

**HERNANDO COUNTY, FLORIDA
CLERK OF CIRCUIT COURT**



INVESTMENT POLICY

Revised: 01/15/08

SCOPE

This investment policy applies to all funds held by or for the benefit of the Hernando County Clerk of Circuit Court, hereinafter referred to as the Clerk.

The Policy was adopted in accordance with Florida Statutes Chapter 218.415 (Attachment A). Bond proceeds may be further limited or expanded by their respective bond resolutions or covenants and shall not be considered to be in conflict with the Investment Policy.

II. INVESTMENT OBJECTIVES

The following investment objectives will be applied in the management of the Clerk's funds. By using an active portfolio management philosophy, portfolio yield will be enhanced without an appreciable increase in risk.

- A. **SAFETY** - The primary objective of the Clerk's investment activities is the protection of investment capital.
- B. **LIQUIDITY** - The Clerk's investment strategy will provide sufficient liquidity such that cash flow requirements are met through the utilization of marketable securities with structured maturities.
- C. **YIELD** - In investing public funds, the Clerk will strive to maximize the return on the portfolio but will minimize investment risk.

III. DELEGATION OF INVESTMENT AUTHORITY

Responsibility for the administration of the investment program is hereby delegated to the Finance Director, who shall establish an investment policy and procedures manual based on these policies. No person may engage in an investment transaction except as stated in the Internal Controls section of this policy. The Finance Director shall be responsible for the implementation of internal controls, as well as the appointment of an Investment Coordinator for daily investment functions.

IV. PRUDENCE AND ETHICAL STANDARDS

The "Prudent Person" standard shall be used in the management of the overall investment portfolio. 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.

The Investment Coordinator, or persons performing the investment functions, acting as a "prudent person" in accordance with these written policies and procedures, exercising due diligence and investing in investments authorized by law, 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.

V. INVESTMENT PERFORMANCE MEASUREMENT AND REPORTING

A portfolio report shall be provided by the Investment Coordinator, on a quarterly basis to the Clerk of Circuit Court, Finance Director and appropriate management staff. This report shall include a breakdown of the portfolio's investments as well as overall performance.

Performance measurements shall include, but are not limited to:

- A. The quarterly average yield of the 90 day Treasury Bill , and
- B. The quarterly average yield of the 1 year Treasury Note; or, the quarterly average yield of the Treasury Note which most closely corresponds with the portfolio average weighted maturity.

The Clerk of Circuit Court shall be notified immediately upon deviations from the currently approved investment policies.

VI. LISTING OF AUTHORIZED INVESTMENTS

The Clerk, acting through the Investment Coordinator, or other designee of the Clerk's Office, shall purchase or sell investment instruments at prevailing market rates. In accordance with Chapters 28.33 and 218.45, Florida Statutes, authorized instruments are as follows:

- A. The Local Government Surplus Funds Trust Fund (the State investment pool) administered by the State Board of Administration, also known as S.B.A.
- B. The Florida Local Government Investment Trust, administered by the Florida Association of Court Clerks and Comptrollers and the Florida Association of Counties, also known as F.L.G.I.T.
- C. Negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to, the following:

1. Treasury Bills
 2. Treasury Notes
 3. Treasury Bonds
 4. Treasury Strips
- D. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by United States agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities will include, but not be limited to, the following:
1. Farmers Home Administration
 2. Federal Financing Bank
 3. Federal Housing Administration Debentures
 4. Government National Mortgage Association (GNMA)
- E. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by United States Government agencies, which are not full-faith and credit agencies, limited to the following:
1. Federal Farm Credit Bank (FFCB)
 2. Federal Home Loan Bank or its district banks (FHLB)
 3. Federal National Mortgage Association (FNMA)
 4. Federal Home Loan Mortgage Corporation (Freddie-Mac)
 5. Student Loan Marketing Association (Sallie-Mae)
- F. Nonnegotiable, interest-bearing time certificates of deposit, money market accounts or savings accounts in banks/savings and loan associations organized under the laws of the United States, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.
- G. Repurchase Agreements (for purchase and subsequent sale) for any of the investments authorized above in items C and E.
- H. Securities and Exchange Commission (SEC) registered Money Market

Funds with the highest credit rating by Standard & Poor's (AAA) and Moody's Investors Service (Aaa), consisting of only those investments in items C, E, and G, above.

- I. Prime Commercial paper of any United States Company which is rated, at the time of purchase, as prime by two of three recognized rating agencies, A-1 or higher by Standard & Poor's, P-1 by Moody's Investors Service, or F-1 or higher by Fitch Investors Service. If backed by a letter of credit (LOC), the long term debt of the LOC provider must be rated at least "A" by at least two nationally recognized rating agencies. The LOC provider must be ranked in the top fifty (50) United States banks in terms of total assets by the American Banker's report.
- J. Domestic Bankers' Acceptances eligible for discounting with the Federal Reserve Bank which have an unsecured, uninsured and unguaranteed obligation rating of at least A-1 and A by Standard & Poor's and Prime-1 and A by Moody's Investors Service.

VII. MATURITY AND LIQUIDITY REQUIREMENTS

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds shall have maturities or no longer than one (1) year. Investment of bond reserves, construction funds and other non-operating funds shall have a term appropriate to the need for funds, and in accordance with debt covenants, but shall not exceed five (5) years, unless specifically required by the terms of the bond documents.

Investments do not necessarily have to be made for the same length of time that the funds are available. The basic criteria for consideration of investments are as follows:

- A. Keep maturities short in a period of constantly rising interest rates based on Treasury bill auctions or the daily Federal Funds rate.
- B. Keep maturities short in a period of an inverted Treasury yield curve (short-term rates higher than long-term rates).
- C. Maturities should be lengthened when the Treasury yield curve is normal and is expected to remain that way based on economic reports taken as a whole. The yield curve is normal when short-term rates are lower than long-term rates.
- D. Maturities should be lengthened when interest rates are expected to fall based on economic reports taken as a whole.

- E. A liquidity base of at least approximately two (2) months of anticipated disbursements, excluding bond construction payments or other bond payments made from escrow or trust accounts, will be kept in relatively short-term investments. These would include the State Investment Pool (SBA), Certificates of Deposit, U.S. Treasury Obligations, Repurchase Agreements and Money Market Funds.
- F. Although many securities are acceptable for investment using the authorized list, some are not very desirable from a liquidity standpoint. Accordingly, only those securities with an active secondary market may be purchased from the list.

VIII. PORTFOLIO COMPOSITION

The following are the guidelines for investments and limits on security issues, issuers, and maturities as established by the Clerk. The Clerk of Circuit Court, or appointed designee, shall have the option to further restrict or increase investment percentages from time to time based on market conditions. Purchase of investments based on bond covenant requirements shall not be included in the portfolio composition calculation.

At the end of each fiscal year, all surplus operating funds must be remitted to the Board of County Commissioners. Consequently, a maximum maturity of one (1) fiscal year will be placed on all operating fund investments unless further restricted by investment type.

No more than 25% of the entire portfolio may be placed with any one financial institution or securities dealer, with the exception of the Local Government Surplus Trust Fund (SBA) and the Florida Local Government Investment Trust (FLGIT). The following maximum limitations are guidelines established for diversification by instrument:

- A. The Local Government Surplus Trust Fund (SBA) and the Florida Local Government Investment Trust (FLGIT):
 - 1. A maximum combined total of 80% of the portfolio may be invested in these Trusts. When necessary, this percentage can temporarily increase to 100%, due to liquidity needs and/or market conditions. In this instance, approval must be received from the Clerk of Circuit Court and Finance Director (Bond proceeds may be temporarily deposited in the SBA until alternative investments have been purchased and are not a part of this calculation.)
- B. United States Government Securities:

1. A maximum of 80% of the portfolio may be invested in United States Government securities, which are defined as negotiable direct obligations, or obligations of which the principal and interest are unconditionally guaranteed by the U. S. Government (Treasury Bills, Notes, Bonds and Strips).
2. The maximum length to maturity of any direct investment in these securities is five (5) years.

C. United States Federal Agencies:

1. A maximum of 25% of the portfolio may be invested in United States Federal Agency securities, which are backed by the full faith and credit of the U.S. Government, including but not limited to:
 - a. Farmers Home Administration
 - b. Federal Financing Bank
 - c. Federal Housing Administration Debentures
 - d. Government National Mortgage Association (GNMA)
2. The maximum length to maturity is limited to five (5) years.

D. Federal Instrumentalities:

1. A maximum of 50% of the portfolio may be invested in these securities, which are also called Government Sponsored Enterprises (GSE), but are not backed by the full faith and credit of the U. S. Government, limited to:
 - a. Federal Farm Credit Bank (FFCB)
 - b. Federal Home Loan Bank or its district banks (FHLB)
 - c. Federal National Mortgage Association (FNMA)
 - d. Federal Home Loan Mortgage Corporation (Freddie-Mac)
 - e. Student Loan Marketing Association (Sallie-Mae)
2. The maximum length to maturity is limited to five (5) years.

F. Nonnegotiable Interest-bearing Time Certificates of Deposit:

1. A maximum of 40% of the portfolio may be invested in this type of investment.

G. Repurchase Agreements:

1. A maximum of 10% of the portfolio may be invested in Repurchase Agreements, with the exception of one (1) business day agreements and overnight sweep agreements.
2. The maximum term of a repurchase agreement will be ninety (90) days.
3. A maximum of 50% of the total Repurchase Agreement's portfolio may be invested with any one issuer, with the exception of one (1) business day agreements and overnight sweep agreements.

H. Money Market Funds:

1. A maximum of 50% of the portfolio may be invested in Money Market Funds rated "AAAm" by Standard & Poor's with no more than 25% in any one fund.
2. The average length to maturity of instruments in the funds shall be ninety (90) days or less.

I. Commercial paper:

1. A maximum of 15% of the portfolio may be invested in prime commercial paper.
2. The average length to maturity shall be 270 days or less.

J. Domestic Bankers' Acceptances:

1. A maximum of 10% of the portfolio may be invested in U. S. (domestic) Bankers' Acceptances.
2. The average length to maturity shall be 270 days or less.

IX. RISK AND DIVERSIFICATION

Assets held shall be diversified to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer or bank through which these instruments are bought and sold. Diversification strategies within the established guidelines shall be reviewed and revised periodically, as necessary by the Clerk of Circuit Court, Finance Director and Investment Coordinator.

X. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

The Clerk shall only purchase/sell securities from/to financial institutions which are located within the State of Florida and are qualified as public depositories by the Treasurer of the State of Florida or from primary securities brokers/dealers designated by the Federal Reserve Bank of New York. Documented lists of the authorized financial institutions and dealers/brokers will be developed and maintained by the Investment Coordinator and approved by the Clerk of Circuit Court and Finance Director.

If at any time, the Clerk of Circuit Court is appropriately notified of any threat to the integrity of the investment portfolio, proper security measures may be suggested and implemented, and the Clerk shall have the option to further restrict investment in selected instruments, to conform to then-present market conditions.

Repurchase Agreements will be conducted through, and negotiated only with Qualified Public Depository finance institutions and primary securities brokers/dealers. A written Master Repurchase Agreement will be negotiated with any institution with which the County, through the Clerk, enters into a specific repurchase agreement.

XI. THIRD PARTY CUSTODIAL AGREEMENT

The Clerk, will execute a Third-Party Custodial Safekeeping Agreement with a commercial bank's trust department which is separately chartered by the United States Government or the State of Florida.

All securities purchased and/or collateral obtained by the Clerk shall be properly designated as an asset of the Clerk's Office and held in safekeeping by the Trust Department and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by an authorized Clerk's Office agent, as designated in the Internal Control section of this policy.

The Third-Party Custodial Safekeeping Agreement shall include letters of authority from the Clerk; details as to the responsibilities of each party; notification of security purchases, sales and delivery, wire transfers, safekeeping and transaction costs; and procedures in case of wire failure or other unforeseen mishaps, including liability of each party.

All securities will be handled by "Delivery vs. Payment" method. Simultaneous to the release of Clerk funds to purchase a security, there will be a delivery of the securities purchased. Accordingly, for any sale of securities, there will be a simultaneous transfer of money to the Clerk before the release of the securities. This policy ensures that the Clerk neither transfers money or securities before receiving the other portion of the transaction. Rather, both transfers will happen simultaneously, through the custodial bank authorized to conduct transactions for the Clerk.

Certificates of deposit and other time deposits do not need to be placed with a third-party custodian, since they are collateralized through Chapter 280 of the Florida Statutes.

The Local Government Surplus Funds Trust (SBA) and the Florida Local Government Investment Trust (FLGIT) are exempt from the collateralization and third-party agreements.

XII. MASTER REPURCHASE AGREEMENT

The Clerk will require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions will adhere to requirements of the Master Repurchase Agreement.

XIII. COLLATERAL REQUIREMENTS

The Clerk is required by the provisions in Florida Statutes Chapter 280 (Attachment D) to place its deposits only in a "qualified public depository", as that term is defined in the Florida Statutes. Any deposit placed in a qualified public depository is deemed to be adequately collateralized by Florida Statutes. Subsequent failure by a qualified public depository to timely return public deposits to the Clerk will be governed by Chapter 280, as amended. In the event of a repeal of Chapter 280, alternative collateralization policies shall be adopted. The option to request additional collateralization on any deposit(s) to further protect the safety of the investments is specifically retained by the Clerk's Office.

With repurchase agreements, this policy herewith requires the obtaining of collateral for any repurchase agreement not covered under Chapter 280. Collateral placed for any repurchase agreement will be governed by a Master Repurchase Agreement executed between the Clerk and each of the approved financial institutions and/or securities dealers. The terms for collateral will be based on economic and financial conditions existing at the time of execution and credit risk of the particular financial institution or securities dealer which enters into the repurchase agreement pursuant to the provisions hereof.

XIV. BID REQUIREMENTS

Although in most situations the competitive bid process shall be utilized, there is no obligation to secure competitive bids from all financial institutions and securities dealers on the approved list. Rather, a decision will be made by the Investment Coordinator and Finance Director as to the institutions that have been the most competitive over the preceding investment bids or by a fair rotation, without exceeding maximum issuer limitations.

A. After the Investment Coordinator and Finance Director have determined the approximate maturity date based on the cash flow needs and market conditions and have analyzed and selected one or more optimal investments, a minimum of three (3) approved financial institutions and/or securities dealers will be contacted and asked to provide a bid on the securities in question.

1. Bids will be held in confidence until the highest bid is determined and awarded.

2. Documentation will be retained for all bids, with the winning bid clearly identified.

3. If for any reason the highest yielding bid was not selected, the reasons leading to that decision will be clearly indicated on the bid forms.

4. If the maturing investment is a certificate of deposit, the present holder of the funds will be one of the contacts made, subject to the portfolio diversification requirements in this policy.

B. This policy need not apply in relation to swap proposals offered by a specific approved financial institution or securities dealer as such "shopping" of swap proposals can have an adverse effect on broker motivation to seek out swaps.

C. In certain circumstances where a financial institution or securities dealer informs the Clerk of a potential purchase or sale that must be completed within minutes of notification, the competitive bidding policy will be waived.

The Clerk of Circuit Court or Finance Director will have final approval on these particular transactions before they have been completed.

D. Notwithstanding the above, in order to afford financial institutions (banks and/or savings and loan associations) within Hernando County opportunities to enhance the economy of the local area, certificates of deposit may be

purchased from an institution as described in Section VI.F., provided that the following additional conditions have been satisfied:

1. The institution, or a branch office, is located within the boundaries of Hernando County, Florida.
2. The institution has the highest and best bid of all bidding institutions.
3. The institution awarded the bid is subject to the portfolio limitation requirements and may not exceed said limitations.
4. The financial institution must be a Qualified Public Depository as determined by the State of Florida.

XV. INTERNAL CONTROLS

The Clerk shall exercise and monitor a set of internal controls to be conducted through the Investment Coordinator, which said controls are designed to protect the Clerk's funds and ensure proper accounting and reporting of the securities transactions. Such internal controls shall consist of the following:

- A. All securities purchased or sold will be transferred only under the "delivery versus payment" (D.V.P.) method to ensure that funds or securities are not released until all criteria relating to the specific transaction are met.
- B. The Clerk will receive bank trust receipts and/or confirmations as evidence of actual delivery of the obligation or securities in return for investment of funds.
 1. Trust receipts or confirmations shall fully describe the various obligations or securities held. The receipt or confirmation shall state that the investment is held in the name of Hernando County Clerk of Circuit Court.
- C. Written documentation and/or confirmation of telephone transactions and wire transfers will be maintained.
- D. There will be adequate separation of duties with clear delegation of authority among investment personnel.
- E. Custodial safekeeping shall be properly utilized.
- F. Investment review and performance reporting, interim and annual shall be done by the Investment Coordinator and reviewed by the Clerk of Circuit Court.

The Investment Coordinator will promptly notify the Clerk of Circuit Court and Finance Director of any threat to the safety of the Portfolio and proper security measures will be suggested and implemented to conform to market conditions.

- H. There will be an avoidance of bearer-form securities.
- I. There will be no physical delivery of securities.
- J. There will be prohibition of collusion.
- K. A wire transfer agreement with the custodial bank outlining the various controls and security provisions for making and receiving wire transfers shall be executed.
- L. Monthly Custodial Safekeeping account statements shall be maintained.
- M. Transaction confirmations will be received from the financial institution or securities dealer awarded the investment and maintained as investment documentation.
- N. Investment activity will be performed by the Investment Coordinator, under the direct control of the Finance Director and the Clerk of Circuit Court. In the absence of the Finance Director and Clerk of Circuit Court, investment activity must be reviewed by the Assistant Finance Director and later approved by the Finance Director or Clerk of Circuit Court.
- O. The following personnel are designated by the Clerk as having the authority to initiate all investment activities:
 - 1. Clerk of Circuit Court
 - 2. Finance Director
 - 3. Banking and Investment Coordinator
 - 4. Assistant Finance Director
 - 5. Office Manager/Accountant
 - 6. Other designees, at the discretion of the Clerk of Circuit Court or Finance Director.
- P. Additional controls will be established in written policies and procedures by the Clerk as needed.

XVI. CONTINUING EDUCATION

The Clerk of Circuit Court and Finance Director must annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.

XVII. SALE/SWAP OF SECURITIES

A. From time to time, securities may be traded for other similar securities or sold to improve yield, maturity or credit risk. For these types of transactions, a temporary loss may be incurred for accounting purposes, provided the loss is more than offset by the higher yield. The following circumstances are considered appropriate for a swap/sale to be considered:

1. The yield can be increased.

Market aberrations are often caused by supply and demand conditions for particular securities. For example, if a short supply exists for a particular maturity range, then it may be advantageous to swap/sell out of the security in a short supply and into another similar security in a different maturity range.

2. The maturity length can be reduced.

Market aberrations occasionally create a situation where longer maturity securities are yielding the same or less than securities with a shorter maturity. Portfolio quality can be improved by switching from the longer maturity security to the shorter maturity with little or no interest penalty.

3. The quality of the investment can be improved.

Market aberrations occasionally create a situation where certain higher risk securities yield the same or less than an equivalent lower risk security. Portfolio quality can be improved by switching from the higher risk security to a lower risk security without any interest rate penalty.

B. When invested funds are needed in whole or in part for the purposes originally intended or for more optimal investments, such investments may be sold, with prior approval from the Finance Director or Clerk of Circuit Court, at the then-prevailing market price, placing the proceeds into the proper account/fund.

XVIII. ANNUAL AUDITS

The Certified Public Accounting firm conducting the Hernando County Clerk of Circuit Court annual financial audit shall report, as part of the audit, on compliance with this investment policy.

XIX. AUDITOR GENERAL REVIEW

During the Auditor General's review of audit reports of local governments, the Auditor General shall contact those local governments not in compliance with Florida Statutes Chapter 218.415 and request evidence of corrective action.

- A. If notified of noncompliance, the Investment Coordinator will immediately:
1. Notify the Finance Director and Clerk of Circuit Court.
 2. Implement corrective action.
 3. Forward evidence of the corrective action taken to the Auditor General within 30 days.

XX. POLICY REVIEW AND AMENDMENT

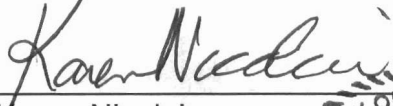
The Investment Coordinator will review these policies in their entirety on an annual basis and make any recommendations to the Clerk of Circuit Court and Finance Director, if changes are needed.

The Policy may be amended in writing with approval by the Clerk of Circuit Court.

APPROVED by the Clerk of Circuit Court, this 15th day of January, 2008.

(Seal)

**CLERK OF CIRCUIT COURT
HERNANDO COUNTY, FLORIDA**



Karen Nicolai
Clerk of Circuit Court

