RESOLUTION NO. 3091-14

A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF WINDSOR APPROVING THE TOWN OF WINDSOR INVESTMENT POLICY FOR FISCAL YEAR 2014-15

WHEREAS, California Government Code Section 53600 *et seq.* governs the investment of public funds by local agencies; and

WHEREAS, Section 53646 provides that the treasurer or chief financial officer of a city or town may annually render to the legislative body a statement of investment policy, which the legislative body shall consider at a public meeting; and

WHEREAS, Section 53600.5 identifies the three objectives of a trustee in managing public funds; and

WHEREAS, the Town of Windsor's chief financial manager has submitted a proposed Town of Windsor Investment Policy for Fiscal Year 2014-15 ("Policy"), attached hereto and incorporated herein by reference, for the Town Council's consideration; and

WHEREAS, the Policy incorporates the investment objectives of California Government Code Section 53600.5 and otherwise complies with all applicable statutory and regulatory requirements; and

WHEREAS, in accordance with California Government Code Section 53646 the Town Council has considered the Policy and all comment thereon, at a duly-noticed public meeting.

NOW, THEREFORE, BE IT RESOLVED, that the Town Council of the Town of Windsor approves the attached Town of Windsor Investment Policy for Fiscal Year 2014-15.

PASSED, APPROVED AND ADOPTED this 18th day of June 2014, by the following vote:

AYES:	**COUNCILMEMBERS ALLEN, FUDGE, GOBLE, SALMON AND MAYOR OKREPKIE**
NOES:	**NONE**
ABSTAIN:	**NONE**
ABSENT:	**NONE**

Bruce Okrepkie

BRUCE OKREPKIE, MAYOR

ATTEST:

Maria De La O

MARIA DE LA O, TOWN CLERK

Attachments:

1. Town of Windsor Investment Policy for Fiscal Year 2014-15

Town of Windsor

Investment Policy

Fiscal Year 2014-15

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I. MISSION STATEMENT

It is the policy of the Town of Windsor (“Town”) to invest public funds in a manner that will provide maximum security, adequate liquidity and sufficient yield, while meeting the daily cash flow demands of the Town and conforming to all statutes and regulations governing the investment of public funds.

II. SCOPE

This investment policy applies to all the financial assets of Town of Windsor and the Successor Agency of the Town of Windsor. These funds are accounted for in the Town’s audited Annual Financial Report. If the Town invests funds on behalf of another agency and, if that agency does not have its own policy, the Town's investment policy shall govern the agency's investments.

A. Pooling of Funds

Except for cash in certain restricted and special funds, the Town shall consolidate cash balances from all funds to maximize investment earnings. Investment income shall be allocated to various funds in accordance with generally accepted accounting principles.

B. Funds Included in this Policy

General Fund
Special Revenue Funds
Capital Project Funds
Enterprise Funds
Agency Funds
Any new fund created by Town Council unless specifically exempted

C. Funds Excluded from this Policy

Bond Proceeds Investment of bond proceeds shall be subject to the conditions and restrictions of bond documents and are not governed by this policy.

III. GENERAL OBJECTIVES

The primary objectives, in priority order, of the Town’s investment activities are safety, liquidity and yield.

A. Safety

Preservation of principal is the foremost objective of the investment program. Investments of the Town shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective shall be to mitigate credit risk and interest rate risk. To attain this objective, the Town shall diversify its investments by investing funds among several financial institutions and a variety of securities offering independent returns.

1. Credit Risk

   The Town shall minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

   - Limiting investments to the most creditworthy types of securities
   - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Town will do business

- By diversifying the investment portfolio so that the potential failure of any one issue or issuer will not place an undue financial burden on the Town

2. Interest Rate Risk
   To minimize the negative impact of material changes in the market value of securities in the portfolio, the Town shall:
   - Structure the investment portfolio so that securities mature concurrent with cash needs to meet anticipated demands, thereby avoiding the need to sell securities on the open market prior to maturity
   - Invest operating funds primarily in shorter-term securities, money market mutual funds, and the State of California's Local Agency Investment Fund ("LAIF")

B. Liquidity

The Town's investment portfolio shall remain sufficiently liquid to enable the Town to meet all operating requirements that might be reasonably anticipated without requiring a sale of securities. Since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or LAIF which offer same-day liquidity for short-term funds.

C. Yield (Return on Investment)

The Town's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the Town's investment risk constraints and the liquidity characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. STANDARDS OF CARE

A. Prudence

The standard of prudence to be used by Town investment officials shall be the **"**prudent investor standard**"** (California Government Code Section 53600.3) in that a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Town, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of an enterprise of a like character and with like aims. This standard shall be applied in the context of managing the overall portfolio. Town investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

B. Ethics and Conflicts of Interest

Officers and employees involved in the Town investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions.

Town employees and investment officials shall disclose any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the Town immediately to the Town of Windsor Treasurer and annually to the Fair Political Practices Commission. Town employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

C. Delegation of Authority

In accordance with the Town of Windsor's Investment Policy, herewith established, the Treasurer is authorized to invest the Town's funds in accordance with California Government Code 53600 et seq. In the absence of the Town Treasurer, the investment of funds will be delegated to the Finance Manager. Investments made by the Finance Manager will be restricted to LAIF, the Sonoma County Investment Pool (SCIP) or to securities maturing within six months. Prior to investing in securities, the Finance Manager will consider the cash flow requirements of the Town and may invest in securities maturing over six months if directed by the Treasurer in writing or verbally, which shall be confirmed in writing within 30 days.

D. Internal Controls

The Town Treasurer is responsible for establishing and maintaining a system of written internal controls. These controls shall be reviewed annually with an independent external auditor who will notify the Town Council if there is material non-compliance with its policies and procedures. The internal controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by Town employees and officers. The internal structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address the following points:

1. Control of collusion
2. Separation of transaction authority from accounting and recordkeeping
3. Custodial safekeeping
4. Delivery versus payment (DVP)
5. Clear delegation of authority to subordinate staff members
6. Written confirmation of transactions for investments and wire transfers
7. Wire transfer agreements

E. Review of Investment Portfolio

The securities held by the Town must be in compliance with Section VII Suitable and Authorized Investments at the time of purchase. Because some securities may not comply with Section VII Suitable and Authorized Investments subsequent to the date of purchase, the Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The Treasurer shall establish procedures to report to the Town Council, major and critical incidences of noncompliance identified through the review of the portfolio.

V. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Town Treasurer shall establish selection criteria for pre-approval of financial institutions and security broker/dealers to do business with the Town. The Town Treasurer shall maintain a list of Town approved financial institutions, registered investment advisors and security broker/dealers who are authorized to provide investment services to the Town. These may include primary dealers, or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). To qualify for consideration, a financial institution or a security broker/dealer must also have an office in California, and that office must perform the transactions with the Town.

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

- Current audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Complete broker/dealer questionnaire
- Proof of State of California registration
- For banking institutions, a statement of compliance with the Federal Reserve Bank of New York's capital guideline
- Statement of having read, understood and agreeing to comply with the Town's investment policy and depository contracts

If a third party investment advisor is authorized to conduct investment transactions on the Town's behalf, the investment advisor may use their own list of broker/dealers and financial institutions. The investment advisor's list must be available to the Town upon request.

VI. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the Town shall be conducted on a delivery-versus-payment (DVP) basis which will ensure that securities are deposited in an eligible financial institution prior to the release of funds**.** Securities shall be held by a third-party custodian designated by the Town Treasurer and evidenced by safekeeping receipts with a written custodial agreement. The only exception to the foregoing shall be depository accounts and securities purchases made with: LAIF, Sonoma County Investment Pool, time certificates of deposit and money market mutual funds, since the purchased securities are not deliverable. Settlement instructions sent to the safekeeping agent shall require authorization. The Town Treasurer shall be bonded to protect the public against possible embezzlement and malfeasance. Safekeeping procedures shall be reviewed annually by an independent external auditor and any irregularities noted shall be reported promptly to the Town Council.

VII. SUITABLE AND AUTHORIZED INVESTMENTS

The Town shall be governed by the California Government Code, Sections 53600 et seq. If the Code is amended to allow additional investments or is changed regarding the limits on certain categories of investments, the Town is authorized to conform to the changes in the revised Code, provided that the changes are not specifically prohibited by the Town's policy. The Town shall be required to present those changes in the annual review of the policy and to incorporate the new legislation within the policy. Surplus funds are defined as funds not required for the immediate necessities of the Town and include investments in individually managed portfolio(s), money market fund(s) and/or State LAIF, and all portfolio limitations and restrictions shall apply to this aggregate amount. For purposes of compliance with the California Government Code and the Town's Investment Policy, the credit rating requirement for medium-term notes, deposit notes, bank notes and commercial paper shall be based on the quality ratings at the time of purchase. If the quality rating of the issuer is downgraded, subsequent to purchase, by any of the Nationally Recognized Statistical-Rating Organizations below "A", or its equivalent, it shall be reported to the Town Council with a recommendation, and ongoing information shall be provided if the bond is not sold. Percentage limitations of surplus funds invested are noted for the various investment instruments. Where there is a specified percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in values or assets shall not constitute a violation of that restriction.

The Town is empowered by statute to invest in the following types of securities and those that the Town Treasurer is trained and competent to handle.

A. Investment Types

1. Bonds issued by the Town, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the Town or by a department, board, agency, or authority of the local agency.
2. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.
3. Federal Agency or United States government-sponsored enterprise obligations (GSE), participations, or other instruments.
4. State of California and Local Agency Obligations. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state; and bonds, notes, warrants, or other evidence of indebtedness of any local agency within this state including bonds payable solely out of the revenues from revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Notes eligible for investment shall be rated in a category of "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations.
5. Medium-Term Notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five (5) years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Purchases of medium-term notes may not exceed thirty (30) percent of the Town's surplus funds. Investments in medium-term notes for any one non-government issuer shall be limited to no more than five (5) percent of surplus funds. Notes eligible for investment shall be rated in a category of "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations.
6. Bankers Acceptances otherwise known as bills of exchange or time drafts, drawn on and accepted by a commercial bank, which are eligible for purchase by the Federal Reserve System. Purchased bankers acceptances may not exceed one

hundred and eighty (180) days maturity or forty (40) percent of the Town's surplus funds, and no more than ten (10) percent of the Town's surplus funds may be invested in the banker's acceptances of any one commercial bank.

7. Commercial Paper of "prime" quality of the highest ranking or the highest letter and number rating as provided for by a Nationally Recognized Statistical-Rating Organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):
    a. The entity is organized and operating in the United States as a general corporation and has total assets in excess of five hundred million dollars ($500,000,000). In addition, its debt other than commercial paper, if any, must be rated "A" or higher by a Nationally Recognized Statistical-Rating Organization.
    b. The entity is organized within the United States as a special purpose corporation, trust, or limited liability company and has a program-wide credit enhancement including, but not limited to, over-collateralization, letters of credit, or a surety bond. In addition, the entity has commercial paper that is rated "A-1" or higher, or the equivalent, by a Nationally Recognized Statistical-Rating Organization.

    Eligible commercial paper shall have a maximum maturity of two hundred and seventy (270) days or less. The Town may not invest more than twenty five (25) percent of its surplus funds in no more than ten (10) percent of the outstanding eligible commercial paper of any single issuer.

8. Negotiable Certificates of Deposit issued by a nationally or state-chartered bank or savings association or federal association or a state or federal credit union or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed fifteen (15) percent of the Town's surplus money invested and shall be limited to no more than three (3) percent of any one issuer. Deposit notes and bank notes purchased through a broker or dealer shall be included with negotiable certificates of deposit in calculating allowable maximum percentages. Negotiable certificates of deposit, deposit notes and bank notes shall be rated in a category of "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations.
9. Time Deposits. The Town may invest in non-negotiable Certificates of Deposit at commercial banks and savings and loan associations that are collateralized in accordance with the California Government Code. To be eligible to receive Town funds, the depository institution shall have received an overall rating of not less than "satisfactory" in its most recent evaluation of its record of meeting the credit needs of California's communities, including low and moderate-income neighborhoods. In selecting depositories, the credit worthiness of institutions shall be considered. Banks and savings and loan associations seeking to establish an investment relationship with the Town shall submit an audited financial report that shall be reviewed for compliance with the Town's investment standards. Any institution not providing an audited annual financial report shall be removed from the approved list and all funds maturing will be withdrawn. A list of eligible institutions shall be maintained. Qualification shall be determined by the following criteria:

a. Tangible capital must equal or exceed one and a half (1½) percent; core capital must equal or exceed three (3) percent; and, risk-based capital must equal eight (8) percent of assets adjusted for assigned risk-weightings.
b. Return on assets of a minimum of a half of one (½) percent; a return on equity of a minimum of eight (8) percent; an equity to assets ratio of a minimum of five (5) percent; and, Town investments shall be no greater than a half of one (½) percent of the total assets of the depository.
c. Independent auditor's statement must have a clean opinion.

10. Savings accounts. Savings accounts when used in conjunction with the Town's checking accounts at a qualified bank where funds are collateralized in accordance with the California Government Code.
11. U. S. Government money market funds registered with the Securities and Exchange Commission and which comply with rule 2a7 of the Investment Company Act of 1940. The dollar weighted average maturity of the portfolio shall be less than ninety (90) days and the portfolio is managed to maintain a one dollar ($1.00) share price. Also, the fund shall meet either of the following criteria: (a) Attained the highest ranking or the highest letter and numerical rating provided by not less than two Nationally Recognized Statistical-Rating Organizations; (b) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).
12. Repurchase Agreements. Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of any securities authorized by the Code, so long as the proceeds of the repurchase agreement are invested solely to supplement the income normally received from these securities. The Town shall adopt as a standard the Bond Market Association Master Repurchase Agreement and shall maintain a list of approved counterparts and limit counter parties to primary dealers rated "A" or better by two Nationally Recognized Statistical-Rating Organizations. Reverse repurchase agreements and securities lending agreements shall require Town Council authorization separate from Town Council approval of this policy. Securities lending agreements shall include the following safeguard measures: terms of lending agreements, indemnification provisions, reinvestment guidelines, liquidity provisions, credit risks and monitoring requirements. Additionally any securities lending agreement shall be reviewed by the Town Attorney to ensure the Town’s interests are properly protected.
    a. Investments in repurchase agreements may be made, on any authorized investment, when the term of the agreement does not exceed one year.
    b. Reverse repurchase agreements or securities lending agreements may be utilized when the security to be sold on the reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the Town for a minimum of thirty (30) days prior to sale; the total of all reverse repurchase agreements on investments owned by the Town does not exceed twenty (20) percent of the base value of the portfolio; and the agreement does not exceed a term of ninety two (92) days, unless the agreement includes a written codicil guaranteeing a minimum earning or

spread for the entire period between sale of a security using a reverse repurchase agreement and the final maturity date of the same security.

13. Local Agency Investment Fund (LAIF). The Town may invest in The Local Agency Investment Fund (LAIF), a special fund in the California State Treasury created and governed pursuant to Government Code Sections 16429.1 et seq. This law permits the Town with the consent of the Board of Directors, to remit money not required for the Town's immediate need, to the State Treasurer for deposit in this special fund for the purpose of investment. LAIF currently limits investments to $50 million from any one public agency by State law; therefore, there is a fifty million dollar ($50,000,000) limit for the Town of Windsor and a fifty million dollar ($50,000,000) limit for the Town of Windsor Successor Agency. The California Government Code states that moneys placed for deposit in LAIF are in trust in the custody of the State Treasurer and cannot be borrowed or be withheld from the Town. Further, the right of the Town to withdraw its deposited money from the LAIF upon demand may not be altered, impaired, or denied in any way by any state official or agency based upon the State's failure to adopt a budget by July1 of each new fiscal year.
14. Sonoma County Pool Fund. The Town may invest in the Sonoma County Pooled Investment Fund managed by the Sonoma County Treasurer up to the maximum permitted by State Law. However, at no time shall deposits in the County Pool exceed 15% of the Town's total portfolio.

B. Collateralization

Collateralization shall be required on two types of investments: Certificates of deposit and repurchase (and reverse repurchase) agreements. A collateral agreement must be current and on file before any funds can be transferred for collateralized certificates of deposit. Collateral shall be held by an independent third party with whom the Town has a current written custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Town and retained. The right of collateral substitution is granted in accordance with the following requirements:

1. Certificates of Deposit
    a. Government securities used as collateral require one hundred and two (102) percent of market value to the face amount of the deposit
    b. Promissory notes secured by first trust deeds used as collateral require one hundred and fifty (150) percent of market value to the face amount of the deposit
    c. Irrevocable letters of Credit issued by the Federal Home Loan Bank of San Francisco require one hundred and five (105) percent of market value to the face amount of the deposit
2. Repurchase and Reverse Repurchase Agreements
    a. Only U.S. Treasury securities or federal agency securities are acceptable collateral. All securities underlying repurchase agreements must be delivered to the Town's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed one hundred and two (102) percent of the total dollar value of the money invested by the Town for the term of the

investment. For any repurchase agreement with a term of more than one (1) day, the value of the underlying securities must be reviewed on an ongoing basis according to market conditions. Market value must be calculated each time there is a substitution of collateral.

b. The Town or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to a repurchase agreement.

C. Investments Not Approved

Any security type or structure not specifically approved by this policy is hereby prohibited. Security types, which are hereby prohibited include, but are not limited to: Collateralized mortgage obligations (CMO's), mortgage pass-through securities, reverse repurchase agreements used as a leveraging vehicle, "exotic" derivatives structures such as range notes, dual index notes, inverse floating-rate notes, leveraged or de-leveraged floating-rate notes, interest-only strips that are derived from a pool of mortgages and any security that could result in zero interest accrual if held to maturity, or any other complex variable or structured note with an unusually high degree of volatility or risk.

VIII. INVESTING PARAMETERS

A. Diversification

The Town shall diversify its investments by security type, issuer, maturity, and financial institutions. No percentage limitations are established for United States government, United States government agencies and United States government sponsored enterprises; however percentage limitations are established for other permitted investments, as noted in Section VII of this policy. The investments shall be diversified by limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury and Federal Agency securities), limiting investment in securities that have higher credit risks, and investing in securities with varying maturities.

B. Maximum Maturities

To the extent possible, the Town will attempt to match its investments with anticipated cash flow requirements. Where there is no specified maturity limitation on an investment, no investment shall be made in any security, which, at the time of the investment, has a term remaining to maturity in excess of five (5) years, unless the Town Council has granted express authority to make that investment no less than three months prior to the investment.

In addition to the five (5) year limitation on investments specified in this policy, the average maturity of the Town's combined portfolio shall not exceed two and a half (2½) years without prior approval of the Town Council.

IX. REPORTING

The Treasurer shall submit investment reports to the Town Council that provide a clear picture of the status of the current investment portfolio and shall contain sufficient information to permit an independent organization to evaluate the performance of the investment program.

A. Reporting to Town Council

In accordance with California Government Code Section 53646, the Town Treasurer shall submit to Town Council, within thirty (30) days following the end of the quarter, an investment report that summarizes all securities in the portfolio. The report shall include:

1. Investment type
2. Issuer
3. Maturity date
4. Book value
5. Market value
6. Source of valuation
7. Statement of compliance with the investment policy
8. Statement of the ability to meet expenditures for the next six months

In addition, a narrative shall accompany the portfolio addressing noteworthy items or the current investment climate. Annually, the Town Treasurer shall provide a review of the Town's Investment Policy.

C. Reporting to California Debt and Investment Advisory Commission (CDIAC)

The Town shall forward copies of investment portfolio reports and copies of the annual Town of Windsor’s Statement of Investment Policy to CDIAC on an as-required basis.

X. PERFORMANCE STANDARDS

The investment portfolio shall be managed in accordance with the parameters specified within this policy and always within consistently safe and prudent treasury management procedures.

A. Market Yield (Benchmark)

The Town’s overall investment strategy is passive: Investments are generally held to maturity. If an investment advisory firm is retained by the Town, the Town portfolio shall be compared to a customized benchmark in order to determine whether market yields are being achieved. In addition, the quarter-to-date LAIF apportionment rate, the two-year U.S. Treasury Note shall also be considered useful benchmarks of the Town’s portfolio performance.

B. Marking to Market

The market value of the portfolio shall be calculated at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed. In defining market value, consideration shall been given to pronouncements from the Government Accounting Standards Board (GASB) that address the reporting of investment assets and investment income for all investment portfolios held by governmental entities. The fair value of all securities reported in the Town's portfolio is based on currently quoted market prices.

XI. INVESTMENT POLICY COMPLIANCE AND ADOPTION

A. Policy Compliance and Changes

Any deviation from the policy shall be reported to Town Council at the next scheduled meeting. The Town Treasurer shall promptly notify the Town Council of any material change in the policy, and any modifications to the policy must be approved by the Town Council.

B. Annual Statement of Investment Policy

The Town Treasurer shall render a written Investment Policy that shall be reviewed at least annually by the Town Council 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. The Town Council shall consider the annual Investment Policy and any changes therein at a public meeting. The Investment Policy shall be adopted by resolution of the Town Council.

APPENDIX

GLOSSARY OF INVESTMENT TERMS

AGENCY: A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government (i.e. Government National Mortgage Association). Federally sponsored agencies (FSA's) are backed by each particular agency with a market perception that there is an implicit government guarantee (i.e. Federal National Mortgage Association).

ASKED PRICE: The price at which securities are offered for sale, also known as offering price.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID PRICE: The price offered by a buyer of securities. (When you are selling securities, you *ask* for a bid.)

BOND PROCEEDS: The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

BOOK VALUE: The value at which a debt security is shown on the holder's balance sheet. Book value is often acquisition cost plus/minus amortization and accretion, which may differ significantly from the security's current value in the market.

BROKER: Someone who brings buyers and sellers together and is compensated for his/her service.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by a Nationally Recognized Statistical-Rating Organization.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

CURRENT YIELD (CURRENT RETURN): A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, by buying and selling for his/her own account.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DIVERSIFICATION: Dividing investment funds among a variety of security types by sector, maturity and quality ratings offering independent returns.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FAIR VALUE: The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL CREDIT AGENCIES: Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small-business firms, students, farmers, farm co-operatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits currently up to $250,000 per deposit.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) that lend funds and provide correspondent banks services to member commercial banks, thrift institutions, credit unions and insurance companies.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., twelve Regional Banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHA mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

GOVERNMENT SECURITIES: An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

INTEREST RATE RISK: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

INTERNAL CONTROLS: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

- **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
- **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
- **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL AGENCY INVESTMENT FUND (LAIF): Chapter 730, Statutes of 1976 of the State of California, established the Local Agency Investment Fund. This fund enables local governmental agencies to remit money not required for immediate needs to the State Treasurer for the purpose of investment. In order to derive the maximum rate of return possible, the State Treasurer has elected to invest these monies with State monies as a part of the Pooled Money Investment Account. Each local governmental unit has the exclusive determination of the length of time its money will be on deposit with the State Treasurer. At the end of each calendar quarter, all earnings derived from investments are distributed by the State Controller to the participating government agencies in proportion to each agency's respective amounts deposited in the Fund and the length of time such amounts remained therein. Prior to the distribution, the State's costs of administering the program are deducted from the earnings.

MARK-TO-MARKET: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

MARKET RISK: The risk that the value of a security will raise or decline as a result of changes in market conditions.

MARKET VALUE: The current price at which a security is trading and could presumably be purchased or sold at that particular point in time.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of a financial obligation is due and payable.

MONEY MARKET MUTUAL FUND: Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

MUTUAL FUND: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by Securities and Exchange Commission (SEC) disclosure guidelines.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD): A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

NATIONALLY RECOGNIZED STATISTICAL-RATING ORGANIZATION (NRSRO): Standard and Poor’s, Moody’s, and Fitch Financial Services are examples of such organizations.

OFFER: An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PORTFOLIO: Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

PRINCIPAL: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker/dealers, banks and a few unregulated firms.

PRINCIPAL: (1) The face amount or par value of a debt instrument. (2) One who acts as a dealer buying and selling for his own account.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

REINVESTMENT RISK: The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

REVERSE REPURCHASE AGREEMENT: An agreement of one party (for example, a financial institution) to purchase securities at a specified price from a second party (such as a public agency) and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specific date.

RISK: Degree of uncertainty of return on an asset.

RULE 2A-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

SAFEKEEPING SERVICE: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vault for protection and security.

SECONDARY MARKET: A market is made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES LENDING: An agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises, (FHLB, FNMA, FHLMC, etc.), and Corporations that have imbedded options, (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns), into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

SWAP: Trading one asset for another.

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio.

TREASURY BILLS: Short-term U.S. government non-interest bearing discounted debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

TREASURY BOND: A long-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity of more than 10 years and issued in minimum denominations of $1,000.

TREASURY NOTE: A medium-term coupon-bearing U.S. Treasury security issued as a direct obligation of the U.S. Government and having an initial maturity of from one to ten years and issued in denominations ranging from $1,000 to $1 million or more.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission (SEC) Rule 15C3-1 outlining requirements that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

VOLATILITY: A degree of fluctuation in the price and valuation of securities.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the security's current price. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.