity.
- b) Investment maturities shall be scheduled to coincide with projected cash flow needs, taking into consideration large routine expenditures (i.e. payroll and bond payments) as well as anticipated revenues (i.e. property tax collections).
- c) The funds in Capital Projects Funds are limited by certain arbitrage and other restrictions of the various bond resolutions. No investments in excess of three years from the date of issue of the bonds from which the proceeds were derived will be made in the Capital Projects Funds.
- d) Maximum maturities by class of security are as follows:

U.S. Treasury Obligations	5 years
U.S. Government Agency Securities and Securities issued by Instrumentalities of Government Sponsored Corporations	4 years
Repurchase Agreements	180 days
Prime Bankers' Acceptance	270 days
Local Government Investment Pool	N/A
Certificates of Deposit	1 year
Obligations of other political subdivisions of the State of Georgia	3 years

2-Active Secondary Markets

- a) Although many securities are acceptable for investing using the legal authorized list, some are not very desirable from a liquidity standpoint. Accordingly, although investments may be on the authorized list, only those securities with an active secondary market may be purchased from that list.

C-Specific Policies to Ensure Market Rate of Return

1-Competitive Bidding

- a) All investment except the daily repurchase agreement and short-term discount paper purchases (see V.C.1b) conducted with the County's lead bank will be purchased through a competitive bidding process, using the banks and broker/dealers on the County's approved bid list.
- b) From time to time, various government agencies announce the issue of new securities to the financial markets. Since all new issues are sold at par, the County

would not realize any benefit by purchasing these securities through the competitive bid process. If the new issue, or "To Be Announced" ("TBA") security falls within the portfolio diversification and maturity requirements of one of the various funds of the County, the Investment Officer shall at his discretion place the investment with the bank or broker who initiated the contact on the investment opportunity. New issues or TBAs represent only a minor portion of the County's portfolio and would not present an unfair competitive environment for the remaining banks and brokers on the qualified list.

2-Active Portfolio Management

- a) It is a policy of the County not to "speculate" with the public funds with which it is entrusted. In that regard, the County will make every attempt to mesh investment security maturities with cash needs and prudent security selection.
- b) It is the policy of the County to actively manage the investment portfolio within the constraints outlined in these investment policies. By using an active portfolio management philosophy rather than an exclusive "buy and hold" philosophy, portfolio yield will be enhanced without any appreciable increase in risk.
- c) Concurrent with an active portfolio management philosophy, the County recognizes that financial and economic conditions are dynamic and will look to improve its position by making "Swap" transactions when they are advantageous. A "swap" is the sale of one investment and the subsequent purchase of a different investment in the market place. The goal of such a transaction is to:
 - (1) Increase yield, by acquiring an investment with a greater return.
 - (2) Reduce maturity, by acquiring an investment with a shorter maturity.
 - (3) Improve portfolio quality, by selling securities with a perceived higher risk and buying securities with a lower risk. (i.e. trading Agencies for Treasuries)
- d) In certain instances, the County may incur a loss for accounting purposes by making a swap. Such a loss will be considered acceptable only if it can be recouped within 90% of the time from date of sale to date of maturity of the security being disposed of.
- e) Upon review of a proposed swap, the Investment Officer shall verify the market rates by contacting one additional broker/banker and/or use of the Bloomberg system. If the rates quoted by the bidder initiating the trade are found to be in close proximity to the market (within 2/32 of a point), the Investment Officer may award the trade to the bank or broker which initiated the swap.
- f) The 2/32 point differential should be the net of a difference between the proposed pricing (per the broker) and market verification/indication pricing (per Bloomberg and/or alternate sources) for both the security being sold and the security being bought.

D-Policies to Ensure Ethical and Prudent Action

1-Establishment of Internal Control

It is the policy of the County to establish a system of internal controls which shall be in writing. The internal controls shall address the following points:

- a) Control of collusion
Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- b) Separation of functions
By separating key functions and having different people perform each function, each person can perform a "check and balance" review of the other people in the same area.
- c) Separation of transaction authority from accounting and recordkeeping
By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a good separation of duties is achieved.
- d) Custodial safekeeping
Securities purchased from any bank or dealer, including appropriate collateral, should be placed into a third party bank for custodial safekeeping.
- e) Avoidance of bearer-form securities
Bearer-form securities are much easier to convert to personal use than securities that are registered in the name of Cobb County.
- f) Avoidance of physical delivery securities
Book entry securities are much easier to transfer and account for since actual delivery is never taken. Physical delivery securities must be properly safeguarded as are many valuable documents. The potential of fraud and loss increases with physical delivery securities.
- g) Clear delegation of authority to subordinate staff members
Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid any improper actions. Clear delegation of authority also preserves the internal control structure that is built around the various staff positions and their respective responsibilities.
- h) Written confirmation of telephone transactions for investments and wire transfers
Due to the potential for errors and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person.
- i) Documentation of transactions and strategies
All transactions and the strategies that may have been used to develop the transactions should be documented in writing and approved by the appropriate person.

- j) Development of a wire transfer agreement with the County's lead bank
This agreement should outline the various controls and security provisions for making and receiving the wire transfers.

2-Training and Education

It is the policy of the County to provide periodic training in investments for its Treasury Division investment personnel through courses and seminars offered by the Government Finance Officers Association and other organizations.