

TOWN OF MANSFIELD
FINANCE COMMITTEE MEETING

Thursday, March 29, 2012

Audrey P. Beck Building
Conference Room B
5:30pm

A G E N D A

1. Approval of minutes for February 21, 2012 Meeting
2. Follow up Questions from February 21st and 27th
3. Fund Balance Policy
4. Investment Policy
5. Other Business/Future Agenda Items
6. Adjournment

TOWN OF MANSFIELD
FINANCE COMMITTEE MEETING
MINUTES OF FEBRUARY 21, 2012

Members Present: W. Ryan, M. Lindsey, C. Schaefer joined at 2:08pm

Other Council Members Present: E. Paterson (ex-officio), P. Shapiro, A. Moran joined at 2:05pm

Staff Present: C. Trahan, M. Hart

Guests: none

Meeting called to order at 2:02pm.

1. Minutes from 12/12/11 meeting approved with spelling correction.
2. Cherie Trahan presented the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011, along with the State and Federal Single Audit Reports for the same period. Also presented were the audit communication letter and the management letter.

Bill Ryan requested an estimate to have a fraud risk assessment performed for the Town and to have that estimate included in the proposed FY 2012/13 budget. Meredith Lindsey requested information on the fixed asset threshold for the internal service funds. Cherie will address these items.

3. The Committee discussed the audit process as conducted by Blum, Shapiro for the last three years. The contract term is complete, and the Committee agreed to go out to bid for audit services for the fiscal year ending June 30, 2012.
4. Matt Hart reviewed and discussed with the Committee the current estimated over run in the construction of the Storrs Center garage. Matt will provide the current amount of contingency funds remaining in the garage budget. The Committee requested that an item be added to the Council's agenda for an update on Storrs Center construction. A new business item will be added for the next Council agenda to review the garage overrun. Following that, an old business item will be added for future agendas for a construction update.
5. Adjournment. The meeting adjourned at 3:04pm.

Motions:

Motion to approve the December 12, 2011 minutes by Carl Schaefer. Seconded by Bill Ryan. Motion so passed.

Motion to recommend to the Town Council acceptance of the Comprehensive Annual Financial Report, and the State and Federal Single Audit Reports as presented by Carl Schaefer. Seconded by Meredith Lindsey. Motion so passed.

Motion to adjourn.

Respectfully Submitted,
Cherie Trahan
Director of Finance

Questions from the February 21st Finance Committee meeting:

1. What is the capitalization threshold for Internal Service Funds?

To be classified as a fixed asset, a property acquisition must meet the following criteria:

1. *Be of a tangible nature*
2. *Have a useful life of at least two years following the date of acquisition*
3. *Have a significant value:*
 - a. *Equipment:*

	Town/Board General funds	Town-MSF 833 Fund	EHHD	Region 19
Computer Equip.- Capitalizable	>\$5,000	>\$500 Exception: All laptops and computers are capitalizable regardless of cost	>\$1,000	>\$5,000
Computer Equip.- Accountable	\$1,000- \$5,000	N/A	N/A	\$1,000- \$5,000
Non Computer Equip.-Capitalizable	>\$5,000	>\$2,500	>\$1,000	>\$5,000
Non Computer Equip.-Accountable	\$2,500- \$5,000	N/A	N/A	\$2,500- \$5,000

Note: The dollar limit above is per individual item

- b. *Buildings, building improvements, or improvements other than buildings, must have an acquisition cost of at least \$20,000*
- c. *Infrastructure (i.e. roads, bridges, curbs, drains, etc) must have an acquisition cost of at least \$100,000*

2. Parking Garage budget – what is left in Contingency?

The use of the contingency account is already accounted for in the estimated overage. The total budget for the project is \$10,000,000 including the contingency account, which was \$500,000.

3. Cost estimate for a fraud risk assessment

I will include this in the RFQ for audit services.

Questions from the February 27th Financial Retreat:

1. Does the equalized grant list include State owned property?

No, the equalized net grand list is for taxable properties only. But, it does include Real Estate, Motor Vehicle and Personal Property.

2. Calculation of TANF% excluding the students

TANF % of 2010 population:

Including students = .16%, Statewide ranking = 115

Excluding students = .298%, Statewide ranking = 80

FUND BALANCE GOALS

The fund balance goal is an effort to ensure financial security through the maintenance of a healthy reserve fund.

The primary objective is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. The Town also seeks to maintain the highest possible credit ratings which are dependent, in part, on the Town's maintenance of a healthy fund balance.

- A year-to-year carryover fund balance will be maintained in an amount necessary to maintain adequate cash flow and to prevent the demand for short-term borrowing. The Town will strive to maintain an unassigned fund balance of seventeen (17) percent of the general fund operating budget with up to (3) percent in other governmental funds, and no less than fourteen (14) percent in the General Fund. This amount would be consistent with the Government Finance Officers' Association recommendation of no less than either two months of regular operating revenues or expenditures.
- It is the Council's policy that the practice of using fund balance as a source of financing for future year operating budgets has an inherently destabilizing impact upon the operating budget. Therefore, fund balance in excess of the seventeen (17) percent goal will be transferred to the Capital and Nonrecurring Fund and used for one-time/capital expenditures.
- If the reserves are drawn down below the minimum required level of seventeen (17) percent, then a budgetary plan shall be implemented to return the reserve to the minimum level as soon as economic conditions allow. Revenue sources that will be considered to aid in the replenishment of fund balance will include but not be limited to: non-recurring revenues and yearend budget surpluses. The budgetary plan shall also identify the target timeframe, including milestones until reaching full replenishment.

Sample Fund Balance Policy

Revised for GASB 54

Purpose

The purpose of this policy is to establish a key element of the financial stability of the City by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations.

Definitions

Fund Equity – A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance – An accounting distinction is made between the portions of fund equity that spendable and nonspendable. These are broken up into five categories:

- 1) **Nonspendable fund balance** – includes amounts that are not in a spendable form or are required to be maintained intact. Examples are inventory or permanent funds.
- 2) **Restricted fund balance** – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and child safety fees.
- 3) **Committed fund balance** – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- 4) **Assigned fund balance** – comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) **Unassigned fund balance** – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Policy

Committed Fund Balance

- The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at the City's Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the

commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance

- The City Council has authorized the City's Finance Director (or some other body or official) as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Minimum Unassigned Fund Balance

It is the goal of the City to achieve and maintain an unassigned fund balance in the general fund equal to ___% of expenditures. The City considers a balance of less than ___% to be cause for concern, barring unusual or deliberate circumstances.

If unassigned fund balance falls below the goal or has a deficiency, the City will... **(describe the procedures for replenishing fund balance).**

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds. ***(Does not have to be in this order if the City wishes to use a different order).**

Stabilization (or "Rainy Day") Fund

***If the City has this type of fund, the City must describe in specific detail the resources committed and the circumstances that define the use of the funds; "emergencies" or "revenue shortages" is not specific enough for GASB 54. If the City does not have a more specific policy, the fund will most likely be reported as part of the general fund as committed.**

Mansfield's

INVESTMENT PERFORMANCE GOALS

- A cash flow analysis of all funds will be developed on a regular basis. Collections, deposits and disbursement of all funds will be scheduled in a way as to ensure maximum cash availability.
- Where permitted by law, cash from separate funds and sources will be pooled to maximize investment yields. Interest will be credited to the General Fund except where prohibited by law or where the source of the cash is from an individual or corporation to insure performance. Interest will be credited to the Capital and Nonrecurring Expenditure Fund (CNR) on cash held in the CNR Fund and the Capital Fund. The interest income will be used for future capital projects or debt service.
- Investment policy will be consistent with State law and will provide for security of principal as well as needed liquidity.

CREATING AN INVESTMENT POLICY

GFOA Best Practice

A written investment policy is the single most important element in a public funds investment program. An investment policy should describe the most prudent primary objectives for a sound policy: safety, liquidity and yield. It should also indicate the type of instruments eligible for purchase by a government entity, the investment process, and the management of a portfolio. Such a policy improves the quality of decisions and demonstrates a commitment to the fiduciary care of public funds, with emphasis on balancing safety of principal and liquidity with yield. Adherence to an investment policy signals to rating agencies, the capital markets, and the public that a government entity is well managed and is earning interest income suitable to its situation and economic environment.



RECOMMENDATION

The Government Finance Officers Association (GFOA) recommends that all governing bodies adopt a comprehensive written investment policy and review and update its policies, if necessary on an annual basis.

The process of creating an investment policy should include:

- ◆ Examination of state public funds investment statutes. Most states have some form of public funds investment statutes. In Missouri, RSMo 30.950 states that "every political subdivision of this state which is responsible for the management and investment of public funds and which has existing authority to invest such funds in a manner other than in depository accounts at financial institutions in this state shall promulgate, formally adopt and comply with a written investment policy." A state's public funds statute defines the parameters of what a government entity may do and serves as a guideline to begin drafting an investment policy. A government entity's policy may be more restrictive than a statute (e.g., limiting the amount (usually a percentage) or prohibiting the purchase of commercial paper, even though state law allows it) but it may not be more expansive.

- ◆ Examination of state public funds collateral statutes. State collateral laws correlate with public funds investment statutes and define how the government entity's public funds must be protected against depository failure. Government entities should adopt a public funds collateral policy just as they do an investment policy or incorporate such language within its investment policy. Many times a collateral law or policy will reference state investment statutes in establishing what instruments or techniques are eligible for use as collateral. The Missouri Treasurer's office offers a sample investment policy.

- ◆ Review of sample investment policies. Rather than starting an investment policy from scratch, government entities should consider reviewing existing investment policies. The GFOA's

SHAFFER, KLINE & WARREN, INC.

- Engineers
- Land Surveyors
- Land Planners
- Construction Observers
- Landscape Architects

www.skw-inc.com

Forming Partnerships. Delivering Results.

sample investment policy provides a format and content that can be modified for an entity's needs. Policies from other jurisdictions or state associations can be similarly useful.

♦ Drafting of an investment policy.

The most prudent primary objectives for drafting a sound investment policy should be: safety, liquidity and yield, in that order. The investment policy should address certain key questions, including:

- Who are the authorized investment officers?
- What standard of care will be established?
- What instruments will be eligible for investment?
- How will diversification be ensured?
- How will safekeeping be handled?
- What is the maximum term for any given investment?
- What type of internal controls should be in place?
- Who will comprise the investment committee (internal/external members), if any?
- What type of investment reports/performance reports will be produced?
- What types of benchmarks will be used?
- Will an investment advisor be used (and to what capacity)?
- What are the criteria for beginning or ending an investment relationship?

♦ Review by appropriate parties.

Once a draft policy is formulated, seek input from the government entity's proposed investment officer(s), its leadership, including the government entity's legal department or counsel and the proposed investment committee. Colleagues in other jurisdictions might also be willing to review and comment.

♦ Adoption by formal action of governing body. Many states require a

government investment policy to be approved by the entity's governing body. The approval process can be by resolution or other official action in the public meeting. By presenting the policy for formal approval, the policy becomes an established part of the government entity's operations, rather than simply serving as an internal guideline.

♦ Establishment of written investment procedures. Just as the investment policy defines the boundaries of an entity's investing program, written procedures document who will do what on a day-to-day basis. Topics should include: procedures for taking competitive bids, delivering and paying for purchases, recording transactions, and obtaining approval before buying or selling decisions.

♦ Annual review of investment policy. The written investment policy should be a living document that is reviewed each year by a government entity's investment officials and modified as needed. The policy should be

presented each year to the governing body for formal review and approval.

REFERENCES

GFOA sample investment policy (2003), www.gfoa.org.

Investing Public Funds by Girard Miller with M. Corinne Larson and W. Paul Zorn. 2nd edition.

Missouri Treasurer's sample policy for political subdivision is available on Missouri Municipal League's Web site under "One Stop Shop" under "Finance." □

In 1993, the Government Finance Officers Association (GFOA) Executive Board directed the association's staff to work with the GFOA standing committees to develop a body of recommended practices in the functional areas of public finance to give GFOA members and other state and local governments more guidance on sound financial management practices. These Best Practices and Advisories are written as guidance for our members. You should check with your own professionals about specific issues related to your government. GFOA Web site: www.gfoa.org.

"Municipal law is my passion"

- Joe Lauber



Lauber Municipal Law, LLC, can help you with everyday legal issues like drafting and interpreting ordinances, interpreting and complying with statutes and cases on municipal issues, answering questions of statutory or home rule municipal authority, assistance with rules of order, drafting and interpreting contracts, and more.



LAUBER MUNICIPAL LAW, LLC
Serving those who serve the public

816-525-7881 or jlauber@laubermunicipal.com
www.laubermunicipallaw.com

The choice of a lawyer is an important decision and should not be based solely on advertisements.

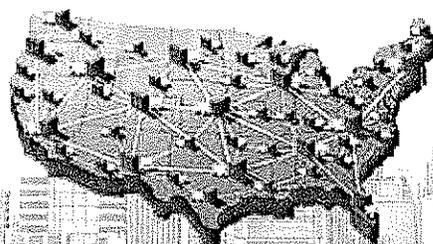
Sure, Municode.com has a bold new look - but it's what's inside that counts.

You're invited... www.municode.com

*New Ordinances on the Web
Expanded Graphics*

Link from your website to Code sections

Print, save, or e-mail at every section level - Personalized search features



Municipal Code Corporation 800.262.2633 info@municode.com

GFOA Sample Investment Policy

I. Introduction

The intent of the Investment Policy of [entity] is to define the parameters within which funds are to be managed. In methods, procedures and practices, the policy formalizes the framework for the [entity's] investment activities that must be exercised to ensure effective and judicious fiscal and investment management of the [entity's] funds. The guidelines are intended to be broad enough to allow the investment officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including *[insert applicable citations governing the investment of public funds]*.

III. Scope

This policy applies to activities of [entity] with regard to investing the financial assets of all funds. In addition, funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the state of *[insert applicable state]*. The covered funds, and any new funds created by the [entity], unless specifically exempted by the oversight board and this policy, are defined in the [entity's] Comprehensive Annual Financial Report.

Note that any excluded funds such as employee retirement funds, proceeds from certain bond issues and foundation or endowment assets are covered by a separate policy/ies. *[This section should be modified to specify excluded assets. This can be removed if it is not applicable to the entity.]*

Except for funds in certain restricted and special funds, the [entity] commingles its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. *[This paragraph refers to the pooling of funds within a single governmental entity and implies no reference to local government investment pools]*

IV. General Objectives

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

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 goal will be to mitigate credit risk and interest rate risk.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

3. Return

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 of safety and liquidity needs.

4. Special Considerations

Where possible, funds may be invested for the betterment of the local economy or that of local entities within the State.

Alternative sample language:

The [entity] seeks to promote local economic development through various programs and activities. Included is a program of rewarding local financial institutions that increase their commitments to private economic growth and local housing investment.

[This objective is intended to cover any unique objectives an entity may wish to achieve.]

V. Standards of Care

1. 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 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 and appropriate action is taken to control adverse developments.

The “prudent person” standard states that,

“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.”

[This section should be modified to reflect standard specified in state statute if higher than prudent person.]

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. 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 any personal investment transactions with the same individual with whom business is conducted on behalf of the [entity].

3. Delegation of Authority and Responsibilities

Governing Body

The governing body will retain ultimate fiduciary responsibility for the portfolios. The governing body will receive monthly reports, designate investment officers and [annually] review the investment policy making any changes necessary by adoption.

Investment Officers

Authority to manage the investment program is granted to [designated official by title] hereinafter referred to as investment officer as designated by [governing body or Code citation, ordinances, charters or statutes].

Responsibility for the operation of the investment program is hereby delegated to the [e.g. Treasurer, Investment Officer, etc.] who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. Officers will prepare monthly investment reports and other special reports as may be deemed necessary.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

Investment Committee

The [entity] may seek to establish an investment committee to provide guidance to investment officers.

Investment Adviser

The [entity] may engage the services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with the entity's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

VI. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. Authorized Financial Institutions, Depositories, and Broker/Dealers

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by conducting a process of due diligence. These may include 'primary' dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

- A. The investment officer shall determine which financial institutions are authorized to provide investment services to [entity]. Institutions eligible to transact investment business with [entity] include:
 - 1. Primary government dealers as designated by the Federal Reserve Bank;
 - 2. Nationally or state-chartered banks;
 - 3. The Federal Reserve Bank; and,
 - 4. Direct issuers of securities eligible for purchase.

- B. Selection of financial institutions and broker/dealers authorized to engage in transactions with the [entity] shall be at the sole discretion of the [entity].

- C. All broker/dealers who desire to become qualified for investment transactions must supply the following (as appropriate):
- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
 - Proof of FINRA certification
 - Proof of state registration
 - Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
 - Certification of having read and understood and agreeing to comply with the [entity's] investment policy.
 - Evidence of adequate insurance coverage.
- D. All financial institutions who desire to become depositories must supply the following (as appropriate):
- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
 - Proof of state registration
 - Evidence of adequate insurance coverage.
- E. A periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

2. Minority, Emerging and Community Financial Institutions

From time to time, the investment officer may choose to invest in instruments offered by minority, emerging and community financial institutions. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law.

3. Competitive Transactions

- A. The investment officer shall obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.
- B. If the Entity is offered a security for which there is no readily available competitive offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.
- C. If the Entity hires an investment adviser to provide investment management services, the adviser must provide documentation of competitive pricing execution on each transaction. The investment adviser will retain documentation and provide upon request. **(OPTIONAL)**

VI. Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the [entity's] safekeeping institution prior to the release of funds.

2. Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the [entity]. All securities will be evidenced by safekeeping receipts in the [entity's] name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011.)

3. Internal Controls

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the [entity] are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in an *investment procedures manual* that shall be reviewed and updated periodically by the Investment Officers.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Staff training and
- Review, maintenance and monitoring of security procedures both manual and automated.

The external auditor shall provide an annual independent review to assure compliance with state law, policies and procedures.

Alternative sample language:

Management shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the investment committee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the [entity.]

VIII. Suitable and Authorized Investments

1. Investment Types and Credit Guidelines

Consistent with the GFOA Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable. If additional types of securities are approved for investment by public funds by state statute, they will not be eligible for investment by the [entity] until this Policy has been amended and the amended version adopted by the governing body. Typical types of securities include:

- U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest.

- Federal Agency or U.S. government sponsored enterprises (GSE) obligations, participations or other instruments
- Bankers' acceptances;
- Federally insured time deposits (Non-negotiable certificates of deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that:
 - a. The amount per institution is limited to the maximum covered under federal insurance;
- **Time deposits (Non-negotiable certificates of deposit)** in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with state law
- **Negotiable certificates of deposit (NCDs)**
- **Commercial** paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized statistical rating organization;
- Investment-grade obligations of state, provincial and local governments and public authorities;
- Fully collateralized Repurchase agreements collateralized in compliance with this Policy, governed by a SIFMA Master Repurchase Agreement and with a maximum maturity. Capital project funds may be invested in a single flex repurchase agreement with a maximum stated maturity that shall be matched to the expenditure plan;
- SEC registered money market mutual funds; and
- Local government investment pools.

IMPORTANT NOTE: If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Officer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Investment Officer will apply the general objectives of safety, liquidity, yield and legality to make the decision.

2. Collateralization

Where allowed or required by state law and in accordance with full collateralization will be required on all demand deposit accounts, including checking accounts and negotiable (as authorized by respective state statutes) and non-negotiable certificates of deposit.

Authorized Collateral

Acceptable collateral for bank deposits and repurchase agreements shall include only:

- obligations of the U.S. Government, its agencies and GSEs, including mortgage backed securities
- obligations of any state, city, county or authority rated at least AA by two nationally recognized statistical rating organizations.

IX. Investment Parameters

1. Mitigating credit risk in the portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The [entity] shall mitigate credit risk by adopting the following:

A. Diversification

The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer or business
- sector (excluding U.S. Treasury securities),

- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Alternative samples:

A. Diversification

It is the policy of the [entity] to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, assets in all [entity] funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds.

Diversification Constraints on Total Holdings (Refer to applicable State Statutes or other legal guidelines) :

	Maximum % Holdings
Issuer Type	
US Treasury Obligations	
US Agency (GSE) Securities	
LGIP	
Bankers' Acceptances	
Commercial Paper	
TLGP (FDIC Guaranteed)	
Certificates of Deposit/Bank Deposits/Savings	
Repurchase Agreements	
Corporate Indebtedness	
Municipal Bonds	

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

B. Mitigating market risk in the portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The [entity] recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The [entity] shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The [entity] further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk

profile of the portfolio differently in different interest rate environments. The [entity], therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The [entity] shall maintain a minimum of three months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements;
- The maximum percent of callable securities in the portfolio shall be 15%;
- The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy; and,
- Liquidity funds will be held in the State Pool or in money market instruments maturing one year and shorter.
- Longer term/Core funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5 years and will be only invested in higher quality and liquid securities.
- The duration of the portfolio shall at all times be approximately equal to the duration (plus or minus 10%) of a Market Benchmark Index selected by the [entity] based on the [entity's] investment objectives, constraints and risk tolerances. The entity's current Benchmark shall be documented in an *Investment Procedures Manual*.

Total Portfolio Maturity Constraints:

	VIETNAM VANGUARD INVESTMENT
Under 30 days	
Under 1 year	
Under 5 years	
WAM (weighted average maturity)	

- i) Exception to 5-year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.
- ii) Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular security. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made.

X Performance Standards/ Evaluation

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 shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken and the benchmarks shall have a similar weighted average maturity and credit profile as the portfolio.

Alternative sample:

The [entity's] cash management portfolio shall be designed with the objective of regularly meeting or exceeding a selected performance benchmark, which could be the average return on three-month U.S. Treasury bills, the state investment pool, a money market mutual fund [specify] or the average rate of Federal funds. These indices are considered benchmarks for lower risk investment transactions

and therefore comprise a minimum standard for the portfolio's rate of return.

Alternative sample

The performance of investments will be measured against the performance of a combination of benchmarks: the Local Government Investment Pool, using monthly net yield of both portfolios as the yardstick. Preservation of capital and maintenance of sufficient liquidity will be considered prior to attainment of market return performance. Given these considerations, the Entity's portfolio should provide a net yield that is equal or better to that attained by the Local Government Investment Pool over interest rate cycles. Additionally, a market benchmark (i.e.: 0-3 or 0-5 Treasury or Agency Index) may be determined that is appropriate for longer term investments based on the Entity's risk and return profile. Return comparisons of the portfolio to the market benchmark will be calculated on a monthly basis. When comparing the performance of the Entity's portfolio, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

XI. Reporting/Disclosure

1. Methods

The investment officer shall prepare an investment report at least quarterly *[or monthly]*, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter *[or month]*. This management summary will be prepared in a manner which will allow the [entity] to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include, at a minimum, the following:

- a. An asset listing showing par value, cost and accurate and complete market value of each security, type of investment, issuer, and interest rate;
- b. Average maturity of the portfolio and modified duration of the portfolio;
- c. Maturity distribution of the portfolio;
- d. Average portfolio credit quality; and,
- e. Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months, year to date, and since inception compared to the Benchmark Index returns for the same periods;
- f. Average weighted yield to maturity of portfolio on investments as compared to applicable Benchmarks
- g. Distribution by type of investment.

Annual reports

- 1 The investment policy shall be reviewed at least annually within 120 days of the end of the fiscal year to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.
- 2. A comprehensive annual report shall be presented in conjunction with the investment policy review. This report shall include comparisons of City's return to the Benchmark Index return, shall suggest policies and improvements that might enhance the investment program, and shall include an investment plan for the coming year.

Annual audit

Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor.

Alternative sample:

1. The investment officer shall submit quarterly an investment report that summarizes recent market conditions, economic developments and anticipated investment conditions. The report shall summarize the investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the quarter's total investment return and compare the return with budgetary expectations. The report shall include an appendix that discloses all transactions during the past quarter. The report shall be in compliance with state law and shall be distributed to the investment committee and others as required by law.

Each quarterly report shall indicate any areas of policy concern and suggested or planned revision of investment strategies. Copies shall be transmitted to the independent auditor. Within 40 days of the end of the fiscal year, the investment officer shall present a comprehensive annual report on the investment program and investment activity. The annual report shall include 12-month and separate quarterly comparisons of return and shall suggest policies and improvements that might be made in the investment program. Alternatively, this report may be included within the [entity] annual Comprehensive Annual Financial Report.

ALTERNATIVE

The Investment Officer will retain and periodically, at a minimum annually, provide the Governmental Board with investment reports. The reports also will be available upon request. Securities holdings, cash balances and market values in the investment portfolio will be provided on the month-end reports.

Book Yield
Holdings Report (including mark to market)
Transactions Report
Weighted Average Maturity or Duration
Compliance Report

XIII. Policy Considerations

1. Exemption

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

Alternative sample:

Any investment currently held that does not meet the guidelines of this policy shall be temporarily exempted from the requirements of this policy. Investments must come in conformance with the policy within six months of the policy's adoption or the governing body must be presented with a plan through which investments will come into conformance.

2. Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

XIV Approval of Investment Policy

The investment policy and any modifications to that policy shall be formally approved and adopted by the governing body of the [entity].

XV. Miscellaneous

1. List of Attachments

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel,
- Relevant investment statutes and ordinances,
- Listing of authorized broker/dealers and financial institutions,
- Internal Controls
 - Investment Guidelines Manual
- Glossary

2. Other Documentation

- Master Repurchase Agreement, other repurchase agreements and tri-party agreements
- Broker/Dealer Questionnaire, (in GFOA *Introduction to Broker-Dealers for State and Local Governments*, Second edition)
- Broker –dealer certification (in GFOA *Introduction to Broker-Dealers for State and Local Governments*, Second edition)
- Safekeeping agreements,
- Wire transfer agreements,
- Sample investment reports,
- Methodology for calculating rate of return,
- GFOA Best Practices and Advisories.

GFOA Best Practices and Advisories:

- Government Relationships with Securities Dealers (1986, 1987, 1993, 2000, 2007 and 2010 –GFOA TIM Committee).
- Using Mutual Funds for Cash Management Purposes (1987, 2003 and 2006 – GFOA TIM Committee).
- Establishing a Policy for Repurchase Agreements (1986, 1995, 1998, 2000, 2003, 2006, 2008, and 2010 – GFOA TIM Committee).
- Establishing a Policy for Reverse Agreements (2010).
- Considerations for Using of Local Government Investment Pools (2007 and 2008 - GFOA TIM Committee).

- Collateralization of Public Deposits (1984, 1987, 1993, 2000 and 2007 – GFOA TIM Committee).

▪ Glossary

US Treasury Obligation	Direct obligations of the United States Treasury whose payment is guaranteed by the United States. (State Statute Note)
GSE – Agency Obligations	US Government Agencies, Government Sponsored Enterprises (<i>GSEs</i>), Corporations or Instrumentalities of the US Government – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (<i>FNMA</i>), the Federal Home Loan Mortgage Corporation (<i>FHLMC</i>), Federal Home Loan Banks (<i>FHLB</i>), and the Federal Farm Credit Bureau (FFCB). (State Statute)
TLGP Debt Obligations	Senior unsecured debt obligations guaranteed by the Federal Deposit Insurance Corporation under the Temporary Liquidity Guarantee Program (TLGP) or other federal government guaranteed programs; Eligible debt obligations must carry the full faith and credit of the United States Government. (if ALLOWABLE)
Commercial Paper	Commercial Paper* that is rated A1/P1 and has long term bonds which have a minimum rating of AA- by Standard and Poor’s and Aa3 by Moody’s
Bankers’ Acceptances	Bankers’ acceptances, if the bankers’ acceptances are: (i) Guaranteed by, and carried on the books of, a qualified financial institution; (ii) Eligible for discount by the Federal Reserve System; and (iii) Issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations.
	For the purposes of this paragraph, “qualified financial institution” means: (i) A financial institution that is located and licensed to do banking business in the State; or (ii) A financial institution that is wholly owned by a financial holding company or a bank holding company that owns a financial institution that is located and licensed to do banking business in the State of XXX.
Repurchase Agreements	An agreement with a approved broker/dealer that provides for sell and simultaneous purchase of a allowable collateral security. The difference in the sales and purchase price is the earning rate on the agreement. A master repurchase agreement must be in place with the approved broker dealer.

Corporate Indebtedness Corporate Indebtedness* that has a minimum long term debt rating of AA- rated by Standard and Poor's and a Aa3 rating by Moody's and must be rated on the settlement date P-1 or Aa or better by Moody's Investors Service or A-1 or AA or better by Standard & Poor's Corporation or equivalent rating by any nationally recognized statistical rating organization. [State Statue] IF ALLOWABLE

Local Government Investment Pool State treasurer's local short-term investment fund up to the statutory limit per state statute

Certificates of Deposit/Bank Deposit/Savings Accounts Time deposit open accounts, certificates of deposit and savings accounts in insured institutions as defined in State Statue, in credit unions as defined in State statue or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state. [State Statue

Municipal Obligations Lawfully issued debt obligations of the agencies and instrumentalities of the State of XXX and its political subdivisions that have a long-term rating of A or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization. [State Statue - NOTE SPECIFIC TO EACH STATE]