

Town of Hermon Investment Policy

GLOSSARY:

Collateralization: Assets used to safeguard town funds from custodial risk. Collateral is held by the financial institution or its registered agent for the benefit of town funds on deposit with the financial institution. Collateral only protects the town from custodial risk and does not protect funds from market risk or losses experienced by investments.

Financial Advisor: A person or organization engaged by the Town to manage assets or provide investment advice. Also called: financial advisor or investment advisor or investment counsel.

Custodial Risk: Risk that Town funds are exposed to while in the care of an agent, bank, trust company, or other organization which holds and safeguards the town's assets.

Market Risk: Risk which is common to an entire class of assets or liabilities. The value of investments may decline over a given time period simply because of economic changes or other events that impact large portions of the market. Asset allocation and diversification can mitigate market risk because different portions of the market tend to under perform at different times.

POLICY:

The purpose of this document is to provide guidelines for the prudent investment of the Town of Hermon's funds and to outline the policies needed to maximize the productivity and efficiency of the Town's cash management system.

SCOPE:

All monies entrusted to the Finance Director and Town Manager as directed by the Municipal Officers shall be invested in accordance with Maine State Statutes applicable to investments by municipalities, including Title 30A, Sections 5706, 5711 – 5719, Governmental Accounting Standards Board Statement Number 3 and Statement Number 40.

INVESTMENT COMMITTEE (due to amendments passed December 16th, 2010, the following changes replace a committee)

The Town Council shall authorize the Finance Director and the Town Manager to provide financial oversight of all investments made on behalf of the Town of Hermon. The Town requires an annual meeting with all Bank, Financial Advisors, or institutions providing financial services to Hermon in the first quarter of the Fiscal Year.

INVESTMENT OBJECTIVE:

The primary investment objectives, in order of priority, shall be safety, maintenance of liquidity, and then income.

- I. Safety** – Safety and preservation of principal is the foremost objective of the investment program. The Finance Director and Town Manager shall seek to avoid principal losses for all investment transactions made. The portfolio shall be diversified to insure that potential losses on the individual securities do not exceed the income generated from the remainder of the portfolio. The financial advisor will ensure the safety of invested funds by limiting interest and credit rate risks.
 - a. Interest Rate Risk** – The risk that the market value of the portfolio securities will fluctuate due to changes in general interest rates. Interest rate risk will be mitigated by:
 - Structuring the Town’s portfolio so that securities mature to meet the Town’s cash demands for ongoing operations, thereby precluding the need to sell securities on the open market prior to their maturity.
 - Investing primarily in shorter-term securities.
 - b. Credit Risk** – The risk of loss due to the failure of the security or backer. Credit risk will be mitigated by:
 - Limiting investments to the types of securities authorized by this policy.
 - Using financial institutions, which have been pre-qualified by the Investment Committee.
 - Diversifying the investment portfolio.
- II. Maintenance of Liquidity** – An adequate percentage of the portfolio shall be maintained in liquid, short-term securities, which can be converted to cash to meet operating requirements. The portfolio should be structured so that securities mature in a ladder form.
- III. Income** – The objective of the portfolio should be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Speculation based on anticipated interest rate movements is strictly prohibited. The Town’s approach is to buy investments with the intentions of holding them until maturity. The Town shall not sell the securities prior to maturity unless:
 - It will minimize the loss of principal
 - A security swap would improve the yield in the portfolio
 - Liquidity needs

The Town’s investment portfolio shall be designed with the objective of meeting all legal requirements set forth by Federal, State, and Local laws.

ETHICS AND CONFLICTS OF INTEREST:

The Finance Director, Town Manager, and Investment Committee shall avoid any transaction that might impair public confidence in the Town's ability to govern effectively. Officers and employees involved in the investment process shall refrain from business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Council any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Town's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Town of Hermon, particularly with regard to the time of purchase and sales.

DELEGATION OF AUTHORITY:

The ultimate responsibility for the investment program rests with the Town Council. The Town Council hereby delegates oversight and decision-making authority pertaining to investments to the Finance Director and Town Manager, who shall be responsible for all transactions undertaken and establish a system of internal controls and standard operating procedures to regulate the activities of subordinated officers. The Investment Committee is to serve in an advisory capacity to the Town Manager, Finance Director, and Town Council.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Finance Director and Town Manager, with oversight from the Town Council, shall conduct investment transactions with financial and investment securities approved by the Investment Committee. In selecting financial institutions for deposits or investment of Town funds, the Finance Director and Town Manager shall review the financial institution's audited financial statements, proof of National Association of Securities Dealers (NASD) certification, proof of state registration, and certification of having read, understood, and agreed to comply with the Town's investment policy. The Finance Director and Town Manager should also complete an annual review of the financial condition and registration of qualified financial institutions.

INVESTMENT TRAINING

The Finance Director and Town Manager shall attend at least one training session annually to be paid by the Town. The investment training should be offered by a professional organization, such as, GFOA and MMA.

SUITABLE AND AUTHORIZED INVESTMENTS

- Passbook Savings Account – These accounts pay a low rate of interest, compounded daily on their balances. This account allows the transfer of money from checking to savings and earn short-term on odd amounts of money that are not available for longer investments.
- Repurchase Agreements – These investments are an agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of

the first party to repurchase the securities at a specified price or at a specified later date.

- Certificates of Deposit in state or nationally chartered banks or savings and loans which are insured by the Federal Deposit Insurance Corporation (FDIC). Certificates of Deposit which exceed the FDIC insured amount shall be collateralized in accordance with Title 30-A, Section 5706 of Maine Revised Statutes.
- United States government bonds and quasi governmental agency bonds, including bonds issued by FHLB, FNMA and FHLMC bonds
- State bonds – “bonds and other direct obligations issued or guaranteed by any state or agency of any state, provided that the securities are rated within the 3 highest grade by any rating service approved by the Superintendent of Banking”(30A, M.R.S.A., Section 5712, 2).
- Maine State bonds – “bonds and other direct obligations issued or guaranteed by this State, agency of this State, or any political subdivision of the State that is not in default...”(30A, M.R.S.A., Section 5712, 3).
- Dominion of Canada – “bonds and other direct obligations issued or guaranteed by the Dominion of Canada, any province, or political subdivision provided that the securities are rated within the 3 highest grades by any rating service approved by the Superintendent of Banking and payable to the United States”(30A, M.R.S.A., Section 5712, 4).
- Short-term obligations – prime bankers’ acceptances and prime commercial paper.
- Corporate bonds – “bonds and other obligations of any United States or Canadian corporation, provided the securities are rated within the 3 highest grades. Not more than 2% of the total assets of the permanent reserve fund, permanent trust fund, or other permanent fund being invested of any one corporation”(30A, M.R.S.A., Section 5713, 1).
- Maine corporate bonds – “bonds and other obligations of any Maine corporation, actually conducting business in this State, for a period of 3 successful fiscal years, has earned or received an average net income of not less than 2% times the interest on the obligations. Not more than 20% of the total assets of the permanent reserve fund, permanent trust fund may be invested in these securities and not more than 2% in any one corporation”(30A, M.R.S.A., Section 5713, 2).
- Maine corporate stocks – “the stock of any Maine corporation, other than stock of a financial institution, conducting business in this State for at least 3 years and have received an average net income after taxes equivalent to at least 6% upon the entire outstanding issue of the stock. Not more than 10% of the deposits of the total assets of the permanent reserve fund, permanent trust fund, or other permanent fund being invested may be invested under this section in stocks of Maine corporations and not more than 1% in any one corporation. The fund shall be invested no more than 20% of the stock of any one corporation”(30A, M.R.S.A., Section 5713, 3).

“The Town shall not acquire or hold stock and obligations described below in excess of 30% of the total assets of the reserve fund, permanent trust fund, or other permanent fund. The Town shall not acquire or hold stock of any one bank in excess of 5%, nor

shall any such fund be invested in stock in excess of 10% of the capital stock of any one bank”(30A, M.R.S.A., Section 5714, 2).

- “Debentures of any financial institution authorized to do business in the State of Maine incorporated under the laws of this State or the U.S. and of any financial institution holding company, provided that the holding company is registered under the United States Bank Holding Company Act of 1956 or the National Housing Act, Section 408”(30A, M.R.S.A., Section 5714, 1A).
- Stock – “capital stock, preferred stock, debentures, and acceptances of any insured bank not having an office in this State which has total capital reserves of at least \$50,000,000 and whose subsidiary banks have total capital reserves of at least \$50,000,000 provided that it is registered under the United States Bank Holding Company Act of 1956. Not more than 1% of the total assets of the permanent reserve fund, permanent trust fund, or other permanent fund may be invested”(30A, M.R.S.A., Section 5714, 1B).
- Capital Notes or debentures – “issued by any municipalities chartered under the laws of any state, or of the United States, or of the Commonwealth of Puerto Rico, notwithstanding the fact that these notes or debentures may be subordinated to the claims of depositors or other creditors of the issuing institution. Not more than 1% of the total assets of the permanent reserve fund, permanent trust fund, or other permanent fund being invested may be so invested”(30A, M.R.S.A., Section 5714, 1C).
- Obligations – “issued, assumed, or guaranteed by the International Bank for Reconstruction and Development or the Inter-American Development Bank or the African Development Bank”(30A, M.R.S.A., Section 5714, 1D).
- Passbook Savings Account – These accounts pay a low rate of interest, compounded daily on their balances. This account allows the transfer of money from checking to savings and earn short-term on odd amounts of money that are not available for longer investments.
- Repurchase Agreements – These investments are an agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.
- Mutual Funds – An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.
- Other stock investments – preferred stock of public utilities, bonds of nonprofit organizations, small business investment companies, and Maine Capital Corporation.

COLLATERALIZATION

Collateralization is required on deposit accounts where balances exceed FDIC insurance limits and on repurchase agreements. Notwithstanding the foregoing, investments directly in the above-mentioned suitable and authorized investments shall not require collateralization. The Town or an independent third party with whom the Town has a current custodial agreement will always hold collateral.

DIVERSIFICATION

It is the policy of the Town to diversify its investment portfolio to avoid incurring unreasonable and avoidable risks or loss resulting from over concentration of assets in a specific maturity, specific issuer, or a specific class of securities, with the exception of U.S. Treasury Securities and authorized pools.

MAXIMUM MATURITIES

The Town shall not invest in securities, which at the time of investment have a term of maturity in excess of five years from the date of purchase unless the Investment Committee has recommended a longer term and the Council has granted authority.

INTERNAL CONTROL

The Town's independent auditors shall review annually the Town's investment internal controls. The auditors will concentrate on; control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, code of ethics, documentation of transactions.

PERFORMANCE STANDARDS

The Town's investment portfolio will be designed with the objective of exceeding the average Federal Funds rate. The Finance Director and Town Manager's objective is to maximize the productivity of the Town's cash invested at all times.

REPORTING

The Finance Director shall submit a quarterly investment report for all funds invested to the Council and a monthly investment report for all funds invested to the Town Manager. The report should include the following:

- Purpose of the report
- Type of investments
- Investments by institution
- Current market value
- Purchases or cost of securities
- Date of maturity
- Rate of interest
- Realized and unrealized gains or losses

LEGISLATIVE CHANGES

The Finance Director and Town Manager shall incorporate any State of Maine Legislative Actions that impact allowable investment type, maturities, or percentage of allocations.

PORTFOLIO PERFORMANCE

If the market value of the Town's investment portfolio for any funds drops below 5%, within 30 days the investment company will immediately notify the Town Manager with oral communication. If the market value of the Town's portfolio falls below 10% within 30 days the investment company will notify the Town Manager with written notification.

INVESTMENT POLICY ADOPTION

Any investment currently held by the Town that does not meet the guidelines of this policy is exempt.

The Town's investment policy shall be adopted by resolution of the Council. The policy shall be reviewed annually by the Investment Committee and modify any changes if need be.

SIGNED THIS 6th day of January 2011, BY THE MUNICIPAL OFFICERS:

Sharon Nickerson, Chair

Robin Hall, Vice-Chair

Anne Freeman

Timothy McCluskey

Donna Pulver

William Scott

Douglas Sinclair, Sr.

Effective January 16, 2011

Attest Original Copy: _____

