



WAGONER COUNTY TREASURER  
DANA G. PATTEN  
2014

**Investment Policy**

**I. Governing Authority**

*Legality*

The investment program shall be operated in conformance with federal, state, and other legal requirements, including *the Oklahoma State Statutes 2001*.

<http://www.oscn.net/applications/oscn/DeliverDocument.asp?CiteID=88276>

<http://www.oscn.net/applications/oscn/DeliverDocument.asp?CiteID=88278>

**II. Scope**

This policy applies to the investment of all operating and trust funds of Wagoner County. Longer-term funds, including investments of employees' retirement funds and proceeds from certain bond issues, are covered by a separate policy.

**1. Pooling of Funds**

Except for cash in certain restricted and special funds, Wagoner County can 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.

**General Operation Funds**

Operational Funds shall be pooled managed for liquidity.

**Reserve Funds**

The County will determine liquidity needs for operational funds and set aside other moneys in a reserve pool.

**2. External Management of Funds**

Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

**III. General Objectives**

The 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 identify and mitigate credit risk and interest rate risk through diversification.

**a. Credit Risk**

Wagoner County will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which Wagoner County will do business.
- Diversifying the portfolio so that potential losses on individual securities will be minimized through diversification.
- Investment Ratings will be measured by Standard and Poor's, Moody's, and or Fitch Rating Agencies

**b. Interest Rate Risk**

Wagoner County will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that the modified duration of the portfolio as a whole is not higher than 3.00 in a relatively high interest rate market and not more than 1.5 in a relatively low interest rate market.
- Investing operating funds primarily in shorter-term securities
- Measuring Modified and Effective Duration to measure interest rate risk

**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 bank deposits or repurchase agreements that 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 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:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

**IV. Standards of Care**

**1. Prudence**

The standard of care 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 this investment policy and exercising due diligence shall be relieved of personal liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the governing body 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.

The investment officer and staff, acting in accordance with the written procedures and exercising due diligence, shall not be held personally responsible for a specific security’s credit risk or market price changes.

For Bond issues to which the federal yield arbitrage regulations apply, the primary objections shall be to obtain satisfactory market yields to minimize the costs associated with negative arbitrage.

**2. 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 which business is conducted on behalf of Wagoner County.

**3. Delegation of Authority**

Authority to manage the investment program is granted to Treasurer and derived from the following the 62 O.S § 348.1 and 348.3

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Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with the established 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 Wagoner County Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## V. Investment Transactions

### 1. Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide investment transactions. In addition, a list also will be maintained of approved security broker/dealers selected by an interview process as determined by the Wagoner County Treasurer and approved by the governing body. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

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

- Proof of Financial Industry Regulatory Authority (FINRA) certification.
- Proof of state registration.
- Certification of having read and understood and agreeing to comply with the Wagoner County Oklahoma investment policy.

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

From time to time, the investment officer may choose to invest in instruments offered by emerging or minority firms and community financial institutions. In such situations, a waiver to the criteria under Paragraph 1 may be granted by the governing body. All terms and relationships will be fully disclosed prior to purchase and will be reported to the governing body of Wagoner County on a consistent basis. The governing body of Wagoner County should approve these types of investment purchases in advance.

### 2. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure that will be reviewed annually with Wagoner County's independent auditor. The internal control structure shall be designed to ensure that the assets of Wagoner County are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

The internal controls shall address the following points:

- Control of collusion.
- Separation of transaction authority from accounting and record keeping.
- Custodial safekeeping.
  - Securities delivered by book entry shall be held in third party safekeeping by the trust department of the bank in the name of Wagoner County. The trust department of the bank will be considered to be a third party for the purposes of safekeeping of securities purchased from the bank.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation of transactions for investments and wire transfers.
- Development of a wire transfer agreement with the lead bank and third party custodian.
- Accounting method. The County shall comply with the Government Accounting Standard Board (GASB) requirements in reporting assets.

### 3. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in eligible financial institutions prior to the release of funds. All securities shall be perfected in the name or for the account of Wagoner County and shall be held by a third-party custodian as evidenced by safekeeping receipts. CD's, money market, and investment pool purchases that are typically purchased without DVP can be purchased through a wire or other means provided due diligence has been performed on where the funds are being transferred too.

## VI. Suitable and Authorized Investments

### 1. Investment Types

In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that Wagoner County will consider and which shall be authorized for the investments of funds by Wagoner County.

- a. United States Treasury Securities. Wagoner County may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- b. United States Agency Securities & Instrumentalities. Wagoner County may invest in obligations issued or guaranteed by any agency of the United States Government as described in V. (2).
- c. Repurchase Agreements. Wagoner County may invest in contractual agreements between Wagoner County and commercial banks or primary government securities dealers. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase U.S. Treasury and government agency

securities while simultaneously agreeing to resell the securities at predetermined dates and prices.

- d. Collateralized Public Deposits (Certificates of Deposit). Instruments issued by financial institutions which state that specified sums have been deposited for specified periods of time and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by State statute.

Certificates of deposit or other deposits of national banks located within the and state-chartered banks under supervision provided such deposits are insured or collateralized as provided by the Oklahoma Security for Public Deposits Act.

Also allowable are Certificates of deposit, which are fully insured by the Federal Deposit Insurance Corporation. Federally insured certificates of deposit issued through the Certificate of Deposit Account Registry Service (CDARS) by financial institutions located in the United States, provided that (i) the funds are initially invested by the jurisdiction through a financial institution that is participating in CDARS and that is located and doing business in Oklahoma; (ii) the financial institution in the State receives reciprocal deposits from customers of other financial institutions in an amount equal to the funds initially invested by the Authority; and (iii) each such certificate of deposit is in an amount that is eligible for full FDIC insurance coverage. The Banks financial health should be checked through <http://research.fdic.gov/bankfind>

- e. Bankers' Acceptances. Time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. Wagoner County may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation.
- f. Commercial Paper. Wagoner County may invest in commercial paper issued by domestic corporations, which has received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that have total commercial paper program size in excess of five hundred million dollars (\$500,000,000).
- g. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities
- h. Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

## 2. Security Selection

The following list represents the entire range of United States Agency Securities that Wagoner County will consider and which shall be authorized for the investment of funds by Wagoner County. Additionally, the following definitions and guidelines should be used in purchasing the instruments:

- a. U.S. Govt. Agency and instrumentalities Coupon and Zero Coupon Securities. Bullet coupon bonds with no embedded options.
- b. U.S. Govt. Agency and instrumentalities Discount Notes. Purchased at a discount with maximum maturities of one (1) year.
- c. U.S. Govt. Agency and instrumentalities Callable Securities. Restricted to securities callable at par only with final maturities of five (5) years.
- d. U.S. Govt. Agency and instrumentalities Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed term. Restricted to securities with final maturities of five (5) years.
- e. U.S. Govt. Agency Floating Rate Securities. The coupon rate floats off one index. Restricted to coupons with no interim caps that reset at least quarterly.
- f. U.S. Govt. Mortgage Backed Securities. Restricted to securities with final maturities of five (5) years.
- g. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities
- h. Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

3. **Investment Restrictions and Prohibited Transactions**

To provide for the safety and liquidity of Wagoner County funds, the investment portfolio will be subject to the following restrictions:

- a. Borrowing for investment purposes (“Leverage”) is prohibited.
- b. Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters, and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a “derivative” instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.
- c. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.



- d. No more than 5% of the total market value of the portfolio may be invested in bankers' acceptances issued by any one commercial bank and no more than 5% of the total market value of the portfolio may be invested in commercial paper of any one issuer.

**4. Collateralization**

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. The market value (including accrued interest) of the collateral should be at least 102%.

For certificates of deposit, the market value of collateral must be at least 102% or greater of the amount of certificates of deposits plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Unions Share Insurance Fund.

All securities, which serve as collateral against the deposits of a depository institution, must be safe kept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts within five business days from the settlement date.

Wagoner County shall have a *depository contract and pledge agreement* with each safekeeping bank that will comply with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that Wagoner County security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.

**5. Repurchase Agreements**

The securities for which repurchase agreements will be transacted will be limited to U.S. Treasury and government agency securities that are eligible to be delivered via the Federal Reserve's Fed wire book entry system. Securities will be delivered to Wagoner County designated Custodial Agent. Funds and securities will be transferred on a delivery vs. payment basis.

**VII. Investment Parameters**

**1. Diversification**

The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

- a. U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. government..... 80%

- b. Collateralized time and demand deposits.....50%
- c. US Government agencies, and government sponsored enterprises.  
.....No more than 70%
- d. Collateralized repurchase agreements.....30%
- e. U.S. Government agency callable securities.....no more than 60%
- f. Commercial Paper.....no more than 10%
- g. Bankers' Acceptances.....no more than 10%
- h. Certificates of Deposit (CD's) and CDARs.....no more that 30%

**2. Maximum Maturities**

To the extent possible, Wagoner County shall attempt to match its investments with anticipated cash flow requirements. Investments in bankers' acceptances and commercial paper shall mature and become payable not more than one hundred eighty days (180) from the date of purchase. All other investments shall mature and become payable not more than five (5) years from the date of purchase. Wagoner County shall adopt weighted average maturity limitations that should not exceed three (3) years and is consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as in bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Capital projects funds can be invested to match the project and can be extended past 5 years at the discretion of the treasurer.

**Maximum Maturities of Debt Service Reserve Funds**

Funds in the Debt Service Reserve Funds (DSRF) may have a longer maturity than 5 years but may not extend longer than the maturity of the issue.

**VIII. Reporting**

**1. 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 that will allow Wagoner County to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the governing body of Wagoner County. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration (in accordance with Government Accounting Standards Board (GASB) 31 requirements). [Note, this is only required annually]
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio, which each type of investment represents.

## 2. 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 may be established against which portfolio performance shall be compared on a regular basis.

Commercial paper and bankers' acceptances must be reviewed monthly to determine if the rating level has changed. The commercial paper and bankers' acceptances should be reviewed for possible sale if the securities are downgraded below the minimum acceptable rating levels.

## 3. 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 annually to the governing body of Wagoner County. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

# IX. Policy Considerations

## 1. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempt from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

## 2. Adoption

This policy shall be adopted by resolution of the Wagoner County governing body. The investment officer shall review the policy annually and recommended changes will be presented to the governing body for consideration.

Wagoner County  
Office of the County Treasurer  
307 E. Cherokee  
Wagoner County, OK, 74467

Re: Receipt of Investment Policy of Wagoner County, Oklahoma Dated Feb 1, 2014

We are in receipt of a copy of the referenced Investment Policy of Wagoner County. We have read, and we understand, the provisions and guidelines of the policy. We attest that our firm meets Wagoner County requirements section V-1 of their Investment Policy. All salespersons covering the Counties account will be made aware of this policy, and will be directed to give consideration to its provisions and constraints in selecting investment opportunities to present to the County. We agree to provide an electronic or facsimile copy of all trades executed with your office and our firm to the County Treasurer, Investment Assistant, or fax (918) 485-7739 the trade date. All trade confirmations are to be mailed or e-mailed to our office.

Signed:  \_\_\_\_\_

Michael E. Swan

Name

General Securities Principal

Title

Mutual Securities, Inc.

Firm

February 18, 2014

Date

## **Wagoner County**

### **Statutorily Approved Investment Entities**

American Bank of Wagoner – 201 E Cherokee St, Wagoner, OK 74467

Armstrong Bank – 1500 W Highway 51, Wagoner, OK 74467

First State Bank of Porter – 409 S Main St, Porter, OK 74454

First Bank and Trust Company of Wagoner – 111 Casaver Av, Wagoner, OK 74467

First National Bank of Coweta – 106 S Broadway, Coweta, OK 74429

Multi-Bank Securities, Inc. – 24280 Woodward Av, Pleasant Ridge, MI 48069

Mutual Securities, INC. 501 W Broadway, Suite 800, San Diego, CA 92101

\*For Custodial/Safekeeping Account only

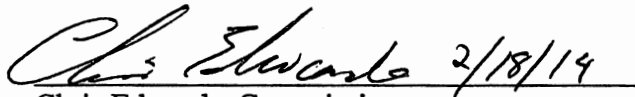
\*Bank of Oklahoma – PO Box 24128, Oklahoma City, OK 73124

**Adoption and Effective Date:**

This policy is formally adopted and takes effect Feb. 18, 2014.

 2-18-14

James Hanning, Chairman of the Board of Commissioners

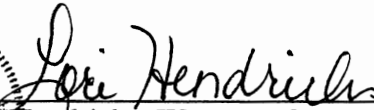
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Chris Edwards, Commissioner

 2/18/14

Tim Kelley, Commissioner





Lori Hendricks, Wagoner County Clerk