



TOWN COUNCIL – AGENDA REQUEST FORM

THIS FORM WILL BECOME PART OF THE BACKGROUND INFORMATION USED BY THE COUNCIL AND PUBLIC

Please submit Agenda Request Form, **including back up information**, 8 days prior to the requested meeting date. **Public Hearing requests must be submitted 20 days prior to requested meeting date to meet publication deadlines** (exceptions may be authorized by the Town Manager, Chairman/Vice Chair).

MEETING INFORMATION

Date Submitted: June 17, 2015

Date of Meeting: June 25, 2015

Submitted by: Finance Director Paul T. Micali

Department:

Time Required: 10 minutes

Speakers:

Background Info. Supplied: Yes: No:

CATEGORY OF BUSINESS (PLEASE PLACE AN "X" IN THE APPROPRIATE BOX)

Appointment:	<input type="checkbox"/>	Recognition/Resignation/Retirement:	<input type="checkbox"/>
Public Hearing:	<input type="checkbox"/>	Old Business:	<input type="checkbox"/>
New Business:	<input checked="" type="checkbox"/>	Consent Agenda:	<input type="checkbox"/>
Nonpublic:	<input type="checkbox"/>	Other:	<input type="checkbox"/>

TITLE OF ITEM

Updated Investment Policy

DESCRIPTION OF ITEM

The Town Council to review and consider the approval of the Town's investment policy in accordance with RSA 41:29 IV and RSA 41:9 VII.

REFERENCE (IF KNOWN)

RSA:	41:29 IV, 41:9 VII	Warrant Article:	
Charter Article:		Town Meeting:	
Other:		N/A	

EQUIPMENT REQUIRED (PLEASE PLACE AN "X" IN THE APPROPRIATE BOX)

Projector:	<input type="checkbox"/>	Grant Requirements:	<input type="checkbox"/>
Easel:	<input type="checkbox"/>	Joint Meeting:	<input type="checkbox"/>
Special Seating:	<input type="checkbox"/>	Other:	<input type="checkbox"/>
Laptop:	<input type="checkbox"/>	None:	<input type="checkbox"/>

CONTACT INFORMATION

Name:	Paul T. Micali	Address	8 Baboosic Lake Road
Phone Number	424-7075	Email Address	pmicali@merrimacknh.gov

APPROVAL

Town Manager:	Yes <input checked="" type="checkbox"/> No: <input type="checkbox"/>	Chair/Vice Chair:	Yes <input type="checkbox"/> No: <input type="checkbox"/>
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Memo

TO: Town Council
ATTN: Town Manager Eileen Cabanel
FROM: Finance Director Paul T. Micali
DATE: June 19, 2015



RE: Investment Policy

As parts of the Town's June 30, 2014 audit our auditors (Plodzik & Sanderson) noted that the Town's investment policy has not been reviewed or reaffirmed in the current fiscal year on accordance with State statute which requires annual review and adoption. They recommended that this review and Council approval be done in compliance with State statute.

Attached please find and updated investment policy for the Town.

Management's estimate of the accrued landfill postclosure care cost is based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of June 30, 2014. This amount is determined by the Town's engineer. We evaluated the key factors and assumptions used to develop the accrued landfill postclosure care costs in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Adjustments proposed and approved were primarily of a routine nature which management expects the independent auditors to make as part of their year-end procedures. The adjustment, which is attached, for the Town of Merrimack was in the sewer fund (net impact on the change in net position was \$41,232, to record an additional receivable for compost sales).

Governmental activities financial statements were prepared by the independent auditors and likewise were approved by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 13, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Town of Merrimack's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Town of Merrimack's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit we noted the following matter which has been discussed with the Finance Director:

- Through audit fieldwork it was identified that while the Town does have an investment policy it has not been reviewed or updated by the Town Council in the past fiscal year. We recommend annual review, modification (if necessary), and approval of the existing investment policy yearly.

Other Matters

We applied certain limited procedures to Management Discussion and Analysis, and Schedule of Funding Progress for Other Postemployment Benefit Plan, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and



TOWN OF MERRIMACK - INVESTMENT POLICY

LEGAL BASIS:

This Policy has been enacted pursuant to the statutory authority granted to the Town Council by RSA 41:9 VII and to the Town Treasurer by RSA 41:29 IV and to comply with RSA 41:9 VII, which requires the Town Council to annually review and adopt an investment policy for the investment of public funds, and to provide a framework for the Town Treasurer to carry out the policy objectives.

PURPOSE:

The purpose of this Policy is to set forth appropriate investment activities that provide for, first and foremost, the safety of principal, as well as sufficient liquidity to support operations while generating a reasonable investment yield.

The specific investment policy objectives are stated below:

1. To ensure the preservation of capital and the protection of investment principal by investing in instruments authorized by State Law, as outlined in the Investment Activities section of this policy;
2. To maintain sufficient liquidity to meet operating requirements for both the town and school district;
3. To satisfy all legal requirements;
4. To attain market-average rate of return on investments taking into account risk and legal constraints and cash flow considerations.

DEFINITIONS:

- A) "Council": Means the Town Council for the Town of Merrimack
- B) "Collateral": Underlying securities that are pledged to secure deposits of public funds.
- C) "Market-average Rate of Return": The amount of income received from an investment, expressed as a percentage (also referred to as investment yield), that an investor can expect to receive in the current interest-rate environment.
- D) "Repurchase Agreement": A transaction in which a holder of securities sells those securities to an investor with an agreement to repurchase those securities for a fixed price at an agreed-upon date.
- E) "Safekeeping": A procedure where securities are held by a third party acting as custodian.
- F) "School District": Merrimack School District

G) "State Law": Refers to various Revised Statutes Annotated (RSA's) of the State of New Hampshire, as amended, as referenced throughout the policy.

H) "Town": Town of Merrimack, New Hampshire

SCOPE:

The investment policy applies to all public funds held in the custody of the Town Treasurer. This does not include funds held by the School District, Library Trustees, or the Trustees of the Trust Funds. The funds held by the Treasurer are accounted for in the Town's annual audited financial reports and include the following:

- General Fund
- Special Revenue Funds – which include funds overseen by the Conservation Commission, Heritage Commission and Cable Committee
- Agency Funds
- Any new funds created by the Town, unless specifically exempted by the governing body, in accordance with law.

Furthermore, the investment policy applies to all transactions involving the financial assets and related activity of all the foregoing funds.

DELEGATION OF AUTHORITY:

The investment policy delegation of authority is stated below:

1. In accordance with RSA 41:29 VI, the responsibility for conducting investment transactions resides with the Town Treasurer, with the approval of the Council. However, the Treasurer may delegate investment functions to other town officials or employees provided such delegation is in writing and includes written procedures acceptable to the Council, and is agreeable to all parties involved. Any such delegation shall only be made to a town official or employee bonded in accordance with RSA 41:6 and rules adopted by the commissioner of revenue administration under RSA 541-A. Such delegation shall not eliminate the responsibility of the Treasurer to comply with all statutory duties required by law.
2. No person may engage in an investment transaction except as provided under the terms of this policy and the internal procedures and controls hereby established.

PRUDENCE AND ETHICAL STANDARDS:

The investment policy will be conducted in accordance with the "prudent person" standard which requires 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.

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict (or appear to conflict) with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Such individuals shall disclose to the Council any material financial interest in financial institutions that conduct business with the Town, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Town's portfolio.

INVESTMENT ACTIVITIES:

INTERNAL CONTROLS

The internal controls for the Town of Merrimack 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 actions by elected officials and employees of the Town.

1. Indemnification: In accordance with RSA 41:6 (Surety Bond Required), "Town Treasurers... Shall be bonded by position under a blanket bond from a surety company authorized to do business in this state. The bond shall indemnify against losses through:
 - (a) The failure of officers covered to faithfully perform their duties or to account properly for all moneys or property received by virtue of their positions, or
 - (b) Fraudulent or dishonest acts committed by the covered officers."
2. The Treasurer conducts investment transactions via written instructions and reviews the bank statements daily to ensure that the appropriate transactions were made per the instructions. The Finance Director, on a monthly basis, reviews and reconciles all bank account activity and records the investment transactions in the general ledger. On a quarterly basis, the Finance Director provides a report to the Council, summarizing any significant investment activity for that quarter, based upon investment information provided by the Treasurer.

INVESTMENT INSTRUMENTS

In accordance with RSA 41:29 II and IV, funds of the Town of Merrimack may be invested in any of the following:

- a) Deposits, including money market accounts, or certificates of deposit, or repurchase agreements, and all other types of interest bearing accounts, of federally insured banks chartered under the laws of New Hampshire or the federal government with a branch within the state; or funds may be deposited in federally insured banks outside the state if such banks pledge and deliver to a third party custodial bank or the federal reserve bank collateral security for such deposits of the following types: (i) United States government obligations; (ii) United States government agency obligations; or (iii) Obligations of the state of New Hampshire in value at least equal to the amount of the deposit in each case.

- b) New Hampshire Public Deposit Investment Pool (NHPDIP) established pursuant to RSA 383:22.
- c) Obligations fully guaranteed as to principal and interest by the United States government. The obligations may be held directly or in the form of securities of or other interests in any open-end or closed-end management-type investment company or investment trust registered under 15 U. S.C. section 80a-1 et seq., if the portfolio of the investment company or investment trust is limited to such obligations.
- d) Other instruments as may be specifically authorized by amendments to the State Law.

Whenever possible, maturities of investments purchased shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (school district remittances, payroll and accounts payable) as well as anticipated revenue inflows. However, the maturity characteristics of the portfolio must comply with the following schedule:

<u>Total Portfolio Investments Maturing</u>	<u>Required Minimum Percentage of Total Portfolio</u>
1 Year or Under	100%
90 Days or Under	50%

QUALIFIED INSTITUTIONS

The Town Treasurer shall determine the primary banking institution to be used by the Town, in conjunction with the Council, which is responsible for establishing the budgetary parameters under which the Town Treasurer may operate. The Town shall utilize Appendix A as the source and foundation of its qualified institution criteria for the deposit of public funds.

Any entity meeting the criteria set forth in Appendix A, that the Town may utilize to purchase investment instruments, must also have an investment grade rating issued by Moody's and S&P at a minimum of Aa2 and AA, respectively (see Appendix B).

The Finance Director, in conjunction with the Town Treasurer, shall periodically review the banking relationship and determine if there is a need to undertake a competitive bidding process for the selection of banking, investment and/or cash management provider(s). If a competitive bid is sought, the investment of Town funds, in accordance with this policy, will be a key consideration in assessing and awarding such bid. Once awarded, it is the responsibility of the provider to maintain investments within the parameters of this policy, with the understanding that each individual investment will not necessarily be competitively bid by the provider, but will meet the investment criteria as proposed and agreed.

SAFEKEEPING AND COLLATERALIZATION

In accordance with RSA 41:29 V, the Treasurer shall ensure that prior to acceptance of any moneys for deposit or investment, including repurchase agreements, the federally insured bank shall have such funds, at the time of deposit or investment, secured by collateral having a market value at least equal to 100% of the amount deposited or invested. Such collateral shall be held by a third party custodian and segregated for the exclusive benefit of the Town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

The banking institution shall provide the Town Treasurer with at least monthly reports of the Town's collateral position. In addition, collateral agreements shall comply with provisions set forth in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), which require that the collateral agreement:

- (1) be in writing;
- (2) be approved by the Board of Directors of the depository or its loan committee;
- (3) list no specific pledged securities; and
- (4) has been, continuously, from the time of its execution, an official record of the depository institution.

For purposes of this section, Town funds that are invested with a federally insured financial institution that provides for the insurance of those funds through the Federal Deposit Insurance Corporation (FDIC) will not require separate collateralization through a third party custodian.

REPORTING

At least annually, and in periods of significant investment activity, on a monthly basis, the Town Treasurer shall include a summary of investment activity in the Treasurer's Report submitted to the Council. The report shall summarize the investment strategies employed, and describe the portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the transaction detail, expected total investment return and actual results.

PERFORMANCE EVALUATION

The Town shall require, from any institution in which investing activity is conducted, sufficient routine reports/documentation to enable an accurate evaluation to be made as to the results of the Town's investment program as it relates to the Town's stated objectives, guidelines and policies, and to assist in revealing areas for potential improvement.

AMENDMENTS:

This Policy may, from time to time, be amended by a majority vote of the Council, at a regularly scheduled Council meeting. It must, at a minimum, be reviewed and adopted annually by the Council.

Adopted By Town Council - Date: _____, 2015

APPENDIX A

BANK SELECTION CRITERIA

This investment policy applies to all public funds held by the Town Treasurer in accordance with RSA 41:29.

No more than \$2,000,000 shall be deposited or invested, without perfected collateral, in any one bank.

Unsecured deposits and investments of more than \$100,000 in banks that do not meet at least six of the following creditworthiness ratios are prohibited.

Unsecured deposits and investments of more than \$1,000,000 may be made only in banks that meet at least seven of the following creditworthiness ratios.

I.	<u>Cash and Securities</u> Deposits	25% minimum
II.	<u>Capital</u> Deposits	5% minimum
III.	<u>Capital</u> Loans	7% minimum
IV.	<u>Capital</u> Assets	5% minimum
V.	<u>Loans</u> Deposits	80% maximum
VI.	<u>Net Charge-Offs</u> Loans	0.75% maximum
VII.	<u>Net Income</u> Assets	0.70% minimum
VIII.	<u>Net Income</u> Capital	13% minimum
IX.	<u>Capital + Allowance for Loan Losses</u> Average Assets + Allowance for Loan Losses	6% minimum

APPENDIX B

Moody's Long-Term Debt Rating Symbols:

Aaa – Best quality
Aa – High quality
A – Possess many favorable investment attributes
Baa – Medium grade obligations
Ba – Possess speculative elements
B – Generally lack characteristics of desirable investments
Caa – Poor standing
Ca – Speculative in a high degree
C – Lowest rated class of bonds

Modifiers:

1 – Higher end of letter rating category
2 – Mid-range of letter rating category
3 – Lower end of letter rating category

S&P Long-Term Debt Rating Symbols:

AAA – Highest rating, extremely strong
AA – Differs slightly from highest rating, very strong
A – Somewhat more susceptible to adverse effects of change in economic condition, strong
BBB – Exhibits adequate protection parameters
BB, B, CCC, CC, C – Have significant speculative characteristics. BB least speculative, C highest degree.
D – Payment default

Modifiers:

+ or – show relative standing within the category